

## Brochure on Healthcare Reform – Text Version

### **Your Health Your Life**

We need your help to reform our healthcare system

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#### **A Sustain Our Quality Healthcare**

##### **“Is the existing healthcare service level and quality sustainable?”**

Hong Kong’s healthcare services have been functioning well to protect public health. As a result, our life expectancy ranks among the highest in the world. Healthcare is accessible to everyone falling ill. We are provided with high-quality medical services, advanced medical technologies and a team of talented healthcare professionals with a high standard of professional conduct. In addition to all these, our public healthcare services charge very low fees. We cherish our healthcare system.

But is it possible to sustain our existing level of service after 10 or 20 years? With Hong Kong’s population rapidly ageing, and the proportion of the elderly constantly on the rise, medical needs will be increasing substantially and the waiting time for public hospital services will also lengthen. On the other hand, private hospital services are relatively expensive and may not be affordable to most of the public.

Meanwhile, with advances in medical technology, many critical illnesses or even incurable diseases in the past can now be effectively diagnosed and treated with newly available equipment, technology and medicines. This is certainly a good development, but it also gives rise to continued increases in healthcare cost. Under the pressure of increasing needs and expenditure, our public safety net may not be able to cater adequately for patients suffering from catastrophic or chronic illnesses that entail costly treatments.

**To ensure that all of us can continue to enjoy quality healthcare services and protection, we must be determined to reform our existing system.**

## **B Why Healthcare Reform?**

**“The expectations for an ideal healthcare system may be different for everyone.”**

Even so, you may agree with the following important considerations:

### **Provide patients with accessible healthcare and peace of mind**

Our long-established public healthcare policy is based on the principle that “no one should be denied adequate healthcare through lack of means”. We will uphold this principle in reforming our healthcare system. We must also keep up with advances in medical technology and enhance the level and quality of our healthcare services. All patients should be provided with healthcare protection so that they do not have to worry about costly medical treatments.

### **Improve health through better prevention**

Everyone wants to stay healthy and knows that prevention is better than cure. In reforming our healthcare system, we must encourage the development of a long-term relationship between family doctors and their patients, put greater emphasis on preventive care and promote a healthy lifestyle for everyone in the community, so that we can all live more healthily.

### **More choices of better services**

Private hospital services are relatively expensive at present. So you may prefer to queue up as with majority of the public for affordable public hospital services which offer rather limited choice in medical services. In reforming our healthcare system, we need to identify ways to provide our community with greater flexibility to choose more personalized quality services in both the public and private sectors.

### **Comprehensive healthcare protection**

The current healthcare safety net caters mainly for the low-income and under-privileged groups. In order to provide peace of mind to everyone, the healthcare safety net should also cover those struck by serious illnesses requiring costly treatments (e.g. chronic or catastrophic illness). The protection should also extend to patients from middle-income families who require costly treatments.

### **Stable financing for sustainable development**

Population ageing is a problem that all advanced economies face. Our life expectancy ranks among the highest in the world. Longevity and improved health have enriched our life, but an ageing population has also led to a growing healthcare burden. With a growing elderly population and shrinking proportion of young people, the increasing burden of financing healthcare for the community as a whole will fall on the shoulders of fewer people.

At present, the ratio of the working-age population (people aged between 15 and 64) to the elderly population in Hong Kong stands at **6:1**, and will reach **5:1** and **3:1** in 10 years and 20 years respectively. In other words, if you are now 20 years old, you have an average of five other citizens together

with you to help take care of one elderly person. However, when you reach the age of 40 in 20 years' time, you will have only two citizens to share with you the responsibility for taking care of one elderly person. In the foreseeable future, the number of young people who can share the costs of elders' living (including healthcare) will become fewer and fewer.

Meanwhile, due to our population ageing and the use of more advanced medical technology, our expenditure on healthcare will grow much faster than our overall economy (in Gross Domestic Product (GDP)). Our public health expenditure is projected to increase from some \$38 billion in 2004 to about \$78 billion in 2015 and about \$127 billion in 2025. These amounts are at 2005 prices, i.e. inflation has not been factored in. However, the proportion of tax-paying working population who will shoulder the \$127 billion expenditure in 2025 is expected to be smaller than that currently shouldering the \$38 billion. By 2033, it is estimated that our expenditure on healthcare will increase four-fold while our overall economic growth will increase only less than two-fold. Our per capita health expenditure will increase at a rate much higher than that of our per capita GDP. In other words, the average healthcare expenditure per person will grow at a much faster pace than wage increase.

Therefore, our healthcare system needs a stable and sufficient financing source so that we can take care of our community and to provide them with adequate and quality services for the long term. This will ensure that you and your future generations will not need to shoulder a heavy financial burden or to face declining level and quality of healthcare.

**“This is a matter that concerns our own health. We need to take charge of it ourselves.”**

**We need your help to reform – for your health and your life.**

Our vision is to achieve a healthcare system that improves the state of health and quality of life of our people, and provides healthcare protection for every member of the community.

This concerns the health of every one of us, and we should all take personal responsibility. Let us work together to build a better healthcare system for ourselves and for our future generations – this is your health and your life.

## **C Where Should We Start?**

**“To give you better healthcare protection, we propose to start in five areas:”**

### **Promote health in partnership with healthcare professionals**

- ◆ Improve primary healthcare service, strengthen preventive care and promote healthy lifestyle, so as to enhance individuals' health.
- ◆ Develop basic standards for primary care (especially preventive care) for people of different age and gender groups.
- ◆ Establish a family doctor register to promote sustainable, comprehensive and holistic family healthcare services.

- ◆ Government to provide partial subsidy for preventive care (e.g. health checks) through your family doctor.

### **Encourage Public-Private Partnership**

- ◆ Government to purchase healthcare services (e.g. out-patient services or non-urgent surgeries, etc.) from the private healthcare sector.
- ◆ Pursue public-private partnership in hospital development to share healthcare resources and provide better services.
- ◆ Set up medical centres of excellence to bring together the expertise of local medical practitioners from the public and private sectors and experienced overseas experts.
- ◆ Provide a mechanism for private doctors to practise in public hospitals.

### **Develop an electronic database of patient records**

- ◆ Enable “records to follow the patients” so that wherever you seek healthcare from the public or private sector, the healthcare provider can have immediate reference to your full health record with your consent, making diagnosis and treatment more timely, accurate and reliable.

### **Strengthen public healthcare safety net**

- ◆ Reduce the waiting time for public hospital services.
- ◆ Enhance the standard public medical services by covering more proven advanced medical techniques, drugs and equipment.
- ◆ Explore the idea of setting a “personal limit on medical expenses” to protect patients who need costly treatments so that they need not worry about exhausting their savings because of their illnesses.
- ◆ Inject additional funding into the Samaritan Fund to help those who are in need but cannot afford certain non-standard public healthcare services.

### **Develop supplementary financing options for healthcare**

- ◆ Government funding will continue to be the major financing source for our healthcare system. The Government has already committed to increasing the recurrent government expenditure for medical and health services to 17% of overall recurrent government expenditure by 2011-12.
- ◆ Apart from increasing funding for healthcare, the Government would also like to work with you in developing supplementary financing arrangements that meet the expectations and needs of the community, to ensure that we can continue to enjoy quality healthcare services in the face of an ageing population and increasing healthcare expenditure.
- ◆ The Government is committed to shouldering the responsibility for healthcare financing together with the community. After the supplementary financing arrangements have been finalized for implementation after consultation, the Government is committed to drawing \$50 billion from the fiscal reserve for taking forward the healthcare reform. It can be used, for instance, to provide each participant in a contributory supplementary financing scheme with individual start-up capital.

## D1 Financing Option – Continue to Rely Solely on Government Funding

**“When healthcare needs continue to rise, the Government may need to increase tax rates substantially. Otherwise, we cannot sustain quality public public healthcare services.”**

Our taxpayers shoulder the existing public healthcare system. Each year, the Government allocates resources from the budget for the provision of public healthcare services. If we cannot make up our mind to reform healthcare financing arrangements now, we would face the following situations:

- With healthcare needs continuing to rise, the Government may need to increase tax rates substantially, or to reduce the funding for other public services (including that for education, social welfare and public order etc). Otherwise, we cannot sustain quality public healthcare services.
- Those who fall ill will need to wait longer and longer for public hospital services, and those who opt for private hospital services would need to pay relatively expensive fees.
- Healthy people may need to pay more taxes in order to finance public healthcare and to maintain quality healthcare services.

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Equitable access to the same standard healthcare services.</li><li>• Simple administration, lower administrative costs.</li></ul>	<ul style="list-style-type: none"><li>• Increased tax rates and expanded government budget, or reduced funding for other public services.</li><li>• Increasing burden on future generations as the working population shrinks.</li><li>• May encourage continued reliance on highly-subsidized public healthcare services, further, aggravating the public-private imbalance.</li></ul>

## D2 Financing Option – Introduce Supplementary Healthcare Financing

**“In examining how to provide additional resources for our healthcare system and to improve and sustain quality healthcare, we have studied the experiences around the world and identified **six** schemes in **three** major models in addition to the existing model of government funding. They are summed up below for your consideration.”**

### (1) Tax-like model

#### **Social Health Insurance**

The concept of social health insurance is that all members of the working population are required to contribute a certain percentage of their income to finance healthcare protection for the whole population. All the contributions are paid into a social health insurance fund to provide subsidies to the whole population for the use of public and private healthcare services covered by the social health insurance.

- ◆ Access to the same standard subsidized healthcare services for all.
- ◆ Those who choose private services may have to make co-payment for charges beyond the subsidized amount.
- ◆ Contribute according to income level; those who are not required to make contributions may also benefit.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Access to the same standard healthcare services.</li> <li>• Limited choice of services from both the public and private sectors.</li> <li>• Provides a stable financing source for the healthcare system.</li> </ul>	<ul style="list-style-type: none"> <li>• A hypothecated tax imposing a heavier burden on the working population.</li> <li>• Increasing burden on future generations as the working population shrinks.</li> <li>• May result in overuse as patients pay no or minimal extra fees.</li> <li>• Rising contribution rate due to ageing population and increased utilization of healthcare services.</li> </ul>

**\*All figures on the contributory percentage for financing in this brochure are only hypothetical figures for illustrative purposes.**

## **(2) User-pays model**

### **2.1 Out-of-Pocket Payments**

Increase the user fees for using public healthcare services. With the exception of low-income and under-privileged groups, service users are required to share a larger portion of the costs for healthcare.

- ◆ Healthy ones are not required to pay more.
- ◆ Those who need to use healthcare will be affected by substantial increase in medical fees (especially for the elderly and chronic patients).
- ◆ Those with the means can choose to use private services in addition to public services when they fall ill.
- ◆ Low-income and under-privileged groups continue to be served by the public healthcare safety net.
- ◆ Under the “user-pays” principle, all users pay the same amount of fees proportional to their service utilization, irrespective of their income level.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Encourages judicious and appropriate use of healthcare services.</li> <li>• Instils a sense of responsibility for one’s own health.</li> </ul>	<ul style="list-style-type: none"> <li>• Medical fees may be unaffordable for those with income level above the safety net level.</li> <li>• Can provide only limited additional resources for the healthcare system.</li> <li>• More cases requiring financial assistance under the healthcare safety net mechanism, giving rise to additional administration costs and reduced financing from fees.</li> </ul>

## (2) User-pays model

### 2.2 Medical Savings

Requires a specified group of the population (e.g. working population with income above a certain level) to deposit part of their income into a personal medical savings account to meet their own future (especially after retirement) healthcare expenses.

- ◆ An individual saves according to his/her income level and the accrued savings together with investment returns all belong to that individual for meeting his/her own healthcare needs.
- ◆ If an account holder passes away, the accrued savings in his/her account will become his/her estate.
- ◆ Those without savings or having exhausted their savings will continue to be served by subsidized public healthcare services.
- ◆ The use of savings depends on the actual healthcare needs of individuals without any element of risk-sharing.

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Savings for own use to meet future personal healthcare expenses.</li><li>• Reduces the financial burden on future generations.</li><li>• Encourages judicious and appropriate use of healthcare services.</li><li>• Instils a sense of responsibility for one's own health.</li></ul>	<ul style="list-style-type: none"><li>• No risk-pooling. Each person bears his/her own financial risk arising from illnesses.</li><li>• Patients may continue to use public healthcare services in order to save expenses.</li><li>• No protection is available before retirement if the savings can only be used after retirement.</li><li>• Allowing the use of savings before retirement will make it difficult to accrue sufficient savings to meet healthcare expenses in old age.</li></ul>

## (3) Individual Health Insurance Model

### 3.1 Voluntary Health Insurance

Encourage members of the public to purchase private health insurance in the market voluntarily.

- ◆ The insured can enjoy protection of their own choices and choose private services according to their respective insurance scheme.
- ◆ High-risk groups (e.g. chronic patients, the elderly and others with previous illnesses) have difficulty in getting insured or have to pay costly premiums.
- ◆ The uninsured have to either pay their own expenses for using private services or continue to be served by subsidized public healthcare services.
- ◆ Individuals may take out insurance on their own choices and needs, and pay premiums according to risk levels regardless of their income level. No element of subsidizing others.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Voluntary choice to take out insurance for one's needs.</li> <li>• More choice of services for the insured.</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-existing medical conditions are excluded or require costly premiums.</li> <li>• No guarantee of policy renewal (especially for the elderly or patients struck by serious illnesses).</li> <li>• Not helping participants to save to meet their healthcare expenses and premium after retirement.</li> <li>• No guarantee on the number of participants and risk profiles; higher costs of administration and underwriting, resulting in higher premiums.</li> <li>• Cannot provide stable and substantial additional financing for the healthcare system.</li> <li>• May encourage inappropriate use of healthcare services.</li> <li>• Higher premium for the elderly and the high-risk groups. Premium will increase over time due to older age and higher risks of the insured, and increased utilization by the insured.</li> </ul>

### **(3) Individual Health Insurance Model**

#### **3.2 Mandatory Health Insurance**

Requires a specified group in the population (e.g. working population with income above a certain level) to purchase individual health insurance regulated by the Government.

- ◆ Risk-sharing among participants; guaranteed number of participants and risk profile; lower costs of administration and underwriting in comparison with voluntary insurance, and thus relatively lower premium.
- ◆ The insured can choose private services, or may continue to use public services.
- ◆ Same premium for all participants regardless of their age and medical history, allowing the high-risk groups (e.g. chronic patients and the elderly) and people with pre-existing medical conditions to get insured.
- ◆ Individuals not required to participate in the mandatory health insurance continue to be served by subsidized public healthcare services.
- ◆ Participants of the mandatory health insurance scheme shoulder an equal share of premium regardless of their income level.



Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Same and generally lower premium for participants regardless of age and health condition.</li> <li>• Those with pre-existing medical conditions can also get insured.</li> <li>• Guaranteed renewals of insurance policy (even for the elderly or those with illnesses).</li> <li>• Better consumer protection through regulated insurance.</li> <li>• The insured can choose private healthcare services, thus relieving the pressure on the public healthcare system. The freed-up resources can be used to improve services for the low income and under-privileged groups.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires stringent regulation of insurance and incurs additional administrative costs.</li> <li>• Not helping participants to save to meet their healthcare expenses and premiums after retirement.</li> <li>• May encourage inappropriate use of healthcare services.</li> <li>• Increasing premium over time as the insured population gets older and utilisation of healthcare services increases.</li> </ul>

### (3) Individual Health Insurance Mode

#### 3.3 Personal Healthcare Reserve

Require a specified group in the population (e.g. working population with income above a certain level) to deposit part of their income into a personal healthcare reserve account. Part of the deposit will be used for subscribing to a government-regulated personal healthcare insurance, and the remainder will be accrued in the account to continue subscribing the insurance and meet other medical expenses after retirement.

- ◆ Through contributions during employment, participants can have the protection of individual health insurance before retirement, and at the same time build up a reserve to pay for individual health insurance premiums and other medical expenses (including the extra costs of selected private services) after retirement.
- ◆ Risk sharing among participants; guaranteed number of participants and risk profile; lower costs of administration and underwriting in comparison with voluntary insurance; and relatively lower premium.
- ◆ Same premium for all participants regardless of their age and medical history, thereby enabling the high risk groups (e.g. chronic patients and the elderly) and people with pre-existing medical conditions to get insured.
- ◆ Participants can choose to use private services through their personal healthcare insurance, or continue to use public healthcare services paid by the personal healthcare insurance.
- ◆ Those who need not participate in the personal healthcare reserve scheme continue to be served by subsidized public healthcare services.

- ◆ Deposit to reserve is based on individual income level, but the insurance premium is the same for all participants. The balance will be kept in the account to pay for personal healthcare insurance premium and other medical expenses after retirement.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Has the advantages of both mandatory health insurance and medical savings accounts.</li> <li>• Complementary nature of insurance and savings: provide medical protection for the present and savings for the future.</li> <li>• Relieves the pressure on the public healthcare system and spares resources for improvement of the services for the low income and under-privileged groups.</li> <li>• All personal contributions to be used for the individual participant.</li> <li>• Ensures sustainable development of the overall healthcare system.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires stringent regulation of insurance and incurs additional administrative cost.</li> <li>• May encourage inappropriate use of healthcare services.</li> <li>• Increasing premium over time as population gets older and utilisation of healthcare services increases.</li> </ul>

## E Where do you stand?

Each of the six financing options outlined above has its own pros and cons, and your expectations will not be entirely the same as mine. Everyone will have his own preferences on certain important principles based on their value judgments and actual circumstances. Maybe you would prefer a tax-like model requiring income-based contributions to provide the whole population with access to the same standard of services? Or perhaps you would think since everyone has a chance of being struck by illness, we should make use of insurance to pool risks? Or would you consider that, on top of government's commitment to healthcare, any extra money you pay ought to be used for your own healthcare? Alternatively, maybe you hope that what you contribute now can be used for your present healthcare protection and can save for your future medical expenses? We list below a series of important principles, which hopefully will help you to consider the options:

- If you prefer continuing to have taxpayers as the sole financing source to maintain public medical services, you may have to face the situation that with increasing needs and expenditure, the level of public healthcare services will decline under pressure of increasing demand and expenditure. Or tax rates would have to be substantially increased. Or funding for other public services would have to be reduced.

- If you prefer the working population to provide supplementary financing with a tax-like model, on top of healthcare funding from taxpayers, in order to sustain the level and quality of healthcare services and to provide everyone with equal access to the same standard services, you may find “social health insurance” more acceptable. (However, this is equivalent to an additional hypothecated tax. The burden on future generations will become heavier as the ratio of the workforce to the elderly population continues to decrease.)
- If you prefer that on top of healthcare services financed by taxpayers, those who can afford can pay extra on their own to choose use better and faster services when they fall ill, you may find options like “out-of-pocket payment” or “medical savings” more acceptable. (However, the elderly, chronic patients and patients suffering from catastrophic illnesses would not be able to afford the extra costs. This might happen to you when you become old or struck by serious illnesses.)
- If you prefer, on top of healthcare services financed by taxpayers, to make use of insurance so you can choose better and faster services when you fall ill, and yet you want to buy insurance according to your own wish, need and choice, you may find “voluntary health insurance” more acceptable. (However, insurance companies in the market are charging higher premiums for high-risk groups and the elderly. Those with pre-existing illnesses may not be able to get insured. There is also no guarantee that the policy will be renewed or the premium will not be escalated with illnesses.)
- If you prefer, on top of healthcare services financed by taxpayers, to share the financial risks arising from illnesses with other people through insurance; and if you desire that you will still be able to get insurance protection when you grow old or are struck by catastrophic or chronic illnesses, and that the premium by then will still be affordable, you might find “mandatory health insurance” more acceptable. (However, this would mean that when you are healthy, you would need to subsidize those who are ill, and this option could not guarantee your ability to pay insurance premiums after retirement or illness.)
- If you prefer, on top of healthcare services financed by taxpayers, to share the financial risks arising from illnesses with other people through insurance; and hope that even when you have retired or have fallen ill, you can still afford medical insurance, you might find the option of “personal healthcare reserve” more acceptable. (However, this would mean that you would have to contribute more when you are young and capable, and your contributions would serve to provide protection for the present as well as reserve for the future.)

## **F Please Join the Discussion**

The Government will in any event remain the primary financing source of our healthcare system. However, in the face of increasing healthcare expenditure and the rapidly shrinking proportion of our workforce to our

elderly population, we have to make up our mind to identify an option that can benefit everyone: you, me, and the society as a whole, so that we can continue to enjoy quality healthcare services and lead a healthy life, for not only the next decade or two, but in the even longer run. We would like to canvass your views on the six supplementary financing options raised in this first-stage consultation. We will then carefully consider your views on the pros and cons of the different options, and formulate detailed proposals for the reform including supplementary financing arrangements. We will then conduct the second stage consultation to further solicit your views.

The healthcare system of Hong Kong belongs to us all and is of vital importance to you, to me and our future generations. Every single view counts! The Healthcare Reform Consultation Document and related materials can be obtained from District Offices, major public libraries, public hospitals and public clinics, or can be downloaded from the website below. Please let us have your views on this consultation document on or before 13 June 2008 through the following contacts and join the discussion.

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**Unless otherwise specified, all responses will be treated as public information and may be publicized in the future.**

## Appendix Frequently Asked Questions

### **Q1: Is healthcare reform really this urgent?**

A1: Ageing population and rising medical costs are challenges faced by all economically advanced countries and regions. Hong Kong is no exception. To maintain our existing healthcare service level, we must address the structural weaknesses in our current healthcare system promptly, in order to enhance the quality and efficiency of healthcare, reduce our reliance on hospital services, and ultimately improve the health of our citizens. Otherwise, quality healthcare services that we have long cherished will not be sustainable. In addition, increasing healthcare needs will most certainly affect our economy, weaken Hong Kong's competitiveness and reduce our investment in other areas of the society. In other words, the resources for other areas such as education or infrastructure may be reduced accordingly.

Reasons for the urgency:

1. Ageing population means a larger number of elderly who need relatively more healthcare services. Healthcare needs will therefore increase.
2. Advances in medical technology bring newer equipment, techniques, drugs and treatments. It is better to have more cures to diseases, but healthcare costs are also rising rapidly.
3. The ratio of workforce to elderly population in Hong Kong will decline from 6:1 to 3:1 within the next 20 years, imposing an unbearable healthcare burden on future generations.

### **Q2: If the Government considers that healthcare reform is urgently needed, why does it launch a two-stage consultation, instead of openly telling the public the option that the Government recommends after thorough study for a direct consultation?**

A2: Healthcare reform is a highly complex issue which involves many different aspirations, values and decisions of the society. One of the important considerations would be whether supplementary financing should be used for subsidizing healthcare for the whole population accessed through queuing and triage, or it should provide contributors with more and better choice to access healthcare more directly and readily. Given the far-reaching implications and the fact that it concerns every member of our society, we need to proceed cautiously and prudently at every step on the road of reform and act on the preference of the public. There is no absolute right or wrong on the direction of healthcare reform and supplementary financing arrangements. It hinges on the choice of the community. We intend to launch the consultation in two stages. In the first stage, we will consult the public on the concepts of the healthcare service reforms and the pros and cons of the various financing options. After considering the views obtained, we will formulate detailed reform proposals including supplementary financing arrangements and launch the second-stage consultation to further seek the views of the public.

**Q3: Why can't we keep the status quo, that is, maintain the current system whereby the Government continues to provide funding for public healthcare?**

A3: If the current healthcare system remains unchanged, and the Government will have to face ever increasing public health expenditure, the following situations may arise:

(i) The Government may need to increase tax rates substantially, introduce new types of tax or raise other revenue sources. The total public expenditure of the Government as a percentage of the economy (GDP) will have to be expanded to 22% in 2033, departing from the principle of small government and low-tax regime, and eroding Hong Kong's economic competitiveness.

(ii) If the government budget is to be kept below 20% of GDP, public health expenditure will increase to over 27% of the Government's budget in 2033 at the expense of other public services, e.g. education, social welfare and security, etc. The proportion of the budget for these services may have to be reduced.

(iii) If we do not increase tax or reduce funding for other public services and yet we do not make any supplementary financing arrangements, the quality service currently provided by our healthcare system cannot be sustained, and the quality of our healthcare will deteriorate.

**Q4: As the Government has a handsome budget surplus, why is there still a need for financing? Why can't we use the surplus for healthcare?**

A4: A large budget surplus does not happen every year, and there is no guarantee that the surplus situation will continue. Past experience has already shown us that the financial situation of the Government changes according to the economy. A one-off budget surplus is not something that can be relied on to meet recurrent healthcare expenses.

The challenges faced by our healthcare system now cannot be simply resolved by a short-term increase in funding for public healthcare services. In addition to increasing the resources for the healthcare system, we also need to undertake reforms on healthcare services. For example, we should allocate more resources to enhance primary care for improving the health of our community; we should promote public-private partnership and develop electronic health record sharing so as to provide the community with more choices and greater autonomy, thus realizing the concept of "money following patients". We should also strengthen the existing public healthcare safety net. These are necessary to fulfil our vision for healthcare reform. We need a stable and sustainable financing source in order to carry on healthcare reform, to improve healthcare services and to enhance the health of the community for the long term. It is therefore necessary for us to introduce supplementary healthcare financing (a source of healthcare funding other than taxation).

Hong Kong currently has a robust economy and a strong fiscal position. It is the best time for the Government to work together with the community to prepare for our future, introduce healthcare reform, and lay a solid

foundation for quality healthcare services for every one of us and our future generations.

**Q5: Inefficiency may be one of the reasons why our public healthcare system experiences pressure on resources. Should the Government address this problem first before introducing any supplementary financing?**

A5: The Hospital Authority (HA) has been adopting a number of measures over the years to balance its budget and enhance efficiency. There has been an average efficiency gain of about 1% within the public sector in the past. For the period between 2000-01 and 2005-06, public healthcare services have accumulated efficiency savings amounting to approximately 12% of their expenditure. HA will continue to review and improve the use of resources for greater efficiency and value-for-money. At the current level of health expenditure and services, the efficiency of our public healthcare system compares favourably to those of many other advanced economies. However, our health expenditure will grow at a much faster rate than our economic growth. Thus the pressure on the public healthcare system caused by a rapidly ageing population and advances in medical technology cannot be eased by further efficiency enhancement alone. While we will continue to enhance both the efficiency and cost-effectiveness of our public healthcare services, we must face the reality that there is a need to seek supplementary financing to sustain our healthcare system.

**Q6: Does the Government plan to increase the fees and charges for the services provided by the HA?**

A6: The consultation paper has listed increasing user fees for public healthcare services as one of the supplementary financing options. However, relying solely on a significant increase in fees for public healthcare services cannot resolve the financing problem, and will not be conducive to the implementation of healthcare service reform.

**Q7: Is the Government shifting the burden of resolving the healthcare financing problem to the public?**

A7: The Chief Executive has pledged to increase recurrent government expenditure for health and medical services from 15% at present to 17% in 2011-12. Based on Hong Kong's current economic situation and the Government's financial position, we estimate that this will represent an increase in annual recurrent expenditure of about \$10 billion. The Financial Secretary has also committed to draw \$50 billion from the fiscal reserve to assist the implementation of healthcare reform when the supplementary financing arrangement has been finalised after consultation. These clearly demonstrate the Government's commitment to shoulder the responsibility for healthcare financing together with the community.

In any event, the Government will continue to be the major pillar for financing our healthcare system. The Government will continue to uphold its long-established public healthcare policy that no one should be denied adequate healthcare through lack of means. The public healthcare system will also remain, as at present, a safety net for the whole population, in particular the low-income and under-privileged groups.

However, even with increased government commitment on healthcare, we still cannot surmount the challenges posed by an ageing population and rising medical costs. The ratio of the working-age population to the elderly population is 6:1 at present, but will drastically decrease to 5:1 in 10 years' time and 3:1 in 20 years' time. Meanwhile, due to our ageing population and the use of more advanced medical technology, our total public health expenditure is projected to increase from about \$38 billion to some \$127 billion. Therefore, we need the whole community to work together, to build a consensus, to undertake healthcare reform and to introduce supplementary healthcare financing. If we can come to a supplementary financing model, the Government will examine how to provide financial incentives to contributors of the supplementary financing scheme, e.g. tax deduction, start-up capital or other forms of direct subsidy.

**Q8: Who are required to contribute to supplementary healthcare financing?**

A8: At the first stage consultation, we would like to listen to the views of the public on the concepts of the healthcare reform, as well as the pros and cons of the supplementary healthcare financing options. At this stage, we are open-minded on who should contribute to supplementary financing. After collecting and consolidating public views, we will formulate more concrete proposals on supplementary healthcare financing arrangements for launching the next stage of consultation. In any event, the Government is committed to shouldering the responsibility for healthcare financing together with the community.

**Q9: What would be the level of contribution for supplementary financing? Would it be sufficient to resolve the healthcare financing problem?**

A9: We do not have any concrete proposals on the details of any of the financing option in this first-stage public consultation exercise. The level of contribution would very much depend on the design of the supplementary healthcare financing option, the number of participants and their affordability. However, in studying various supplementary healthcare financing options, we have for illustrative purpose made an assumption that the contribution rate would be around 3-5% of the participant's income subject to an upper limit on the level of contribution. This is out of the consideration that too low a contribution rate would not be administratively cost-effective, and would not bring about substantial supplementary financing. A 3-5% contribution rate by the working population would provide a substantial amount of supplementary financing that can help meet increasing healthcare needs. This, coupled with the reform of the healthcare market and service structure, should make the increase in future healthcare needs and expenditure a less unbearable burden, thus enhancing the sustainability of our healthcare system substantially.

**Q10: I have all along been in good health and have never used public healthcare services. It seems that all these financing options have nothing to do with me. Can I be excluded?**

A10: We certainly hope that everyone is in good health and free from illnesses. However, nobody can foresee whether and when they will need healthcare. Furthermore, healthcare reform covers not only public healthcare services, but also the whole healthcare system. Different supplementary healthcare



financing options will have different impacts on those who use the services provided in the private market.

In the discussion of supplementary financing, the community should consider not only what kind of healthcare protection would suit them best, but also whether it can promote the sustainability of the overall healthcare system and maintain high quality services. Setting up a contributory social health insurance, establishing individual medical savings accounts, or taking out suitable health insurance are all different means of preparing for the future.

Above all, healthcare reform concerns every one of us. We need to work with the community to take it forward.

**Q11: Why is the Government determined to promote primary healthcare services? Why do we need financing for the improvement of primary healthcare?**

A11: According to many overseas studies and experiences, the better developed the primary care system and preventive care, the healthier the public. The Government is thus determined to enhance primary healthcare services. This is one of the main directions of the healthcare reform. Supplementary healthcare financing is important because it can make available supplementary resources for our healthcare system and provide favourable conditions for the continuous improvements to our primary care services.

**Q12: Social health insurance is not familiar to Hong Kong people. What are its underlying philosophies?**

A12: The introduction of social health insurance is tantamount to introduction of a new broad-based tax with the tax revenue to be solely used on healthcare services for the whole population. As a relatively stable funding source, it can provide substantial financing for the healthcare system. It also further strengthens the mechanism of seeking healthcare funding according to income level, under the current tax-funded healthcare system. Nevertheless, social health insurance incurs additional administration costs as the Government needs to put in place a new mechanism for the collection of social security levy and administer the operation of the scheme. The implementation of social health insurance will also likely cause an increase in utilisation, or even encourage the tendency to overuse, because healthcare services will remain highly subsidized and will be coupled with less restrictions on utilization including the option to use private healthcare services. In the long run, an ageing population, shrinking workforce and increased utilisation will cause the contribution rate to rise.

**Q13: When can the savings in a medical savings account (MSA) be retrieved? Are they available to meet urgent needs?**

A13: The objective of MSA is different from that of the Mandatory Provident Fund (MPF). The MPF is for accumulation of savings and investment returns at a young age to provide one with better livelihood protection after retirement. Therefore, MPF participants can retrieve their MPF contributions at the age of 65. Medical savings, on the other hand, are for healthcare and should be used only in times of illnesses. They will go to the holders' estate upon their death.

In general, people are relatively healthier with less risk of falling ill when they are young, and most people need more healthcare in their elderly years. We may consider imposing certain restrictions on the use of medical savings, i.e. the savings will normally be available for healthcare use only after retirement, except for some specific catastrophic illnesses, so as to allow the accumulation of savings to accrue investment returns to meet healthcare needs at an old age.

**Q14: As I am approaching retirement age, it is unlikely that I can accrue sizeable savings in the medical savings account. Would I be helpless in case of illness?**

A14: All the healthcare financing options are supplementary financing options. Rest assured that government funding will continue to be the primary funding source for the healthcare system, and the public healthcare system will continue to be the healthcare safety net and take care of those who cannot afford healthcare expenses. This will ensure their access to appropriate healthcare.

**Q15: If MSA is introduced, who's going to manage all the savings for us? Any guarantee for returns?**

A15: If MSA is introduced, a feasible way of managing the savings is to take reference from the existing MPF arrangements. Contributors can have investment options.

**Q16: Many people have purchased health insurance voluntarily. Why don't we continue to let the public decide for themselves whether to invest in their own health?**

A16: Under voluntary private health insurance schemes, the high-risk groups such as the elderly and chronic patients have to pay very costly premiums. Insurers have no guarantee on the number of people who will get insured. There is also a tendency for those who are more likely to make insurance claims to buy insurance. Underwriting is relatively costly. All these factors will lead to costly premiums and make voluntary health insurances less appealing. At present, most voluntary insurance plans do not cover pre-existing medical conditions, and there is no guarantee of continuity. It is also very likely for the premium rate to escalate after claims have been made at times of illnesses. In general, it is very difficult for the high-risk groups to get insured or stay insured.

**Q17: If I have already been provided with insurance protection by my employer, or I have already insured myself, will the introduction of mandatory private health insurance result in double insurance?**

A17: If mandatory private medical insurance is to be introduced, we can explore the feasibility of putting in place a transitional mechanism for those who have already taken out voluntary health insurance themselves, or for employers who have provided medical insurance for their employees, so that they may migrate their existing insurance schemes to the mandatory private health insurance scheme regulated by the Government. Generally speaking, the terms under mandatory private health insurance should be more favourable to the insured and the premium should be lower. However, if there are existing insurance schemes, including those taken out by

employers to provide medical benefits to their employees that provide better terms than the mandatory one, exemption or other transitional arrangements can be considered.

**Q18: What benefits will mandatory health insurance bring to the individual insured?**

A18: Mandatory private health insurance can guarantee a sufficiently large insured base, which allows the risks to be effectively shared out among the insured population, thereby lowering the average premium. In addition, the Government can regulate the terms of such insurance to ensure that insurance companies must accept any application for insurance and charge the same premium for all participants regardless of their age and medical history. This will enable even the elderly or high-risk groups to get insured and will also provide guaranteed renewal and portability between employments. All these are currently lacking under voluntary private health insurance. Thus mandatory private health insurance offers better overall protection to the insured population.

**Q19: What will be the impact of these financing options on the low-income and under-privileged groups? Will there be any changes to the safety net? How will these financing options affect me if I am a chronic patient or struck by a catastrophic illness requiring expensive treatments? If I have neither employment nor income, what kind of healthcare services can I get?**

A19: We will uphold our long-established public healthcare principle, i.e. no one should be denied adequate healthcare through lack of means. The Government will remain the primary financing source for our healthcare system and continue to provide accessible and affordable public healthcare services for all. However, our ability to sustain the public healthcare safety net will inevitably be strained as a result of an ageing population and rising medical costs.

If we are able to introduce supplementary financing to provide additional resources for the healthcare system, and relieve the pressure on our public healthcare services, more resources can be devoted to strengthen our public healthcare safety net. For example, we may consider the introduction of a personal limit on healthcare expenses for chronic patients or patients struck by catastrophic illnesses requiring costly treatments, such that those whose healthcare expenses have exceeded the limit may receive additional financial assistance. We may also have the resources to strengthen the existing standard public medical services, for instance by incorporating drugs or treatments which have been proven effective into the scope of standard services or as subsidized items.

**Q20: Will the expansion of the private healthcare market lead to the loss of experienced doctors in the public sector and a decline in the quality of public services?**

A20: No. There will be more room for collaboration between the public and private sectors in the future. This will allow healthcare professionals to have a choice or even allow a two-way flow of healthcare professionals between the two sectors, so that they can serve in both sectors at the same time. Our public healthcare system needs greater flexibility in allowing

healthcare professionals with experience and expertise who provide services in the private market to serve the general public in the public sector.

**Q21: What benefits will be brought to the general public by promoting public-private partnership (PPP)?**

A21: Currently, there is significant public-private imbalance in our healthcare system with heavy reliance on public services and a lack of healthy competition between service providers of the two sectors. PPP offers greater choice of services for the community and helps promote healthy competition and collaboration between the public and private sectors. The purchase of healthcare services from the private sector by the Government is a cost-effective means to provide public healthcare services, while subsidizing individuals to use healthcare services in the private sector allows more members of the public to choose private healthcare services. Through these means of making better use of resources in our healthcare system, we can relieve the pressure on our public healthcare system and those who need to rely on public healthcare services can also benefit.

**Q22: Are there enough hospitals and healthcare personnel in Hong Kong to cope with the healthcare needs arising from healthcare reform?**

A22: Our healthcare system is constantly stepping up the training of healthcare personnel. The service capacity of public and private hospitals is expected to increase by 10% to 20% in the coming 5 to 10 years. We will continue to closely monitor the demand and development of manpower resources, and take all necessary measures to ensure that we have sufficient manpower and capacity to take forward the healthcare reform.

Published by the Food and Health Bureau  
Hong Kong Special Administrative Region Government  
March 2008