Chapter 8 SUPPLEMENTARY FINANCING OPTION (1) - SOCIAL HEALTH INSURANCE

Social Health Insurance as Supplementary Financing

8.1 Social health insurance refers to mandatory contributory schemes, usually employment-based and income-linked, i.e. financed by the working population and, in most cases, by employers as well. It may be centrally administered by a single statutory insurer, as with the National Health Insurance system of Korea, whereby subsidized healthcare is generally available to the whole population; or administered by multiple sickness funds, membership and contribution rate of which are determined by occupational groups, as with the system in Austria and Japan. Individuals in employment with remuneration above a certain level are usually required to contribute a certain percentage of their income to a social health insurance fund designated for healthcare use for the general population. Employers may be required to contribute a matching or different percentage.

Financing Implications

8.2 Introducing some form of social health insurance as a source of supplementary financing is similar to raising Salaries Tax in effect, but the number of contributors involved would be larger, depending on where the contribution line is drawn.

8.3 If a social health insurance is applied to those earning monthly income of $5,000 or more (some 80% of the working population) and capped at $20,000 (i.e. those earning $20,000 or more will only be required to contribute at $20,000 income level), we estimate that a contribution at 3% to 5% of monthly income will provide sufficient supplementary financing for healthcare up to around 2025 to 2027.

Overseas Experience

8.4 Social health insurance is the primary source of healthcare funding in Austria, Belgium, Japan, Korea and the Netherlands (before the more recent reform to introduce a mandatory private health insurance). Funding from general taxation is required at varying degrees to top up and meet the requirement for healthcare services. With the exception of Korea, all these economies have a much higher total health expenditure as a percentage of GDP (ranging from 8% to 10%, compared to 5.2% in Hong Kong), and public health expenditure accounts for a relatively large proportion of total healthcare expenditure (at least 60% and well over 70% in some cases, compared to 55% in Hong Kong).

8.5 In all these economies, an ageing population as well as increase in healthcare utilization and costs have posed significant challenges to the financial sufficiency and sustainability of the healthcare system, especially in those which have adopted a fee-for-service system (e.g. Belgium and Japan). For instance –

(a) In Belgium, the fee-for-service payment system for providers, low co-payment for patients and lack of primary care provider as a gate-keeper for specialist/hospital care have made the healthcare system vulnerable to inefficiency, over-supply and over-use of healthcare.

(b) In Finland, where general taxation is the primary financing source and social health insurance is a secondary source, ageing population is posing a challenge to the healthcare system, and there is pressure for pursuing structural reforms in order to ensure financial sustainability.

(c) In Japan, the out-patient and in-patient utilization per capita per year is twice and four times the average among OECD countries. Meanwhile, the ageing population has caused serious financing problem for the social health insurance system due to slow growth of revenue amidst increasing spending pressure due to ageing.

(d) In Korea, the National Health Insurance has experienced serious deficits for a mix of reasons. At end 2001, deficits had reached a fifth of total NHI expenditures for the year. There is also inappropriate use of healthcare leading to extra burden on the insurance system.

8.6 In response to these challenges, the governments have employed various types of cost-control, budget-control and utilization-control measures, as well as revenue-raising measures such as increasing contribution rates and charges or co-payments, to control or meet the rising health bill. Some (e.g. the Netherlands) have also turned to reforming the market structure and financing arrangements.

8.7 In the case of the Netherlands, the government has in recent years embarked upon a series of reforms which reduces the role of the government by introducing a compulsory health insurance scheme operated by private health insurance companies. The scheme charges community-rated premium and is funded by the premium revenues, an income-related contribution, and government contribution. The premium-paying part is effectively a mandatory private health insurance scheme for the whole population (see Chapter 12), while the part of the scheme financed by income-related contribution and government contribution is

essentially a social health insurance for subsidizing the children's premium and to compensate insurers for financial disadvantages in insuring high-risk individuals.

Advantages as Supplementary Financing

8.8 Introducing social health insurance as supplementary financing for healthcare has the following advantages –

(a) **Equitable healthcare**: like taxation, a healthcare system funded by social health insurance can provide every member of the public with equitable access to the same level and standard of healthcare services.

(b) **More stable financing**: a social health insurance, funded by a large proportion of the working population than the existing tax base for Salaries Tax and with contributions dedicated to funding healthcare services, can provide a relatively more stable source of financing than raising Salaries Tax. However, at times of economic downturn when the working population can ill-afford the contribution level, financial sustainability of social health insurance schemes can still be a problem.

(c) **Wealth re-distribution**: like taxation, financing healthcare by social health insurance also has the effect of requiring those with higher income to subsidize healthcare for the population.

(d) **Some choice of services**: unlike using government revenue to fund healthcare services provided by the public healthcare system, social health insurance can be designed to provide some choice of healthcare services in either the public or the private sector through purchase and subsidization of services.

Disadvantages as Supplementary Financing

8.9 Introducing social health insurance as supplementary financing for healthcare has the following disadvantages –

(a) **A new hypothecated tax**: a social health insurance scheme is in effect an extra tax on the working population to finance the healthcare for the whole population.

(b) **Increasing burden on future generations**: like tax, social health insurance funded by contributions from the working population will become an

increasing burden on the future generations as Hong Kong's demography changes to a smaller working population supporting a larger elderly population.

(c) **Encourage over-reliance on highly-subsidized healthcare and lack incentives for its judicious use**: with healthcare services highly-subsidized by social health insurance as third-party-funding, there is little incentive for individuals to use healthcare services in a judicious manner.

(d) **Difficult to control healthcare utilization, and prone to excessive utilization of services**: financing healthcare services provided by both public and private sectors with social health insurance would make control over the utilization and costs of healthcare services very difficult, unless supplemented with usage quotas or other supply-control measures. The high-subsidization level may also create incentives for healthcare providers to provide excessive healthcare and for individuals to overuse healthcare services when they are more readily available through the social health insurance. The alternative will be to apply stringent control on both the provision and price of healthcare services in both the public and private sectors to be funded by social health insurance, effectively merging the private sector into the public system.

(e) **Increasing contribution rate**: the contribution rate would have to be increased in future to meet the rising healthcare expenditure due to an ageing population and medical inflation in addition to likely increases in utilization of healthcare. An alternative is to require a higher contribution rate upfront in order to build up a reserve in the social health insurance to meet future increase in healthcare expenditure.

(f) **Incur administration cost**: introducing social health insurance would be like introducing a new type of tax, and would require the establishment of a new mechanism for the collection of contributions to the insurance. If the insurance covers services by private sector providers apart from public services providers, extra administration cost will be involved for reimbursement of fees for healthcare services.

(g) **Choice of services are prescribed or limited**: while social health insurance may provide individuals with some choice of healthcare services in both the public and private sectors, the need to maintain equity and cost control would require that only specified services subject to prescribed standards would be funded by social health insurance, with little choice for

additional services or extra amenities. Individuals can only access services outside the scope of the social health insurance or get extra amenities through their own funds or privately-purchased health insurance.