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Subject Healthcare Reform Consultation Feedback

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Hi, first of all, I'd like to highlight that, as a local HK folk, I'm very keen to participate in the consultation of this reform. Please feel free to contact me for further discussion.

### **Mandatory medical savings accounts is the only choice**

Unaffordable medical expenses do not exist. On the issue of financing medical expenses, we should first understand what factor contributing the difficulty in paying the medical expenses. Assumption of medical related inflation being higher than the general inflation in the long run is not realistic, because this implies eventually almost all of our expenditure will be medical related, which is different from what we observe in all economies so far. So if medical related inflation is similar to the general inflation (as well as the wage increase) on average in the long run, why we cannot afford medical expenses?

Why aging population matters. Aging population is not necessarily a reason for unaffordable medical expenses. Although the aging population will increase the medical expenses (as a % of GDP), the calculation excludes the wealth accumulated by the 'aging' population, who worked hard throughout their lives. An economy with a large group of aged population should, in theory, accumulate a larger pool of wealth, which could be a potential source of finance. Problem arises only when the working population is supporting the retired population, and the retired population does not have sufficient wealth accumulated to pay for the medical expenses.

The two ways to support pension related benefits. This goes to the discussion of two systems, and I bluntly named them in my own terminology: (1) everyone-support-themselves system [EST] and (2) young-supports-old-people system [YSOP].

(1) EST includes the options of out-of-pocket payments and medical savings accounts, which everyone pays for their own medical expenses. In this system, as long as the wealth accumulated doesn't run out, medical expenses could be paid, and aging population will not create any burden on the economy. The risk lies on that individual does not have sufficient savings and underestimates the medical expenses in the future. This is where **medical savings accounts** come into the picture. **Putting it mandatory is a effective mean to build a safety net for everybody** , I believe.

(2) YSOP includes the options of government funding, social health insurance, mandatory private health insurance, and personal healthcare reserve, in which the some people put together some money and pays for some people (the receivers) who does not put in any money into the pool. This system will hit problem when the paying people cannot support the receivers, and aging population is an example. Therefore, if aging population is causing problem in financing medical expenses under the current system (financing through taxation mainly), then aging population is going to cause problem in options **social health insurance , mandatory private health insurance , and personal healthcare reserve , which we must AVOID**. Making another pool of reserves does not solve the problem of YSOP system. Only a EST system could solve the financing problem caused by aging population.

Tax is insurance. The consultation mentioned the disadvantage of medical savings accounts includes lack of risk-pooling. I wouldn't be concerned about this issue, because medical savings accounts is

going to be a system running together with financing through taxation, which includes a pooling of risk. (Insurance companies take premiums and pay for those incurred medical expenses; Government takes tax from taxpayers and pay for whoever needs medical attention.) In addition to the taxation, there are volunteer insurance program, and this should provide sufficient pooling of risk in the society. I believe there is NO need to have any mandatory insurance.

Mandatory insurance does not work. Financing options involve private insurance companies regulated by the government is that the government would want the premium to stay at low levels affordable by the general public. While the low profit - low incentive - bad services argument is popular, I believe this is not fatal. The key problem is that because insurance (other than unit linked insurance which includes savings element and individuals bear the investment risk) is basically YSOP system. One day, the minimum payment could become too expensive and unaffordable by general public, just as the current taxation financing. **Australia** is a very good example.

Therefore, among the options, **mandatory medical savings accounts** is the only choice (complementing taxation, out-of-pocket, and volunteer medical insurance financing.)

Kind regards,  
Joseph Leung

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