## Chapter 12 SUPPLEMENTARY FINANCING OPTION (5) - MANDATORY PRIVATE HEALTH INSURANCE

### Mandatory Private Health Insurance as Supplementary Financing

12.1 Mandatory private health insurance is where private health insurance, instead of being taken out voluntarily by individuals in the population, is mandated to be taken out by law usually on a population-wide basis. The scope of coverage and level of benefits of mandatory private health insurance is specified by law usually in the form of a statutory minimum level of coverage and benefits. Premium for mandatory private health insurance is usually community-rated, i.e. all the insured irrespective of age, gender and health conditions are charged the same premium for the same insurance plan of the same coverage and benefits. Premium for the low-income and under-privileged is usually paid for or subsidized by the Government.

12.2 A key difference between mandatory private health insurance and social health insurance is that the former does not involve direct income re-distribution, i.e. the high-income does not subside the low-income through the insurance. On the other hand, income re-distribution is a hall-mark of almost all social health insurance schemes with contributions linked to income level.

12.3 Mandatory private health insurance usually provides broad coverage for essential healthcare services ranging from in-patient services, out-patient services (specialist out-patient services and general out-patient services) to prescription drugs, as well as other related healthcare services. The level of benefits is usually only at a basic level, e.g. covering in-patient services at a lower class of amenities, and covering out-patient services at average fees requiring co-payment. Individuals who want coverage for services beyond the scope of the mandatory insurance or want a better level of benefits (e.g. higher benefit levels for in-patient coverage, better class of amenities for in-patient services, higher reimbursement limits for out-patient services, etc.) may purchase top-up insurance on a voluntary basis.

12.4 As in the case of voluntary private health insurance, mandatory private health insurance provides the insured with choice of healthcare services in both the public and private sectors. Unlike voluntary private health insurance, however, mandatory private health insurance effectively prevents risk-selection by the insurers (e.g. the insurers select only those with low risk to insure while rejecting the high-risk individuals) and anti-selection (whereby high-risk individuals intentionally take out insurance while low-risk individuals opt out of the scheme), by creating a pool sufficiently large for any risk to be effectively shared out and by having in place regulatory measures to ensure such. This allows all citizens to be insured regardless of risk levels, and ensures that everyone except those in need of government subsidies would be paying an equal share of the premium.

12.5 Increase in healthcare utilization and cost due to abuse remain a key factor in driving up the premium for mandatory private health insurance. Thus mandatory private health insurance schemes are almost invariably accompanied by various control measures aimed at controlling healthcare utilization and cost.

**Financing Implications**

12.6 We estimate that for a mandatory private health insurance scheme, if introduced in Hong Kong on a population-wide basis to provide benefit coverage at around 40% of the cost of public healthcare services (i.e. the insurance would pay around 40% of the cost of public healthcare services irrespective of whether the insured uses public or private services), the monthly insurance premium would initially be some $160 per person, and the insurance scheme would be able to provide extra funding equivalent to around 17% of the total health expenditure. The premium will increase to around $240 and $330 in 2015 and 2023 respectively, as the age profile of the population changes to one with a larger elderly population. This is on the assumption that the scheme applies to every individual in the whole population, irrespective of their age and employment status, and has not taken into account the affordability of the low-income and under-privileged groups. If the low-income and under-privileged groups are to be exempted from the mandatory private health insurance scheme, the premium will need to be higher in order to provide the same level of supplementary financing.

12.7 In principle, it is also possible to apply the mandatory private health insurance scheme to a specified group of the population, e.g. the working population, and provide better benefit coverage that can cover charges for private hospital services. In this regard, we have estimated that a mandatory private health insurance scheme that provides benefits at around 80$^{th}$ percentile of current private hospital charges at the general ward level[10], if applied to those in the working population aged from 18 to 64 with monthly income $10,000 or above, the community-rated premium will be around $290 per person per month, and the insurance scheme would be able to provide extra funding equivalent to around 5% of the total health expenditure. The premium will increase to around $340 and $430 in 2015 and 2023 respectively. If the scheme is applied to this group of

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[10] In other words, based on current utilization profile, the benefit limits of the insurance would be able to cover private hospital admissions at general ward level in 80% of cases without the need for top-up.

working population plus the whole elderly population (aged 65 or above), the community-rated premium will be much higher at around $710 per person per month, due to the much older age profile of the participants.

**Overseas Experience**

12.8 Mandatory private health insurance is implemented on a population-wide basis in Switzerland[11] and the Netherlands[12]. The law in these countries mandates the taking out of private health insurance of a prescribed minimum level of coverage. There is a legal obligation for insurance companies to accept anyone purchasing compulsory health insurance from them. In Switzerland, these insurance companies are not allowed to make profits from their compulsory health insurance activities. However, they are at liberty to offer their members a variety of other insurance products, like supplementary health insurance, life and accident insurance products that are profit-making.

12.9 Premium for the compulsory level of coverage is the same for everyone who takes out the same insurance plan, irrespective of age, gender and medical conditions. The governments in Switzerland and Netherlands subsidize compulsory health insurance premiums on a means-tested basis through allocations from general taxation. Premium subsidies vary according to the income and asset of the insured person. In the Netherlands, the government and a social health insurance mechanism involving income-related contributions from the working population pay for the premium of children up to age 18. In Switzerland, most of the insurance policies require a deductible from the insured and in addition to the deductible, there is a co-payment for all services covered by compulsory health insurance, to be paid by patients out-of-pocket. In the Netherlands, whether deductible and co-payments have to be paid by the insured depends on the plan chosen.

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[11] What the Swiss law terms as a social health insurance is in fact mandatory taking out of private health insurance that are managed by private insurance companies. The insurance is mandatory for the whole population and low-income families are subsidized by the government. Premiums of the mandatory insurance are community-rated and the insurers are not allowed to make profits from the compulsory insurance.

[12] The Netherlands implemented a mandatory private health insurance scheme in January 2006 under a major healthcare reform. The mandatory insurance is managed by private insurers and is financed by community-rated premiums as well as by income-related contributions that are meant for covering children's premiums and for risk adjustment among insurance companies. Prior to the reform, the major financing source was social health insurance, participation of which was compulsory for people with income lower than a certain level, while higher income people took out voluntary private health insurance.

12.10 Under the mandatory private insurance system, insurers are the purchasers of healthcare services on behalf of the insured and are generally in a strong position to derive optimum return from the payouts to the care providers. In Switzerland, payments to healthcare providers are negotiated between service providers/associations of service providers and associations of health insurance funds. In the Netherlands, insurers enter into contract with hospitals and doctors. The insured can choose to receive care from non-contracted care providers but they may not receive full reimbursement in these cases.

12.11 Both Switzerland and the Netherlands have in place measures to ensure that insurance companies are able to meet their financial commitments to the insured. In Switzerland, the compulsory health insurance is funded mainly through premium revenues. To ensure that companies with high-risk enrolees are not at a disadvantage, insurance companies in Switzerland formed an organization to make risk-adjustment and transfers between companies based on the age and gender of the insured people. In the Netherlands, the compulsory health insurance is funded through premium revenues (45%), an income-related contribution (50%), and government contribution (5%). The income-related contributions are collected by the Inland Revenue Service from the insured and deposited in a Health Insurance Fund together with the government contribution. The Health Insurance Fund is used to pay insurers the children's premiums and to compensate insurers for any financial disadvantage they incur in insuring high-risk individuals. Dutch law also provides for the disbursement of public funds if an insurer is unable to meet its financial commitments.

**Advantages as Supplementary Financing**

12.12 Introducing mandatory private health insurance with a view to providing a supplementary source of financing has the following advantages –

(a) **Guaranteed risk-pool and avoid risk-selection/anti-selection**: a mandatory private health insurance can prevent risk-selection by insurers or anti-selection by individuals by guaranteeing a large insured base with largely predictable risk profile for effective risk-pooling, thereby allowing the risk to be effectively pooled among the insured population. The huge insured-base offers guarantee to the insurance industry to ensure that such insurance is viable.

(b) **Guaranteed acceptance and continuity**: being mandatory, a health insurance scheme can be required to accept all insurees, not to exclude any pre-existing medical conditions, and thereby enabling the high-risk groups including chronic patients, the elderly or individuals with other risk factors to get insured. It would also allow individuals to stay insured even after they have been struck by catastrophic or chronic illnesses, thereby enjoying continued protection.

(c) **Enable affordable community-rated premium**: because of the large size of the insured pool and the consequential capacity of the pool to absorb the impact of high level payouts incurred by high-risk individuals, a mandatory health insurance scheme can be required to charge the same premium for the same insurance plan for all participants, thereby making it possible for all persons, regardless of their health condition, age and other attributes, to be insured at a reasonable premium level, and making the insurance affordable even to the high-risk groups.

(d) **Lower insurance cost and lower healthcare cost**: with mandatory and universal participation, mandatory private health insurance obviates the need for underwriting as well as extensive marketing, thereby reducing the cost for the insurance as compared to voluntary private health insurance. With a much larger insured base compared to voluntary private health insurance, mandatory private health insurance also enables insurers to be in a better position to negotiate with healthcare providers on the price, thereby increasing competition and driving down healthcare costs.

(e) **Enhance consumer protection through regulated insurance**: mandatory private health insurance would have to be regulated to ensure that they provide better terms and other benefits as set out above. Such regulatory activities can also ensure better consumer protection.

(f) **More choice of services**: like voluntary private health insurance, mandatory private health insurance also provides an individual with more choice of healthcare services. Although the basic level of benefits under the mandatory insurance plan is the same for all, the insured would still enjoy greater freedom in choice of services (e.g. provider, timing of treatment, etc.). Individual may also customize the scope of services, the level of benefits, and the class of amenities according to his own choice through purchasing top-up insurance offered as options on top of the mandatory insurance.

(g) **Relieving the pressure on the public healthcare system**: similar to a social health insurance, a mandatory private health insurance can provide coverage for healthcare services in both the public and private sectors, and insurers can be required by law to cover the cost for services provided by the private and public sectors alike, thereby relieving the financing pressure on the public healthcare system.

(h) **Stable financing**: with a guaranteed and predictable participation, a mandatory private health insurance would provide a stable source of supplementary financing for healthcare.

**Disadvantages as Supplementary Financing**

12.13 Introducing mandatory private health insurance with a view to providing a supplementary source of financing has the following disadvantages –

(a) **Incur administration and other insurance costs**: although the costs for underwriting and commissions could be reduced, a mandatory private health insurance would still incur administration costs for claims processing and reimbursement. Such costs are unavoidable if choice of services is to be provided.

(b) **Regulatory costs**: the government will need to put in place stringent regulatory measures including a cap on insurance administration cost for mandatory private health insurance, which means intervention in the currently free market of voluntary private health insurance.

(c) **Not helping individuals to save to meet future healthcare needs**: mandatory private health insurance in itself does not provide reserve funding for meeting future healthcare needs, unless additional arrangements are made to obtain reserve funding for individuals when they cease employment.

(d) **May encourage tendency to overuse healthcare**: like voluntary private health insurance and other third-party-pay financing options, mandatory private health insurance is also susceptible to moral hazards, and may encourage the tendency to overuse healthcare, when providers and patients may have the incentives to over-supply and over-use healthcare. However, the large pool size and the uniform structure and coverage of a mandatory insurance scheme would allow better control of utilization through design of the scheme in terms of coverage (e.g. to cover services less easily abused) and other rules for claims (e.g. by requiring higher co-payment or deductible for services that may be subject to abuse) to minimize the potential of abuse or overuse.

(e) **Increasing premium over time**: while the utilization and costs of healthcare services including those in the private sector under a mandatory private health insurance scheme would be under better control, premium for a mandatory private health insurance would still go up as the healthcare needs of the insured population increase, due to an ageing population and medical inflation.