



Release No: 15/MAR  
10-1/92/03/18

**MINISTERIAL STATEMENT -  
MR YEO CHEOW TONG, MINISTER FOR HEALTH**

**GOVERNMENT'S PHILOSOPHY**

Health spending is rising in many countries. In developed nations, health spending has exceeded economic growth, and absorbed an increasing share of the nation's resources. As societies grow more affluent, they place more emphasis on the quality and value of human life. Ageing populations, rising manpower costs and greater use of expensive medical equipment and drugs all exacerbate the problem.

Whichever way we choose to finance the cost of health care, the burden ultimately falls on the people. This is true regardless of whether patients pay directly for their own medical treatment, buy medical insurance to cover the risk, get employers to provide them with medical benefits, or pay taxes to fund medical subsidies from the state. Insurance premiums have to be paid by the insured, employee benefits form part of wage costs, and taxes are paid by taxpayers.

The question is therefore not how Singaporeans can enjoy good healthcare without paying more. It is how best to structure the healthcare system, and the means of financing it, in order to make it efficient, economical, accessible to all citizens, and at fees they can afford.

Where countries have provided "free" medical services funded out of general taxation, eventually the services deteriorate in quality, and the financial burden on the state becomes unbearable. When the individual enjoys health benefits unrelated to his own contribution, he feels no responsibility to

stay healthy and use medical resources only when he needs them. Since services appear to be free to the user, demand becomes insatiable. Subsidies, no matter how large, will always be insufficient. Sweden, after 70 years of State welfare, plans to reform its system of Government-funded free healthcare. Canada and Britain also face problems. Even Communist China intends to start charging state employees for medical care.

Singapore must learn the lesson of these countries. Our medical system is based on individual responsibility, coupled with state subsidies to keep basic health care affordable to all. No Singaporean has enjoyed or expects to enjoy health services for free. When he is hospitalised he pays part of the bill, more if he is in a B1 class ward, and less in a C class ward. His Medisave is his own money. This gives him the incentive to be healthy, minimise his need for medical treatment, and save on medical expenses.

#### **RECOMMENDATIONS OF HEALTH REVIEW COMMITTEE**

The Review Committee on National Health Policies chaired by Dr Aline Wong has published its findings. Its first Report emphasized preventive medicine and healthy living. The final Report reviewed current healthcare policies, in order to contain healthcare expenditure and Government subsidies, and keep basic healthcare accessible and affordable to all Singaporeans.

The Government has accepted all the Committee's recommendations. The key ones are :

- A. Priority Health Care Programmes to improve the health of the elderly, strengthen the management of cancer, heart disease and strokes, enhance child health, and improve medical services and health education;
- B. Measures to contain health care costs -- These would include public education; avoiding over-supply of doctors, duplication of expensive medical technology and excessive sub-specialties;

encouraging development of more economic alternative facilities; and carrying out medical audit programmes;

- C. Government's role to be reviewed to allow part of its market share as a provider of hospital services to be taken over by competitive providers and other organisations running not-for-profit hospitals;
- D. Restructuring of hospitals to continue, to produce maximum cost efficiency. The level of service to be pitched at what the public can afford;
- E. Healthcare financing -- To review the various mechanisms to curb excessive demand and restrain increases in healthcare costs; and
- F. Health subsidy policy -- This is elaborated upon below.

#### **SUBSIDY RATES**

The Committee proposed that the Government should continue to subsidise 80 per cent of C class costs, and raise co-payment levels for class B2 patients gradually together with improvement of service. The Government agrees. It has decided to set the following target subsidy rates for the ward classes in hospitals :

Ward Class	Subsidy Rate
A	No Subsidy
B1	20%
B2	65%
C	80%

In addition, the Government intends to provide a new five-bedded ward, intermediate between B1 and B2 class. It will be subsidised 50 per cent.

This scheme enables the Government to focus health subsidies on those who need them most. The Government does not intend to phase out medical subsidies, except for A class wards. The C class subsidy will not be reduced below 80 per cent. An 80 per cent subsidy means that for each \$1 the C class patient pays, the Government pays \$4 for him. In B2, the Government pays twice the amount paid by the patient.

#### **FEE INCREASES**

Despite these large subsidies, Government and restructured hospitals still have to revise fees regularly to attain the target subsidy rates and maintain medical standards. They have been doing this for the last few years. Further fee revisions can be expected this year. Our policy is to revise fees regularly by smaller amounts, rather than infrequently in big jumps. Whatever the fee increases, the percentage level of subsidies which I have just mentioned will be maintained.

Some of the restructured hospitals, eg Singapore General Hospital (SGH), are already close to the target subsidy rates. Their fee revisions can be smaller, sufficient to cover annual increases in wages and other costs. Other hospitals are still below the target subsidy rates. They will gradually raise the recovery rates until the targets are reached. They therefore must make larger fee revisions for the next few years.

#### **MEDISAVE**

To help Singaporeans save enough to pay for their part of the medical bills, the Government instituted Medisave in 1984. Each person contributes to his own Medisave account to meet future medical expenses of himself and his immediate family. This arrangement has helped most Singaporeans to meet their hospital expenses.

Medisave is not meant to cover the entire cost of a person's medical needs. It only covers that part which the individual has to bear - 20 per cent if he goes to C class wards, 35 per cent if he opts for B2 class. The rest is covered by the government subsidy. The Medisave contribution rate of six per

cent of income was set to enable the average middle class family to save enough to cover treatment in B2 class, and the average lower-middle class family to pay for C class charges. The savings should be enough not only to meet ongoing expenses, but also to accumulate a sum for medical needs after retirement.

In the long term, Medisave should assure all Singaporeans of access to good basic medical care. However, the Medisave scheme was introduced only eight years ago. The scheme has not yet reached steady state. Meanwhile three transitional problems have arisen, which have contributed to the worries of Singaporeans that they will not be able to meet rising health care expenses :

- A The six per cent contribution rate was an initial estimate of the amount necessary. It has to be adjusted as we gain actual experience of usage and cost trends.
- B Most self-employed Singaporeans have not yet been brought under Medisave. The hospitals report that this group has greater difficulty meeting their medical bills.
- C Older Singaporeans have not accumulated enough Medisave in their earlier working years to meet their post-retirement needs. Many rely on their children, but their children may have just started working, and may not have sufficient Medisave to support aged parents.

The Government will tackle these issues by raising the Medisave contribution rates for older Singaporeans, extending Medisave coverage to the self-employed, and through Medifund.

#### **MEDISAVE CONTRIBUTION RATE**

The experience gained since the introduction of Medisave shows that the six per cent Medisave contribution rate was conservative. The Review Committee has also confirmed this. To

enable Singaporeans to save enough for their hospitalisation needs after retirement, the Government will raise the Medisave contribution rate for older Singaporeans in two stages. From 1 Jul 92, the rate for those above 35 years of age will increase from six per cent to seven per cent. From 1 Jul 93, the rate for those above the age of 45 years will be further raised to eight per cent. These increases will be achieved by correspondingly reducing contributions to the CPF Ordinary Account. The overall CPF rate will remain unchanged, at 40 per cent.

The approach of increasing Medisave contribution rates for older Singaporeans means that workers will channel more of their savings to their HDB flat while they are young, and more towards Medisave as they grow older, when their flats are largely paid for, and their own and their families' medical needs increase.

Some Singaporeans aged above 35 will still have mortgages outstanding. HDB estimates that the reduction in contributions to the Ordinary Accounts will have minimal impact on their HDB mortgages. However, HDB has agreed that in cases where there are difficulties, it will extend their loan repayment period.

The Government will review the trend of medical expenses and Medisave contributions over the next few years. If the rates of six per cent, seven per cent and eight per cent still prove insufficient, further adjustments may be necessary.

#### **MEDISAVE FOR THE SELF-EMPLOYED**

So far, Medisave has not been extended to the self-employed. The self-employed can contribute voluntarily to Medisave, but very few (only 200) have done so.

The Government will extend Medisave to self-employed Singaporeans earning more than \$200 per month from 1 Jul 92. The contribution rates will be phased in gradually, so that the self-employed do not suffer a sharp drop in take home income. The initial rate will be three per cent for self-employed of all age groups. The rates will be raised gradually by one per cent point

per year, until they are level with those for other employees, i.e. six per cent, seven per cent and eight per cent depending on the age of the contributor. The schedule will be:

Contribution Rates for Self-Employed earning above \$200 pm

DATE	CONTRIBUTION RATE (%)		
	AGE <35	AGES 35-44	AGE ≥ 45
1 Jul 92	3	3	3
1 Jul 93	4	4	4
1 Jul 94	5	5	5
1 Jul 95	6	6	6
1 Jul 96	6	7	7
1 Jul 97	6	7	8

The Government will verify Medisave contributions through personal income tax returns. When the self-employed file their tax returns, Inland Revenue Department (IRD) will assess their Medisave contribution for the year based on their declared income.

In addition, from 1 Jan 94, the Government will also require those who apply for licences, e.g. taxi drivers, hawkers or shop proprietors, to show proof that they have contributed to Medisave before it issues licences to them.

**MEDIFUND**

Medisave and Medishield should cover the medical expenses of nearly all Singaporeans. But in the minority of cases where they are insufficient, Medifund will supplement them. Government will give Medifund an initial endowment grant of \$200 million. Subsequently it will contribute up to \$100 million each year to Medifund, provided the economy does well and there is a budget surplus, until a sufficient amount is built up. Only the income from the endowment fund will be used.

Medifund will act as a safety net. It will assist citizens who cannot afford to pay their hospital bills, either by themselves or with the help of their families. It will cover patients in C and B2 class wards in Government and restructured hospitals. Patients in both classes of wards will receive the same dollar amount of support from Medifund.

Depending on the need in individual cases, Medifund will pay all or part of their bills. In cases where the patient or his family members are still working, Medifund may instead give loans which they can repay out of future contributions to Medisave.

Singaporeans eligible for Medifund support will include:

- A The destitute and indigent, who presently apply for hospital fee waivers;
- B Younger Singaporeans who have not worked long enough to accumulate sufficient Medisave, but who are unexpectedly faced with high medical bills; and
- C Older Singaporeans with no Medisave, or who did not accumulate enough Medisave before retiring because the scheme was implemented too late for them.

Medifund will give greater support to those who have contributed regularly to their Medisave accounts, and who are covered by Medishield, but despite this have run into difficulties. This will be an added incentive for the self-employed to contribute regularly to Medisave, and for all Medisave account holders not to opt out from Medishield.

Medifund will be supervised by an Advisory Committee which will include community leaders. The administration of the scheme will be decentralised to hospitals.

It will take some time for the Government to draft and pass legislation to set up Medifund. This should be done by

1993. Meanwhile, the Ministry of Health will continue its existing fee waiver scheme, but it will apply the new Medifund rules in approving requests for fee waivers.

#### **OTHER PROVIDERS OF HEALTH CARE**

Today the Government provides 80 per cent of hospital beds in Singapore. However, the trend is for the private sector to play a bigger role and compete against Government hospitals, as in obstetrics. While the Government will always retain a major role in healthcare, it also encourages more competitive providers to enter the sector, to give Singaporeans more options to choose from.

There is room for the unions and other civic organisations to run hospitals on a not-for-profit basis. Such hospitals will be given the same subsidies as Government and restructured hospitals, and their patients will be eligible for Medifund on the same basis. They should provide a full range of wards, from unsubsidised class A wards to heavily subsidised class C wards.

The Government has been discussing with NTUC the possibility of the unions taking over and running a major hospital. The NTUC has expressed interest in taking over Tan Tock Seng Hospital. The Government intends to redevelop Tan Tock Seng Hospital with modern facilities, and hopes that the NTUC will operate it as an integral part of our national health care system.

#### **CONCLUSION**

As a percentage of GDP, our health spending has not risen as sharply as in other countries, because our population has been young and our economic growth high. But the population is aging. We cannot assume that economic growth will continue to outpace healthcare spending as the economy matures. Expenditure on healthcare, currently at 3.1 per cent of GDP, is likely to rise steadily over the next two decades.

Every Singaporean has the duty to stay fit and healthy. A healthy lifestyle will reduce his chances of falling sick. He should save up for future medical needs by contributing regularly to Medisave. And he should use his Medisave prudently, by choosing the class of ward which he can comfortably afford.

The Government will implement the measures contained in the Review Committee's report to restrain the rise in health care costs. The subsidy policy for the different classes of wards, the changes to Medisave contribution rates, the introduction of Medisave for the self-employed, and the creation of Medifund will help to keep basic medical care affordable and accessible to all.

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