Chapter 5 PUBLIC RESPONSES TO SUPPLEMENTARY FINANCING PROPOSALS

5.1 One of the proposals for comprehensive reform of the current healthcare system put forward in the Consultation Document is to reform the healthcare financing arrangements. In particular, apart from proposing to increase government funding for healthcare, it was also proposed to introduce supplementary financing apart from increased government funding, to ensure the sustainable development of the healthcare system and support the reform of the healthcare market. This part of the reform proposals attracted the most discussions and responses during the consultation and to some extent overshadowed the discussions and responses on the services reform proposals (summarised in Chapter 4).

5.2 To recap, we projected that the rapidly ageing demographic structure and the trend of rising medical costs would lead to a sustained increase in healthcare expenditure at a rate much faster than the growth of the economy (in terms of GDP growth). While undertaking service reforms and sustaining efficiency enhancements might help dampen the growth of healthcare expenditures, the growth in healthcare needs was still expected to outstrip economic growth. In other words, from the perspective of the community as a whole, there would be a need for putting an increasing proportion of the society's resources in healthcare, irrespective of the means of pooling such resources to finance healthcare services.

5.3 Given the Basic Law which stipulated that "Hong Kong Special Administrative Region shall follow the principle of keeping the expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product" (Article 107), it begged the question whether the increase in government funding alone for healthcare would be sufficient to guarantee the sustainability of the current predominantly tax-funded healthcare system in the long run. Thus while government funding was expected to continue to increase and remain the major source of financing for healthcare, we proposed to introduce supplementary financing as an additional source meet increasing healthcare needs.

5.4 For the first stage consultation, we have set out six supplementary financing proposals, having regard to overseas experience and consultancy studies on their possible application to Hong Kong. We have analysed the pros and cons of the six different proposals, and highlighted the underlying societal values they represent (e.g. equity of access to healthcare, pooling and sharing of healthcare risk, re-distribution of wealth, and financial stability and sustainability). Our aim was to solicit the views of the public on these pros and cons, with a view to assessing the community's preferences including the underlying societal values.

5.5 The responses during the first stage consultation touched upon a wide range of issues related to the financing arrangements for healthcare in general, in addition to those related to the supplementary financing proposals themselves. In particular, many respondents have expressed views on the existing healthcare financing arrangements, the level of government funding for healthcare, the current taxation system, and the relationship between the tax system and healthcare financing. These views, as well as views on the six supplementary financing proposals, are set out in the following sections.

Need to Reform the Existing Healthcare Financing Arrangement

5.6 Survey 2 revealed that 64.9% of respondents considered that government funding alone would not be sufficient for meeting increasing healthcare demand as well as reforming the healthcare system (19.5% respondents strongly agreed and 45.4% agreed, as opposed to 11.9% disagreed and 4.6% did not agree at all).

5.7 This suggested that a significant proportion of respondents, when considering the perspective of the healthcare system as a whole and its future development, were of the view that government funding alone would not be sufficient to guarantee the sustainability of our healthcare system in the long run, even with increased government funding for healthcare and sustained efficiency enhancement of public healthcare services.

5.8 In the views received in written submissions and at different forums, a number of organizations and individuals, including a number of professional bodies not least those in the field of accountancy and taxation, also expressed agreement with the view that the long-term sustainability of the healthcare services could not be assured without addressing the issue of healthcare financing. While their views might differ on how the financing arrangements should be changed, there was a broad recognition among these respondents that reforming the financing arrangements was necessary.

5.9 Many of these respondents echoed the challenges posed by the rapidly ageing demographic structure of the Hong Kong population in the next few decades, as well as the global trend of rising medical costs due to advancement in medical technology especially the appearance of newer, better and more expensive medical treatment such as drugs and diagnostic methods. Many also recognized that the current healthcare financing arrangements were a factor contributing to the current service and market imbalance (the over-reliance on hospital services with insufficient emphasis on primary care, as well as the public-private imbalance in provision of hospital services).

5.10 On the other hand, some preferred maintaining status quo and did not agree with reforming the healthcare financing arrangements. Among them, there were some respondents who considered that the existing tax-funded arrangements were looking well, either because –

(a) they considered the Government could well afford to meet the increasing healthcare expenditure (see the section below on Government Funding for Healthcare); or

(b) because they considered the question of the sustainability of healthcare financing actually concerned the taxation system (see the section below on Taxation).

Those respondents regarded solution to the problem should be to continue to increase government funding for healthcare and/or adjust the current taxation system, rather than to change the healthcare financing arrangements.

5.11 Among those who had doubts about or did not agree with the need to reform the financing arrangements, there were also some respondents who questioned the basis or assumptions upon which the conclusion was drawn that we need to reform the financing arrangements. These included questions about –

(a) The validity of the population projection (whether the projected ageing demographic profile is realistic): some organizations and individuals did not believed that there was an immediate need to reform the healthcare financing arrangement on the ground that the accuracy of the population projection as well as the healthcare expenditure projection was questionable judging by past records.

(b) The population policy (whether the population policy could be adjusted to advert the ageing demographic profile): some respondents considered that the ageing problem could be better tackled by appropriate population policy, for instance by increasing the birth rate or immigration rate with the right age profile, thereby reducing the healthcare burden on future working population and the economy.

(c) The trend of rising medical costs (whether the trend of rising medical costs would continue in the future at the same rate): some respondents were of the view that the rising medical costs was a phenomenon that either would not sustain long into the future or would not necessarily apply to Hong Kong. There were also some respondents who felt that medical technology if applied appropriately could lead to efficiency gain.

While these questions deserve closer examination, there is no indication as yet that these factors could reverse the trend of increasing healthcare expenditure to an extent that would eliminate the need to reform the financing arrangements.

5.12 There were also some respondents who did not agree at this juncture to introducing supplementary financing on account of –

(a) the lack of details on the proposals for supplementary financing;

(b) the lack of details on how the supplementary financing would be used;

(c) the lack of details on whether the current system would be unsustainable; and

(d) the potential for further efficiency enhancements in the public healthcare sector. In particular, some questioned the efficiency of the current public healthcare system and stressed the need to enhance the efficiency of public services before considering any financing proposal.

Government Funding for Healthcare

5.13 Many respondents were supportive of increasing the share of Government's recurrent expenditure for healthcare from 15% to 17% by 2011-12.

5.14 Some organizations and individuals thought that more government funding should be spent on healthcare. For those who advocated more public expenditure on healthcare, some suggested other areas of spending (education was a commonly cited area of public services) could be cut back in view of the demographic change in the future and resources could be diverted to healthcare.

5.15 Most respondents supported the Government in pledging to draw $50 billion from the fiscal reserve to assist the implementation of healthcare reform after the supplementary financing arrangements were finalised for implementation.

5.16 On the use of the $50 billion, some would like the Government to provide more details in the second stage consultation. Some suggested that the fund could be used to subsidize people to buy healthcare insurance or injected to citizens' health expenditure saving accounts. Others proposed that the $50 billion could be injected into the Samaritan Fund.

5.17 Some, on the other hand, called for immediate use of the $50 billion to improve existing public healthcare services. Some supported that the funding could be used for implementing the service reforms initiatives such as enhancing primary care and building up the electronic health record platform should additional funding be required.

5.18 Meanwhile, some respondents held the view that, because of the huge budget surplus in 2007-08 and the huge fiscal reserve, there was no immediate need for financing. Some organizations and patient groups suggested that it was more essential for the Government to utilize the surplus to improve the standard of healthcare services rather than introducing supplementary financing proposals at this stage.

5.19 Some groups advocated that a reserve fund be set up to meet the future demand for public services including healthcare due to the ageing population, with government surplus and fiscal reserve be injected into the reserve fund on a regular basis.

Taxation

5.20 As indicated in paragraph 5.10 above, there were some respondents who did not agree to the need to reform the healthcare financing arrangements on the ground that the sustainability of healthcare financing could be dealt with through changing the taxation system.

5.21 In particular, amongst those who preferred increasing tax to meet the increasing healthcare expenditure, some opted for tax increase because they considered that tax was the most direct, efficient and equitable way to fund healthcare expenditure. Some professional groups preferred devoting more resources to healthcare through tax. Others viewed that tax could help redistribute wealth and ensure that the healthcare needs of the low-income groups could be met.

5.22 The respondents who supported tax increase proposed various means of collecting more tax revenue. Some suggested increasing existing taxes like salaries tax, profits tax, rates and stamp duty. Some specifically suggested making salaries tax and profits tax more progressive to generate further tax revenue for healthcare. Some suggested that tobacco and wine tax should be increased and earmarked as funding for healthcare.

5.23 On the other hand, some respondents suggested that the tax base should be broadened to meet the health expenditure and they suggested that Goods and Sales Tax would one of the possible options to fund the healthcare expenditure. Some viewed that a new broadly-based tax may generate extra revenue to meet the healthcare expenditure in a cost-effective manner.

5.24 Survey 1 showed that tax increase consistently received the least support in polls (35% supported and 42% objected this proposal). The Survey also showed that higher income groups were less in favour of tax increase (37% supported whereas 39% opposed this proposal amongst income group receiving less than $10,000 per month, and 33% supported whereas 48% opposed among income group receiving more than or equal to $25,000 per month).

5.25 Some respondents including employer, business groups and professional groups also opposed any further increase of tax. Some respondents suggested that it would further weaken the future competitiveness of our economy. They considered that low tax rates and simple tax structure were key competitive edge of Hong Kong. Some considered further tax increase would violate the "small-government-big-market" principle that had long been embraced as the recipe for Hong Kong's economic success.

5.26 For those expressed objections against raising tax as a means for financing healthcare, some noted that tax increase would only shift the healthcare financing burden to later generations and it was highly doubtful if the healthcare system would be sustainable relying on increasing tax alone. Furthermore, a few commented that further tax increase might be extremely difficult given Hong Kong's current political and social environment.

Supplementary Financing Proposals

5.27 On the supplementary financing proposals, the consultation reflected very divergent views among the public and stakeholders. There were views for or against each of the six proposals, and no single proposal commanded majority support as reflected in our surveys.

5.28 Most of the submissions especially those from organizations reflected interests of specific segments of the community, for instance the labour unions, community organizations, social welfare organizations, patient groups, business or employer groups, and professional groups including the healthcare professionals.

5.29 There was also a general opinion that the first stage consultation had not provided sufficient details on the design of the supplementary financing proposals, such as who would be required to contribute, the amount or rate of contribution, the long-term cost implications for individuals, the future benefits to be derived, and the use of the financing.

5.30 Among the respondents, some suggested the Government to work out proposals beyond the six put forward in the Consultation Document. Some respondents considered that no single financing proposal could address the financing problem completely, and suggested that the Government should consider a combination of financing proposals to meet the increasing health expenditure.

5.31 For instance, some professional groups supported a combination of proposals like broadening tax base and fees increase, and some healthcare professional bodies proposed a combination of fee increase with incentives for voluntary insurance.

Social Health Insurance

5.32 The general perception of the public towards social health insurance (SHI) was that it was an alternative to tax increase for financing healthcare. However, while most assumed that tax increase would be used for funding public healthcare, some respondents recognized that SHI could be used for funding both public and private healthcare and called for more details on how the contributions received from SHI would be used.

5.33 For those respondents who supported SHI, many of them expressed similar opinions that the high-income groups should fund the healthcare for the low-income group and SHI had the effect of wealth re-distribution and providing members of the community with equitable access of healthcare services. Many recognized that in this regard SHI would be similar in effect to tax increase, which could also achieve wealth re-distribution.

5.34 A political party had put forward a financing proposal of its own resembling SHI for consideration by the public, and had expressed support during the consultation for financing arrangements that would carry various features of SHI. Some business groups also suggested that levy collection (e.g. a flat percentage or progressive-natured levy with an exemption for the lowest income earners) might help broaden our tax base to meet health expenditure and re-distribute wealth.

5.35 A few written submissions had referred to the discussions on the income cut-off and the level of contribution under SHI though there was no mainstream opinion that could be drawn from their views expressed. Some suggested that all members of the community regardless of means should contribute to varying extent, whereas others considered that Government should contribute on behalf of the disadvantaged groups. Some proposed that employers should contribute whereas some thought that SHI should not be made as an employment-based scheme.

5.36 Amongst those who supported SHI, some believed that SHI alone could not resolve the financing issue completely. Some proposed that SHI should be accompanied by other measures such as variable user charges (e.g. the young or wealthy should pay more for using public healthcare services) or voluntary health insurance. Some recommended the Government to make use of the MPF mechanism to collect SHI so as to minimize the administration cost. Some suggested that the revenue collected under SHI should be invested and Government should utilize the investment returns to support the increasing healthcare expenditure.

5.37 Meanwhile, similar to tax increase, SHI was relatively less favoured across all segments in Survey 1. However, unlike tax increase, the difference between different income groups was less obvious in their preference towards SHI. In Focus Group 2[5], there was considerable concern that SHI would impose extra financial burden to the working population and some worried that it could not ensure judicious use of medical services.

5.38 Respondents who opposed to SHI cited various grounds. Some were against SHI as a hypothecated tax for grounds similar to that opposing tax increase, e.g. it would erode Hong Kong's competitiveness and would pose an increasing burden on future generations of working population in view of Hong Kong's demographic change. Some considered SHI a double-taxation, and one which would be less progressive than the existing tax system and put greater burden on the middle-income instead of the high-income group.

Out-of-pocket Payments (User Fee)

5.39 Amongst the written submissions, some suggested that increasing user fees was a possible means of financing and considered it a simple, direct and efficient means to provide additional resources for healthcare in the short to medium term, compared with other supplementary financing proposals which would require complex legal framework and regulatory mechanism for implementation and would incur additional administrative costs.

5.40 Some including healthcare professionals viewed that suitable fee increase for public healthcare services could promote healthy competition between the public and private sectors which would be essential in changing the present significant public-private imbalance. Some considered that fee increase could encourage more judicious use of public healthcare services and instil a sense of self-responsibility for people's own health in the community.

5.41 According to Survey 1, fee increase received a fair amount of support (47% supported and 35% opposed), with a general higher degree of support among the middle to high income groups (the proportion of supported was 65%, 53% and 39% respectively for income groups with income more than or equal to $25,000, income ranged from $10,000 to $24,999 and income less than $10,000 per month, whereas the proportion opposed was 22%, 31% and 40% for the three income groups respectively).

5.42 In Focus Group 2, some participants believed that fee increase could help to ensure that medical services would not be overused. Some considered that it was fair for the users

[5] Please refer to Appendix V for the details of the focus group discussion.

to take up more responsibility for their own healthcare expenses. On the other hand, some worried that fee increase in public sector might lead to rising medical costs in private healthcare market.

5.43 Some respondents suggested that the Government should consult the public on the scope and the extent of the fee increase whilst some agreed to increasing public fees but worried that the suggestion would face strong opposition politically. Some respondents would like to have a transparent mechanism to adjust and review the fee level of public healthcare services. A few suggested that a personal or family-based limit on medical expenses should also be established to moderate the effect of fee increase. Some proposed that fee increase should be implemented together with other supplementary financing proposals.

5.44 On the other hand, there were a number of political parties, social welfare organizations, community organizations, concerned groups, patient groups and individuals who expressed strong opposition to the proposal of fee increase, on the ground that it would pose great burden to the elderly, patients with chronic illness, low-income families and other underprivileged groups.

5.45 Some respondents objected to increasing public fees on the ground that there would be no risk-pooling effect and the burden would fall squarely on those who fell ill and needed help the most. Some respondents argued further that even the existing level of fees was already causing hardship for certain people like poor elderly, chronic patients and low-income families, and considered that the focus should be put on enhancing the safety net mechanisms under the public healthcare system to help these individuals, rather than to increase their burden further by increasing user fees.

Medical Savings Accounts

5.46 A number of written submissions compared medical savings accounts (MSA) to the Mandatory Provident Fund (MPF) when commenting on MSA as a supplementary financing proposal. The respondents considered that both schemes were very similar in nature (both being mandatory employment-based and income-linked savings accounts for meeting the future needs of individuals in the working population). However, many of these respondents felt that there were not enough details of the MSA proposal at the moment for them to take a stance over the proposal one way of another. Many of these respondents asked for more details about the proposed MSA such as the coverage of the saving account (e.g. whether the savings could be used by the contributor alone or it could be shared with his/her family members.), the contribution level and ceiling, the administrative cost, as well as many other operational details.

5.47 Respondents opposed to MSA for its mandatory nature. Some worried that MSA would involve high administration cost which would at the end only benefit private companies but not members of the public. A few respondents did not support MSA on the ground that it could not pool the health risks among the population and it could not on its own redress the public-private imbalance in the healthcare sector. Among these respondents, some pointed out the combination of high administrative cost and lack of risk-pooling would make MSA a less desirable option than other mandatory options like tax increase or mandatory health insurance.

5.48 Furthermore, some respondents were sceptical whether the savings could be sufficient to meet one's healthcare expenditure after retirement. Some, drawing parallel with the MPF, considered that MSA proposal was too inflexible and demanded that individuals should be allowed to use the savings to meet their medical needs at any time, rather than to have the savings locked up until reaching certain age limit. Some recognized the advantage of MSA in saving for the future, but considered that the purpose could equally be achieved by the Governments saving for the population as a whole in the form of a healthcare reserve fund.

5.49 Some respondents recognized that the MSA proposal would only work in practice if there would be a corresponding significant increase in the level of user fees for public healthcare services, or in other words a significant reduction in the level of government subsidization for public healthcare services. In particular, if the current low level of user fees and high level of government subsidization continued, there would be little incentive for people to use savings in their MSA for healthcare purposes. A few suggested that MSA alone without any form of risk-pooling might not be able to meet the future healthcare expenses given the potentially huge healthcare bills and proposed that it could be implemented with other financing proposals like insurance.

5.50 Compared to the relatively low support towards MSA expressed in written submissions received, the MSA proposal received consistently high support in Survey 1, where the level of support ranked second after voluntary insurance (58% supported the MSA proposal whereas 25% opposed). However, people with middle to higher income showed relatively less support to the MSA proposal (55% supported whereas 33% opposed for income group with incomes more than or equal to $25,000 a month, 59% supported whereas 29% opposed for income group ranged $10,000-$24,999 a month, and 60% supported whereas 24% opposed for income group receiving less than $10,000 a month).

5.51 In Focus Group 2, some participants considered that MSA had the merit of saving balance being accrued for their own or family use only. Some participants, particularly those of younger age or with chronic diseases, considered that if MSA was implemented, the accumulated saving should be available for use immediately.

5.52 Some respondents expressed support for MSA on the ground that they favoured the concept of saving for one's own future needs. Some perceived MSA as fairer proposal to individuals in the working population. Some considered that MSA could help instil a sense of self-responsibility for health. Some agreed that MSA, when coupled with increase in user fees for public services, could help minimize the abuse of subsidized healthcare services. Some favoured MSA on the ground that it could avoid putting additional financial burden on the future generation.

5.53 Some recognized the deficiency of MSA in risk-pooling and suggested that measures could be put in place to encourage MSA holders to use the savings to purchase voluntary health insurance. Others suggested that using part of the mandatory savings to purchase a mandatory health insurance (similar to the proposal of personal healthcare reserve) could be considered to ensure that the MSA holders would have some risk-pooling in healthcare protection.

5.54 A few written submissions suggested that MSA should be more acceptable to the community politically. Some proposed that the employees, the employers and the Government should be involved in contributing jointly to the saving accounts of the working population. There were also a few respondents who suggested that the contributor should be accorded priority when using public healthcare services.

Voluntary Private Health Insurance

5.55 Voluntary Health Insurance (VHI) received rather mixed views from respondents. According to Survey 1, voluntary insurance with incentives consistently ranked as the most supported proposal (71% supported whereas only 13% opposed) amongst all the supplementary financing proposals. There was also a higher degree of support for this proposal among the high- and middle-income groups (82% supported VHI for income group with income more than or equal to $25,000 whilst 76% supported for income group with income ranged from $10,000-$24,999).

5.56 Some respondents favoured VHI on the ground that it could offer them the voluntary choice to choose their own insurance product(s) in accordance with their respective needs. Some noted that VHI was already a predominant means of financing healthcare apart from government-funded public healthcare that was working well, and considered that this trend should be reinforced. Many of them, particularly the higher income group, suggested that financial incentives (such as tax break) should be provided for individuals or employers to encourage them to purchase private health insurance.

5.57 Amongst the written submissions, some supported VHI to be promoted on top of the basic healthcare coverage provided by Mandatory Health Insurance. Some favoured VHI as they believed that other mandatory schemes would involve even higher administrative costs. Some considered that VHI was effective to encourage those who would be willing to pay more to opt for private healthcare services which could improve the public-private imbalance in healthcare services.

5.58 On the other hand, some respondents pointed out that reliance on VHI as the supplementary financing proposal had a number of shortcomings. Many of them referred to the problems of existing VHI such as the insurance would usually exclude pre-existing conditions, did not guarantee renewal of policies and did not provide any assurance on future premium. It was difficult for individuals who already had certain illnesses such as chronic diseases to get insured, either because of the exclusion or the higher level of premium charged. Some also opined that VHI could not protect the disadvantaged group like the low-income, the unemployed and the aged as the insurance premiums would be too high for them to afford.

5.59 Some respondents expressed dissatisfaction on the current situation where voluntary private health insurance policies were not subject to regulation on their terms and coverage. Some pointed to the complaints over the years over health insurance, including disputes over health insurance claims, termination of policies for those with certain illnesses, and significant increase in premium over time or on account of claims. They called for tighter regulation by the Government over health insurance to protect consumers and deliver better products and more safeguards.

5.60 Similar concerns were also put up by some participants in Focus Group 2, in particular those with chronic diseases, who considered that VHI might offer little protection to people with high medical risks. While on one hand the voluntary nature was favoured by some participants, some also pointed out that this nature would likely result in a low participation rate.

5.61 Some also pointed out that it was difficult to control the costs of healthcare services under an insurance-based financing model given the moral hazards by both the insured and healthcare providers. Some of them were also worried that the over-reliance on VHI would lead to a sharp increase in healthcare cost, drawing reference to the experience of the United States. Some respondents were dissatisfied with the current high level of administrative cost of VHI. Some respondents were sceptical whether VHI could adequately meet the increasing healthcare expenditure with regard to ageing population.

Mandatory Private Health Insurance

5.62 Same as other proposals, there were divergent opinions on mandatory health insurance (MHI) as a supplementary financing proposal. Some respondents preferred MHI to VHI given that the former would be required to accept all insurees regardless of their pre-existing medical conditions and would be able to provide continuity, portability and lifelong protection. Some favoured this proposal as it would provide a guaranteed risk pool and could be required to charge the same premium for the same insurance plan for all participants, thereby enabling even those with chronic diseases or other conditions to afford insurance coverage. Some favoured the proposal as they opined that insurees would be open to more choices for different healthcare services.

5.63 According to Survey 1, it received moderate level of support (44% supported and 31% opposed in the Poll) higher than tax increase, SHI and personal healthcare reserve (PHR). MHI received slightly stronger support as well as opposition among higher income groups (47% supported whereas 38% opposed for income group receiving income more than or equal to $25,000, 46% supported whereas 35% opposed for income for income group with income ranged $10,000-$24,999, and 43% supported whereas 31% opposed for income group receiving income less than $10,000).

5.64 In Focus Group 2, some participants with chronic diseases opined that MHI could offer protection also to people with high health risk. On the other hand, some relatively healthy participants considered that MHI for its mandatory nature was unfair for them to pay the same amount of premium as other people with higher health risk.

5.65 A few suggested that MHI should be promoted as the second safety net on top of the existing public healthcare system for those with higher income who could afford better coverage and services than public healthcare. Some professional groups also welcomed MHI as it could provide a basic level of coverage for a broad section of the working population. Some suggested that discounted premium should be provided for the disadvantaged groups especially to the aged.

5.66 Some respondents suggested that mandatory insurance could be implemented by requiring employers to provide medical insurance for their employees, while others felt that employers should contribute towards their employees' accounts for buying insurance. Some considered that existing employer-provided medical benefits or insurance should be required to be topped up to a certain basic level to ensure adequate coverage for the working population.

5.67 On the other hand, while many respondents of the business and employers groups were in support of population-wide mandatory insurance, they were generally not in favour of an employment-based approach on the ground that this would only provide partial coverage for those employed. Some also considered the proposal would duplicate the existing medical benefits that many employers were already providing to their employees, and that these schemes should be exempted from any mandatory scheme.

5.68 However, quite a number of respondents objected to the scheme as it was mandatory in nature and the required contribution would be particularly burdensome for middle income families. Some worried that MHI could not offer adequate protection to the insurees and some may need to move back to the public sector for subsidized services. Some opined that MHI would encourage overuse of healthcare services and or abuses due to moral hazards on the part of both the insured and healthcare providers.

5.69 Some respondents expressed concerns that a mandatory insurance plan would benefit mainly the private insurance companies or private doctors and hospitals. Among them some suggested that the Government should consider operating the scheme instead of leaving it to the private sector even if the private scheme would be regulated. Some expressed doubt on the capability of the Government to effectively regulate the private health insurance market under a mandatory system. Some raised concerns about the possible conversion of existing VHI to future MHI and some suggested that those who had VHI should be exempted from the MHI Scheme.

Personal Healthcare Reserve

5.70 Like other proposals especially MSA and MHI, diverse opinions were received amongst written submissions on PHR as a new supplementary financing arrangement to meet the increasing healthcare expenditure. Those who were in favour of this option agreed on the ground that it could generate a stable pool of funding for individuals in the population to meet their future healthcare expenditure. Those who opposed on the grounds that the mandatory contribution appeared to be substantial, especially to the comparatively lower income groups, which would adversely affect the immediate living standard of these people.

5.71 Apart from the grounds for supporting or opposing to either mandatory savings or mandatory insurance, some supported PHR as it combined both an insurance scheme and a savings scheme, allowing the advantages of the two types of schemes to complement each other. Some favoured this proposal as it could accommodate both current and future healthcare financing needs.

5.72 Under Survey 1, PHR received only moderate support (42% supported whereas 30% against), slightly better than tax increase and SHI, and received less support than MHI from the respondents. In Focus Group 2, some participants with higher health risk considered that PHR could provide them with certain protection. On the other hand, some participants were concerned about the potentially high contribution level as PHR encompassed both savings and insurance elements.

5.73 A number of specific issues like employers' role in PHR were raised by the respondents. Respondents generally opined that employers should, like MPF Scheme, contribute to their employees' healthcare needs. However, respondents among employer or business groups were generally reluctant to contribute towards the post-retirement medical expenses of their employees.

5.74 Similar to other mandatory schemes, many respondents opposed to PHR for its mandatory nature. Many considered that the combination of a mandatory insurance and mandatory savings would likely lead to a very high level of contribution and would thus place an even greater burden on the working population and especially the middle-income families.

5.75 Some respondents expressed grave concerns that the proposal would introduce a two-tier service structure (between those subject to PHR and those not) and that those not covered under PHR could only receive second-class healthcare services. On the other hand, some respondents demanded that better services should be provided for those who had made contribution under PHR.

5.76 A few respondents suggested that those who currently had private insurance coverage should be exempted under the mandatory PHR Scheme. Some questioned whether it was necessary to bunch MHI with a savings scheme, noting the much higher administrative costs could result from administering such a complex scheme. Like MHI, some respondents preferred PHR to be administered by the Government, whereas some suggested that it should be incorporated into the MPF framework so as to minimize the administrative cost.

Cross-cutting Issues Concerning Supplementary Financing Proposals

5.77 Based on the public opinions expressed on the individual supplementary financing proposals, we have further analysed their views over a number of cross-cutting issues concerning the healthcare financing arrangements in general, which had been discussed or referred to during the public consultation. These are set out in the following paragraphs.

Individual Needs vs Wealth Re-distribution

5.78 During the consultation, some respondents commented on questions of equity in access to healthcare and the need for wealth re-distribution in healthcare. For instance, respondents pointed to the growing disparity in income and living standards between the high-income and the low-income groups and argued that taxing the former to fund the healthcare for the latter was necessary.

5.79 Some respondents considered that funding healthcare through government taxation could ensure equitable healthcare and effective wealth re-distribution. A few respondents also raised the question whether charges for public healthcare services should be means-tested (i.e. charged according to affordability).

5.80 On the other hand, many respondents opposed to increasing tax or requiring contributions from them, claiming that they were already under double-jeopardy for having to pay more tax without necessarily enjoying public healthcare and yet mostly paying for their own private healthcare through insurance. Most of them were in favour of proposals which could cater more to individual needs rather than pooling resources to subsidize the population as a whole.

5.81 Furthermore, some respondents raised concerns that the present system was unfair to a small group of people especially the Salaries Tax payers who had to pay for all the bills resulting from the medical needs of the whole population. They expressed reservation on pooling further resources, in additional to the existing tax system, to fund the future healthcare needs of the people, let alone the foreseeable heavier tax burden on the working population resulting from ageing population.

Voluntary Choice vs Mandatory Requirement

5.82 While some respondents did express support for mandatory supplementary financing proposals such as MHI, PHR, MSA or SHI in recognition of their advantages, a number of respondents who commented on the proposals expressed opposition or reservation to the mandatory nature of these proposals. Meanwhile, among those who did prefer better choice for healthcare, most preferred VHI with tax incentives, and fewer people considered mandatory proposal would provide them with better choice.

5.83 It was also noted that some respondents, while acknowledging that voluntary proposals would most probably represent more costly solutions both to the society as a whole and possibly to themselves individually compared with mandatory proposals, still valued their voluntary choice over any form of mandatory scheme. For instance, some recognized the shortcomings of VHI and that many of those could only be effectively overcome under MHI, and yet they still preferred VHI over MHI.

Risk-pooling vs Savings

5.84 A number of respondents did consider that saving was an important factor for making additional contribution to financing healthcare. On the other hand, some raised concerns that savings alone might not be adequate to meet the future healthcare needs. They specifically pointed out that the saving amounts might not be adequate for them to meet the heavy financial burden arising from catastrophic disease. They thought that some form of risk-pooling financial arrangements was essential.

5.85 It was noted that higher income group in general showed more support to risk-pooling than medical savings as compared with the lower income groups. In particular, proposals on insurance (i.e. VHI and MHI) received support from the higher income groups whereas they were less favourable to mandatory savings.

Equitable Access vs Two-tier Services

5.86 Respondents generally supported the equitable access to same standard of public healthcare by the population as a whole. They at the same time valued they were open to choices for seeking private services through other voluntary means like out-of-pocket payments or health insurance.

5.87 Some respondents expressed concerns that certain supplementary financing proposals like MHI and PHR would effectively create a two-tier structure in healthcare services. They commented that the existence of such institutionalized two-tier structure and the tension between the two would not be conducive to long-term sustainability. Some considered that such a two-tier system would render the low-income and disadvantaged groups "second-class" citizens.

5.88 Nevertheless, a few respondents voiced their dissatisfaction over queuing for and receiving the same public health services despite having to pay more tax. They considered it reasonable to get better services after joining any one of the financing proposals requiring additional contributions from them.

5.89 Some respondents had shown reservations over the private healthcare providers and their services thereby objected to any financing proposals that would lead to expansion of the private sector. They considered that Government should better regulate the price and quality of private healthcare services in pursing financing proposals that would rely more on the private sector.

5.90 Some, on the other hand, valued HA as it did not operate for profit and considered HA already providing good quality services with good cost-effectiveness considering the low fees it current charged and amount of funding it was provided.

Role of Employers and Employees

5.91 The role of employers in the supplementary financing proposals, especially in the proposals requiring contributions, was the most frequently raised issue during the consultation. The labour unions and many respondents considered that employers must contribute to any financing proposals requiring contribution, while employer groups in general expressed reluctance to make any additional contribution to their employees' medical care, when many of them were already providing medical benefits. Similar to employers' contributions, the issue of the Government's contribution to the supplementary financing proposal was also raised, though some also demanded the Government to directly increase government funding for healthcare.

5.92 The fact that the supplementary financing proposals put forth for the first stage consultation did not attempt to specify the respective role of employers and employers was also a source of criticism, with many criticising the Government for not pinning down the responsibility of employers. Some especially labour unions drew parallel with the MPF scheme and considered that no contributory scheme would be acceptable without employers' contributions.

User Fee Increase

5.93 A number of respondents showed support to increasing user fees as a possible supplementary financial proposal. They viewed that fee increase was a simple, direct and efficient means to provide additional resources to meet the rising medical costs in the near future, whereas they thought that the implementations of other supplementary financing proposals would involve complex legal framework and regulatory mechanism which would certainly incur significant administrative costs. Nevertheless, most of them suggested that an adequate safety net was essential to protect the low-income group and the under-privileged from the fee increase. Nevertheless, the patient groups and social welfare groups were concerned about the fee increase might pose heavier financial burden to the chronic disease patients and the elderly.

5.94 The proposal received a fair amount of support in our survey. According to Survey 1, about 47% of respondents supported this proposal. It was also noted that the proposal received higher support amongst the higher income and higher education population group whereas the opposition was stronger amongst the lower income group and elder population group.

Income Level for Contribution

5.95 There were comparatively fewer focused discussions and views expressed on the income level for contribution amongst the proposals. One of the reason might be there was a general sentiments against the mandatory proposals from the public. The general opinions received were that an income level around $10,000 to $15,000 appeared to be too low. They worried that mandatory contribution amongst these income groups would pose significant burden on them and affect their standard of livings.

Financial Sustainability

5.96 During the consultation, we have only received a few responses emphasising on the need to address the issue of long-term sustainability of healthcare financing, despite there was a general recognition that a sustainable healthcare system would be essential to meet the healthcare needs and provide quality services for us in view of the ageing population. Some were of the view that the Government should be responsible for the financial sustainability. Some did not consider that there was a need to address this issue, given the amount of uncertainties involved in the distant future. Some put forward that there was no case to worry about the sustainability of our healthcare system as our financial reserve was sound and stable.

Administrative Cost

5.97 Administrative costs of the supplementary financing proposals especially the contributory ones were often raised as an issue. A number of commentaries did focus on drawing parallel with the administrative cost under the MPF system. Some further suggested that public entity or the Government should run the contributory financing proposals to minimize the administrative costs.

Summary

5.98 To tackle the long-term sustainability of the healthcare system so as to ensure the delivery of quality healthcare services in the community in view of the ageing population, we have to, on top of carrying out reforms on healthcare services, consider reforming the healthcare financing arrangement. The predominantly taxed-funded public healthcare system would not be sustainable in the long run even with increasing proportion of government expenditure to be allocated to meet the healthcare needs.

5.99 Whilst there was a general opinion recognising the need to address the issue of healthcare financing with regard to the ageing population, the community has, during the three-month consultation period, expressed rather diverse views on the introduction of supplementary financing and the possible supplementary proposals put forth in the Consultation Document to be adopted.

5.100 The issue drew enthusiastic feedback from the community and the public and stakeholders had a thorough debate on the six supplementary financing proposals. In short, the community had rather diverse opinions on various proposals, though there was broad support to the Government's commitment to increase its expenditure on healthcare from 15% to 17% of its recurrent expenditure by 2011-12. They also welcomed the Government's pledge to set aside $50 billion to facilitate the implementation of healthcare reform.

5.101 Members of the community also had a meaningful discussion on the underlying societal values and considerations of each supplementary financing proposal. They were interested to know the Government's long term commitment on the future healthcare system and how the additional funding would be used as if supplementary financing arrangements were implemented. The community were also interested to know the respective roles of the Governments, employers and individuals under those financing proposals with contributory element. Another important issue was that what kinds of medical protection people could enjoy after they have participated in any kind of contributory supplementary financing scheme. To move forward, we would need to address all these issues with the community in the second-stage public consultation.