Revamping the Public Burden

Case Study: Health Policy Issues in Hong Kong

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Hong Kong’s public spending in health care has increased very rapidly in the last ten years, arousing great concern from the government and the public. Indeed, the government commissioned the School of Public Health of Harvard University to conduct a study on the health care system and to recommend necessary changes. Since the release of the Harvard Report in March 1999, there have been intense public debates on the subject. Although views were diverse and varied on the reform proposals suggested by the Harvard consultants, meaningful discussions and awareness about public health issues have been generated in the process.

The main purpose of this short paper is to highlight the objectives of the health care reforms currently being considered by the Hong Kong government. Most of the information presented here can be obtained from the consultation document entitled “Lifelong Investment in Health” issued by the Hong Kong government in November 2000. Furthermore, the paper will provide some brief comments on the major financial issues relevant to the reform.

In order to have a better understanding of the long-term health care issues encountered by the Hong Kong government, it is important to review the salient facts and possible developments:

- Currently, about ninety-four percent of the hospital services rendered to the public are provided by the public sector, a trend that has been increasing.
- The public health care services are heavily subsidized by the gov-
ernment revenue. Fee income accounts for only about 2.5% of the Hospital Authority’s recurrent operating expenses.

- In 2000/01, the public sector health care recurrent allocation amounted to HK$30.8 billion (US$3.9 billion), equivalent to 14.7% of the total recurrent public expenditure.

- Hong Kong’s population is aging. The proportion of people aged sixty-five and above is estimated to be eleven percent now, fifteen percent in 2019 and twenty percent in 2029. About forty-six percent of the bed-days in public hospitals are now taken up by persons aged sixty-five or above.

- The government estimated that the cost of public health care would increase by about one percent annually in the coming years due to new technologies alone.

- The Harvard consultants’ report published in 1999 predicted that public health care recurrent expenditures, as a percentage of total recurrent public expenditures, would increase from 14.7% in 2000 to as much as 28.4% by 2016 based on an annual 3% real GDP growth rate.

Objectives of the Reform

In this consultation document by the government, the stated objective is to protect the citizens from potentially huge financial risks arising from catastrophic or prolonged illness. To fulfill this role, the public health care system must remain accessible to all, affordable by individuals and of a high standard. Thus the focus of the health care delivery system will be changed from the provision of cure to improving the quality of life. Chinese medicine will be enhanced to complement western medicine. Furthermore, the role of the government, through the Department of Health, to provide direct services will be phased out, while its function to ensure the quality of care will be paramount. To achieve this objective, the government proposes to pursue the following strategic directions:

(a) reducing costs and enhancing productivity;
(b) revamping public fees structure; and
(c) establishing health protection accounts.

Conceptually, there would not be too much public resistance against the idea of reducing costs and enhancing productivity, so long as the quality of service can be maintained. However, the actual operational and administrative measures would greatly affect the perception of the patients and the morale of staff members. For example, doctor interns are working more than sixteen hours a day in the emergency room without rest. Further cost-cutting may worsen their situation. In this paper, I do not attempt to examine all the possible details of such a cost-cutting policy.

Rationalization of the Fees Structure

However, it would be much more controversial to implement the latter two policies. The fees structure is highly subsidized. Recipients of comprehensive social security assistance can have their medical fees waived. But the existing fees structure does not differentiate between patients at different income levels. The huge subsidy provided by public funds, together with the improving quality of public hospital services, have diverted many patients who could not otherwise afford to purchase services from the private sector to the public sector as well.

In this regard, the government decided to carry out a full-scale review of the fees structure. The aim of the review is to examine how to target the subsidy to various services in the most appropriate manner. The review will also examine how the relative priorities of services provided may be reflected in the subsidy level and how to minimize the misuse of services. At the same time, the revised fees structure is expected to influence the distribution of workload between the public and private sectors.

As an example of this grossly outdated fees structure, let us briefly look at the provision of emergency room service. Currently, the free-of-charge nature of the 24-hour emergency service has resulted in an excessive demand for it. It is not only that higher income citizens utilize the emergency service. Non-emergency cases would also end up in the emergency room. One way to reduce the excessive and misuse demand is to introduce a charge on emergency service. This could be set at a level above the fee charged by the private sector on a general consultation. This would deter most non-emergency cases and some affordable patients from reaching the emergency room.

Furthermore, at a charge of HK$68 (US$8.7) per bed per day in a general ward, fee income accounts for only about 2.5% of the Hospital Authority’s
recurrent expenses. It is an almost free-for-all arrangement and should be substantially revised. The principle is to increase rates for those who can afford to pay more. I consider that the subsidy should be set inversely proportional to the income. For example, the income of the family can be divided into five groups. The lowest twenty percent are allowed to enjoy the current subsidy. The next higher income twenty percent families would have to pay twenty percent of the total cost. The next forty percent will have to pay thirty percent of the total cost. The next ten percent of families will have to pay forty percent. The top ten percent families will have to pay fifty percent of the total cost. These percentages are just for illustration purpose and can be varied in accordance with budgetary, social and political requirements. Based on tax returns and a simple system to declare family income, each family can be assigned a card to identify their medically subsidized level, which can be reviewed every five years. Families with drastic financial changes could apply for an ad hoc review, in order to obtain greater medical subsidy if necessary. People who do not care for applying for the card could be charged at the full cost level.

Given the recent implementation of the Mandatory Provident Fund Scheme in Hong Kong, the public should have less resistance towards the requirement to disclose their income status. However, under this system, it is important for the government to commit to continuing upholding the long-held policy that ensures that no one is denied adequate medical care because of insufficient income.

Along this line, the government should also consider to set up a guided target to promote the development of the private hospital sector. Currently, the public provides ninety four percent of hospital services and the trend has been rising. Given the free-market economic environment of Hong Kong, such a development is unhealthy and should deserve a greater policy attention. A restructuring of the fees structure could be helpful in this direction. The government should decide on the optimum mix of public-private structure for provisioning for the hospital services.

**Setting up a Mandatory “Health Protection Account”**

The third major proposal is to establish a mandatory “Health Protection Account” for every employed person from the age of forty to sixty four, contributing approximately one to two percent of one’s earnings. The Account is designed to assist individuals to continue to pay for heavily subsidized medical services after retirement, and not to shift the burden entirely to the next generations. This funding concept is totally different from the Health Security Plan with mandatory contribution of one and a half to two percent of the salaries as suggested by the Harvard consultants previously. The Harvard proposal is based on the risk-pooling concept and the pay-as-you-go principle. This could result in a greater financial burden for the later generations and has not been well received by the community and political parties.

Such a new scheme could save an estimated HK$40,000 (US$5,100) for an individual after retirement. Obviously, this sum would not be sufficient for one suffering from long lasting chronic diseases. For those patients who have saved little or who have already exhausted their savings, the government has agreed to provide assistance for the second safety net.

Many argue against the necessity of such a scheme. There is a strong feeling that the government is reducing its commitment of providing health care to the people. Hong Kong has an accumulated fiscal surplus of over HK$400 billion (US$51 billion). The corporate tax rate is only 16.5%, which is relatively low by international standards. The insurance sector has not been providing sufficient options and products. The government has not given any fiscal means to encourage the public to purchase health insurance policies as well. In order to obtain the public support about the “Account”, it is important for the public to be convinced that the government has been mobilizing all the community’s resources to tackle the long-term health issues, not just by private individual savings. Other than introducing the “Health Protection Account” to ameliorate the long-term financial pressure on public health care, I suggest that the government should also consider setting up a health care fund, which is financed partly by the fiscal surplus and partly by a one percent tax surcharge on corporations for a specific period of time. The business sector can consider this as a long-term investment to improve the health status of the people and to sustain social stability. Addi-
tionally, the government should design policy to encourage the public to purchase health insurance voluntarily in the private sector.

Based on these broad principles, the government is proposing to undertake the various required studies according to the following timetable:

- taking eighteen months to conduct a study of the fees structure for achieving the objective of targeting the public subsidies at areas of greatest needs, including an evaluation of the impact of the financially vulnerable;
- completing the detailed study on the Health Protection Account in eighteen months;
- conducting simultaneously another detailed study on the long term care needs of Hong Kong and how best to finance and provide these services to be completed in 2003; and
- proceeding immediately with a study about modifications to the MEDISAGE proposal as suggested in the Harvard Report, in order to provide the means to purchase long-term health care insurance upon retirement.

Concluding Remarks

Health care reform will be one of the major policy initiatives of the Tung administration, after the housing reform, education reform and civil service reform. Hong Kong’s economy has not completely recovered from the Asian Financial Crisis in 1997, despite double-digit growth last year. Property prices continued to fall last year and the Internet financial bubble dissipated bringing substantial losses of wealth. The unemployment rate remains at a high level of about 4.5%. The prolonged fiscal deficit has also prompted the government to consider introducing new taxes, including the controversial sales tax. The public largely believes that the Mandatory Provident Fund implemented earlier this year has caused an undue financial burden to workers and smaller companies as well. Thus, the general public has many grievances against the government, and any new measures that could result in additional financial burdens to the public should be treated with great caution. The right timing and a correct strategy to gather public support are vital for its success. ■