



Health Care Reform Consultation Document IFPHK Position Paper

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1. Executive Summary of Healthcare Reform Consultation

The Hong Kong SAR Government (“government”) has commenced a public consultation in March 2008 on healthcare reform to solicit feedback on:

- (a) the key principles and concepts of their service reform proposals
- (b) The pros and cons of possible supplementary financing options

The consultation document outlines key reasons for the need for reform, advantages and disadvantages of each suggested financing options, and touches on the experience of other countries in implementing health care reform.

The 5 key Areas of Proposed Policy Reform Include

Policy Initiative	Key Features
Enhance primary care	A series of initiatives designed to provide continuous, comprehensive and holistic health care for individuals. Policy example: subsidy for preventive care and establish of family doctor register system
Promote public/private healthcare partnership	A greater collaboration between private and public health care providers in the provision of health care services.
Develop electronic record sharing	Development of territory wide health care record infrastructure with the objective of enhancement of continuity of health care service and greater integration of amongst providers
Strengthen public health care safety-net	A series of initiatives to improve the health service offering for low income and under-privileged groups
Reform Financing	All options outlined below in separate table

Key Financing Reforms

Financing Option	Key Features
Social health insurance	Requires working population to contribute a % of their income to fund the health care of the whole population
Out of pocket payment	Increases user fees for public hospitals
Medical savings	Requires working population with income above a certain level to save a certain % of their income to meet their own future health care expenses
Voluntary health insurance	Encourages more individuals to take out private health insurance voluntarily
Mandatory health insurance	Requires a certain % of the working population to purchase individual health insurance regulated by the government
Personal health care reserve	Requires a certain % of the working population to deposit part of their income into a personal health care reserve account that is to be used for subscribing to mandatory regulated health insurance and for accruing savings to meet their own healthcare expenses, including insurance premiums after retirement

Responses to the consultation document and associated choices and preferences surrounding financing options will reflect individual views regarding:

- How the Hong Kong public would like to pay for their healthcare services in the future? Should it be a contribution to social health insurance, private health insurance, a savings account, or a combination of structures to fund future health care needs?
- Who should pay and in what proportion? Should the wealthier pay for the poor, the healthier subsidize those with poor health, or those with poor health pay more?
- What type of services do they want? Should it be a system where there is the same service for all or should it be a system whereby those who can afford to pay enjoy better access and facilities?

It should be noted that this is only the first round of consultation that will finish on 13th June 2008. The government anticipates that through this phase of consultation the most popular financing option would emerge and a further study would then take place to provide a more detailed analysis of the preferred option. Another round of consultation would then be expected to take place in November 2008. The consultation period ends on 13th June 2008.

The IFPHK will be providing a formal response to this consultation paper. The IFPHK response to the consultation paper will reflect the issues raised by the IFPHK task force and any additional feedback received from members.

In summary, the IFPHK task force 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 task force 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.

2. The IFPHK response to the healthcare reform consultation document

Why are we 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 your clients' financial planning needs in the future. As we are all 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 of various investments, insurance and tax plans and placing them together in a plan, assisting customers to meet 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 way in which people's individual financial plans are structured. 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 cash-flow into investment products.

To ensure that the government is aware of the potential impact of the proposed changes on your clients, the IFPHK developed a small 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.

Consumer focused response

In responding to this consultation document, the IFPHK believes that it is 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 IFPHK, as the leading industry body, is therefore 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 mass affluent market segment and will be included in our formal response to the government consultation document.

3. IFPHK Task Force Recommendations

- **Views on need for reform**

The IFPHK task force 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 task force 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 is made up of typically well-informed, socio-economically aware individuals who place importance and priority on the creation of a socially equitable health care platform that 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 that 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 reform 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 task force believes that the mass affluent 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 will be necessary to encourage sufficient competition amongst health care service providers moving forward. In summary, whilst the mass affluent market welcomes socially equitable healthcare policy reforms, it will need to be convinced that these can be provided without excessive escalation of costs on the part of medical service providers. The task force notes 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 deep 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 a likely workable policy reform will involve a combination of a number of the models proposed. It should also be noted that 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 task force 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 task force 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 community rated premiums are charged. The proposed annual fee of HK\$3,000-4,000 would be affordable to the mass affluent segment.

Task force members highlight that the level of insurance planning by mass affluent consumers in Hong Kong is low. Customer insights from IFPHK members suggest that mass affluent consumers currently fail to adequately plan for risk-related life incidences such as health problems and appear to focus greater attention to 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 task force members welcome 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 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 that would be provided under a mandatory insurance regime. As part of an industry body that encourages people to plan for their own financial future, the task force 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.

Personal Health Care Reserve. Definition: This model requires that a specified group of the population be required to deposit part of their income into a personal account to be used for subscribing to a mandatory regulated medical insurance for protection before and after retirement and for accruing savings (with the option to invest) to meet health care expenses including insurance premiums after retirement. The insurance premium for everybody in the group would be the same regardless of the income level in return for the same level of protection and variety of choices. The amount of savings, however, would differ among individuals according to income levels.

It is the task force's belief that the mass affluent market segment would encourage the development of the **Personal Health Care Reserve Model** moving forward, albeit with a range of

supplementary policy initiative 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 of reform whilst meeting 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.

- **Supplementary policy initiatives for government consideration.**

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 defined tax-paying individuals make contributions of between 3-5% of income into this fund. The task force 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 split of 2.5% for consumers and 2.5% for the corporate community is recommended. A series of corporate tax concessions may be useful for the government to consider for easing the financial burden of their contributions and assisting corporate “buy-in”.

Ongoing tax incentives for private medical insurance

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

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

The task force notes 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 task force recommends that the government considers raising fees of public hospital services for this segment of the market that 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 the segment of the population that does not have the financial means to pay for any additional increases in public health care costs.

4. IFPHK Member feedback is important

As outlined in the introduction, this task force position paper reflects the views of a select group of industry professionals who have reviewed the proposed consultation paper. We do however encourage your feedback on this important policy issue.

We value your feedback and ask you to spend 1 minute to complete this [2 question survey](#)

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

Demographic Profile Mass Affluent

- Average personal monthly income above HK\$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 in product offerings
- Places high importance on future family health and financial stability
- Often has some financial responsibility for extended aging family members