

Views on “Your Health, Your Life” Healthcare Reform

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1. Ageing population is a social phenomenon that most of the advanced countries have to face, and unavoidably Hong Kong is necessitated to figure out the solution of the social problems that ageing population will bring along. Heavy pressure on healthcare system is one of the results of ageing population and not to neglect the effect of inflation. Consensus has been built up within the society on the urgency of the healthcare system reform to sustain the service quality of the services and for the betterment of resources allocation.

2. The purposed healthcare reform has demonstrated a magnificent vision with the concern of sustainability of high standard healthcare service, enhancement of living quality of Hong Kong citizens, and not compromising the basic healthcare protection for the community (*Food and Health Bureau, March 2008*). Despite the fact that the reform is aimed for the betterment of the society, the supplementary financing options remain controversial in the society. Under the framework of policy analysis and with the reference of *Herman B. Leonard's (Nov 2002)* framework for “strategy building”, I would like to analyze the reform from the perspectives of values, capacity and support, in order to ascertain a preference on an options that would best balance the interests of different groups.

Values of the Reform versus the existing values

3. Currently, public healthcare system is the existing dominated services provider in the market and Hong Kong government subsidies heavily for the medical services provided. Tragedy of the Commons happened as the public healthcare services were being treated as a common resource. The price of public healthcare services is too low that private market cannot compete. Consequently, public healthcare services were being used more than is desirable. Shifting the common resources to a private good (*N.G. Mankiw, 2004, p.232*) will be a possible solution to such market failure. Through the reform, certain values have to be created for the success of the reform, while some values have to be retained regarding to the competitiveness of Hong Kong.

A. Reducing health burden on public healthcare system

4. Reduction of reliance on public healthcare services is an essential value that has to be created through the reform, and a more self reliant healthcare system should be further promoted to maintain the sustainability of system. Supplementary Financing is a desirable option for implementing such value, and the polemics about the financing will be discussed in later part of this paper.

B. Equity as a social value

5. Equity is another value that has to be advocated through the reform. “Equity generally means that citizens receive benefits **proportionately**, not absolute, equality” (Nagel, S.S., 1991). It means to provide a minimum level of healthcare protection to ensure the accessibility of basic healthcare services in this case. Despite the public healthcare services will continue to serve as the safety net for low income groups according to the consultation document (*Food and Health Bureau, March 2008, P.6*), the assistances from government need to be further addressed.

C. Continual of Low tax rate and free market mechanism

6. Nevertheless, Hong Kong economy system is famous for the low tax rate and free market mechanism. With regard to this long holding value, large-scale increase of tax rate and excessive government interventions in the market are not preferred, inasmuch as the competitiveness of Hong Kong will be depleted. In other term, it means that it is not appropriate for Hong Kong to following the Western model to

build up a social welfare state, which the Western model often follows a high tax rate system.

Capacity of HKSAR government and private healthcare services providers

A. The Capacity of HKSAR government: to implement the reform and to maintain the sustainability of the Healthcare system

7. With regard to the Healthcare system reform, the Financial Secretary has reserved 50 billions for taking the reform forward. Capacity in money sense sounds sufficient for the reform to cover the administrative costs and provide incentive to promote the reform in short run. Nonetheless, it is also the question of the duration of the capacity to carry on the reform. Different mode and level of structural reform and supplementary financing result in different efficiency and effectiveness which determine the long term capacity.

(I) Capacity to carry out Public-Private Partnership (PPP)

8. Public-Private Partnership(PPP) was proposed to reduce reliance on public health care services as mentioned in the paragraph 4 above, and the consultation document has suggested that the purchase of some primary care and hospital services from private sector (Food and Health Bureau, March 2008, p.11) to promote the partnership relationship. Despite the fact that such measurements can be incentive for PPP and citizens to use private healthcare services, the subsidies made will be a long term budget for government.

9. Preventive and primary care services should not be subsidized heavily, since the capacity for government to have long term subsidies for private healthcare services is one of my concerns with regard to PPP, and it may not be an effective way to promote competition if subsidies on those services are in a high proportion.

10. Compare with partnership, price rising for some non-urgent services and non-urgent services can enhance the competition in the market, for example, chiropractic, Benign Prostatic Hyperplasia Surgery, Haemodialysis, etc. With an opened healthcare system, competition and the increasing demand for private medical services will provide room for price reduction. Such mechanism will be more beneficial for private healthcare services provider.

(II) Personal Healthcare Reserve as a sustainable and stable financing option

11. Referring to the six options for supplementary financing options, the capacity to maintain the sustainability and stability of high quality healthcare services is the key concern from a government administrative perspective. Personal Healthcare Reserve that includes mandatory regulated medical insurance and accruing savings would be a relatively sustainable and stable option for supplementary financing as suggested by the consultation document.

(a) Efficiency

12. In short-run, the administration costs will be high due to the setup of a complex calculation system. Given with the current Mandatory Provident Fund (MPF) system, the options will be more understandable by the public and it would be simpler for administration. The benefits to costs ratio will be low at the beginning.

13. Nevertheless, the opportunity cost for administrative works will be lower overtime. Such options will also promote the shift of users to private sector; in return the pressure on public health care services would be alleviated. With a decrease of opportunity costs, and shifted of user to private sector, capacity to maintain the sustainability and stability of the public health care system can be enhanced. In term of benefits/costs ratio, the mentioned option is an efficient choice for Hong Kong SAR government in long run.

(b) Effectiveness

14. Compare with other options, the mentioned options will also be a more effective choice with less controversies. Mandatory regulated medical insurance is more effective than voluntary private insurance, in view of the fact that the collective bargaining power in the market is far more powerful than individuals'. Risk can be shared collectively under this mechanism, while options like Out-of-pocket payments, medical saving accounts cannot protect as much as citizens through risk pooling. Furthermore, more regulations and monitoring works can be done by the government to prevent moral hazards under the framework of Personal Healthcare Reserve.

15. Personal Healthcare Reserve is a relatively efficient and effective financing framework for with regards to the capacity for a sustainable and stable of public health care system.

B. Capacity of Private Healthcare services provider

16. Private healthcare service provider would develop their capacity with the increasing demand after the implementation of the healthcare reform, so it is crucial for the reform to introduce competition in the market as discussed in paragraph 10 above.

Support

17. Support by the general public and relevant group is the determinant of a successful healthcare reform. As mentioned in the paragraph 1 above, consensus has been built on the nature of the reform which can be seen from different opinion pools and media; nonetheless there is discrepancy in the society on the mode of supplementary financing. The largest relevant group that is being affected is the middle class who contribute large portion of government tax income and their sentiment on this issue deserve our attention.

A. Concerns of Middle Class

18. With respect of the mode of supplementary financing, middle class has express their concerns and sentiment through different public opinion pools and other survey. In general, the supplementary financing was being treated as kind of charges at citizens, especial aiming at middle class. Fear of burdened by the supplementary financing lead the general middle class prefer a voluntary private medical insurance than any mandatory financing mode(Middle Class Power, April 6, 2008). Concerns with regard to the fear mainly are the followings:

- (I) Due to inflation, the price of general commodities has increased, so citizens are sensitive to any more money being drawn out from their pocket;
- (II) What services and protection can they enjoy from paying larger portions of their revenue for the supplementary financing scheme;
- (III) Is their money efficiently being used? And will their money goes to administrative costs, like the situation of MPF; and
- (IV) Under mandatory mode of financing, the new insurance scheme will overlap with their original private insurance.

B. Other concerns/opinion by the general public

- (I) Public generally has a preference for a dominated role by the government to continue their role as public healthcare services provider and subsidizing the financing;.
- (II) Security to access healthcare services is also the concern of general public;
- (III) Suspicion of the financing scheme will benefit the fund manager, insurance industry most, but not the general public (Wenweipo, May26, 2008);
- (IV) How the 50 billions budget by Financial Secretary are allocated to promote the reform and help the general public

C. Suggestions to obtain support

19. With regard to the discrepancy in the society, efforts and adjustments have to be made to obtain public and specifically middle class support and come up with an optimal mode of supplementary financing. Due to the lack of understanding about the reform in detail, general public would easily misinterpret the mean of supplementary financing as kind of charges neglecting the actual benefits to them.

20. As discussed in the paragraph 11-16 above, the Personal Healthcare Reserve is a relatively appropriate mode for supplementary financing, adjustments of the mode has to be made with reference to the consultation document to compromise the sentiment of the community. In additional to the adjustments, creation of the mentioned public values (paragraph 3-5) is also an indispensable element to obtain support for the reform. The following actions are advised to take:

- (I) Adjustments referring to the mode of Financing
 - (a) Flexibility for the insurance part
 - i. As discussed in paragraph 18(IV), private medical insurance is already quite popular within middle class, so overlapping will hinder citizens to support the financing; and
 - ii. Flexibility of letting citizens to be excluded from mandatory insurance will be a solution to the problem, given that they have already purchased over a standard amount of insurance
 - (b) Setup an optimal rate for contribution

Reference:

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