

Problems of Ma Government's Health Insurance Reform

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The most absurd aspect of Taiwan's second-generation national health insurance (NHI) reform is that the ruling Chinese Nationalist Party (KMT) reversed its stance overnight so that the cabinet's version of the reform bill failed to win support from ruling party lawmakers. On top of that Premier Wu Den-yih set a constitutional precedent when voluntarily giving up the cabinet version. From a constitutional perspective these conditions actually already sufficed for bringing down the cabinet. The version of the NHI reform bill that the KMT subsequently submitted to the Legislative Yuan drew heavy fire from the public. Basically the government should have retracted the original cabinet version to introduce a new version for committee review. Instead of intervening in time to stop such conduct, which damaged the constitutional system and undermined the professional ethics of cabinet ministers, President Ma Ying-jeou eventually ordered the KMT legislative caucus to force a vote to ram the bill through, because he wanted to end the battle as soon as possible for political reasons. History will remember this as a humiliating and dark moment for the constitutional system.

Backlash from Vested Interests Undermines Reform

Actually the controversy over the so-called "virtual income" was not the true reason for the KMT's sudden turnabout.¹ The main problem was that calculating premiums based on total household income, rather than on individual income, would have a certain income redistribution effect. This was hard to swallow for Vice Premier and Finance Minister Sean Chen who had all along insisted that health insurance users should pay equitable premiums and that high income earners must not be slapped with a health insurance tax. Moreover he leaned on Ma, which also reflects the conservative rightist thinking of decision-makers in the Ma government. Second came a massive backlash from the professional associations led by lawmaker Ho Tsai-feng, who belongs to Premier Wu's faction, and farmers and fishermen's associations controlled by other KMT lawmakers, because they believed that switching to total household income as basis for premium calculation would cause a member exodus.

The most severe problem of the adopted and now effective amendment to the NHI Act is that it perpetuates the shortcomings of the first-generation NHI. Insured persons with different incomes pay the same premium amount and premium calculation, based on individual income, undermines the livelihood of underprivileged families. Professional associations as well as farmers' and fishermen's associations handle NHI affairs as an extension of the labor insurance and farmer insurance systems. While this approach serves its function, the government-paid share of NHI premiums reaches 60% and 70%, respectively, on top of which come other government allowances, thus creating a symbiotic relationship between the insured and the government. This is reminiscent of the "pension-style" welfare policy that was typical for the old authoritarian era. It is also an important base for the survival of patron-client system. There is need for reform, yet the Ma government is obviously incapable of resisting the backlash from vested interests.

The Hypocritical, Double-Faced KMT Bill

Around the world, revenue from health insurance premiums changes because of changing GDP composition, slowly shifting

from salary income to capital gains as main income. That's what a premium calculation based on total household income would have taken into account. Yet for fear that premiums based on total household income would weigh heavily on high income earners, the Ma government readily designed a "supplementary NHI premium" of 2% to be levied on any additional income in six categories including stock dividends, interest, bonuses exceeding four months' salary, non-salary income, professional practice income, and rental income. While there is no premium-exempt minimum amount, the maximum leviable amount was set at NT\$10 million. This means that stock market and property speculators with huge capital gains won't be slapped with the supplementary premium, whereas small investors who usually get trapped in stock market crashes, retired people who depend on interest income and those who take a second job for additional family income won't escape paying supplementary premiums. Also because it is up to the competent authority's discretion to pick the professions that need to pay supplementary premiums, this will lead to discrimination among different occupations and a new form of injustice. Why should, for instance, high-level managers with a high salary not have to pay supplementary

premiums, whereas professional practitioners such as lawyers, accountants, architects, technicians, physicians, pharmacists, notaries, craftspeople, midwives and bookkeepers have to pay?

The Department of Health (DOH) optimistically counts on an annual cash injection of NT\$20 billion from supplementary premiums without factoring in possible tax evasion. Should revenue from supplementary premium fall below expectations, the competent authority can adjust the 2% premium rate upward as health care costs increase, because no upper limit was set. Given that the government has been handed a blank authorization clause, it is highly likely that the premium rate will very quickly have to be raised. Eager to do some political damage control for the KMT lawmakers the DOH declared immediately after the adoption of the amended NHI Act that the NHI premium rate would be lowered from 5.17% to 4.91%. Yet this means that the government will have to foot the bill for the National Health Insurance's deficit, which has already now spiraled to NT\$50 billion. Nothing is worse than spending taxpayers' money. The KMT feared a backlash from high income earners, but also wanted to gain the reputation of being an advocate for the underprivileged. When the Democratic Progressive Party (DPP)

proposed raising the securities transaction tax, the Executive Yuan did not dare to make a decision, instead throwing back the proposal to the KMT legislative caucus where it was eventually voted down. Against this backdrop it becomes clear how hypocritical and double faced the adopted and now effective reform bill is.

DPP Bill Upholds Original Intention to the Very End

The original second-generation NHI policy was launched under the previous DPP government. The policymakers included representatives from the blue (KMT) and green (DPP) camps. Now that the government has changed back to the KMT, the second-generation NHI is a matter of all Taiwanese citizens and not the DPP's selfish political interest. Ironically, throughout the amendment process the DPP version was most supportive of Health Minister Yang Chih-liang's stance. First he insisted that plans to base premium calculation on total household income remain unchanged. Second he advocated that the insured with capital gains jointly share the burden by adding a surtax of a certain percentage to the land value increment tax to broaden the premium base. He also demanded that the government allocate the securities

transaction tax as special funding for the NHI. Separately taxed income, overseas income, and separation pay should be included in the income that serves as premium base. Third the premium rate should become more reasonable. With the broader premium base mentioned above the premium base could grow from presently NT\$3.5 trillion to more than NT\$5.5 trillion, Yang said. Moreover he argued the premium rate could be lowered to between 2% and a maximum of 2.7%, so that all citizens could enjoy the same benefits instead of the one country, two systems approach in the KMT bill. Unfortunately he was up against hopeless odds, so that his policy claims were made just for the record without achieving

anything.

Former Health Minister Li Ming-liang lent his support to Yang saying: “In the past I stepped down over a dual NHI premium hike, but behind the scenes there were people who still supported me. In contrast the current president and premier do not seem to care!” Because of the Ma government’s impotence the second-generation NHI had to be buried. Placed in the coffin along with the NHI were the professional ethics of our cabinet members and our constitutional order. How can the officials in the Ma administration not be scared and alerted after seeing Yang leave the political stage like this? **B**

¹ The “virtual income” proposal bases premiums for persons without income on a virtual income of NT\$17,280, Taiwan’s minimum wage.