



## **Health Care Reform Consultation Document IFPHK Position Paper**

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### Contents

1. Company profile
2. The IFPHK response
3. Recommendations of IFPHK
4. Supplementary policy initiatives for consideration

## 1. IFPHK Company Profile

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The Institute of Financial Planners of Hong Kong (IFPHK) is a non-profit, self-regulatory organization that is recognized in the region as the leading professional entity representing over 5,500 financial services practitioners from the financial planning and wealth management industry in Hong Kong.

The IFPHK began operation in June 2000 and in November 2000 obtained authorization from the CFP Board (U.S) to be the sole licensing body for assessment and certification of the CFP certificants in Hong Kong and Macau, and issuing the CFP certification marks, including CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>, and  CFP<sup>SM</sup>, to qualified financial planning professionals in Hong Kong. Over the past eight years, CFP certification has gained respect and recognition from industry professionals, regulators and the broad retail community, and is currently regarded as the highest qualification for financial planning and wealth management practitioners.

The IFPHK has strong global networks and is an active Affiliate member of an international assembly of financial planning bodies called the Financial Planning Standards Board (FPSB), which was founded to promote the professionalism of individuals and organizations offering financial planning services to ensure that such services are offered in an ethical and competent manner throughout the world. FPSB works in conjunction with its Affiliate members to develop and promote rigorous international competency, ethics and professional practice standards for CFP certificants in member countries/regions to ensure that consumers looking for qualified personal financial planners understand and value CFP certification.

## 2. The IFPHK response to the healthcare reform consultation document

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### Why we are responding?

As the leading professional body representing the interests of the financial planning community, the IFPHK believes that it is important to respond to this government consultation paper on this significant policy issue that may impact financial planning client's needs in the future.

As the government may be aware, financial planning does not simply involve investment advice, but is rather the provision of a holistic service, covering the full spectrum of the client's assets and other financial affairs. Financial planners have an overarching role, pulling together the advice on various investments, insurance and tax issues and placing them together into a comprehensive plan to assist customers in meeting their future financial and lifestyle goals. When the health care policy of a government undergoes significant change, as outlined in the options introduced in this consultation document, there will likely be a significant impact on the structure of individual financial plans. There are likely to be changes to future insurance needs and the implementation of any of compulsory savings component to a health care reform package may impact future client investments and cash-flow.

To ensure that the government is aware of the potential impact of the proposed changes on financial planning clients, the IFPHK formed a dedicated task force of leading industry professionals to review the consultation document in its entirety and make comments on the proposed reform package and recommendations on the suggested financing platforms. The views

of the task force were represented in a position paper document that was circulated to IFPHK members in May 2008, seeking feedback. The views and recommendations outlined below, referred to as “IFPHK views”, represent the collective views of both the IFPHK task force and formal feedback received from the IFPHK membership base on this policy issue.

#### **Consumer focused response**

In responding to this consultation document, the IFPHK believed that it was important to represent the views of the mass affluent consumer segment. The vast majority of IFPHK members provide financial advice to this segment of the market, and the Institute, as the leading industry body, believes that it is in a position of strength to comment on the likely impact of the proposed changes on these consumers.

To ensure greater clarity regarding the focus of the IFPHK response to the consultation paper, the IFPHK felt that it was important to clearly outline key demographic and attitudinal characteristics of this market segment in our response to the consultation document. Appendix A contains a detailed summary of demographic and attitudinal characteristics of the typical IFPHK mass affluent market segment.

#### **Summary of IFPHK response to consultation paper on healthcare reform**

In summary, the IFPHK endorses the need for policy reform of the healthcare system and believes that the 5 key areas of reform outlined in the consultation paper will be viewed positively by the financial planning community and their clients. The IFPHK agrees with the government’s view that there is no “one size fits all” solution in reference to financing models and that a likely workable policy reform will involve a combination of mandatory, voluntary, personal health care reserve and out of pocket payments. It should be noted that the IFPHK views positively specific policy initiatives designed to ensure that a “safety net” continues to exist for that segment of the population who do not have the financial capacity to pay for future health care needs.

### **3 Specific IFPHK recommendations on the consultation paper on healthcare reform**

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- **Views on need for reform**

The IFPHK believes that the reform of the healthcare system is an important policy priority for the Hong Kong government today. We appreciate that the health care reform has been the subject of debate for a number of decades and agree with the government’s current belief that there is need for reform now to ensure the Hong Kong public has access to affordable and quality health care services in the future.

The IFPHK acknowledges that an affordable and quality health care service is of particular importance to the mass affluent market segment. As outlined in Appendix A, this segment of the population are typically well informed, socio –economically aware individuals who place importance and priority on the creation of a socially equitable health care platform which is financially sustainable.

Whilst the majority of mass affluent individuals are not currently at retirement age, many of them have responsibility for parents and extended family members in retirement or approaching retirement. In many situations, the mass affluent working family members will be responsible for providing financial support to fund any additional health care expenses of this extended family (specifically aging parents). It should be noted that the aging parents of many mass affluent consumers may not have had adequate financial resources available in the past to purchase private health insurance. As a result, mass affluent consumers are particularly mindful of the importance of developing a socially equitable health care regime which provides a base level of equitable access to all Hong Kong residents.

- **Views on key areas of reform**

The government outlined a number of areas of general policy reforms including: enhancement of primary care, promotion of private-public partnership in healthcare, development of electronic record sharing, strengthening of public health care safety net and reform of healthcare financing arrangements. In summary, the IFPHK believes that the mass affluent segment on the market would be in general support of these broad policy initiatives (specific comments on healthcare financing options outlined below).

It should be noted, however, that the mass affluent market will expect the government to clearly outline proposed cost control structures and supporting regulatory framework that encourages sufficient competition amongst health care service providers moving forward. It should be noted that IFPHK members specifically highlighted the need for the government to clearly outline a process for cost control in future consultations. In summary, whilst the mass affluent market segment welcomes socially equitable healthcare policy reforms, they will need to be convinced that these can be provided without excessive escalation of costs on the part of medical service providers. IFPHK members noted that competition between providers and access to a variety of health care services will continue to be important values to mass affluent consumers and any mandatory policy initiatives should be mindful of the need to provide consumers with access to a sufficiently wide range of health care service providers.

- **Preferred Financing Options**

The IFPHK agrees with the government's view that there is "no one size fits all" solution in reference to financing models and that a likely workable policy reform will involve a combination of the models proposed. It should also be noted that the IFPHK welcomes the government's stated view that irrespective of the supplementary financing options chosen the government will remain the primary financial contributor to the total health care expenditure in Hong Kong.

The IFPHK preferred financing models for inclusion in any reform policy mix include:

- (a) Mandatory Health Insurance
- (b) Voluntary Private Insurance
- (c) Personal Health Care Reserve

**Mandatory Health Insurance.** The IFPHK believes that any reform policy should include some component of mandatory health insurance coverage to provide a base level of health insurance cover for a broad section of the working population. It is important that government regulations ensure that there is no exclusion of medical conditions and that community rated premiums are charged. The proposed annual fee of HK\$3,000-4,000 would be affordable to the mass affluent segment.

IFPHK members acknowledge that the level of insurance planning by mass affluent consumers in Hong Kong is low. Customer insights from IFPHK members suggest that the mass affluent consumers currently fail to adequately plan for risk related life incidences such as health problems

and appear to focus greater attention on investment related planning priorities, such as educational savings and development of retirement investment portfolio. This “under insurance” of mass affluent consumers has long been an industry concern and as a result the IFPHK welcomes a component of mandatory health insurance coverage in any reform package.

**Voluntary Private Health Insurance.** Regardless of the policy financing packages pursued, it is likely that the mass affluent investors will continue to purchase private health insurance to ensure they are able to receive access to a quality of health care above and beyond what would be provided under a mandatory insurance regime. As an industry body that encourages people to plan for their own financial future, the IFPHK recommends that the government continues to place policy importance on the development of supplementary initiatives, such as tax incentives, to encourage the growth and development of voluntary private health insurance in Hong Kong. Members’ feedback specifically emphasized the importance of tax incentives in any policy that is not mandatory.

**Personal Health Care Reserve.** The IFPHK believes that the mass affluent market segment would view the development of the **personal health care reserve model** positively moving forward, albeit with a range of supplementary policy initiatives designed to improve the uptake of private health insurance coverage. The **Personal Health Care Reserve Model**, by successfully incorporating **Mandatory Insurance Model** and encouraging the uptake of additional **Voluntary Private Health Insurance**, appears to provide the government with a financially robust model for reform whilst also meeting the requirements of the mass affluent consumer desires for a socially equitable policy platform with a degree of financial flexibility regarding personal levels of commitment to future health care savings plans.

## 4. Supplementary policy initiatives for government consideration

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### **Financial contributions by employers to medical health care reform**

As outlined in the consultation document, the **Personal Health Care Reserve Model** will only provide a financially viable and stable funding initiative if the tax paying individuals make contributions of between 3-5% of income into this fund. The IFPHK recommends that the government considers an MPF style company contribution for this policy initiative, thereby splitting the burden of contributions between the consumers and corporate community. For a compulsory 5% contribution, a suggested 2.5% consumer and 2.5% corporate split is recommended. A series of corporate tax concessions that may ease the financial burden of their contributions may be useful for the government to consider to drive corporate “buy-in.”

### **Ongoing tax incentives for private medical insurance**

As highlighted previously, mass affluent consumers typically demand access to a wide choice of market service offerings. As a result, they are unlikely to rely solely on mandatory health insurance moving forward. The IFPHK believes that the government should consider providing additional financial incentives to that segment of the population that is prudentially responsible in seeking additional coverage against future health care problems. Offshore experience suggests that tax incentives are typically a very effective government policy supporting tool in encouraging broader adoption of the private health insurance

### **Increase in fees for public hospitals for those who can afford to pay**

The IFPHK acknowledges that many mass affluent consumers are satisfied with the professional standards of public hospital care and would be happy to pay fees above and beyond current public

hospital charges for this service in the future. The IFPHK recommends that the government considers raising the fees for public hospital services for this segment of the market which has the capacity to pay, thereby generating additional revenue for the public hospital system and promoting an atmosphere of greater competition between the public and private health care operators. It should be noted that any increase in public care costs should be means tested and in no way exclude that segment of the population that does not have the financial means to pay for any additional increases in public health care costs.

## **Appendix A: Demographic and Attitudinal Profile of IFPHK Mass Affluent Hong Kong Consumer**

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### **Demographic Profile Mass Affluent**

- Average personal monthly income above \$35,000
- Tertiary Educated
- Above 35 years of age
- Net liquid assets in excess of HK\$1,000,000

### **Attitudinal Profile Mass Affluent**

- Values the importance of socially responsible government reform initiatives
- Typically demands choice and diversity of product offerings
- Places high importance on future family health and financial stability
- Often has some financial responsibility for extended aging family members