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Should MediShield Life premiums be based on lifestyle?

The answer is not straightforward for a number of reasons.

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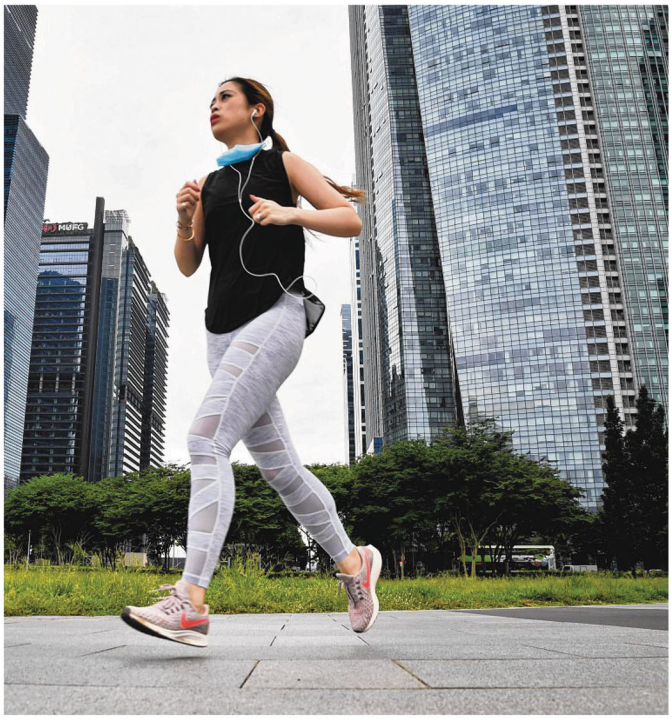

Rewarding individuals who lead a healthier lifestyle with a reduction in premiums is tricky, says the writer, because while some healthy behaviours such as physical activity are readily measurable, others such as diet are not. ST FILE PHOTO

Minister for Health Ong Ye Kung recently said that the Government was looking at ways to help support healthcare in Singapore as the population ages.

Among other things, he referred to using behavioural economics to nudge people to adopt healthier lifestyles, such as by "differentiating insurance premiums between those with and without appropriate lifestyles".

No doubt he was referring to MediShield Life, the basic health insurance plan for all Singaporeans and permanent residents, administered by the Central Provident Fund (CPF) Board. This helps to pay for large hospital bills and selected costly outpatient treatments, such as dialysis and chemotherapy.

So, should someone with a healthier lifestyle benefit when he enrols in a public health insurance scheme? The answer is not as straightforward as it seems.

RISK-POOLING SHOULD BE MAINTAINED

Insurance comes with many upsides. The role of insurance, such as MediShield Life, is to provide financial protection and risk mitigation against uncertain events. Insurance functions by pooling the resources of many individuals or entities to spread the risk of potential losses.

For example, one in three Singaporeans will develop cancer over the course of his lifetime. Yet we do not know who will develop cancer, but we buy critical illness policies to hedge against the risks of developing such illnesses.

There are clear benefits to national risk-pooling. Premiums collected from all Singaporeans, healthy or otherwise, will provide adequate resources to those who need medical care, sparing individuals from breaking the bank.

In the absence of such a policy, the healthcare cost to any ordinary person would be highly prohibitive. Using an example provided by the CPF Board, the total bill for a 48-year-old Singapore citizen or permanent resident who has a uterus operation and is hospitalised in a normal C ward for five days would be $17,600.

With a government subsidy of $13,600, the final bill without the MediShield Life payout would be $4,000, compared with $1,750 with the payout, which can be paid using MediSave or in cash.

The median monthly salary from full-time work in Singapore was $5,070 in 2022. Without MediShield Life, the final bill could exceed the monthly income of a significant proportion of Singaporeans.

National risk-pooling also allows the Government to enshrine policy objectives in the design of the scheme. A key actuarial principle incorporated into MediShield Life premiums is the avoidance of intergenerational cross-subsidy, where the young pay for the old. Premiums are thus age-banded and sized in line with the risk for each age group.

This is essential to ensure that in a rapidly ageing population such as Singapore's, dependants are not saddled with the burden of paying for the ageing.

ADVERSE EFFECTS MUST BE CURBED

A compulsory healthcare insurance scheme also tackles the problems arising from adverse selection. In general, health insurers do not have the full picture of how healthy or unhealthy their pool of clients are. This information asymmetry – where one party has more information about the risk than the other – leads to a situation of adverse selection, allowing people with unhealthy lifestyles to purchase more insurance as they anticipate a high probability of a future need.

This may result in an insurer having a disproportionately higher number of unhealthy individuals and premiums skyrocketing because of moral hazards. National risk-pooling avoids this situation.

Adverse selection may also occur when insurers cherry-pick their clients on the basis of healthy behaviour, for instance, by offering sign-up bonuses to participants of low-risk sports such as running, or avoiding extending policies to cover pre-existing conditions.

National risk-pooling avoids this situation where insurers deny coverage to the most vulnerable.

THE PROBLEM WITH INCENTIVISING BEHAVIOURS

Nonetheless, keeping premiums affordable remains a key policy objective. In recent years, the Ministry of Health (MOH) has sought to address the buffet syndrome in Integrated Shield Plans offered by private insurers where people consume more medical services than needed because of insurance plan riders. Measures include mandated co-payments and requiring all new and renewed plans to cease covering treatments outside the approved cancer drug list.

Another way MOH can further reduce the overall risk for the total risk pool is by encouraging healthy behaviours. This takes the form of incentives, where individuals who demonstrate a commitment to a healthier lifestyle may expect a reduction in premiums.

The concept is simple, but implementation will be tricky for the following reasons. First, some healthy behaviours are readily observable and measurable while others are not. Both physical activity and a healthier diet are important for health promotion and disease prevention.

Wearables can be used to track the level of physical activity, but capturing whether people adhere to healthy diets requires substantial effort. Current data-collection methods for dietary information require the individual to key in information or upload photos of the food consumed.

This approach is time-consuming and subject to reporting bias. People may tend to record only healthy foods or leave out between-meal snacks.

Second, mental health is an important contributor to physical health, and we should incentivise participation in activities that promote mental health – including but not limited to gardening, yoga or mindfulness practices. Unlike running or walking, where fitness trackers can auto-detect steps, these activities require user input and are not easy to capture.

Third, the decision to adopt a healthy lifestyle or diet may not be an easy option for everyone. Those with lower incomes often have limited bandwidth or resources to adopt a healthy lifestyle and diet.

Meals with lower sugar or lower sodium content tend to be priced higher than standard options. Many of us who can afford it will choose to eat fresh foods, but lower-income families and individuals may settle for the convenience and affordability of processed foods.

Thus, there will be ethical implications and unintended consequences to consider.

Fourth, we must acknowledge that it is not uncommon for individuals to exhibit conflicting behaviour. This could, for example, take the form of someone with a healthy diet and sedentary lifestyle, or someone with an active lifestyle but who partakes of unhealthy hawker fare. People might exercise because they want to be able to enjoy guilty pleasures. Both diet and activity must be considered in incentivising behaviour.

Fifth, how much room do we have in lowering current premiums? If MOH provides a big discount, current premiums may be perceived as unreasonably high. If the discount is not substantial, then its ability to change behaviour will be limited. MOH will also require safeguards to be put in place to prevent private insurers from misusing information to cherry-pick individuals with healthier behaviours or to deny coverage to those without.

In the final analysis, while the idea of a differentiated insurance premium based on lifestyle appears reasonable, there are many practical issues to consider.

Other more direct and effective forms of incentives, including giving people a discount on gym memberships or swimming-complex passes after the individual has completed a number of sessions, are better substitutes if the goal is to reduce the overall risk of the pool of individuals insured under MediShield Life.

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