forum

FORUM EDITOR | AZAM ARIS

Preparing for higher cost of becoming an ageing society

MY Say

BY NOR ZAHIDI ALIAS

A relative who often uses Grab and Uber's ride-hailing services recently related the story of a young female driver whose parents are suffering from critical illnesses. According to her, being a recent graduate, she was unable to secure a decent job to foot her parents' medical bills. However, being a ride-hailing driver has helped her to not only make a decent living, but also spend some time with her parents.

This is the experience of someone who has to deal with high medical costs, one of several key issues often brought up in discussions on the repercussions of Malaysia's ageing population. Malaysians are getting older and as such, the country is now facing challenges such as those confronting countries like South Korea and Singapore.

Indeed, ageing populations entail challenges that include moderating future productivity growth (because productivity generally deteriorates after reaching a certain age), lower consumer spending (because older people spend less and save more) and higher fiscal commitment (because of rising spending on pensioners and healthcare). All of these have the potential to weigh on the economy considerably.

Why is the rising cost of healthcare most popularly discussed? This is because it not only affects men on the street, but also the government, as more fiscal revenue has to be channelled towards constructing and maintaining medical facilities as well as for healthcare operating expenditures. Therefore, rising healthcare costs will no doubt be an issue that needs more attention as Malaysia progresses towards its long-term vision of becoming a top 20 country by 2050 under the TN50.

The increasing healthcare costs in Malaysia can be seen in the upward trajectory of the healthcare sub-component in the Consumer Price Index (CPI) over the past several years. For instance, while Malaysia's headline CPI rose 2.2% per annum in the five years through 2016, the cost of healthcare, on average, climbed 2.8% per annum.

This may look minuscule, but it is worth noting that the CPI component breakdown shows the costs of outpatient medical services rising an average 4.7% per annum in the past two years, as compared with 3.1% per annum in 2011-2012. Further scrutiny reveals that medical costs at private hospitals climbed 4.3% per annum in 2015-2016 from a mere 1.9% per annum in 2011-2012.

Of course, those who are fortunate enough to have medical insurance coverage may not be aware of such increases when they flip out their insurance cards at hospital registration counters (salaried employees would normally fall into this category).

However, rapid increases in healthcare costs (vis-à-vis headline CPI growth) inevitably raise the eyebrows of those who have to fork out their own money for such services. In fact, a common topic of discussion at Malaysian coffee shops these days is using credit cards to settle medical bills at hospitals and how to pay those credit card bills. Such discussions would likely become more frequent as Malaysians, who now generally live longer than before, have to find ways to deal with more expensive healthcare.

The government does provide means to help people deal with this challenge. Public healthcare is available at a fraction of what it would cost in private institutions, although some have lamented the disparity in service quality. This is a stark difference from the situation in some countries. For instance, I remember seeing people having difficulty getting medical attention in hospitals in the US years ago because they did not have proper medical insurance coverage.

Going forward, the government may also find it challenging to keep up with rising operating and development expenditures related to healthcare. And once again, statistics can show why. Government expenditures on healthcare had risen by a compound annual growth rate (CAGR) of 10% per annum between 2006 and 2015.

Ten years prior to that, it grew 11% per annum. A breakdown shows that operating expenditures related to healthcare, as borne by the government, rose roughly 11% per annum between 2006 and 2015. A similar increase was observed in the 10-year period between 1996 and 2005. Healthcare expenditure as a share of total government expenditure has also continued to increase from a low of 4% in the 1980s to 9% in 2015.

So, given these statistics, what are the alternatives? For one thing, making an extra effort to increase Malaysians' medical insurance penetration rate could ease the burden on both the rakyat and the government. While there is currently an avenue for the rakyat to withdraw their savings from the Employees Provident Fund (EPF) to settle their medical bills, incentives should be given to those who wish to increase their financial safety nets through purchasing medical insurance.

There are two advantages to securing medical insurance at a young age — it is cheaper to do so when one is still healthy, and it can be a source of future savings, especially if the policies are linked to investments (that is, investment-linked products). Most importantly, it protects the insurance holder financially in the event of serious illness or injury that could be very expensive. Logically speaking, if EPF withdrawals are allowed for the purchase of unit trusts, it makes sense to also allow withdrawals for purchasing medical coverage plans, which would be beneficial to protect us against health risks during our golden years.

I believe that raising awareness of the benefits of having medical insurance coverage would be the first step to encourage the rakyat to invest in their future safety net. This can be done through basic education on financial planning at the university level to encourage the young to have proper financial planning. This would enable them to avoid future financial distress that can lead to problems like overspending on credit cards and making imprudent financial commitments.

Creating awareness should not be the task of insurance agents alone — it is the job of all of us as parents, educators, financial planners, health and wellness centres, and so on. It is worth noting that according to those seeking assistance from the Credit Counselling and Debt Management Agency (AKPK) — an agency tasked to help individuals take control of their financial matters — high medical expenses and poor financial planning are the main reasons Malaysians become entangled in a web of personal debt.

Growing old is challenging enough for those who have to continue working in order to cope with their living expenses. But growing old and not being able to afford proper healthcare when their health is deteriorating is even tougher. E

Nor Zahidi Alias is chief economist at Malaysian Rating Corp Bhd. The views expressed here are his own.

The edge (mon)
8 MAY 2017