Government of Bermuda

Ministry of Health and Environment

Ministerial Statement to the

House of Assembly

by the Minister of Health and Environment

The Honourable Trevor G. Moniz, JP, MP

On 3rd March, 2014

Regarding the changes to the Standard Hospital Benefit

and the Standard Premium Rate for 2014/15

Mr. Speaker, during this Session, I will be bringing forward the usual legislative amendments to set the Standard Premium Rate. However, I felt that it was important for me to provide some advanced notice regarding the necessary changes that will also be made to Bermuda's minimum health insurance package: the Standard Hospital Benefit.

I want to start, **Mr. Speaker,** by setting the context of the changes. The reality of the Government's financial position and the fiscal space available to us is well known. We know that all Ministries were asked to reduce their budgets, and we know the reasons why: we simply don't have the money to continue to spend today as we have in the past.

In this context, there are tough decisions to be made. No one wants to see public benefits reduced and I, in particular, would prefer to see no reductions in health benefits, as I'm too aware of the potential impact on patients and the public. But, sadly, a 'no change' position is simply not an option this year. Money doesn't grow on trees and we have to find ways to ensure that the funds that are available, are dedicated to the most essential population needs.

Mr. Speaker, budget reductions in the health sector necessarily mean reductions in benefits; and this is what I must explain to this Honourable House and to the public. I appreciate it can be highly technical, complex and unpalatable in some instances, but I trust that most will understand the difficult circumstances that we are in and the difficult decisions that have to be made - today and in the days to come.

Mr. Speaker, the Standard Hospital Benefit (SHB) is the minimum benefits package that must be included in any health insurance policy sold in Bermuda. Employers are mandated to provide at least this level of coverage for their employees and their non-employed spouses, and the Government subsidizes specific population groups for this compulsory insurance at the following rates:

- Children at 100%
- Seniors aged 65 - 74 at 80%
- Seniors aged 75 and over at 90%
- and the indigent at 100%

Currently SHB covers a majority of local hospital services and some diagnostic imaging procedures outside of the hospital, as well as some overseas hospitalization. Through a separate fund, the Mutual Reinsurance Fund (MRF), the coverage also includes kidney-related claims and long-stay costs. The premium for this SHB & MRF package of benefits is the Standard Premium Rate (SPR); it is actuarially priced annually, and set in law by this Honourable House. However, because Government pays for the subsidized populations, part of the cost of SHB coverage is borne by the Consolidated Fund. In recent years, that bill has amounted to approximately $115 million for local and overseas claims.

This year, the Ministry had to deliver budget savings of 7%, **Mr. Speaker**. In order to achieve this, the options were few: we could reduce public health services, or we could reduce the amount spent on subsidies and grants. With great difficulty, **Mr. Speaker,** we chose the latter. Allow me to explain why and what this means.

Public health services target prevention; they are essential to maintain a minimum level of health for a majority of the population. For example, they ensure communicable diseases are not spread; and they ensure a minimum standard of safety in our supermarkets, restaurants and other such establishments frequented by locals and visitors. In addition, public health services have had to fill the gaps for the uninsured or underinsured with recent trends. Significantly, however, public health services represent only 14% of the total health budget ($27.4m of $195.2m in FYE2014). **Mr. Speaker,** while we did make savings for the coming fiscal year, we could not realize the required savings just from the Government Departments.

Conversely, the total spent on subsidies provided some scope for change; but changes to Government subsidies necessarily impact the Standard Premium Rate, as the two are inexorably connected.

By way of summary, the changes that will be made to the Standard Hospital Benefit in 2014/15 are:

1. SHB portability will be abolished, including portability of subsidy;

2. Age Subsidy will be reduced to 70% for 65 to 74 year olds, and to 80% for persons aged 75 and over;

3. All MRF benefits will be transferred to SHB (i.e. kidney-related claims and long-stays);

4. The transfer from the MRF to the Health Insurance Fund will be increased from $7.00 monthly per insured, to $14.00;

5. Likewise a transfer of $14.00 per month from the MRF to the FutureCare Fund will be established; and

6. A transfer of $0.67 from the MRF to the Council will be introduced.

Allow me to elaborate on the impact of each of these changes.

1. Changes to SHB and Subsidy Portability

As I said earlier, Mr Speaker, the Standard Hospital Benefit has, to date, included some overseas coverage, or "portability". This has applied to subsidies too, so Government has paid millions of

dollars each year to cover claims for seniors and children who are eligible. Removing the portability subsidy will save the Government $9.6 million this year alone.

However, if the overseas subsidy is removed, but SHB remained portable, the Standard Premium Rate would increase significantly, as the cost of this coverage would be transferred from the Government to the insured population. This was not deemed affordable for employers or employees at this time, **Mr. Speaker**, so to abolish the portability of subsidy, we also had to abolish the portability of SHB.

In reality, **Mr. Speaker,** all health insurance policies sold in Bermuda have supplemental benefits that cover overseas costs. SHB-only policies are sold only as an exception when supplemental benefits are covered elsewhere. HIP and FutureCare certainly have overseas coverage, and this will be maintained regardless of the changes to SHB portability. So, while SHB will cease to be portable overseas, the majority of the population will continue to have overseas coverage, and this will be managed as it is now by individual insurers.

2. Changes to Age Subsidy

As I explained earlier, **Mr. Speaker,** currently the Government subsidizes 80% and 90% of SHB costs for seniors aged over 65 and 75, respectively. The change we will be making is to reduce the subsidy level to 70% and 80%, respectively. The impact of this change is two-fold.

First, it transfers more of the SHB costs from the consolidated fund to the insured population. Insurance plans with a high concentration of seniors such as GEHI and FutureCare

will be impacted more by this change, as they will no longer benefit from the subsidy. However, the impact on seniors is minimized because the premium continues to be community rated, so the cost of claims is spread across the population.

Second, the reduction in subsidy levels results in significant budget savings for the Government, amounting to $8 million. Given the current fiscal space, this has been a necessary measure.

3. Transfer of MRF Benefits to SHB

The next change, **Mr. Speaker,** involves the Mutual Reinsurance Fund (MRF). This change simply transfers coverage of dialysis, anti-rejection drugs, kidney transplants and long stays from the MRF to the SHB. This means that, first, insurers will retain the premium to cover these claims; and second, insurers will pay these claims directly as any other SHB claim, rather than the Health Insurance Department adjudicating the claims and paying them from the Mutual Reinsurance Fund.

The transfer of these benefits is consistent with the reported original intent of the MRF as an experimental fund. There are now years of claims experience for these benefits and it is prudent and reasonable to download them to the SHB.

4. Transfers from the MRF to the Health Insurance Department

Mr. Speaker, A second role of the MRF is to provide a transfer to HIP and FutureCare to compensate them for the higher risk profile of the populations they insure. Unlike private

insurers, HIP and FutureCare cannot turn anyone away, so populations with higher risks are shifted to these plans. The MRF transfer serves to compensate the plans for this higher risk.

To assist the plans with projected increases in claims, the transfer to the plans has been increased from $7 to $28 per month, to offset the impact of the reduction in subsidy and the other changes taking place.

5. Transfer from the MRF to the Bermuda Health Council

Lastly, **Mr. Speaker,** a new transfer has been introduced to reduce the burden on the Government's consolidated fund. Namely, the MRF will now transfer 67 cents per insured person per month to the Bermuda Health Council, to enable it to carry out its legislated functions as health system regulator and watchdog.

The Health Council is fully funded by the Government, and has an annual operating budget of $1.3 million. The grant in the upcoming year will cover some of these costs, and the balance will be raised through the MRF transfer. The transfer was agreed so that the Health Council could continue to operate at current levels while easing the financial burden on the Consolidated Fund. It should be noted that this transfer mechanism was originally recommended in the 1996 Oughton Report.

Mr. Speaker, this concludes the explanation of the changes in benefit provisions that have impacted the Standard Premium Rate, and enabled savings of $17.6 million dollars to the Government's consolidated fund.

I cannot stress enough, **Mr. Speaker,** that these changes were necessary in the current economic situation we face, and we have done everything possible to assess the risks of a number of alternatives, and deemed these the least painful changes.

The reduction in aged subsidy will be offset by the Standard Premium Rate picking up the difference. The transfer of MRF benefits is simply administrative for most plans. And overseas cover will continue to be available, as it is now, under supplemental benefits, including for HIP and FutureCare.

Thank you, **Mr. Speaker.**