Chapter 9 SUPPLEMENTARY FINANCING OPTION (2) - OUT-OF-POCKET PAYMENTS

Out-of-Pocket Payments as Supplementary Financing

9.1 Public healthcare services in Hong Kong are highly subsidized, and out-of-pocket payments in the form of public fees amount to a very small portion (about 5%) of the cost. On the other hand, private services are unsubsidized, and thus out-of-pocket payments in the form of either fees for private healthcare services or co-payment for insurance remain a major source of financing for private services apart from insurance pay-outs from insurance premium of voluntary health insurance (either employer-provided or individually-purchased).

9.2 Irrespective of the main financing sources, out-of-pocket payments remain an important and effective means of encouraging responsible and judicious utilization of healthcare services, especially for services that are prone to inappropriate use or abuse. Requiring a certain level of fees and charges for public services will also help to bring home the message that health is a shared responsibility between the individual and the public healthcare system.

9.3 Relying on out-of-pocket payments to become a bigger supplementary financing source effectively means reducing the overall level of subsidization and increasing fees for public healthcare services. In practice, the level of subsidies of individual healthcare services would have to be adjusted having regard to the affordability of the fees, the likely frequency of utilization, the level of cost, as well as the need to encourage judicious and responsible use of subsidized public healthcare services by members of the public. At the same time, in order to uphold our establish healthcare policy that no one should be denied adequate healthcare through lack of means, a strengthened financial assistance mechanism would be needed to cater for those who cannot afford the increased fees.

9.4 In theory, it may be possible to consider applying means-test in charging for public healthcare services, so that those who have the means will be required to pay higher fees and receive lower subsidies. In practice, however, this would be difficult to implement given the huge amount of resources involved in administering the means-test. Another theoretical possibility is to apply a tight supply-control and quality differential between public and private healthcare services, such that those who cannot afford to wait, or desire alternative services with better quality and can afford to pay would shift to the private sector and thereby paying for their own healthcare. However, this would cause those who

need to stay on the public healthcare system to suffer both in terms of waiting time and quality of services. Such control is therefore not a tenable option.

Financing Implications

9.5 It is estimated that, to become a supplementary financing source that could provide the extra resources needed to meet the population's healthcare needs of the population, the level of subsidization in overall will have to be reduced from 95% at present to around 80% and 60% in 2020 and 2030 respectively. This would mean at least a respective four-fold and eight-fold increase in public fees. This estimation is based on the assumption that the current utilization of public healthcare services remains unchanged, the costs of public healthcare services remain the same, and has not taken into account the need to provide financial assistance to those who may not be able to afford the increased level of fees.

9.6 If public fees were increased substantially, it is likely that a significantly larger proportion of patients would not be able to afford the fees and would have to rely on the financial assistance mechanisms as a safety net. These include those in the low-income group, chronic patients, and patients who require lengthy and/or costly treatment, etc. A preliminary estimation suggested that, if public fees were to be increased to some 10% cost-recovery, around one-third of the revenue may be foregone by way of fee waiver as financial assistance to the low-income and under-privileged groups under the current fee waiver criteria. In other words, increasing the public fees and lowering the level of subsidization do not necessary mean that revenue would be recovered proportionally.

Overseas Experience

9.7 Direct out-of-pocket payments for fees and charges for healthcare services, including co-payment required under health insurance schemes, is a means of financing that exists to varying extent in all economies irrespective of the predominant source and means of financing for healthcare. It is worthwhile to note that even in the UK, where healthcare is predominantly provided by the tax-funded National Health Service with a very small private sector and services are subject to budget-control and supply-control, out-of-pocket payments still amount to approximately some 12% of total health expenditure. In other economies where healthcare is financed by social health insurance or mandatory private health insurance, the proportion of out-of-pocket payments is even higher.

9.8 Meanwhile, in all the advanced economies we have studied, irrespective of the financing source and means, a key feature is the provision of a safety net for the

under-privileged to continue to access healthcare. Some examples of the different approaches adopted are as follows –

(a) In economies where government revenue is the main source of financing and public healthcare system is the main service provider (e.g. Australia, Canada, Finland, and the UK), the safety net usually takes the form of provision of services free-of-charge or at very low fees by the government-funded public healthcare system to the low-income and under-privileged groups.

(b) In economies where healthcare is financed by social health insurance (e.g. Austria, Belgium, Japan and Korea), the safety net is funded by the social health insurance itself, or in some cases through specific tax-funded government programmes.

(c) In Switzerland where mandatory private health insurance is implemented, the insurance premium of the low-income and underprivileged groups are paid for or subsidized by the government using tax revenue.

(d) Under the mandatory private health insurance implemented in the Netherlands, a social health insurance and government funded component are specifically included to cover children's premium in full.

Advantages as Supplementary Financing

9.9 Increasing public fees with a view to providing a supplementary source of financing has the following advantages –

(a) **Encourage judicious use of healthcare**: as individual patients have to bear the extra cost for healthcare (on top of any government subsidies or insurance payout), increasing user fees will have a direct impact in encouraging individuals to be more judicious and responsible in using subsidized healthcare services, especially through reducing the level of subsidization for services which are more easily prone to abuse or inappropriate use.

(b) **Instil sense of self-responsibility for health**: increasing an individual's share of contribution to his own healthcare will instil a sense of self-responsibility for his own health and will help encourage individuals to adopt healthier lifestyle and take greater care of their own health.

Disadvantages as Supplementary Financing

9.10 On the other hand, increasing public fees has the following disadvantages –

(a) **No risk-pooling and disproportionate burden on low-income, under-privileged and high-risk groups**: this is because the utilization profile of hospital care is highly skewed, i.e. a small proportion of high-risk individuals utilize the majority of healthcare, while the rest of the healthier population utilize a relatively small proportion of hospital care. Raising fees and charges of public services substantially would thus have a disproportionate effect on the heavy users of healthcare services. These include those in the high-risk groups, e.g. chronic patients and the elderly, who are more likely to have to rely on public services, as well as patients from middle-income families struck by complex illnesses (e.g. catastrophic or chronic illnesses) involving extensive and costly treatments, who may also need to turn to the public sector.

(b) **Cannot provide a significant source of supplementary financing**: narrowing the gap between the fee levels of the public and private sectors would divert some patients, probably those with better means, to the private sector. Meanwhile, those who do not have the means would continue to use public service and rely on the safety net. Given the need to provide financial relief for those who cannot afford the user fees for healthcare, especially for the low-income and under-privileged groups, increase in user fees for public services does not necessarily guarantee a proportionate increase in supplementary financing for the public healthcare system.

(c) **Increase cost for administering safety net mechanisms**: increase in user fees will result in a greater proportion of users requiring financial assistance from the safety net mechanisms including waiver mechanism for public fees. The resultant administrative workload and cost could be significant.