EXECUTIVE SUMMARY

The Government published the Healthcare Reform Consultation Document "Your Health, Your Life" (the "Consultation Document") on 13 March 2008 to initiate the public consultation on healthcare reform.

2. The healthcare reform aims to address the challenges to our healthcare system brought about by our rapidly ageing population and rising medical costs, and to ensure the future sustainability of our system to deliver healthcare protection and quality services to the community.

3. The first stage public consultation conducted from March to June 2008 aimed at consulting the public on –

(a) the key principles and concepts of four service reform proposals –

(i) **enhance primary care**;

(ii) **promote public-private partnership in healthcare**;

(iii) **develop electronic health record sharing**; and

(iv) **strengthen public healthcare safety net**.

(b) the pros and cons of reforming the current healthcare financing arrangements through introducing six possible supplementary financing proposals –

(i) **social health insurance** (mandatory contribution by workforce);

(ii) **out-of-pocket payments** (increase user fees);

(iii) **medical savings accounts** (mandatory savings for future use);

(iv) **voluntary private health insurance**;

(v) **mandatory private health insurance**; and

(vi) **personal healthcare reserve** (mandatory savings and insurance).

4. We would like to take this opportunity to thank members of the community and various organizations for their valuable opinions expressed during the consultation period. They have put forward constructive views on both services reforms and supplementary financing proposals, which have helped us better understand public expectations for the Healthcare Reform.

The Consultation

5. During the three months' consultation period, the reform proposals have been widely publicised and discussed. The consultation exercise has raised broad awareness in the community to the reform.

6. The Government received many constructive views from a broad range of respondents through various channels, including some 20 Legislative Council and District Council meetings, some 130 briefings and forums with various stakeholders, and written submissions from over 4 900 organizations and individuals.

7. Furthermore, the Government has commissioned independent consultants to conduct questionnaire surveys and focus groups to further garner the views of the public on the subject.

Responses to Healthcare Reform in General

8. The public expressed broad support to reforming the current healthcare system and improving the capacity and quality of healthcare services it provided, and generally agreed that there was an imminent need to do so. Majority of the public also recognized the need to reform the current healthcare financing arrangement.

9. A broad spectrum of the community felt that, without reform, the existing level and quality of healthcare services would not be sustainable given the challenges of our rapidly ageing population and rising medical costs.

10. The public in general expected the Government to take the lead in carrying out reforms to our healthcare system, while preserving its current strengths, including our public healthcare system accessible to all.

11. There was a general recognition that comprehensive reform to various interlinked aspects of the healthcare system would be needed to ensure its sustainability.

12. Some considered that the reform proposals should be considered from an overall perspective, be it service delivery model or financing arrangements; while others considered that service reforms should be considered before financing reform.

Responses to Service Reform Proposals

13. The first stage consultation reflected a broad consensus in the community over the service reform proposals. By and large, the key concepts and directions for the reform proposals in the four areas of service reform were broadly endorsed by the public and stakeholders across a wide-spectrum of sectors.

14. The public and various stakeholders generally agreed with the reform proposals put forth by the Government in the four areas and called for early implementation of these reforms with a view to bringing about speedy improvements to the capacity and quality of healthcare services provided to the public at present.

Enhance Primary Care

15. There was broad support from the community for the direction of enhancing primary care. Most respondents advocated devoting more resources to developing

comprehensive, holistic and life-long primary care services that would emphasize disease prevention in the community. Many also supported a stronger role by the Government in primary care, especially in ensuring the standard and quality of services.

16. The public in general and a wide spectrum of stakeholders supported the proposals to improve existing primary care services and put greater emphasis on preventive care, including developing primary care service basic models, establishing family doctor register, subsidizing preventive care services, improving public primary care services, and strengthening public health education.

17. The healthcare professions expressed general support to the direction for primary care reform, and every profession considered that they had a role to play in primary care, including in the proposed basic models for primary care and family doctor register, which many professions considered should not be confined to Western Medicine doctors.

18. However, the healthcare professions had different views on the appropriate delivery model for comprehensive primary care, including the respective roles of different healthcare professionals. Some also expressed concerns over the respective roles of the public and private sector in delivering primary care to the public.

19. Some community organizations recognized the need for seamless collaboration and interfacing between primary care, community health care, and social services available within the community, especially elderly care. Many also recognized the importance of making use of the local community networks in enhancing primary care, e.g. promoting healthy lifestyles.

Promote Public-Private Partnership in Healthcare

20. Many respondents supported the direction of promoting public-private partnership (PPP) in the provision of healthcare services. The public generally believed that PPP could encourage healthy competition and collaboration between public and private sectors, thereby providing more cost-effective services, as well as more choices of services.

21. Some respondents including concern groups and community organizations expressed concerns over whether the pursuit of PPP might lead to the reduction of resources available for the public sector and in turn affect the healthcare for the low-income and underprivileged groups, and result in further segmentation of accessible healthcare services.

22. On the other hand, some other respondents considered that PPP should be pursued to the extent that it could provide a more cost-effective means of shortening the waiting time for public services, and benefit patients on the public queues. Some consumer or patient groups asked for proper monitoring and transparency under the PPP models.

23. The healthcare professions in general welcomed the proposals to promote PPP,

which they felt should include a commitment by the Government to support the development of the private healthcare sector. Some however expressed concerns that PPP might lead to unfair competition or interfere with the existing operation of the private healthcare market.

Develop Electronic Health Record Sharing

24. The proposals to develop electronic health record (eHR) sharing did not attract as much responses as some other proposals, but almost all respondents expressed support for the proposals, noting its benefits to patients by enhancing efficiency and quality of care through avoiding duplicative investigation and facilitating collaboration among different healthcare professionals.

25. Some respondents supported the initiative but emphasized the importance to have stringent controls over data privacy and security. Some respondents emphasized the importance of patients' ownership of their own eHR and considered that patient involvement in maintaining their own eHR through initiatives like patient portal should be a key objective.

26. Healthcare professionals in general supported the proposal in principle, noting the benefits to the patients. However, some expressed concerns about the high cost for implementation and likely impact on their existing mode of operations. Most considered that the Government should take the lead in devoting resources to develop eHR sharing as an infrastructure, and should provide incentives and support for practitioners to do so.

Strengthen Public Healthcare Safety Net

27. There was broad consensus in the community that the public healthcare system should continue to serve as a safety net offering healthcare protection to the population as a whole, not least the low-income and underprivileged groups. The direction of strengthening the public healthcare safety net was thus broadly supported.

28. Many respondents supported that the existing public safety net should be strengthened. Amongst them many expressed concerns over the existing mechanisms of drug formulary and self-financed drug items which they considered as restricting access to essential but expensive drugs. Some expressed the view that the current Samaritan Fund mechanism might not provide adequate protection for certain patients in accessing these drugs.

29. Many referred to the four target areas of public healthcare proposed in "Building a Healthy Tomorrow"[1] in 2005 (i.e. acute and emergency care; for low-income and underprivileged groups; illnesses that entail high cost; advanced technology and

[1] "Building a Healthy Tomorrow - Discussion Paper on the Future Service Delivery Model for Our Health Care System" was issued by the Health and Medical Development Advisory Committee in July 2005 for discussion and consultation. The Healthcare Reform Consultation Document "Your Health, Your Life" was issued further to the discussion paper for public consultation on proposals for healthcare reform.

multi-disciplinary professional team work; and training of healthcare professionals). They considered that the public safety net should be strengthened along these lines.

30. Some respondents expressed support for the proposal of introducing a personal limit on medical expenses, noting that the proposal could help address the financial difficulties faced by patients requiring costly treatments, especially those from middle-income families who might not qualify for existing safety net mechanisms.

Other Issues Relating to Service Reforms

31. In connection with the service reforms, the feedback during the consultation also suggested a number of other related issues that would need to be addressed. These include –

(a) The manpower capacity and training of healthcare professionals.

(b) The capacity of the private healthcare sector and the transparency, quality and standard of services it offers.

(c) The development of specific areas of healthcare services, such as Chinese medicine, dental services, mental health services, infirmary services and long-term medical care.

(d) The institutional setup of the healthcare system.

Responses to Financing Reform Proposals

32. The financing reform proposals attracted overwhelming responses from the public and various stakeholders during the three months' consultation. There was a general perception that the first stage consultation overly focused on healthcare financing, notwithstanding that the Consultation Document put forward a comprehensive package of reform proposals covering not only financing arrangements but also healthcare service delivery model based on the 2005 Discussion Paper "Building a Healthy Tomorrow".

33. The broad spectrum of respondents submitted their views on a wide range of issues, not only on the six possible supplementary financing proposals put forth in the Consultation Document, but also broadly on the need for reforming the current healthcare financing arrangements, the Government's funding for healthcare, the current taxation system, as well as the societal values underpinning healthcare financing.

Need to Reform Healthcare Financing Arrangements

34. Many respondents, including political parties, professional groups, business organizations and academics, shared the concerns over the long-term sustainability of the current healthcare system, recognizing the expected increase in health expenditure needed to cater for the rapidly ageing population and rising medical costs due to advancement in medical technology. They supported embarking upon comprehensive reform to ensure

the long-term sustainability of healthcare system.

35. Amongst them, many considered that the long-term sustainability of the healthcare system could not be adequately addressed without reforming the healthcare financing arrangements amongst other aspects of the healthcare system, though their views differed on how the current financing arrangements should be changed. Our survey showed that 65% of the public echoed the need to reform the current healthcare financing arrangements. (Survey 2[2])

36. On the other hand, a small but not insignificant proportion of the public (some 17% according to our survey) (Survey 2) did not agree to the need to change the current financing arrangements. A substantial portion of the views received through written submissions and consultation forums also reflected this view, including those from labour groups and community organizations representing grass-root interests, and a variety of reasons and doubts in connection with their views were raised. These included the efficiency of the current public healthcare system, the ability of the Government to afford funding for healthcare, the validity of the long-term population and health expenditure projection, and the trend of rising medical costs. Some respondents also expressed disagreement to consider financing on account of lack of details.

Government Funding and Taxation

37. The public and respondents were generally supportive of increasing the Government's recurrent expenditure for healthcare from 15% in 2007-08 to 17% of the recurrent expenditure by 2011-12, though some queried why the expenditure could only be increased to 17% and whether the expenditure would be capped for the future. Most also welcomed the Government's pledge to draw $50 billion from the fiscal reserve to assist the implementation of healthcare reform when supplementary financing arrangements were finalised for implementation after consultation, though some called for the early use of the reserve to improve existing healthcare services.

38. Amongst those respondents who were not in favour of changing the current healthcare financing arrangements, a prevalent view was that the Government could well afford to continue to fund healthcare in the foreseeable future, referring to the large budget surplus in 2007-08 and fiscal reserve. Some expressed the view that additional funding for healthcare if needed could well be funded through further increase in the share of government budget for healthcare, correspondingly reducing other areas of spending due to demographic changes.

39. There were also some respondents who did not agree to the need to reform the healthcare financing arrangements, and expressed the view that the issue should be dealt with through raising tax. Among them, some suggested increasing various existing taxes or other sources of government revenues, and some specifically suggested making the taxation system more progressive. Others including certain professional groups in the

[2] Please refer to Appendix V for the details of the survey.

accountancy and taxation field preferred devoting more resources to healthcare through tax, and tax revenue could be raised through broadening the tax base.

40. However, the views expressed by these respondents contrasted sharply with our survey of the views of the general public, which reflected that tax increase received the least support and the greatest objection from respondents, compared with other supplementary financing options and that some 42% of the public opposed to increasing tax vis-à-vis 35% in support (The pattern is similar across different income level, with relatively stronger opposition among the middle (42%) and high income groups (48%).) (Survey 1[3]). Published survey results by some third-parties also reflected similar pattern. Some employer and business groups also expressed objection to tax increase as the means for providing additional financing for healthcare.

Supplementary Financing Proposals

41. The public and stakeholders expressed divergent views on the six supplementary financing proposals put forth in the Consultation Document. There were views for or against each of the six proposals, and no single proposal commanded majority support as reflected in our surveys. Some respondents also suggested that a combination of different proposals should be considered.

42. 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.

43. 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.

44. From the respondents' views towards the supplementary financing proposals, the following general themes were observed on the different societal values underpinning the proposals –

(a) **Individual vs communal**: while the public was generally receptive to the notion that the less-fortunate should be protected by the healthcare system and helped by the better-off, many considered that the current public healthcare system funded by taxpayers had already catered for the low-income and underprivileged, and tended to favour proposals catering for individuals' healthcare needs rather than pooling resources to subsidize the population as a whole. Our surveys reflected a relatively lower preference for the communal tax increase or social health insurance, 35% and 40%

[3] Please refer to Appendix V for the details of the survey.

respectively, as compared to individual insurance and savings ranging from 44% to 71% (Survey 1).

(b) **Voluntary vs mandatory**: amongst proposals requiring individual contributions to healthcare, there was a general preference against proposals of a mandatory nature. This is notwithstanding the recognition that certain mandatory proposals would offer advantages that could not be achieved merely through voluntary proposals, e.g. saving for future healthcare or more effective risk-pooling. Our surveys reflected that the public generally favoured voluntary proposals like voluntary health insurance and to a lesser extent user fee increase (ranging from 47% to 71%) over other mandatory proposals including tax increase, social health insurance, mandatory health insurance, and mandatory medical savings (ranging from 35% to 58%) (Survey 1).

(c) **Risk-pooling vs savings**: whilst saving for future healthcare was a factor considered important by a fair amount of respondents for making additional contributions to financing healthcare, many respondents expressed concerns that savings alone might be inadequate to meet future healthcare needs without risk-pooling. A general trend was observed that the higher income groups were less in favour of medical savings but more in favour of proposals with risk-pooling, compared with the lower income groups. In particular, the higher income groups expressed across the board much stronger support for voluntary health insurance and mandatory health insurance, as opposed to mandatory medical savings.

(d) **Equity vs two-tier service**: the public generally valued the equitable access to same standard of public healthcare by the population as a whole, but at the same time also valued their own choice of seeking private services through out-of-pocket payments or other means like insurance. However, many respondents expressed their concerns through written submissions and consultation forums over the potential of creating a two-tier service structure and segregating access by different income groups to the two tiers. Among them, many considered the mandatory proposals with specific income cut-off for participation would have such an effect. On the other hand, some respondents especially those in the middle to high income groups were in favour of more options of better services at their own voluntary choice.

(e) **Role of employers and employees**: whilst the supplementary financing proposals for the first stage consultation did not attempt to specify the respective role of employers and employees, there was a strong current of opinion, particularly from labour unions, that employers should share part of the contributions before contributions from employees should be considered, drawing parallel with the Mandatory Provident Fund Scheme. On the other hand, some business and employer groups expressed the concern that many

employers were already providing medical benefits to their employees, and thus additional contribution on top or contribution towards employees' medical needs after retirement should not be their responsibility and would add to their cost burden.

(f) **User fee increase**: many respondents expressed the view that increase in user fees should be considered, provided that an adequate safety net was in place to cater for the low-income and underprivileged. Among them, many considered fee increase as a simple, direct and efficient means to provide additional resources for healthcare in the short to medium term, compared with other supplementary financing proposals (not counting tax increase) which would require complex legal framework and regulatory mechanism and would incur additional administrative costs. Our surveys reflected that the proposal of user fee increase received a fair amount of support among the public in general (47%) (Survey 1). There was markedly stronger support amongst those with higher income and higher education population groups, whilst the opposition was stronger among the lower income and elder population groups.

(g) **Income level for contribution**: there was little discussion on the income level for contribution, given the general sentiments against the mandatory proposals. However, for those respondents who touched upon the issue, there was a general opinion that an income level of $10,000 or even $15,000 would be too low and requiring contribution for healthcare from these income groups would pose significant burden on them and affect their standard of living.

(h) **Financial sustainability**: notwithstanding the general recognition that a sustainable healthcare system was needed to ensure the continued delivery of healthcare protection and quality services to the public, few respondents expressed a strong desire to address the issue of long-term sustainability of healthcare financing in the coming decades. Some respondents considered that the responsibility for ensuring financial sustainability rested with the Government, while others did not perceive the case for addressing issues projected into such distant future, given the amount of uncertainties involved.

Other Issues Relating to Financing Reform

45. Arising from the debate on financing reform especially the supplementary financing proposals, respondents raised a number of other pertinent issues that might need to be addressed as part of the financing reform –

(a) Whether the efficiency and cost-effectiveness of the public healthcare sector could be further enhanced, thereby reducing the increasing pressure on future funding for public healthcare.

(b) Whether the private healthcare sector can cope with the reform, in terms of service capacity, competitiveness, price transparency, cost-effectiveness as well as overall standard and quality of care.

(c) Whether the private insurance sector can cater for the reform, noting the shortcomings of its current health insurance offerings, including the exclusions and lack of cost- and utilization-control.

(d) How the public as "consumers" could be protected under any of the proposals involving private services and/or private insurance, especially if the Government should play a bigger role.

(e) Whether some of the proposals would entail substantial regulatory and administrative costs, how that could be minimized and whether that might outweigh their benefits, compared with simpler options.

Way Forward

46. The first stage consultation on healthcare reform clearly demonstrated a strong support in the community for reforming the current healthcare system, to ensure that it can continue to provide the public with the healthcare protection and quality services it has accorded so far.

47. Given the broad consensus on the service reform proposals, and the urge for their early implementation, we would proceed to take them forward as far as possible, making use of the increased government funding for healthcare in the next few years. In the process, we will build on the broad consensus on the reform proposals, involve relevant stakeholders in the process, and take into account the views and concerns expressed during the consultation. We should also address issues such as manpower planning, private sector capacity and institutional setup.

48. In particular, we are moving forward in respect of the four areas of service reforms –

(a) **Enhance primary care**: we have set up the Primary Care Working Group involving healthcare professionals in both the public and private sectors, as well as representatives of patients, users and other relevant sectors. The Working Group will be tasked with recommending specific plans to implement the proposals to enhance primary care. Meanwhile, we are implementing a number of pilot projects relating to primary care to test different models for enhancing primary care.

(b) **Public-private partnership**: a number of PPP pilots and initiatives are underway (e.g. purchase of private healthcare services, direct subsidization of patients for private healthcare, and development of PPP hospitals and centres of excellence), both for the purpose of relieving the waiting queues for public

services, testing the concept of "money-follows-patient", as well as providing more choice of healthcare services to patients. These projects will be closely monitored to ensure they bring benefits to the public as a whole.

(c) **Electronic health record sharing**: the Government will take the lead in the development of the infrastructure for sharing electronic health records in both the public and private sectors, in partnership with the healthcare professions in both sectors. To do so, we will set up a dedicated office to co-ordinate the various development initiatives, and to leverage the existing systems and expertise of the Hospital Authority to provide support to healthcare institutions in the private sector for their own eHR development.

(d) **Strengthen public healthcare safety net**: we would be seeking some $1 billion funding for injection into the Samaritan Fund. We would also provide funding to improve existing public services and implement PPP projects, with a view to shortening the waiting queues for public services. Besides, we would also explore the idea of a "personal limit on medical expenses" which has received support during the consultation, with the aim of providing additional protection to individuals who require costly treatment.

49. In general, there is recognition among the public and stakeholders that the issue of financing needs to be addressed. Many considered financing an indispensable part of healthcare reform, which would have significant implications for the long-term sustainability of our healthcare system. There is also broad support but not yet a consensus in the community to reform the current financing arrangements.

50. We recognize that there are still divergent views on healthcare financing. However, there is a general willingness among the public and stakeholders to continue deliberations on the issue of healthcare financing with a view to finding a solution. Thus while we proceed to take forward the service reforms, we should continue the deliberations on healthcare financing, with a view to building towards a consensus.

51. We are currently examining possible proposals for further consultation, having regard to the following broad principles as reflected in the first stage consultation –

(a) To preserve the existing public healthcare as a safety net for all, while providing better and wider choice for individuals who are using or able to afford private services.

(b) To take forward financing reform through a step-by-step approach having regard to the range of views received, and consider possible proposal(s) by stages, with a view to reaching long-term solutions.

(c) To consider standardized and incentivized arrangements to facilitate access to better protection and choices in healthcare with necessary flexibility to cater for the needs of different age/income segments of the population.

(d) To be in line with the concept of "money-follows-patient" under the healthcare reform, while ensuring sufficient protection to users for price transparency and cost-effectiveness.

(e) To retain the $50 billion fiscal reserve pending decision on supplementary financing and consider how the funding could be made use of to assist the implementation of supplementary financing.

52. It is our plan to put forward more details on the service reforms as well as a more concrete proposal for financing reform, to initiate the second stage consultation in the first half of 2009.