

Part II Financial Status

I. Premium Contribution Rates and Calculation Methods

The main source of revenues for the National Health Insurance scheme is premium revenues, which is made collectively by the insured, the group insurance applicants, and the governments. According to Article 29 of the National Health Insurance Act, premium contributions from the insured and the group insurance applicants shall be made on a monthly basis by the end of the following month and billing for government subsidies shall be processed on a monthly or semi-annual basis, which is to be settled at year end to accommodate government procedures.

The beneficiaries under the National Health Insurance scheme are divided into six categories and the premium contribution rates to be borne or subsidized by the insured, the group insurance applicant, and the government vary depending on the category of beneficiaries (see table below).

NHI Premium Contribution Proportions

Category of Beneficiaries			Percentage (%)		
			The Insured	Group Insurance Applicants	Government
Category 1	Civil Servants, Voluntary Military Personnel, Government Employees	The Insured and Dependents	30	70	0
	Private School Faculty and Staff	The Insured and Dependents	30	35	35
	Employees with Specific Employers in Public or Private Enterprises or Institutions	The Insured and Dependents	30	60	10
	Employers Self-employed Business Owners Independently Practicing Professionals and Technicians	The Insured and Dependents	100	0	0
Category 2	Occupational union Members Without Specific Employers Alien Seamen	The Insured and Dependents	60	0	40
Category 3	Farmer, Fisherman, and Members of Irrigation Associations	The Insured and Dependents	30	0	70
Category 4	Conscription Draftees, Military School Students, Bereaved Dependent(s) of Deceased Serviceman, Substitute Civilian Serviceman	The Insured	0	0	100

Category of Beneficiaries			Percentage (%)		
			The Insured	Group Insurance Applicants	Government
Category 5	Low-income Household	The Insured	0	0	100
Category 6	Veterans, Household Representatives of Survivors of Veterans	The Insured	0	0	100
		Dependents	30	0	70
	Other District-level Residents	The Insured and Dependents	60	0	40

National Health Insurance charges different levels of premium based on insured payroll-related amount, premium rate, and contribution or subsidy percentage. The formulae are shown below.

1. Contribution from the insured and dependents:

(1) The insured and dependents in Categories 1 to 3:

$$\text{Insured payroll-related amount} \times \text{Premium rate} \times \text{Contribution rate} \times (1 + \text{Number of dependents})$$

(2) Veteran’s surviving dependents in Item 1 of Category 6:

$$\text{Average premium} \times \text{Contribution rate} \times \text{Number of dependents}$$

(3) District-level residents in Item 2 of Category 6:

$$\text{Average premium} \times \text{Contribution rate} \times (1 + \text{Number of dependents})$$

2. Contribution from group insurance applicants:

$$\text{Insured payroll-related amount} \times \text{Premium rate} \times \text{Contribution rate} \times (1 + \text{Average number of dependents})$$

3. Contribution from government subsidies:

(1) The beneficiaries in Categories 1 to 3:

$$\text{Insured payroll-related amount} \times \text{Premium rate} \times \text{Contribution rate} \times (1 + \text{Average number of dependents})$$

(2) The insured in Categories 4 and 5:

$$\text{Average Premium} \times \text{Contribution rate} \times \text{Actual number of the insured}$$

(3) The beneficiaries in Category 6:

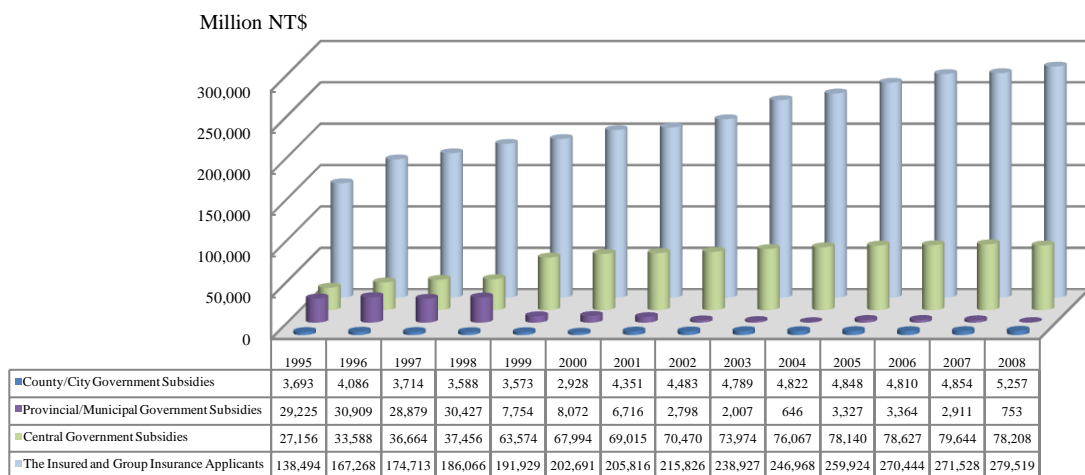
$$\text{Average Premium} \times \text{Contribution rate} \times (1 + \text{Number of dependents})$$

When the number of the dependents exceeds 3, the payment shall be calculated on the basis of only three dependents. The number of dependents in Categories 1 to 3 shall be the average number of the dependents that the insured in Category 1 to 3 actually have. The current average number of dependents is 0.7 person (adjusted in January 2007).

II. Premium Collection Status

In terms of the amount of premium contribution collected and the source of subsidy, the breakdown was as follows: (a) Contribution from the insured and group insurance applicants was NT\$279.5 billion in 2008 with an average increase rate of 5.6% since 1995; (b) Contribution from central government subsidies 78.2 billion in 2008. For organization restructuring, the central government took over the executive powers formerly vested with the Taiwan Provincial Government and Fujian Provincial Government in 1999 and 2001 respectively and become responsible for the subsidies formerly borne by these provincial governments; (c) Contribution from provincial/municipal government subsidies made by Taipei and Kaohsiung city governments was 0.8 billion in 2008; and (d) Contribution from county/city government subsidies was 5.3 billion in 2008 with an average increase rate of 2.8% since 1995, showing a gradually increasing trend over these years.

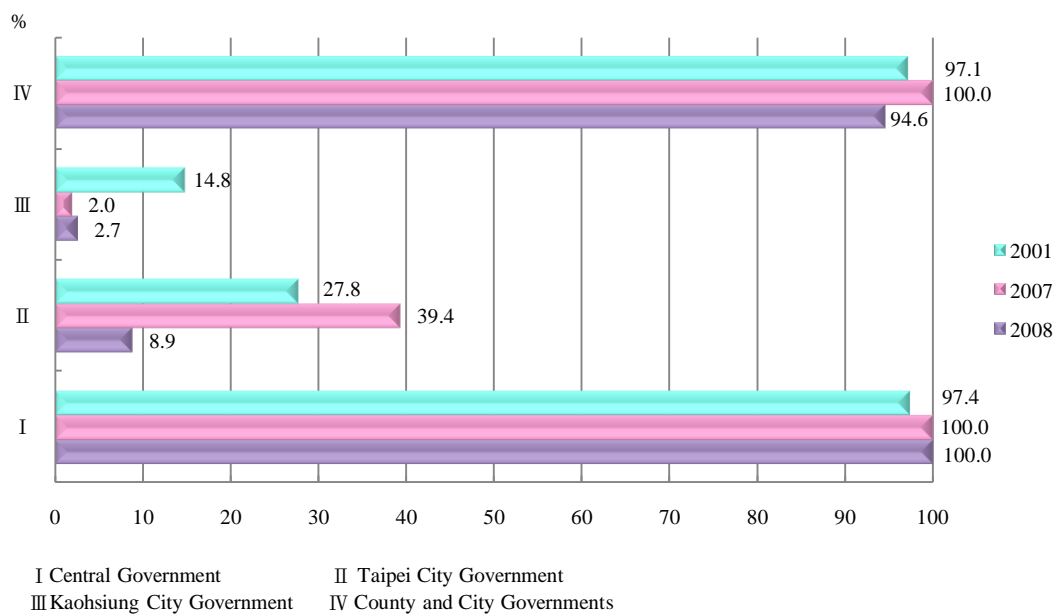
Figure10 Historical Premium Collected by Source



The premium collected in 2008 was NT\$363.7 billion, showing an increase of NT\$4.8 billion from the previous year or 1.3%. Of which NT\$279.5 billion came from the insured and group insurance applicants (76.8%), showing an increase of 2.9%, and

NT\$84.2 billion from government subsidies (23.2%) (NT\$78.2 billion from the central government subsidies with a collection rate of 100%, NT\$7.0 billion from Taipei City Government subsidies with a collection rate of 8.9%, NT\$80 million from Kaohsiung City Government subsidies with a collection rate of 2.7% and NT\$5.2 billion from all county/city government subsidies with a collection rate of 94.6%), showing a decrease of 3.6%.

Figure 11 Premium Collected from the Government Subsidies



Data updated on June 3, 2009

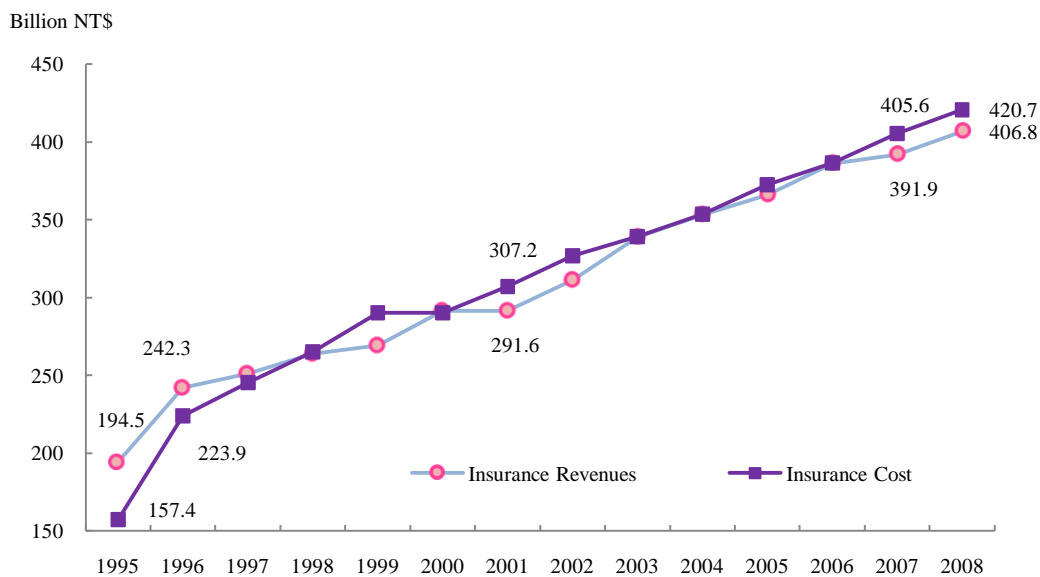
III. Financial Revenues and Expenditures

The NHI scheme operates under the principle of balanced revenues and expenditures. In other words, premium revenues need to be able to cover medical expenses. Short-term discrepancies are to be covered by the reserve fund and long-term financial balance is to be achieved by setting reasonable levels of premium rates based on actuarial valuation.

Since its implementation, the greatest challenge faced by the NHI scheme has been to run the insurance operation while maintaining financial balance. Facing issues including low premium rates, an aging population, advancements in medical technology, and an increasing demand for medical services, the medical expenses incurred by the NHI scheme are growing every year. However, while corresponding premium revenues are slightly growing as the result of salary increases, the growth rates fell far behind the

increases in the expenditures. And the consequence is a structural gap in the overall financial condition and insurance revenues have been falling below insurance cost since 1998. On the accrual basis, insurance revenues increased by 5.8% from 1995 to 2008 while insurance cost increased by 7.9% during the same period, showing a difference of 2 percentages between the two increase rates.

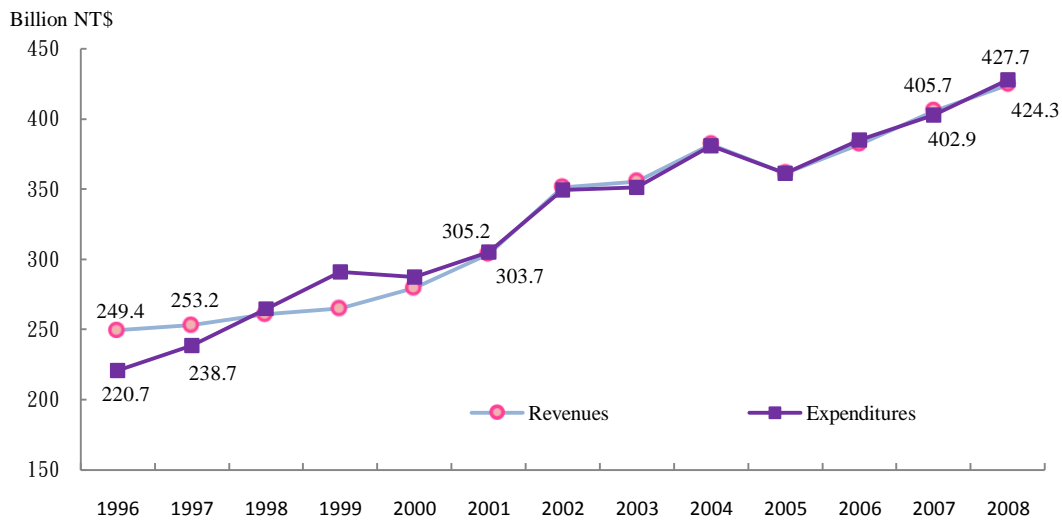
Figure 12 Financial Status of the Bureau of National Health Insurance (Accrual Basis)



On the accrual basis, the NHI insurance revenues were NT\$406.8 billion, showing an increase of 3.8% from the previous year. The insurance cost was NT\$420.7 billion, showing an increase of 3.7% from the previous year. The net of reserve fund was -NT\$13.9 billion.

On the cash basis, revenues were NT\$424.3 billion and the expenditures were NT\$427.7 billion, yielding a surplus of -NT\$3.4 billion. The items under revenues included mainly government subsidies of NT\$94.5 billion, premium contributions from the insured and group insurance applicants of NT\$278.2 billion, and other revenues of NT\$51.6 billion in total. The items under expenditures included mainly medical benefit payments of NT\$426.6 billion and other expenditures of NT\$1.1 billion in total.

Figure 13 Financial Status of the Bureau of National Health Insurance (Cash Basis)



IV. Fund Operation

National Health Insurance is funded on a pay-as-you-go basis which does not have the capacity to make any long-term investment plan. At the present, the funds are mostly used to pay current medical benefit payments. Cash temporarily stays with the Bureau is invested on short-term securities on the principle of achieving a balance between liquidity, risk and profitability. As of the end of 2008, the working capital for the NHI scheme was NT\$9.1 billion which included NT\$5.0 billion in demand deposit, NT\$2.8 billion in other short-term investments, NT\$1.2 billion in NHI poverty relief fund loans, and NT\$1.0 billion in trust property.

V. Reserve Fund Balance and Operation

In 2008, the revenues for the NHI reserve fund were NT\$19.7 billion and the expenditures were NT\$20.4 billion, yielding a surplus of NT\$7.0 billion. The sources of revenues included premium delinquency charges of NT\$7.0 billion and the lottery income and contribution for the tobacco and alcohol of NT\$19.0 billion. The only item in expenditures was expenses for medical services. As of the end of 2008, the accumulated balance of the NHI reserve fund was NT\$1.4 billion, including demand deposit of NT\$1.0 billion, NHI poverty relief fund loans of NT\$1.2 billion, and trust property of NT\$1.0 billion.

VI. Charges due to Late Payment

According to Article 30 of the National Health Insurance Act, a grace period of fifteen days shall be granted in case that the group insurance applicants or the insured do not pay the premium by the due date. If the payment is not made by the end of the grace period, a charge of 0.1 percent of the amount payable shall be levied for each day of delay after the expiry date of the said grace period until the premium is fully paid up. However, the amount of charge shall not exceed 15 percent of the amount of the payment due. The charge was reduced from 0.5% per day to 0.2% in July 1999 and again to 0.1% on June 20, 2003. In 2008 the charges imposed on the group insurance applicants and the insured for not paying their premium on time was NT\$251 million and the amount collected was NT\$156 million, showing an increase of NT\$6.0 million from the previous year or 4.0%. The collection rate was 62.0%. Categories 2 and 3 had the lowest collection rates at 43.0% and 44.0%, respectively, followed by Category 6 at 53.4%.

Figure 14 Charges Imposed on the Insured and Group Insurance Applicants due to Late Payment

