

## APPENDIX C HONG KONG'S CURRENT HEALTHCARE FINANCING ARRANGEMENTS

### Public and Private Healthcare Expenditures

C.1 Apart from the dedication of our healthcare professionals, the current healthcare system is also the cumulative result of continued substantial investment by the society in healthcare over the past two decades. According to the Domestic Health Accounts (DHA)<sup>14</sup>, Hong Kong's total health expenditure amounted to some \$68 billion in 2004/05, with \$37 billion being public or government expenditure and \$31 billion being private expenditure. This expenditure has been on constant rise over the past two decades. During the period 1989/90 to 2004/05 –

- (a) total health expenditure increased by over 2.5 times at an average annual growth rate of 8.7%, its share of Gross Domestic Product (GDP) rose from 3.5% to 5.2%;
- (b) the government's share of this expenditure also rose from 40% to 55% in the same period, which means that private share of the expenditure has decreased from 60% to 45% during this period; and
- (c) public health expenditure has increased 3.8 times at an average annual growth rate of 11.0%, its share of the total health expenditure increased from 40% to 55%<sup>15</sup>, and its share of GDP doubled from 1.4% to 2.8%.

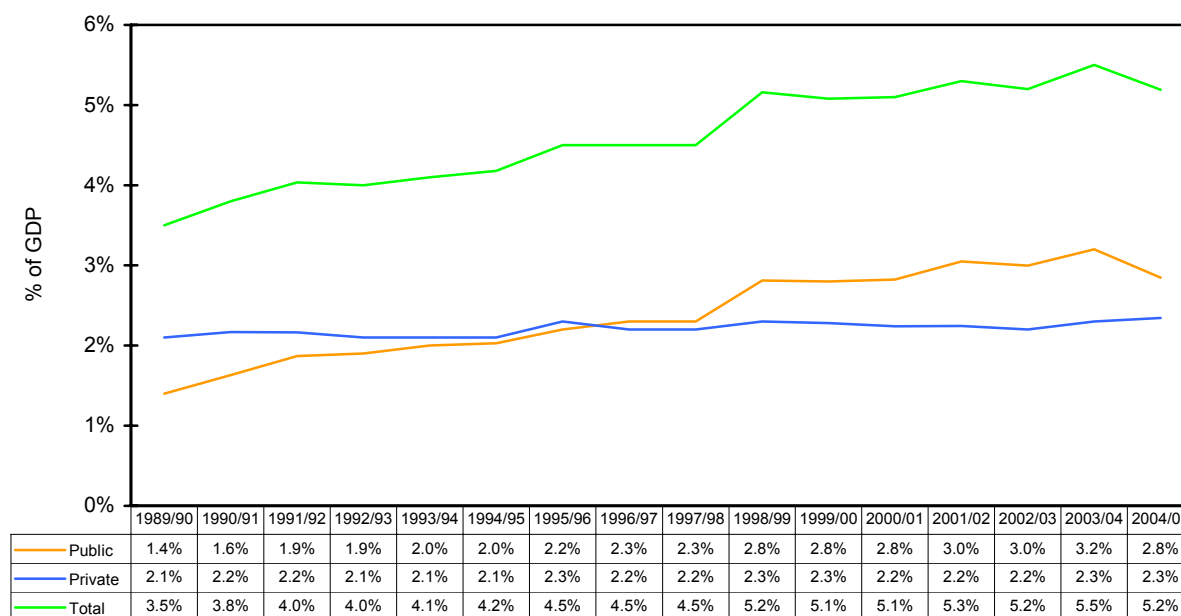
C.2 The public health expenditure constituted 14.5% of total public expenditure in 2004/05, or 2.8% GDP. Overall, the government is spending around 10% of its funding for healthcare in primary care while about 80% of the healthcare budget (or some \$30 billion in 2007/08) are being injected into the public hospital system. Despite this funding level, the HA is facing considerable pressure to balance its budget. A major contributing factor is the heavy subsidization for public hospital services.

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<sup>14</sup> A series of accounts compiled over the years in accordance with the International Classification for Health Accounts (ICHA) Framework developed by the Organisation for Economic Cooperation and Development to keep track of Hong Kong's health spending and to allow for international comparison.

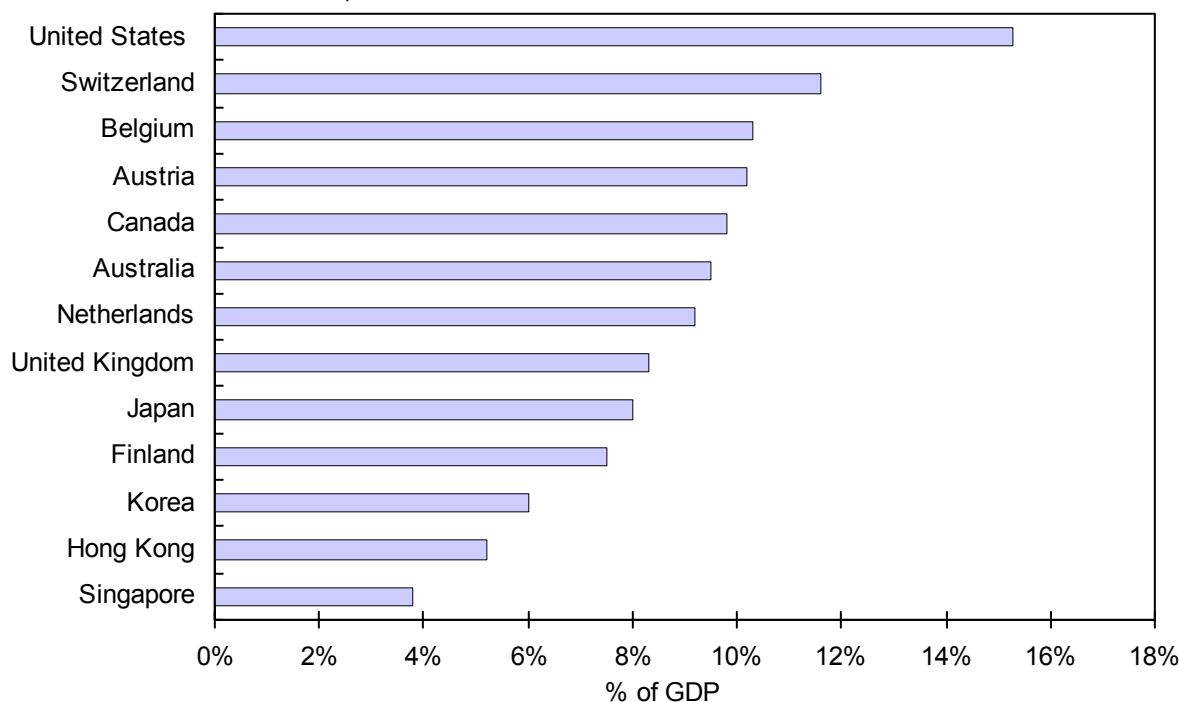
<sup>15</sup> Based on Domestic Health Accounts of Hong Kong.

**Figure C.1** Public and private health expenditure as percentage of GDP, 1989/90 – 2004/05



Source: Hong Kong's Domestic Health Accounts: 1989/90 – 2004/05.

**Figure C.2** Healthcare expenditure as percentage of GDP in Hong Kong and selected economies, 2005



Note: Figures are of 2005, except Australia, Hong Kong, Japan, Netherlands and Singapore, which are of 2004.

Source:

1. All figures from OECD Health Data 2007 (Oct 2007) unless otherwise specified.
2. Hong Kong figure from Hong Kong's Domestic Health Accounts: 1989/90 - 2004/05.
3. Singapore figure from Singapore Ministry of Health.

## Current Financing Arrangements

C.3 The current situation of healthcare financing in Hong Kong is as follows –

- (a) Total health expenditure amounts to some \$68 billion (Table C.1) or 5.2% of GDP (Figure C.1) in 2004/05, of which public and private health expenditures amount to some 55% and 45% respectively (Figure C.7).
- (b) Public health expenditure comes all from the government budget, about 80% of which is allocated to the public hospital system, which dominates over 90% of the market for in-patient services (by number of bed days).
- (c) The comprehensive range of public healthcare services is highly-subsidized by the Government at some 95% of the overall cost. The actual level of subsidization varies across different services, with the highest level of subsidization for in-patient services at around 97%.
- (d) About 10% of public health expenditure is spent on primary care. The funding is mainly for preventive public health services including disease prevention and health education, and for curative general out-patient services targeting the low-income families and under-privileged groups (including the chronically-ill and poor elders).
- (e) Private healthcare services are paid for mostly by out-of-pocket payments, accounting for some 70% of private health expenditure (in 2004/05). By comparison, employer-provided medical benefits and individual voluntary medical insurance are relatively small financing sources, at 17% and 11% respectively (in 2004/05).
- (f) Private hospitals provide less than 10% of in-patient services (in terms of bed days), which are unsubsidized (except for certain institutional/day-time long-term medical/nursing care) and patients have to bear the full-cost for using private services. Such services account for 16% of private health expenditure. A relatively greater proportion of private in-patient services is financed by employer-provided medical benefits and individual voluntary medical insurance at 35% and 18% respectively, while out-of-pocket payments account for some 34%.
- (g) About 70% of ambulatory care (by number of consultations, either primary curative care or specialist out-patient services) is provided by the private sector. There is no statistics available on how much of the ambulatory care is for primary care. Such services account for 41% of

private health expenditure, and are paid for by out-of-pocket payment (75%), employer-provided medical benefits (19%), and individual voluntary medical insurance (6%). The remaining is institutional or day-time long-term medical and nursing care subsidized by the Government.

- (h) Most members of the public can afford their own primary care from private practices, but they mostly pay for curative care rather than for preventive care.
- (i) Other than voluntary private savings and insurance, there are no other mandatory or prescribed financing arrangements in place to meet future healthcare needs.

**Table C.1** Total health expenditure of Hong Kong in 2004/05 by financing source and function (HK\$million)

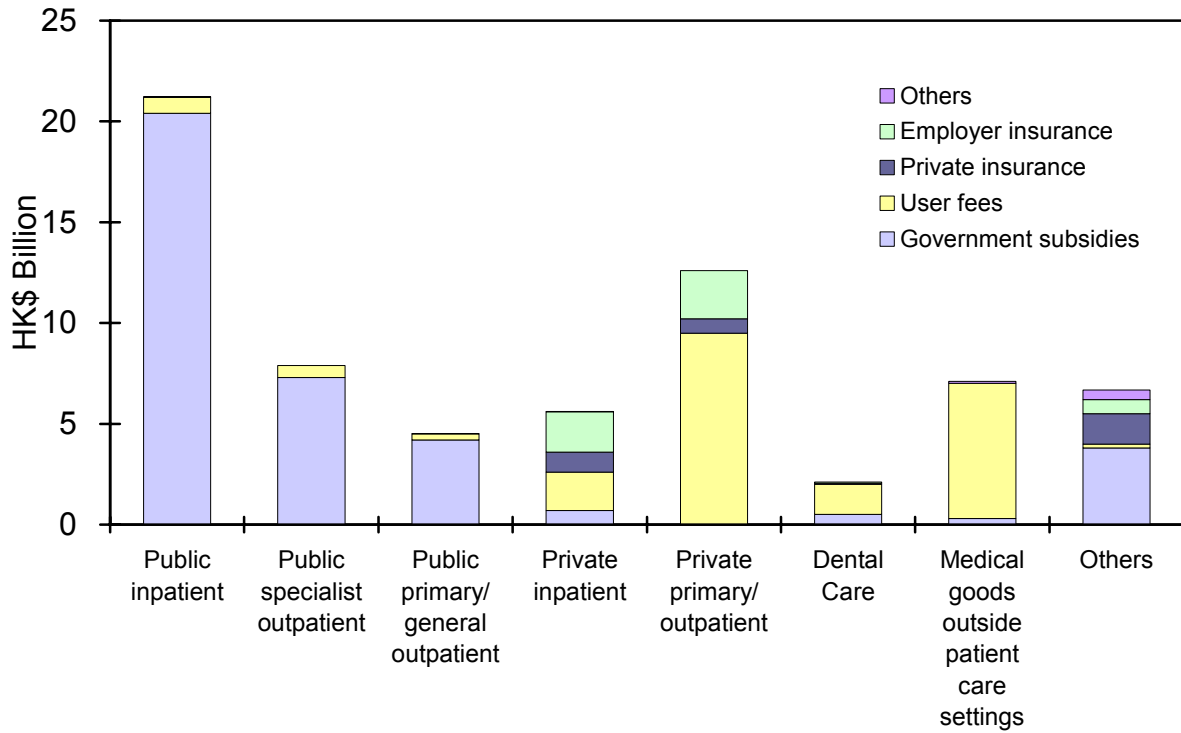
	Gov't subsidies	User fees/ out-of-pocket	Employer insurance	Private insurance	Others (note 4)	Total
Public in-patient (note 5)	20,433	780 (note 3)	-	-	21	21,234
Public specialist out-patient	7,263	613 (note 3)	-	-	-	7,875
Public primary care/general out-patient	4,219	322 (note 3)	-	-	17	4,557
Private in-patient	743 (note 2)	1,902	1,992	1,021	14	5,672
Private primary care/out-patient (note 1)	2 (note 2)	9,453	2,402	721	7	12,585
Dental care	482	1,490	58	44	9	2,084
Medical goods outside patient care settings	272	6,736	-	-	97	7,105
Others (including ancillary medical services, investment and administration)	3,766	249	715	1,498	466	6,695
<b>Total</b>	<b>37,179</b>	<b>21,545</b>	<b>5,168</b>	<b>3,284</b>	<b>631</b>	<b>67,807</b>

Note:

1. Private out-patient include both specialist and general out-patient.
2. Include subsidized institutional/day-time long-term medical/nursing care.
3. Include private and employer insurance for which there are no separate statistics.
4. Include non-profit institutions serving households, corporations and non-patient care related revenue.
5. Include in-patient curative care, in-patient rehabilitative care, in-patient and institutional long-term care, and day patient hospital services.

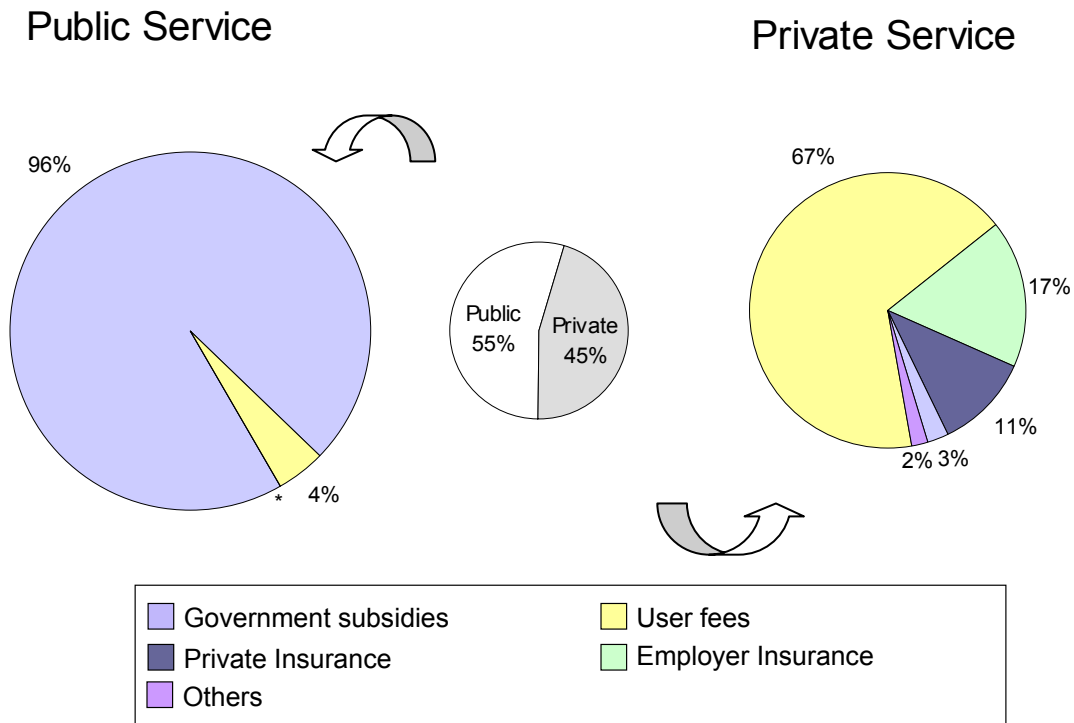
Source: Hong Kong's Domestic Health Accounts: 2004/05

**Figure C.3** Total health expenditure in 2004/05 by financing source



Source: Hong Kong's Domestic Health Accounts: 2004/05 and 2004/05 HA costing.

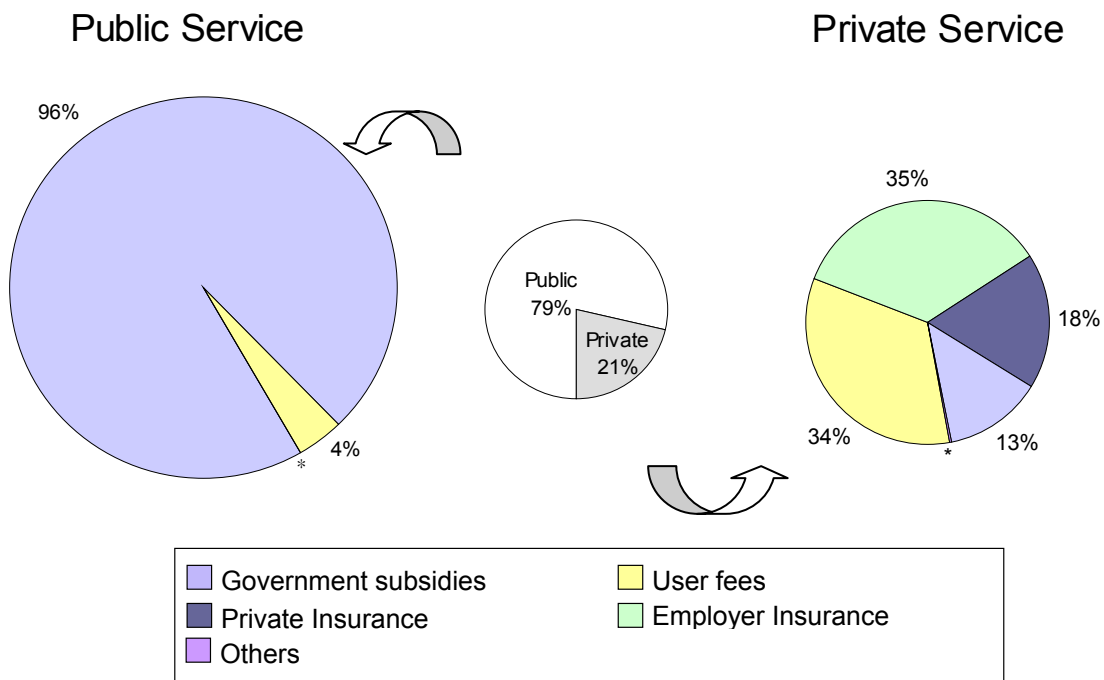
**Figure C.4** Total health expenditure in 2004/05 by public and private services



Note: \* figures smaller than 0.1%

Source: Hong Kong's Domestic Health Accounts: 2004/05 and 2004/05 HA costing.

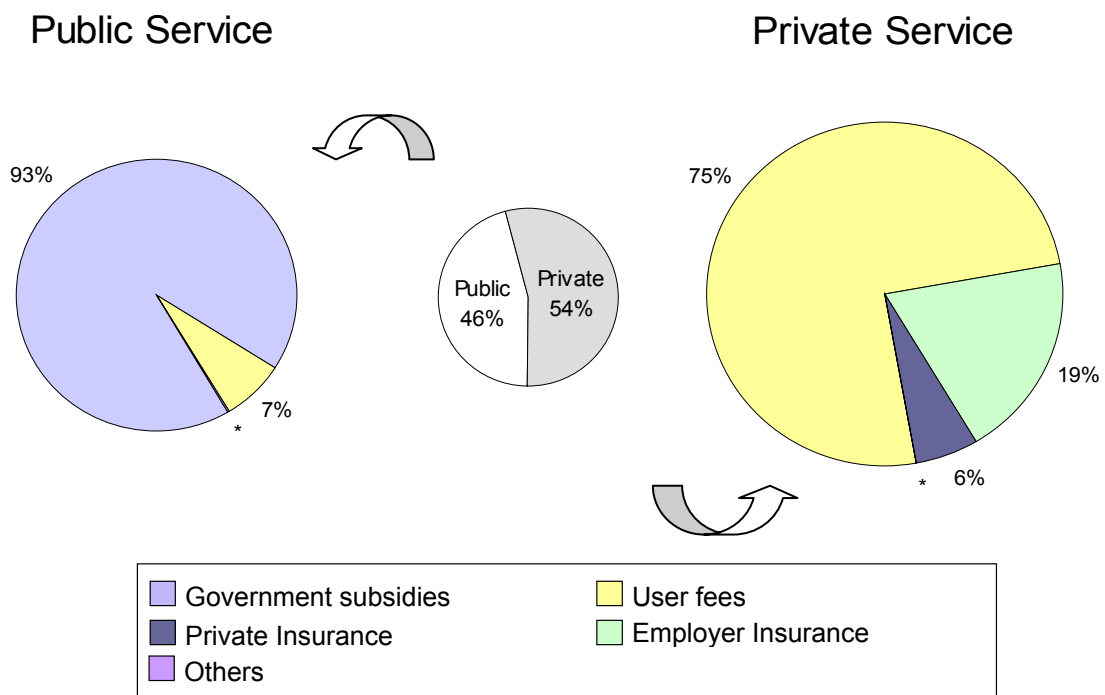
**Figure C.5** Expenditure of in-patient services in 2004/05 by public and private services



Note: \* figures smaller than 0.1%

Source: Hong Kong's Domestic Health Accounts: 2004/05 and 2004/05 HA costing.

**Figure C.6** Expenditure of out-patient services in 2004/05 by public and private services



Note: \* figures smaller than 0.1%

Source: Hong Kong's Domestic Health Accounts: 2004/05 and 2004/05 HA costing.

## **Public Funding Source**

C.4 Public healthcare is predominantly funded by the Government through general taxation. However, Hong Kong has one of the lowest tax regimes among developed economies. There is no sales tax and the highest progressive rate for Salaries Tax is only 17% (for the financial year 2007/08). Salaries tax is further capped by a standard rate of 16% (for the financial year 2007/08) and will not exceed the amount charged by applying the standard rate to the net total work-related income.

C.5 We also have a very narrow tax base. Only 19% of the whole population is paying Salaries Tax. More than half of the population are not working and so do not have to pay Salaries Tax even if they have income from other sources. Even among the working population, most do not have to pay Salaries Tax because of the high tax threshold arising from the various tax allowances such as child allowance, dependent parent allowance, etc. Of the 3.5 million working population, only 37% are paying Salaries Tax.

## **Private Funding Source**

C.6 Private healthcare is predominantly (about 70%) funded by out-of-pocket payments. Only about 28% of the private funding comes from private health insurance, with 17% being employer-provided medical benefits schemes and 11% being individual voluntary medical insurance. Nevertheless, there has been an increase in the share of private insurance in private funding, from 21% in 1989/90.

C.7 Private hospitals provide less than 10% of in-patient services in terms of bed days, which account for 16% of private health expenditure. A relatively greater proportion of private in-patient services is financed by employer-provided medical benefits and individual voluntary medical insurance at 35% and 18% respectively, while out-of-pocket payment account for some 34%.

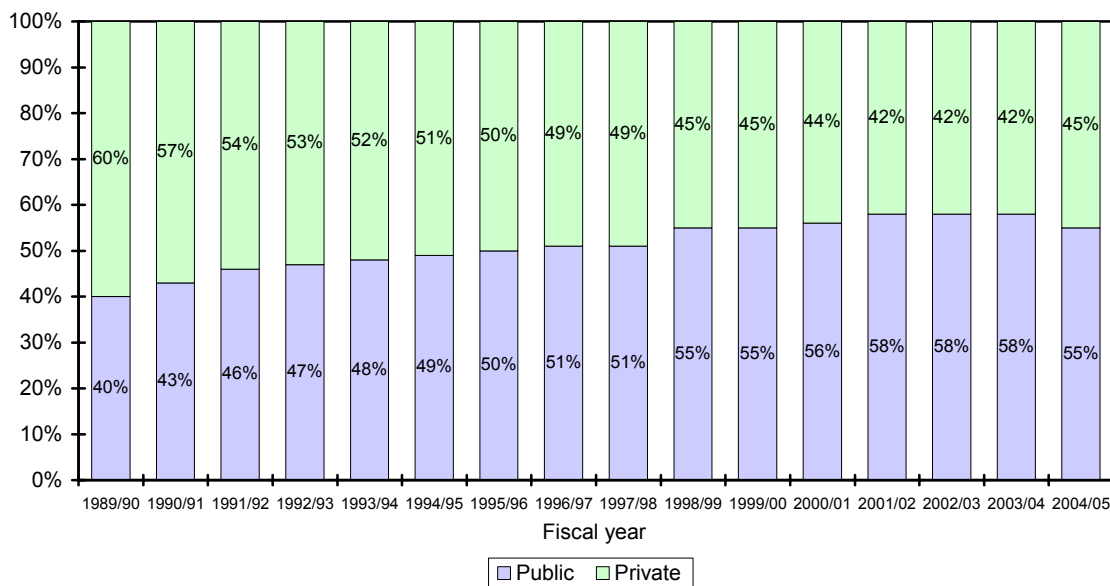
C.8 About 70% of out-patient consultations are provided by the private sector, which account for 41% of private health expenditure, and are paid for by out-of-pocket payment (75%), employer-provided medical benefits (19%), and individual voluntary medical insurance (6%).

C.9 The current financing arrangements directly or indirectly contributed to the following phenomena in our healthcare system –

- (a) The high level of subsidies for public hospital services channels patients into the public hospital system and is not conducive to judicious use.

- (b) To some extent, the lack of certainty over the amount of charges for private hospital service also discourages members of the public from using such service.
- (c) The share of public healthcare expenditure as a percentage of total healthcare expenditure has continued to rise over the years (See Figure C.7).

**Figure C.7** Public and private share of total health expenditure, 1989/90 – 2004/05



Source: Hong Kong's Domestic Health Accounts: 1989/90 – 2004/05