



My Health My Choice

Healthcare Reform Second Stage Consultation Document



Food and Health Bureau
Hong Kong Special Administrative Region Government

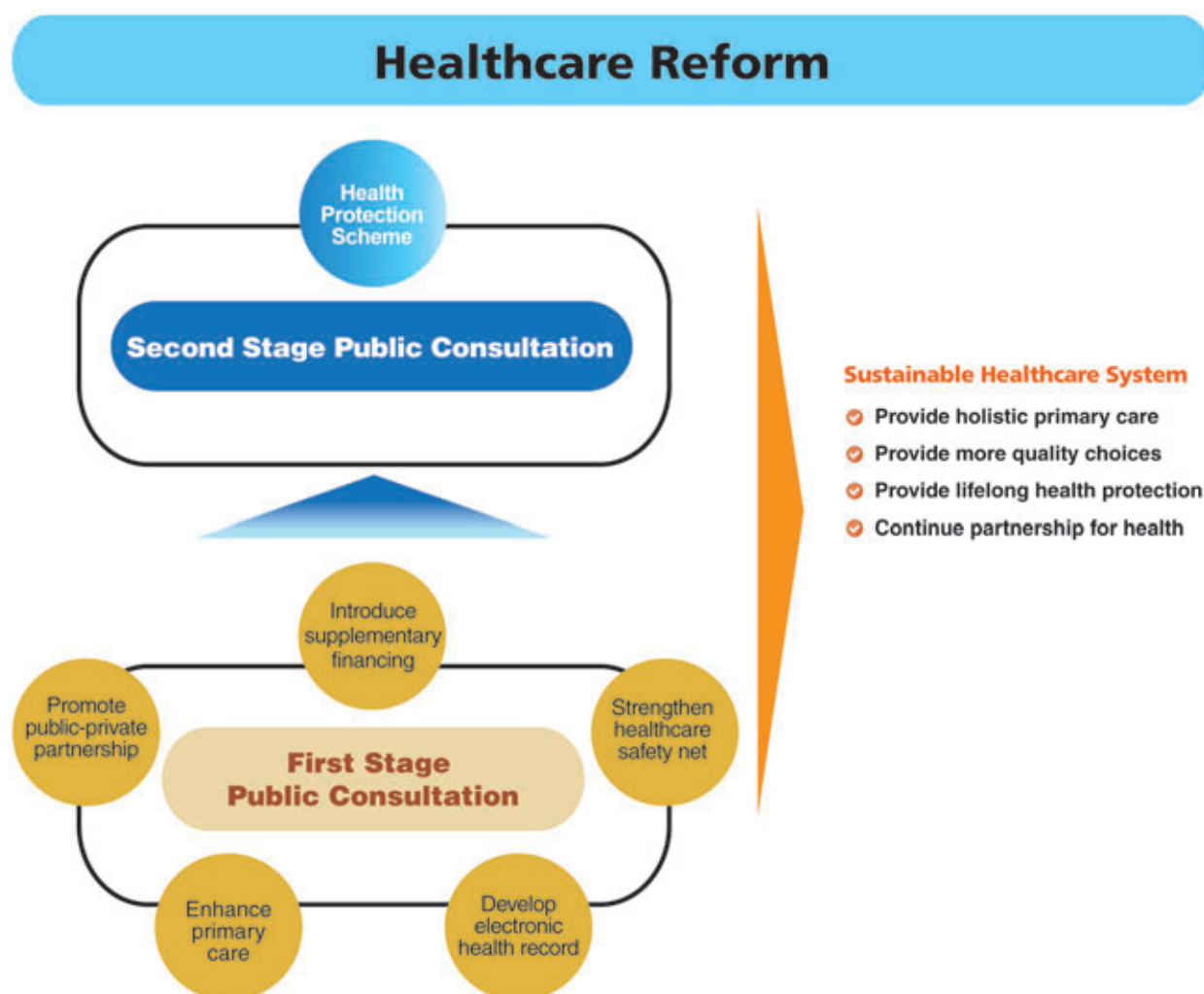
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EXECUTIVE SUMMARY

Healthcare Reform

We put forward a comprehensive package of proposals to reform the healthcare system in the **Healthcare Reform Consultation Document “Your Health, Your Life” in March 2008**. These include four **healthcare service reform proposals** to enhance primary care, promote public-private partnership in healthcare, develop electronic health record sharing, and strengthen public healthcare safety net, and a **healthcare financing reform proposal** to consider introducing **supplementary healthcare financing** via six possible **supplementary financing options**.

2. We conducted the **first stage public consultation** on healthcare reform in March to June 2008 and published the consultation report in December 2008. Building on the views received, we are **improving public healthcare** and **taking forward the service reforms**, making use of the **increasing government budget for health**. We have also formulated a *voluntary* **Health Protection Scheme (HPS)** as the next step in healthcare reform. This document mainly sets out our proposals for the Health Protection Scheme to initiate the **second stage public consultation** on healthcare reform.



First Stage Public Consultation (Chapters 1 & 2)

3. The first stage public consultation reflected a widely shared concern over the **long-term sustainability of our healthcare system**. The community recognized the imminent need to take forward **comprehensive reform to our healthcare system** to meet the challenges of a **rapidly ageing population** and **rising medical costs**. There was a broad community consensus to **take forward the healthcare service reform proposals**.

4. The majority of the public agreed that **reform of both service delivery and financing arrangements would be needed**. However, the public expressed **divergent views over the supplementary financing options** put forth. They expressed **reservations against mandatory supplementary financing options** in general. A greater proportion of the public **preferred voluntary choice for individualised healthcare** and **favoured voluntary private health insurance**.

5. **The Government's commitment to healthcare is set to continue to increase** as we reform our healthcare system based on the community's views. We will **continue to uphold the public healthcare system as the safety net for the whole population**. The Government's annual recurrent expenditure on health has increased from \$30.5 billion in 2007-08 to \$36.9 billion in 2010-11. We aim to **increase the health budget to 17% of the Government's recurrent expenditure in 2012**.

Second Stage Public Consultation (Chapter 3)

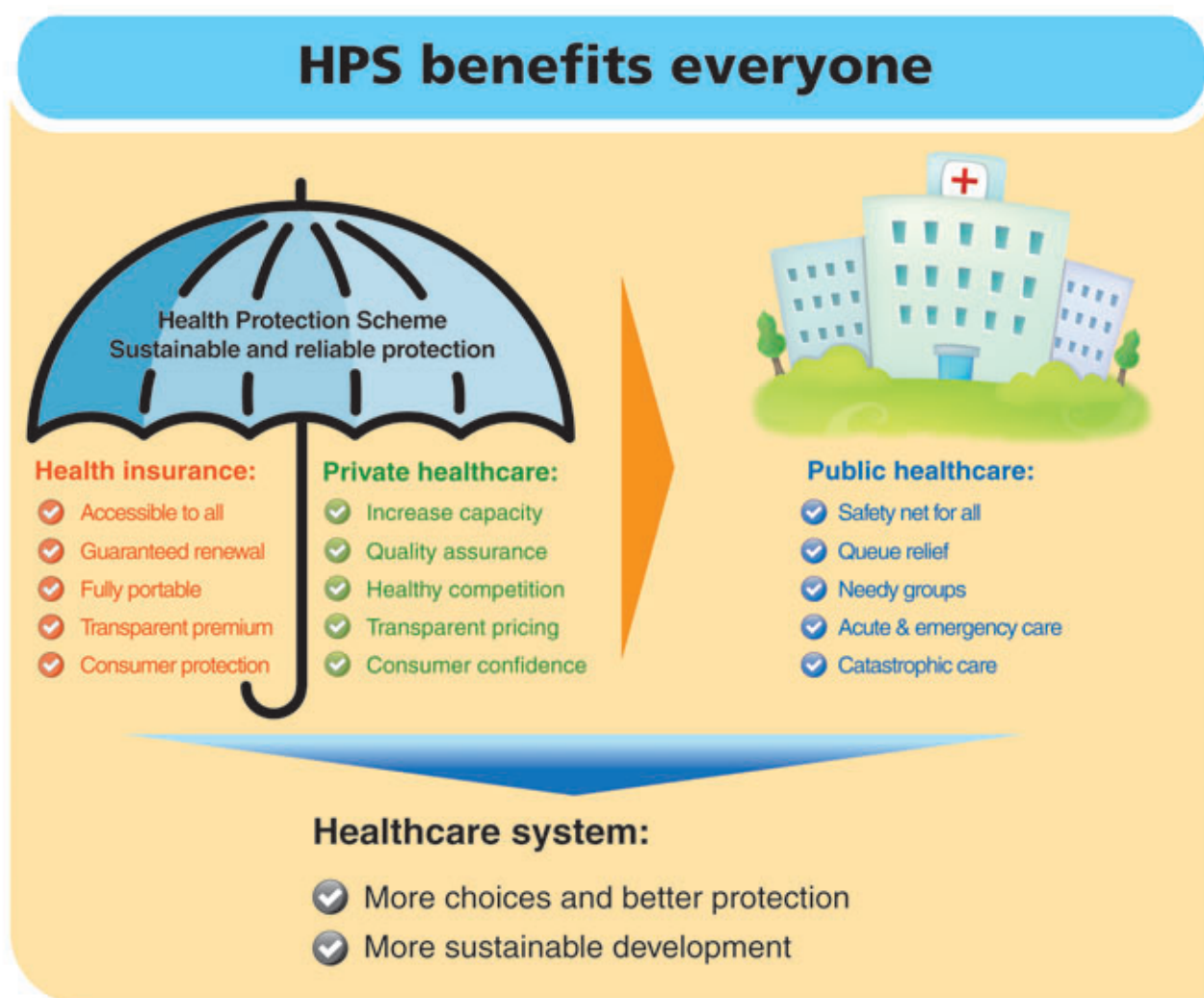
6. The Government is committed to continuing to engage the community and take forward **healthcare reform through a step-by-step approach**, with a view to **enhancing the long-term sustainability of our healthcare system**. As announced in the 2009-10 Policy Address, the Government would put forward a **voluntary supplementary healthcare financing scheme** for the **second stage public consultation** based on the following principles –

- (a) **Supplementary financing:** public funding will remain the main funding source for healthcare supplemented by private funding;
- (b) **Voluntary participation:** the Scheme will be based on voluntary participation by those who are able and willing to afford;
- (c) **Wider choice:** the Scheme will provide consumers with more choices of value-for-money healthcare services with quality assurance;
- (d) **Continuous protection:** the Scheme will be designed to provide continuous protection for participants into their older ages; and
- (e) **Consumer interests:** the Scheme will be standardized and regulated by the Government to safeguard consumer interests.

7. We propose to introduce a *voluntary* Health Protection Scheme that aims to better **ensure the quality and value-for-money of private healthcare services and private health insurance**. It takes a step in **enhancing the long-term sustainability of the healthcare system** by making private healthcare, and private funding as healthcare financing supplementary to public funding, more sustainable.

8. The proposed Health Protection Scheme also aims to **ease the pressure on the public healthcare system**, thereby **benefitting those who depend on the public system for their healthcare**. It does so by encouraging individuals who are able and willing to choose and pay for private healthcare to **subscribe to private health insurance** and enabling them to **use private healthcare on a sustained basis as an alternative to public healthcare**, which will still be available to all eligible Hong Kong residents.

9. The Government has **pledged to draw \$50 billion from the fiscal reserve to support healthcare reform** after the supplementary healthcare financing arrangements are finalized for implementation. We will consider making use of the \$50 billion to provide incentives to encourage the public to participate in the Health Protection Scheme on a sustained basis, thus relieving the long-term demand for public healthcare services.



Proposed Voluntary Health Protection Scheme (Chapter 4)

Scheme Objectives

10. The Government will regulate health insurance plans to be offered under the Health Protection Scheme to uphold the principles above. Our aim is to enhance **consumer protection, price transparency, quality assurance and market competition in the private health insurance and private healthcare service sectors**. The Health Protection Scheme is thus designed with the following objectives –

- (a) **Provide more choices with better protection to those who are able and willing to pay for private health insurance and private healthcare services.**
- (b) **Relieve public queues by enabling more people to choose private services and focus public healthcare on target service areas and population groups.**
- (c) **Better enable people with health insurance to stay insured and make premium payment at older age and meet their healthcare needs through private services.**
- (d) **Enhance transparency, competition, value-for-money and consumer protection in private health insurance and private healthcare services.**

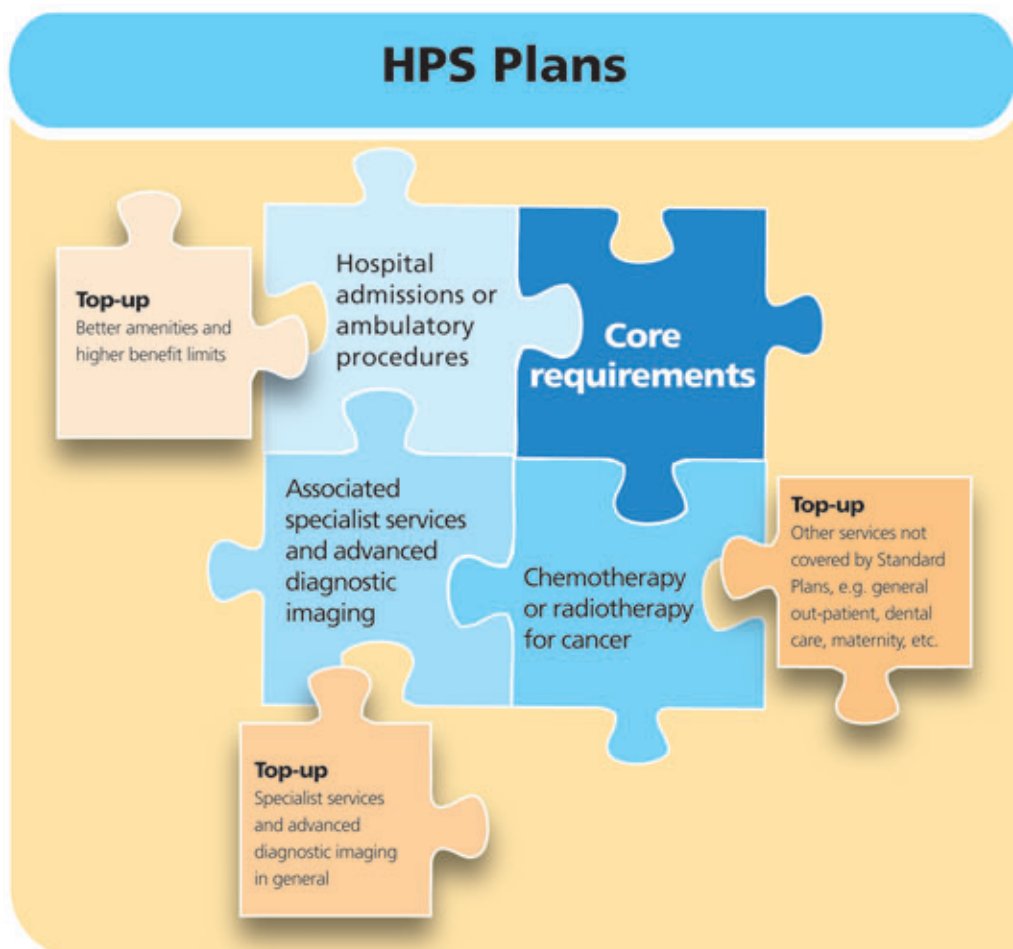
11. By enabling more people to use private healthcare on a sustained basis, the Health Protection Scheme will enable the public healthcare system to better focus on its target service areas, including **services for low-income families and under-privileged groups, acute and emergency care, and catastrophic and complex illnesses requiring high cost, advanced technology and multi-disciplinary professional team work** which may not be readily available or may entail very high cost in the private sector.

Scheme Concept

12. **The Health Protection Scheme is proposed as a standardized and regulated framework for health insurance under its aegis.** Health insurance plans to be offered under the HPS (**HPS Plans**) are required to meet the **core requirements and specifications** for health insurance standardized under the HPS. Specifically, insurers participating in the HPS are required to offer standardized health insurance plans in accordance with the core requirements and specifications (**Standard Plans**). Participating insurers are also required to comply with scheme rules and requirements specified under the HPS.

13. **The HPS is designed to be modular:** while participating insurers are all required to offer Standard Plans which would attract government incentives, they are free to design appropriate health insurance plans of their own offering top-up benefits or integrating additional components beyond the core requirements and specifications to suit consumers' needs, e.g. better services and rooms and boards, or coverage of services not included in Standard Plans such as out-patient services. However, the top-ups or additions would not be eligible for government incentives under the HPS.

14. Individuals may **choose to subscribe to HPS Plans** offered by participating insurers on a voluntary basis. They will enjoy the **provisions under the HPS for consumer protection and other advantages offered by HPS Plans**, which are not available to private health insurance outside the HPS in general. Employers may also choose to make use of HPS Plans through their insurers when providing medical benefits to their employees.



Core Requirements and Specifications

15. The core requirements and specifications for health insurance under the HPS will be set to ensure that HPS Plans can provide risk-pooling protection for unanticipated and costly healthcare. We propose to require HPS Plans to cover medical conditions requiring **hospital admissions or ambulatory procedures**, including the associated specialist out-patient consultations/investigations and advanced diagnostic imaging required for the admissions or procedures, and **chemotherapy or radiotherapy for cancer**.









16. The core specifications will set out the standardized policy terms and reimbursement levels (benefit limits) required under the HPS. We propose to set the benefit limits at a level that enables the insured to access affordable private healthcare for medical conditions requiring hospital admissions or ambulatory procedures. Insurers are free to offer top-up benefits exceeding the core specifications (e.g. better amenities, higher benefit limits, lower co-payments, etc.).

17. We propose **not to include primary care** as a core requirement under the HPS because private primary care is relatively more affordable, and the utilization of primary care is highly elective and more prone to moral hazards. For similar reasons, we propose **not to include specialist services and diagnostic imaging in general** that are not required for hospital admissions or ambulatory procedures, and **not to include maternity coverage**. Insurers are at liberty to offer add-on components covering these services.

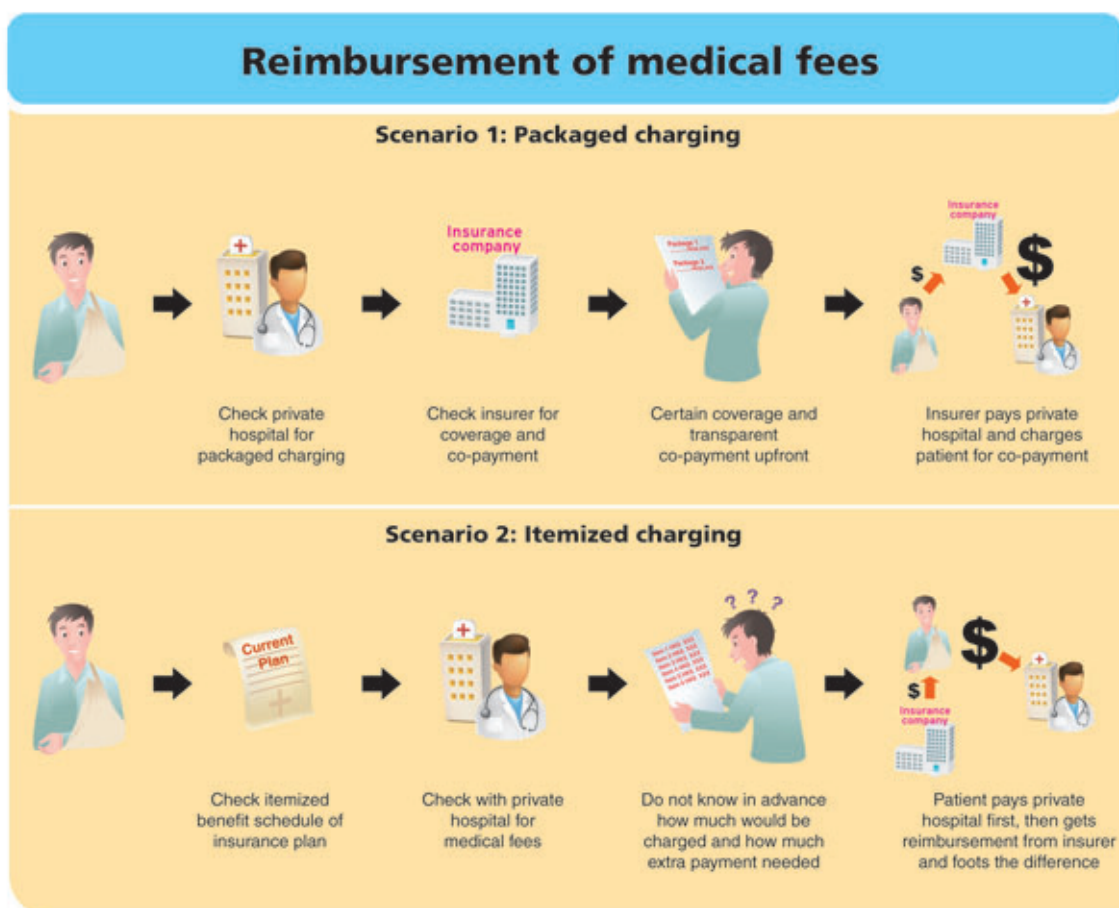
Key Scheme Features

18. HPS Plans are required to provide a combination of key features that offer advantages over existing private health insurance products available in the market –

- No turn-away of subscribers and guaranteed renewal for life
- Published age-banded premiums subject to adjustment guidelines
- Cover pre-existing medical conditions subject to waiting period and time-limited reimbursement limits*
- Cap premium plus high-risk loading at 3x published premium*
- Make higher risk groups insurable with High-Risk Pool reinsurance*
(* see the next section on “Access for Higher Risk Groups”)
- Offer no-claim discount up to 30% of published premiums
- Insurance plans portable between insurers and on leaving employment
- Transparent insurance costs including claims and expenses
- Standardized health insurance policy terms and definitions
- Government regulated health insurance claims arbitration mechanism

HPS provides better health insurance plans		
Key features	Current health insurance products in general	HPS Plans
1. Is the plan regulated by the Government for consumer protection?		
2. Will there be checks to ensure that premium adjustment is reasonable?		
3. Can I switch my plan to another insurer with no loss in coverage?		
4. Can my plan continue after I retire with no loss in coverage?		

19. Another key feature of the HPS is to promote **transparent medical fees with packaged charging for common procedures**. Private hospitals would be encouraged to offer quality-assured, all-inclusive and condition-specific packaged services and pricing. HPS Plans would be required to set reimbursement levels based on packaged charging where available, thereby enhancing transparency and certainty of medical charges to the insured. This enhances market transparency and competition in private healthcare services and helps safeguard consumer interests in making use of such services.

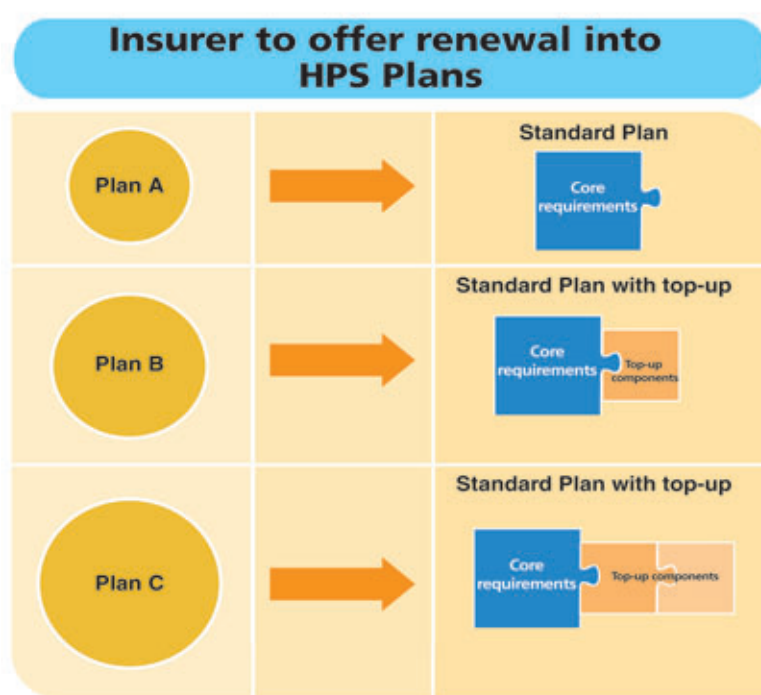


Migration of Existing Health Insurance

20. The HPS is voluntary for individuals and employers with existing health insurance, who may choose whether to migrate to health insurance plans under the HPS. Based on discussion with the insurance industry, we propose to require insurers participating in the HPS to facilitate seamless migration of policy-holders from their existing health insurance policies to HPS Plans as follows –

- (a) **For existing individual policy-holders:** participating insurers will be required to offer them an option to renew their existing health insurance policies to an appropriate HPS Plan which must meet or exceed the requirements for Standard Plans with no less coverage and benefits and without undergoing re-underwriting, and to enjoy advantages offered by the HPS including pre-existing conditions coverage subject to waiting period, portability, no-claim discount, etc.

- (b) **For existing group policy-holders (mainly employers):** participating insurers will be required to offer them upon renewal an option to switch to an appropriate tailor-made HPS Plan which must meet or exceed the requirements for Standard Plans that provides no less coverage and benefits and meets the core requirements and specifications under the HPS. The insurers may offer top-up components to suit individual employers' needs.






Access for Higher Risk Groups

21. In formulating the proposals for the HPS, we have identified a number of key issues on the HPS design concerning how individuals with higher risk should be able to subscribe to health insurance. Our proposals are set out below –

- (a) **How pre-existing conditions should be covered in health insurance?** The HPS requires health insurance to cover pre-existing medical conditions that are usually excluded by existing health insurance. A waiting period and reimbursement ratios are needed to minimize anti-selection. We propose to start coverage of pre-existing conditions after a one-year waiting period, and provide reimbursement of 25% in the second year, 50% in the third year, and 100% after three years.
- (b) **How high-risk individuals may subscribe to health insurance?** High-risk individuals often cannot get health insurance now or the premium can be prohibitively high. The HPS requires insurers to insure them with premium plus high-risk loading not exceeding a certain level. We propose to cap the premium plus loading to be paid by high-risk individuals at three times the published premiums for Standard Plans.

- (c) **How individuals already at older age may also get health insurance?** Existing health insurance usually set an age limit beyond which entry would be denied. The HPS aims to facilitate access by the higher risk groups but allowing entry at all ages may introduce excessive risks to HPS Plans. On balance, we propose to require insurers to allow people aged 65+ to subscribe to HPS Plans within the first year of introduction, but with no cap on their premium plus loading.

Higher Risk Groups to Access HPS

	Lower risk / premium Lower accessibility	Proposal	Higher risk / premium Higher accessibility
1. How long should people with pre-existing conditions wait to be covered? 	Longer waiting period Lower ratios for reimbursement	1-year waiting period; reimburse 25% in 2nd year; 50% in 3rd year; 100% after 3rd year	Shorter period for full cover Higher ratios for reimbursement
2. How much more premium should people with higher risks pay? 	Higher premium cap Lower reinsurance	Capped at 3 times the published premium	Lower premium cap Higher reinsurance
3. How may the elderly get health insurance? 	Set upper age limit for entry	65+ may join within 1st year with no cap on premium plus loading	Apply premium cap Higher reinsurance

High-Risk Pool Reinsurance Mechanism

22. To enable the higher-risk groups to have access to health insurance while ensuring the financial viability of the health insurance plans under the HPS, it is necessary to introduce a **High Risk Pool (HRP)**, which is an industry reinsurance mechanism for insurers participating in the HPS to share out the high risks insured by their HPS Plans. All high-risk policies, defined as those policies with risk premium assessed to exceed the cap for premium with high-risk loading (i.e. three times the published premium of Standard Plans) will be put into the HRP.

23. The HRP is proposed to be a reinsurance mechanism operated by the industry and regulated by the Government, funded by the premium of high-risk policies (corresponding to Standard Plans) and reinsurance premium from participating insurers. Where necessary, injection by the Government would be considered in case the viability of the HRP is in jeopardy due to a large proportion of higher risk people joining health insurance plans under the HPS, when the HRP premium cannot meet the claims pay-out (see “Government Incentives” in paragraph 25(a) below).

Saving for Future Premium

24. A key objective of the HPS is to encourage people with health insurance to stay insured at older age. However, age-banded premium for voluntary health insurance are bound to increase sharply with age of the insured as their health risk and healthcare utilization increase. One possible way that may help ensure that individuals can still afford continuous health protection under the HPS at older age when they need it most is to encourage savings for paying future premium. We thus propose the following options to encourage savings (see “Government Incentives” in paragraph 25(c) below) –

- (a) **Required in-policy savings:** HPS Plans will be required to incorporate a savings component, where the insured would pay a higher premium at a younger age to offset the premium increase at older age. Incentives via government contributions to the savings component of HPS Plans would be considered.
- (b) **Optional savings accounts:** individuals subscribing to HPS Plans will have an option to save to a savings account, and the accrued savings can be freely used on or after age 65. Incentives via government contributions to the savings account would be considered, but would be subject to the savings being used to pay HPS premium from age 65.
- (c) **Premium rebate for long-stay:** individuals subscribing to HPS Plans are not required to save, but may choose to save on their own means. Incentives via a premium rebate proportion to their length of staying insured under the HPS would be considered, provided that they continue to pay premium from age 65 using their own savings.

Government Incentives

25. To achieve the objectives of the HPS, we propose that financial incentives making use of the \$50 billion fiscal reserve earmarked to support healthcare reform should be considered in the following directions –

- (a) **Protection for high-risk individuals:** to allow high-risk individuals to join HPS Plans without requiring other healthy insured to pay excessive premium, we propose to consider government injection into HRP where necessary, an industry-operated reinsurance mechanism for taking on high-risk individuals and sharing out their risks, to buffer the excess risk arising from the participation of high-risk individuals.
- (b) **Premium discount for new subscribers:** to attract individuals especially the young to join HPS Plans, we propose to consider government incentives for all new joiners of HPS Plans to enjoy maximum no-claim discount i.e. up to 30% discount on the Standard Plan premium immediately on joining. We propose to make this available for a limited period after the introduction of HPS.

- (c) **Savings for future premium** (see “Saving for Future Premium” in paragraph 24 above): to enable the insured to continue to afford health protection under the HPS at older age, we propose to consider government incentives for savings by individuals for paying future premium at older age (say 65 or above). We propose that the government incentives should be proportional to their length of continuously staying insured under the HPS and may be up to a certain percentage of their Standard Plan premium.

26. Upon receiving views in the public consultation over the proposed directions for considering financial incentives, we will formulate the details of the proposals for government incentives under the HPS, and work out the use of the \$50 billion fiscal reserve earmarked to support healthcare reform.

Supporting Infrastructure for Health Protection Scheme (Chapter 5)

Private Healthcare Capacity and Manpower

27. Implementation of the HPS will require corresponding expansion in the capacity of the private healthcare sector to cope with the potential increase in demand. We estimate that the known redevelopment projects of existing private hospitals and the development of new private hospitals under planning should be able to meet the projected demand for private healthcare services arising from the HPS. We shall continue to monitor the demand for private healthcare services and further consider ways to increase the capacity as necessary after the HPS is implemented.

28. We conduct manpower planning exercises on a regular basis for the various healthcare professions for the purpose of assessing the education and training needs for healthcare professionals. The exercise will take into account the potential demands for manpower increase, including expansion of the healthcare system to cater for demographic changes and implementation of the healthcare reform initiatives. The potential increase in demand for private healthcare services arising from the implementation of the HPS will be taken into consideration.

Requirements for Insurers and Providers

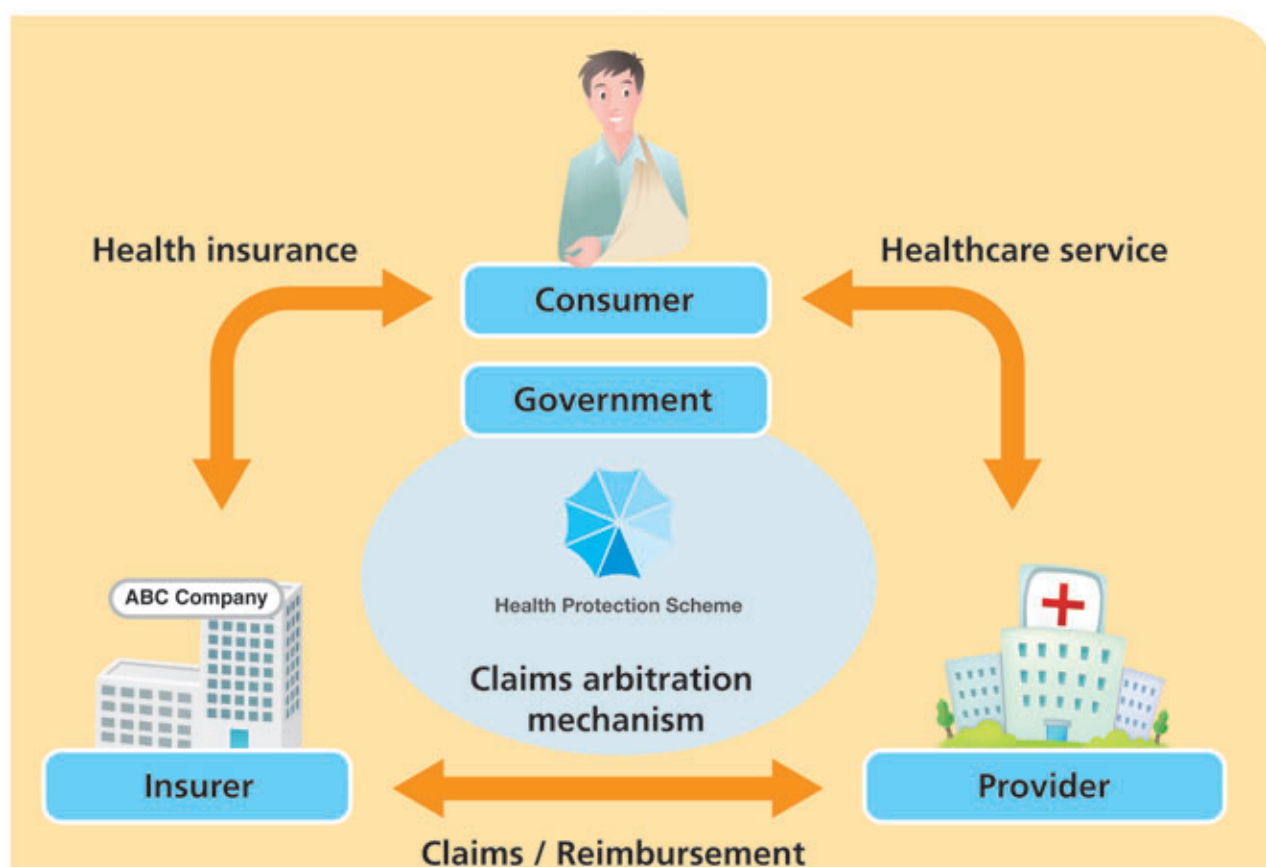
29. Implementation of the HPS requires participation of private health insurers and private healthcare providers. To this end, the proposals for the HPS are designed with a view to safeguarding consumer interests in private health insurance and private healthcare services, while ensuring that it should be practically feasible and financially viable to offer health insurance plans and provide private healthcare services under the HPS.

30. To ensure competition and choice under the HPS, there is a need for more interested private health insurers to participate and offer sufficient and attractive choices of health insurance plans under the HPS. The HPS is formulated taking into account the

views of the insurance industry, and we expect that private insurers in the insurance industry would be interested in participating in the HPS. However, should there be a general lack of interests from the industry in offering health insurance plans under the HPS, the Government will consider setting up its own mechanism to provide the public with more choices of health insurance plans.

31. For the implementation of the HPS, there is a need for private healthcare providers to provide services that meet the requirements under the HPS, especially healthcare services at packaged charging. To this end, for new private hospital developments at the four pieces of land earmarked for such, we shall design the development requirements taking into account the need to support the HPS, including service scope, price transparency, and the requirement to provide services at packaged charges. We will also explore ways to facilitate local private hospitals to provide healthcare services at packaged charging in accordance with the HPS through providing of necessary infrastructural support.

32. To safeguard consumer interests, a proposed requirement under the HPS is for private health insurers participating in the HPS and private healthcare providers providing services to the insured under the HPS (including private hospitals and their engaged or associated doctors) to participate in a **health insurance claims arbitration mechanism** to handle disagreements between patients, private insurers and/or private healthcare providers over health insurance claims. The arbitration mechanism will be regulated by the Government with a view to maintaining impartiality and ensuring consumer protection in the private health insurance and healthcare service markets.



Supervisory Structure

33. To supervise effectively the implementation and operation of the HPS and to monitor the achievement of the objectives of the HPS in the private health insurance and private healthcare markets in Hong Kong, we propose a supervisory structure with separate agencies to perform the following essential functions –

- (a) **Prudential regulation:** the Office of the Commissioner of Insurance will continue to serve the functions of the prudential regulator to supervise, inter alia, the financial soundness of insurers participating in the HPS and to ensure their financial capability to discharge obligations to the insured, and to oversee any complaint handling mechanisms applicable to insurance in general.
- (b) **Quality assurance:** the Department of Health will be strengthened in its role as the regulatory and licensing authority for private hospitals to serve the functions of quality assurance, including to enforce the regulatory requirements and licensing conditions, to supervise the quality and standard of healthcare services provided, to oversee hospital accreditation and clinical audits, to collect service statistics and benchmarking information, and to administer other quality assurance measures. The professional regulation of healthcare professionals will continue to rest with the relevant statutory boards and councils.
- (c) **Scheme supervision:** a new dedicated agency is proposed to be established to supervise the implementation and operation of the HPS, including registering health insurance plans, administering the HPS core requirements, collecting information and statistics about private health insurance plans, compiling benchmarking information and service statistics of private healthcare services, compiling necessary pricing and costing information of private healthcare under the HPS, and administering mechanisms for consumer protection specific to the HPS including claims arbitration, complaint handling and case review.

34. Legislative change will be required to support the implementation of the above supervisory structure and functions. We will examine the detailed legislative requirements when finalizing the HPS proposal for implementation after consultation.

We Need Your Views

35. We are consulting the public on our proposals to introduce the HPS and we would appreciate your views. Your support and views are important for us to find out the best way forward. Please send your views on this consultation document to us on or before 7 January 2011 through the contact below.

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36. Please indicate if you do not want your views to be published or if you wish to remain anonymous. Unless otherwise specified, all responses will be treated as public information and may be publicized in the future.

Part 1 : General Views

- 1.1 Do you support introducing the voluntary HPS providing health insurance standardized and regulated by the Government?
- 1.2 Do you support regulating health insurance plans under the HPS to provide protection and better choices to consumers?
- 1.3 Do you support increasing private healthcare sector capacity and strengthening quality assurance measures in support of the HPS?

Part 2 : HPS Design

- 2.1 Do you agree with the proposals for allowing higher risk groups to access health insurance?
 - HPS Plans should cover pre-existing medical conditions after 1-year and provide 25% / 50% partial reimbursement in 2nd/3rd year, and full reimbursement after 3 years.
 - HPS Plans should accept high-risk individuals with premium plus high-risk premium loading not exceeding 300% of the published premium rate applicable.
 - HPS Plans should accept those aged 65 or above during the first year of introduction, but without being subject to cap on high-risk premium loading.
- 2.2 Which option to save for future premium do you prefer?
 - I. required to save as part of the health insurance policy to pay future premium
 - II. given an option to save to a medical savings account that can be used for any purpose; or
 - III. allowed to save on their own, with incentives provided for payment of premium from age 65.
- 2.3 Do you agree with the proposals to introduce packaged charging for private healthcare services, to require insurers to facilitate migration of existing health insurance, and to establish a government-regulated claims arbitration mechanism?

Part 3 : Financial Incentives for HPS

- 3.1 Do you support government injection into the High-Risk Pool where necessary to protect high-risk individuals and avoid premium increases for the healthy under the HPS?
- 3.2 Do you support that there should be a no-claim premium discount up to 30% of premium for all new subscribers for a limited period after the introduction of the HPS?
- 3.3 Do you support that there should be rebate up to a certain percentage of savings used to pay Standard Plan premiums under the HPS on or after age 65?

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Health Protection Scheme