Funding Health Care in Hong Kong

by Haochen Lu

Thanks to a well-developed health care system, Hong Kong stands out in several major health indicators, enjoying the 8th highest life expectancy at birth\(^1\), and the 6th lowest under-five mortality rate\(^2\). However, Hong Kong’s health care system is facing many typical problems the same as other countries do. Funding sustainability ranks top in the list of the pressing problems.

A sustainable health care system calls for reliable funding for access to professionals, medical instruments and consumable supplies. Currently, major financial sources for health care include taxation, social health insurance, private health insurance, medical saving accounts, out-of-pocket payments and loans, grants and donation\(^3\). The mixture of such sources for different governments varies, even for those sharing similar culture and economics. In practice, Hong Kong follows a tax-based financing mechanism\(^4\). As it is one of the lowest tax regimes in the world\(^5\), the future financial sustainability of this mechanism lies in doubt.

**Future Threats to Financial Sustainability**

Each year, Hong Kong government devotes a considerable portion of its expenditure to health care system. Having been successfully maintaining high quality health care for years, the policy designers have been facing different reform proposals for 20 years, many of which casted doubts on the financial sustainability of the current system\(^4\).

In the accounting year of 2009-2010, the total financial provision on health care is HK$35.44 billion, accounting for 14.1% of the total government expenditure\(^5\). According a study in 2007, this proportion will be 21.5% in 2020 and 26.5% in 2030\(^4\), which indicates discernable fragility of the funding mechanism at that time (Figure 1).

Behind these numerical projections on financial expenditure are some notable facts of the society of Hong Kong, which lead to discouraging results. To begin with, a government survey in 2004 projected that the senior population will reach 17.2% of the total in 2021\(^6\), comparing to 11.2% in 2001 and 12.4% in 2006\(^6\) (Figure 2). This aging population of
Hong Kong will further burden the government on health care. In addition, soaring demand of investment for new technology and new drugs, limitation of small government and principles of low tax regime will together, badly shake the funding mechanism of health care in Hong Kong in the coming decades.

**Improve Funding Mechanism: Possible solutions**

Given the low tax rate in Hong Kong and the current tax-based funding system for health care, there is little room to improve without changing the structure of the funding system. Therefore, new sources of funding are needed in the system. Among many possible candidates, a medical saving account (MSA) scheme would play a positive role to ensure the sustainability of future funding as a part of the funding mix.

In the system of MSA, individuals deposit a proportion of their income regularly into a certain account for future use of health care. This system has a few variants, among which the most suitable one for Hong Kong is Singapore’s version. Savings are mandatory for those who can afford and a public fund will cover the needs of the poor.

The MSA system is advisable for Hong Kong for several reasons. Firstly, it is easily accepted for its positive incentive for the savers as the account will basically be used to cover the saver’s expense in health care, which makes it more practical in Hong Kong. In fact, the experience of Singapore, which shares similar culture and economics background as Hong Kong, suggests the system’s feasibility in Hong Kong. Secondly, MSA has unique advantage in solving problems from an aging population, for instance, inter-generation inequality. It can efficiently free the working population from the burden of the society’s health care expenditure even with an increasing proportion of the retired population.

In addition, the MSA system provides alternative ways for self-employed and employers of mini-corporations to cover their expense for high-tech treatment, which will otherwise be inaccessible for them. Furthermore, the most important point is that such a scheme will not violate the Government’s commitment on public health spending, which emphasizes most on the accessibility to each citizen. At the same time, it will release part of the funding burden on the Government, and then enable the Government do more for those really in need.

As all the other options of funding health care, the MSA scheme may have its own problems. However, these disadvantages could be solved with a well-mixed structure of the funding system. At least, for Hong Kong, the MSA scheme will serve as a good supplement for the current tax-based funding model, to ensure the future financial sustainability of the health care system.
References:


