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Health on a Shoestring Budget

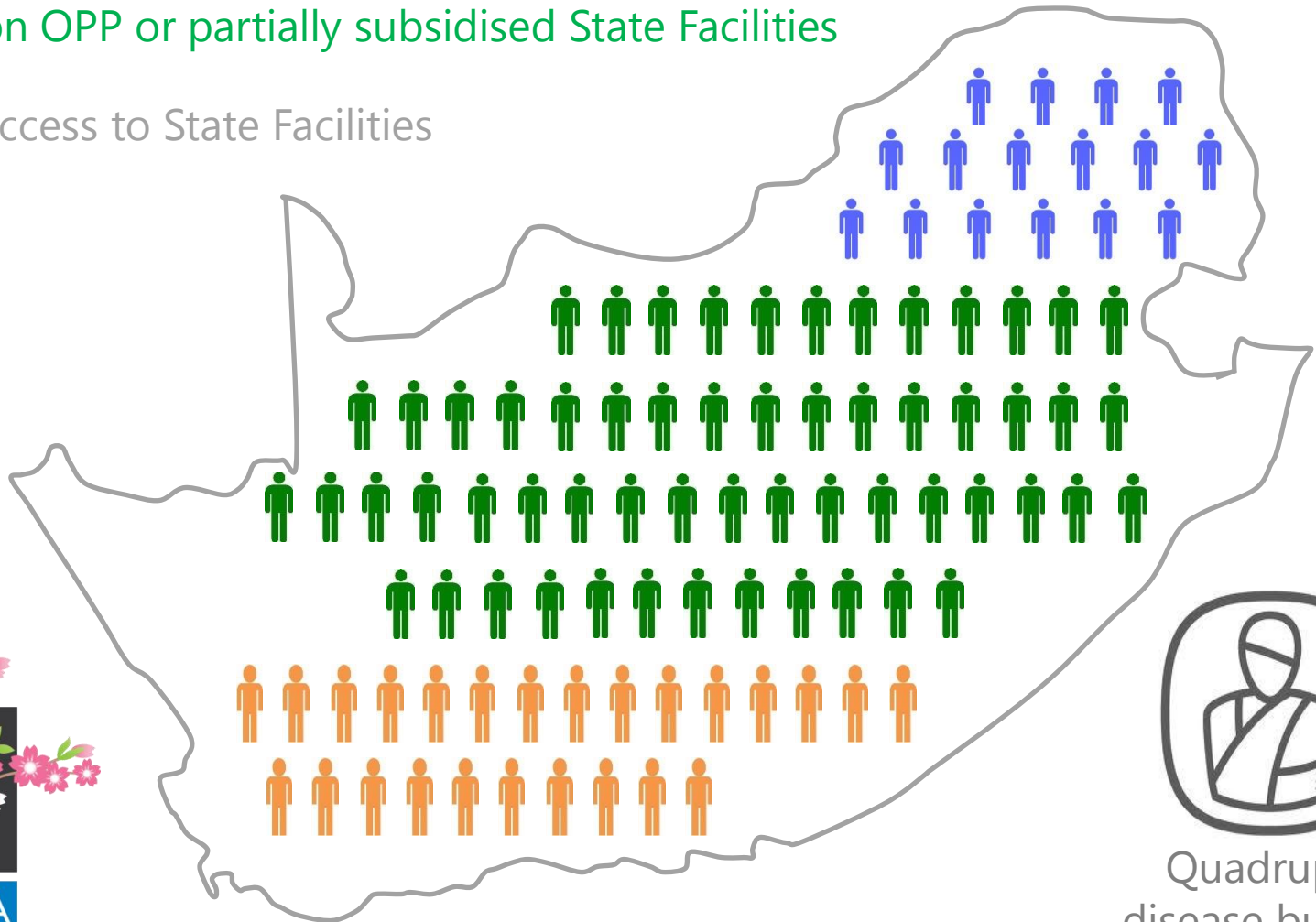The Potential of Hospital Cash Plans

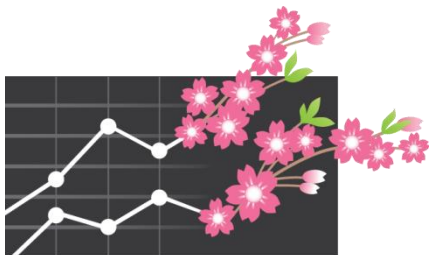Daniel Erasmus

The South African Challenge

16% Access to Private Facilities via Medical Schemes

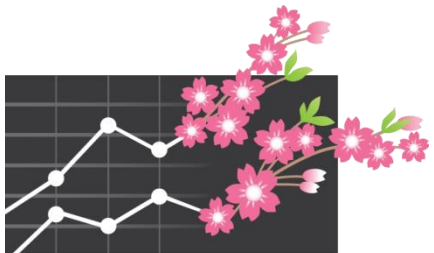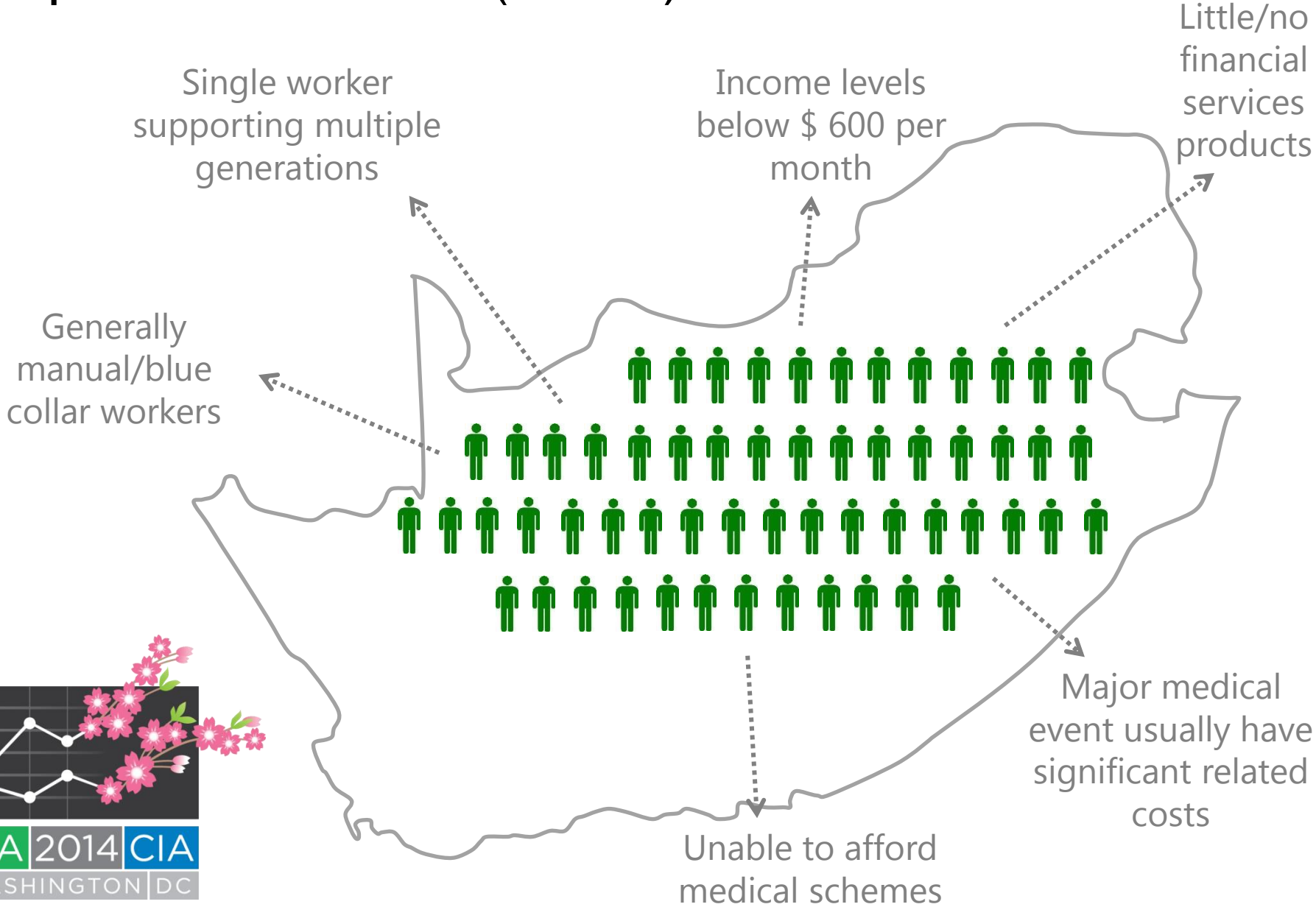60% Rely on OPP or partially subsidised State Facilities

25% Free access to State Facilities

Quadruple disease burden

Cover for the masses: Potential target market for Hospital Cash Plans (HCPs)

Single worker supporting multiple generations

Income levels below $ 600 per month

Little/no financial services products

Generally manual/blue collar workers

Major medical event usually have significant related costs

Unable to afford medical schemes

Demarcation
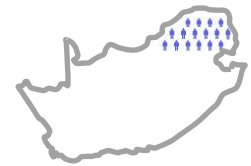
Medical Schemes		Medical Insurance Products
Indemnity benefits aimed at cost of care		Stated benefits – non indemnity
Regulated: CMS and Medical Schemes Act		Regulated: Financial authority and legislation
Principles of Community rating and inclusion, but expensive		Risk rating and exclusions, but very affordable
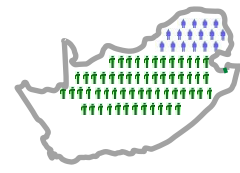
Not allowed to compete

South African HCP benefits and product structure

Insurance product - stated cash benefit per day in hospital. Not indemnity based offering

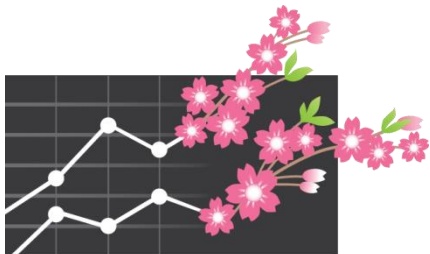Unrelated to cost of treatment

Low, age rated premiums

Often bundled offering:
- Dread disease
- Death benefit
- Accidental disability

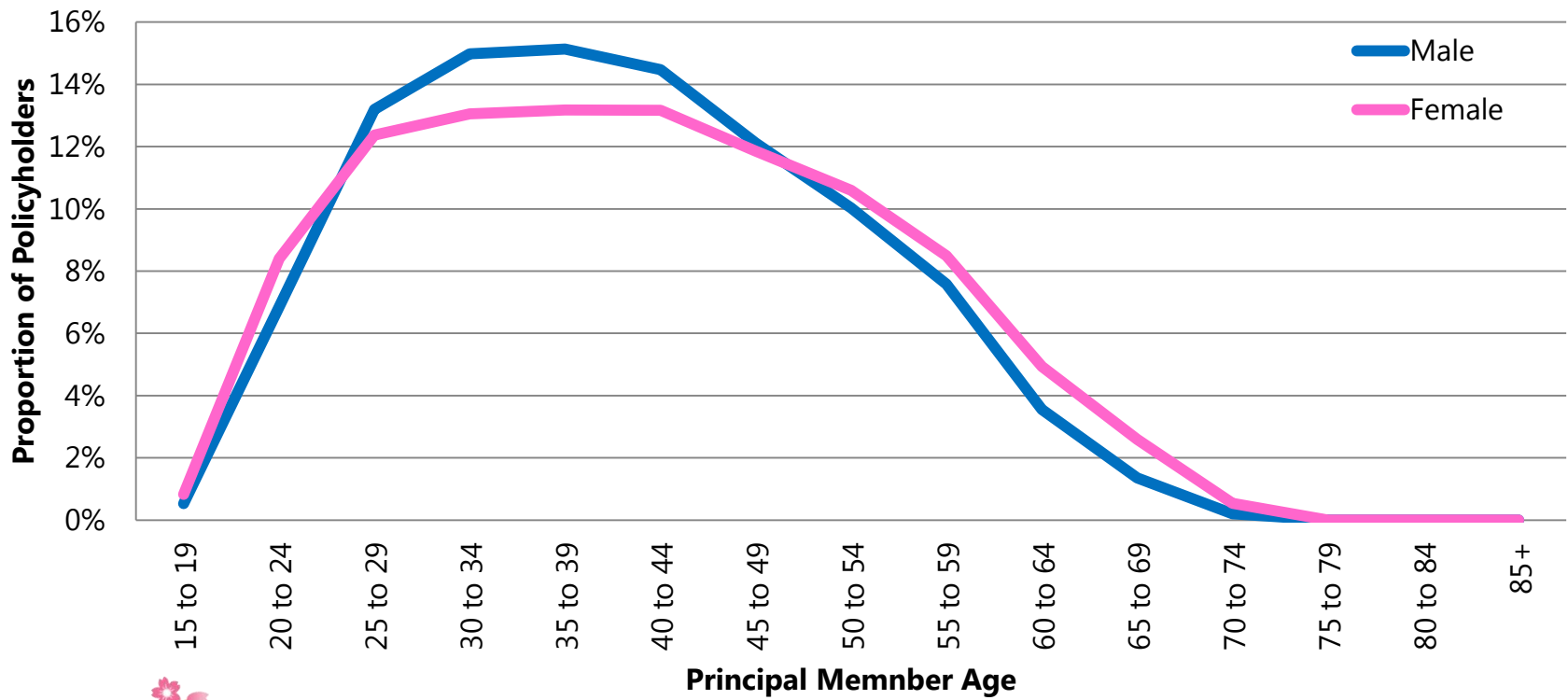Cash back incentives offered to reduce lapses

➢ Market has grown rapidly in size and verity of products on offer– concerns of threat to other products (medical aids)
➢ Proposed regulatory changes likely to impact market offering

South African HCP Market Coverage

Distribution of policyholders – gender and age

- Majority of members between ages of 25-50
- Female distribution slightly flatter

South African HCP Market Coverage

Distribution of policyholders – cover level (proxy income)

Legend: 2009 Data (green), 2012 Data (blue)

Categories (x-axis): Very Low, Low, Medium, Medium - High
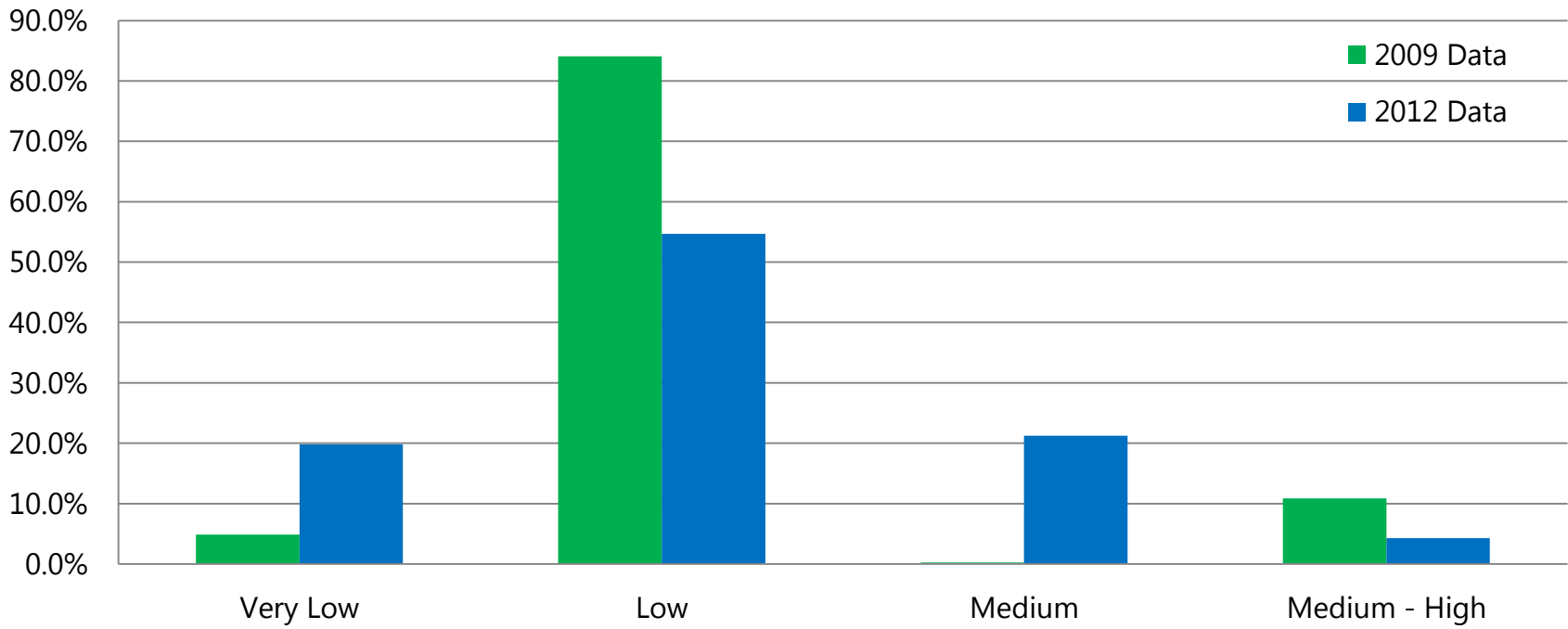
- Majority of policies for low cover benefits
  - Low income earners
  - Policies used to fund care/related costs
  - Likely very little overlap with medical scheme products

Affordability – The Key Constraint

HCP Contributions by age and cover level:

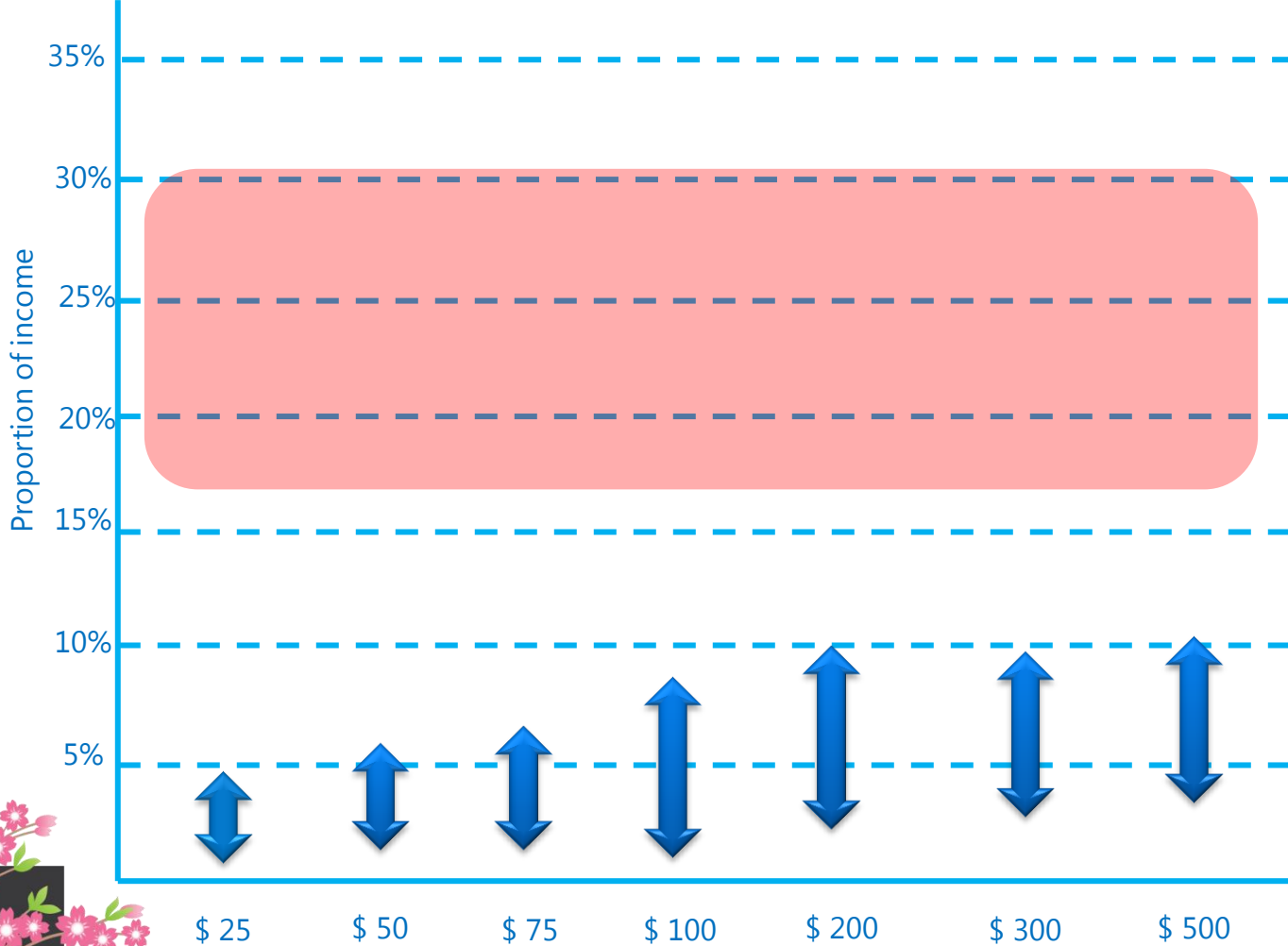|		Cover Levels per Day						
		$ 25	$ 50	$ 75	$ 100	$ 200	$ 300	$ 500
Age	18 - 24	$ 10	$ 11	$ 13	$ 16	$ 24	$ 26	$ 45
	25 - 34	$ 10	$ 11	$ 13	$ 16	$ 26	$ 27	$ 51
	35 - 44	$ 10	$ 12	$ 14	$ 17	$ 27	$ 33	$ 55
	45 - 54	$ 10	$ 12	$ 14	$ 18	$ 30	$ 38	$ 73
	55 - 65	$ 10	$ 18	$ 15	$ 21	$ 34	$ 45	$ 85

Comparably the cheapest medical scheme options are between:
$ 63 - $ 148 per member (**additional** cost for dependants)

Affordability – The Key Constraint

Contributions as a proportion of income for low income earners

UPFS Means Test and Tariff Structure

Level	Means Test	Amount paid by patient	
		Consults	Other
H0	Unemployed, Social Pension, Government Subsidies	0%	0%
H1	Individual less than $ 3 00 , Household less than $ 417	20%	20% for consultations, 1% of UPFS general ward day tariff, maximum 7 days for each 30 days in hospital.
H2	Individual $ 301 - $ 600, Household $ 418 - $ 833	70%	70% for consultations, 7% of UPFS per day for in-patient stays, differentiation by bed type.
H3	Individual more than $ 601, Household more than $ 834	100%	100% (full UPFS rate)

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# Lighthouse Signal Benefit Comparison Model

Aims:
- Quantify benefit richness of financial products
- Models relationship between pay-out and cost of service
- Indicate value offering of products
- Different products compared on a like for like basis to reflect true value
- Provide results and information based on sound actuarial and statistical principles

Features:
- Based on actual claims data
- More than 1 million observations/ individual hospital admissions
- Public and private sector data
- Outputs in the form of benefit value %
  - 100% indicating payment in full
  - <100% = co-payment
  - >100% = windfall claim
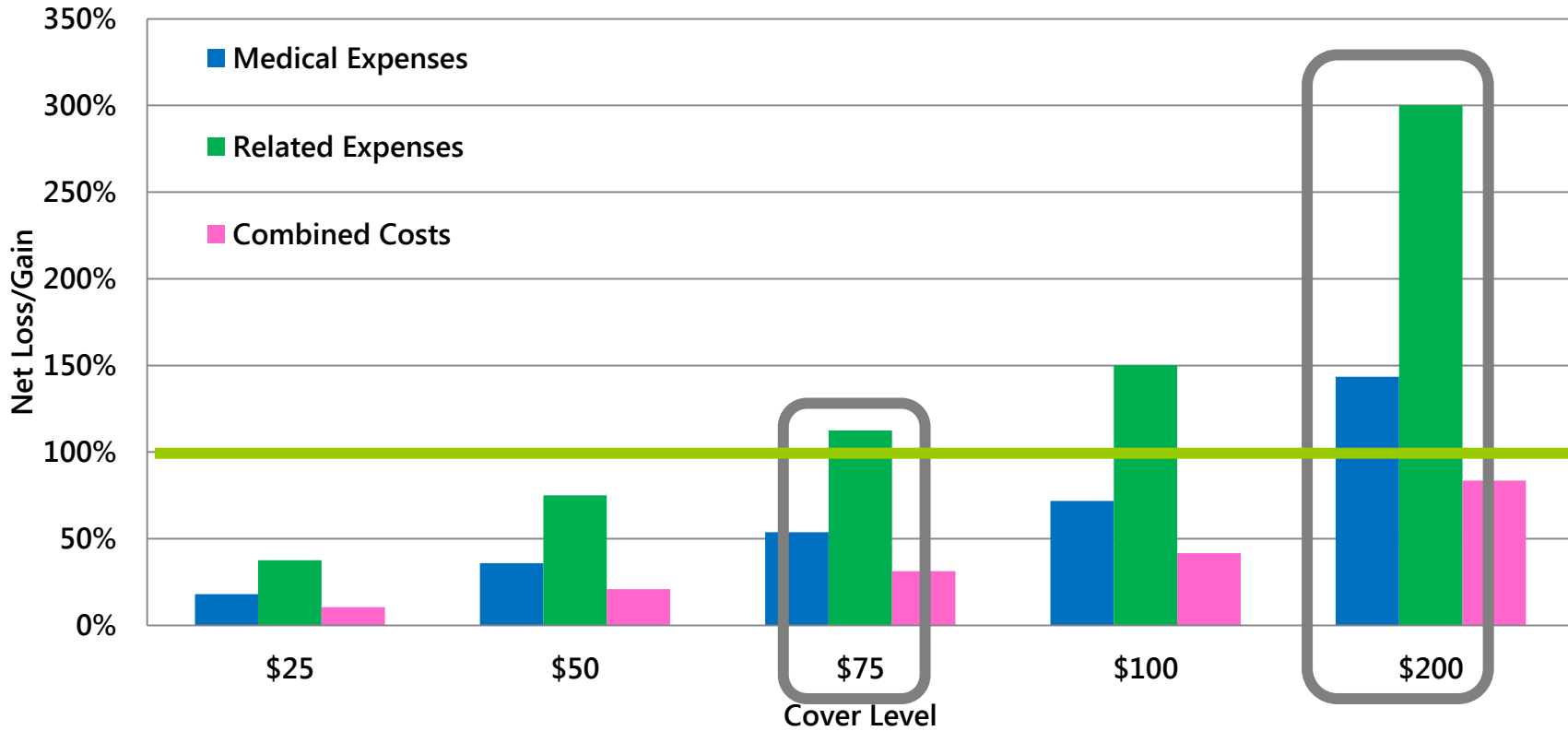- Value index allows for competitive rating of different products

State Hospital Analysis - Benefit Richness Values H1
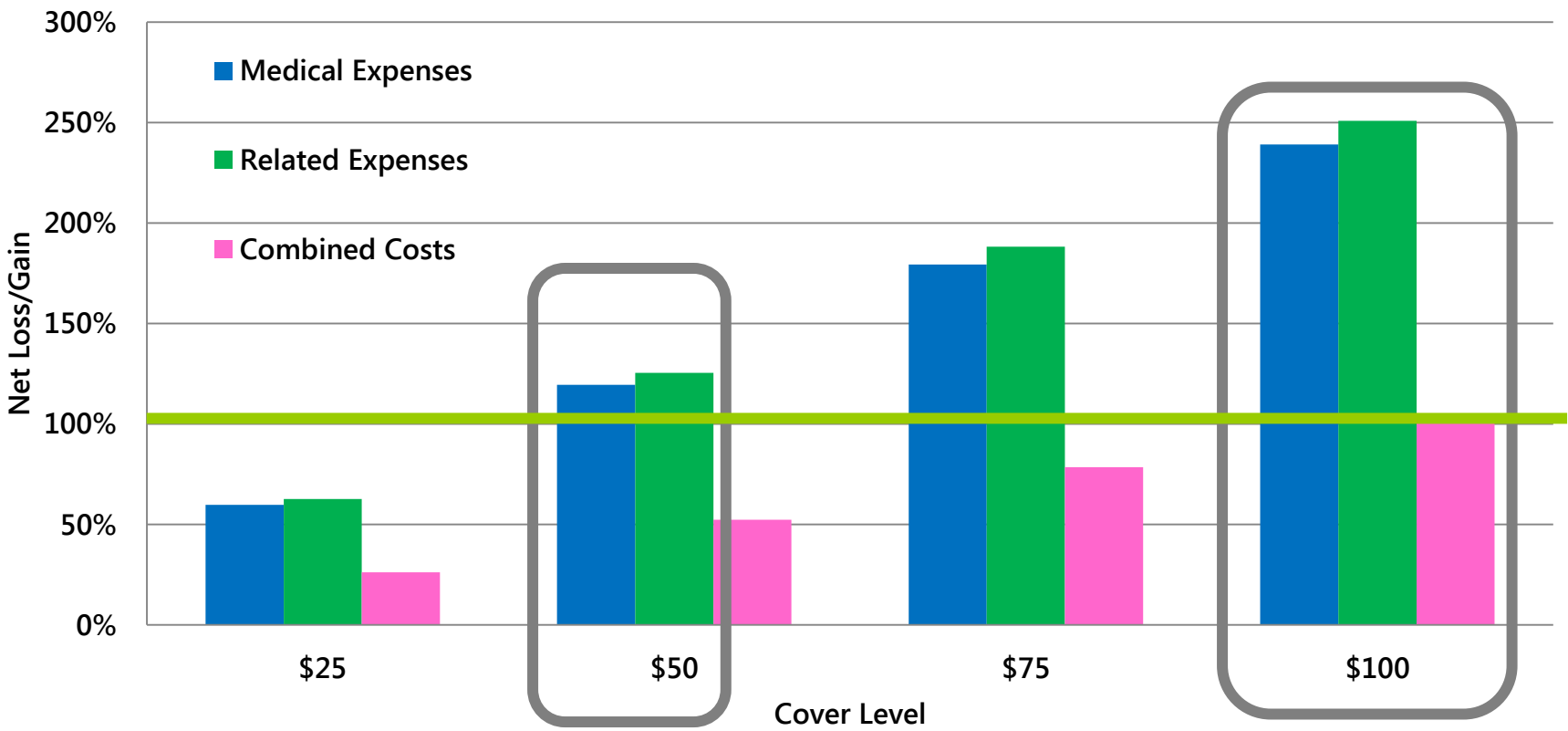
- Direct or Related costs covered at benefit levels of $ 50 per day in hospital
- $ 50 cover will only cost $ 12 per month
- All costs covered at benefit levels of $ 1 00 per day in hospital
- $ 50 cover will only cost $ 18 per month

Source: LAC Signal model, MMI data and product brochures.
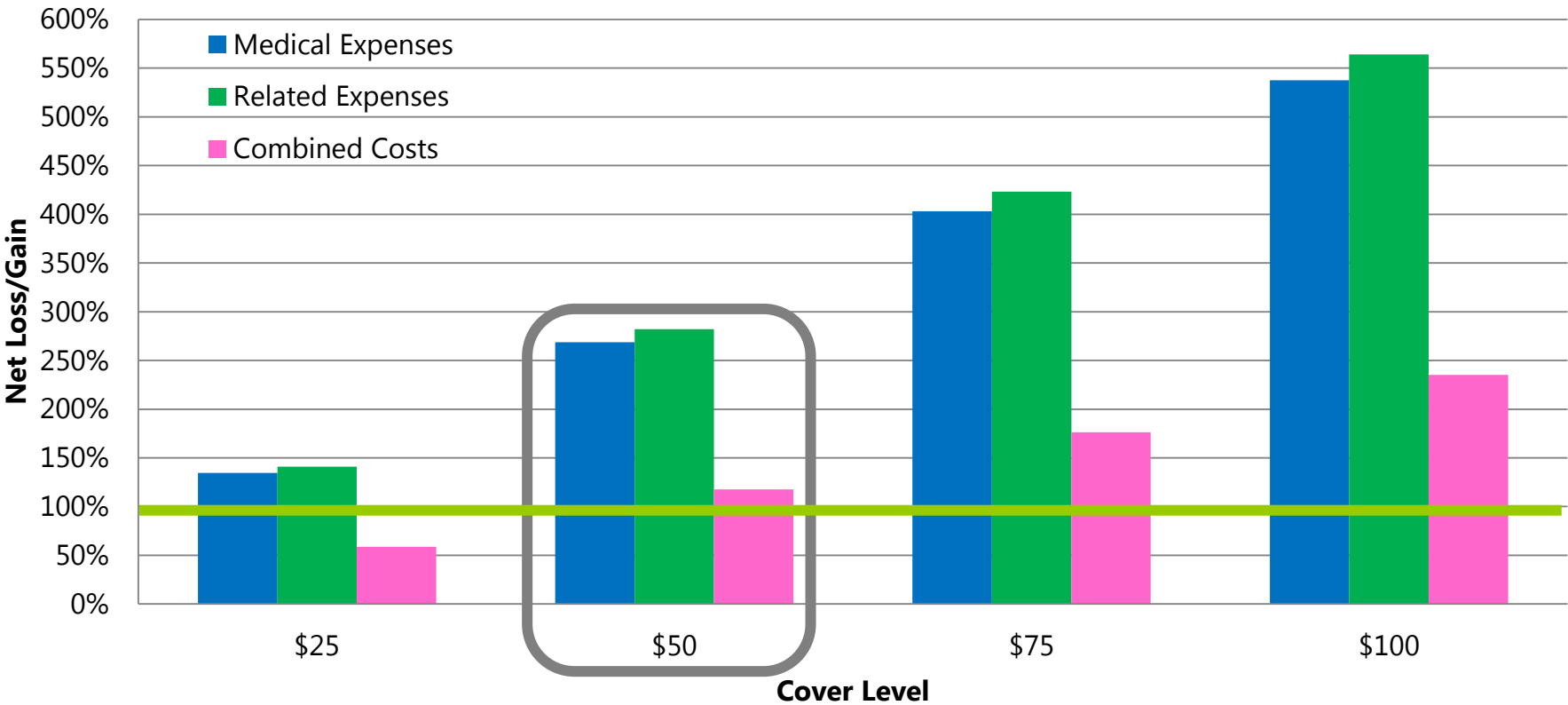
State Hospital Analysis - Benefit Richness Values H2

- Related costs covered at benefit levels $ 75 per day in hospital
- $ 75 cover will only cost $ 13 per month
- Nearly all costs covered at benefit levels of $ 200 per day
- $ 200 cover will only cost $ 27 per month

Source: LAC Signal model, MMI data and product brochures.

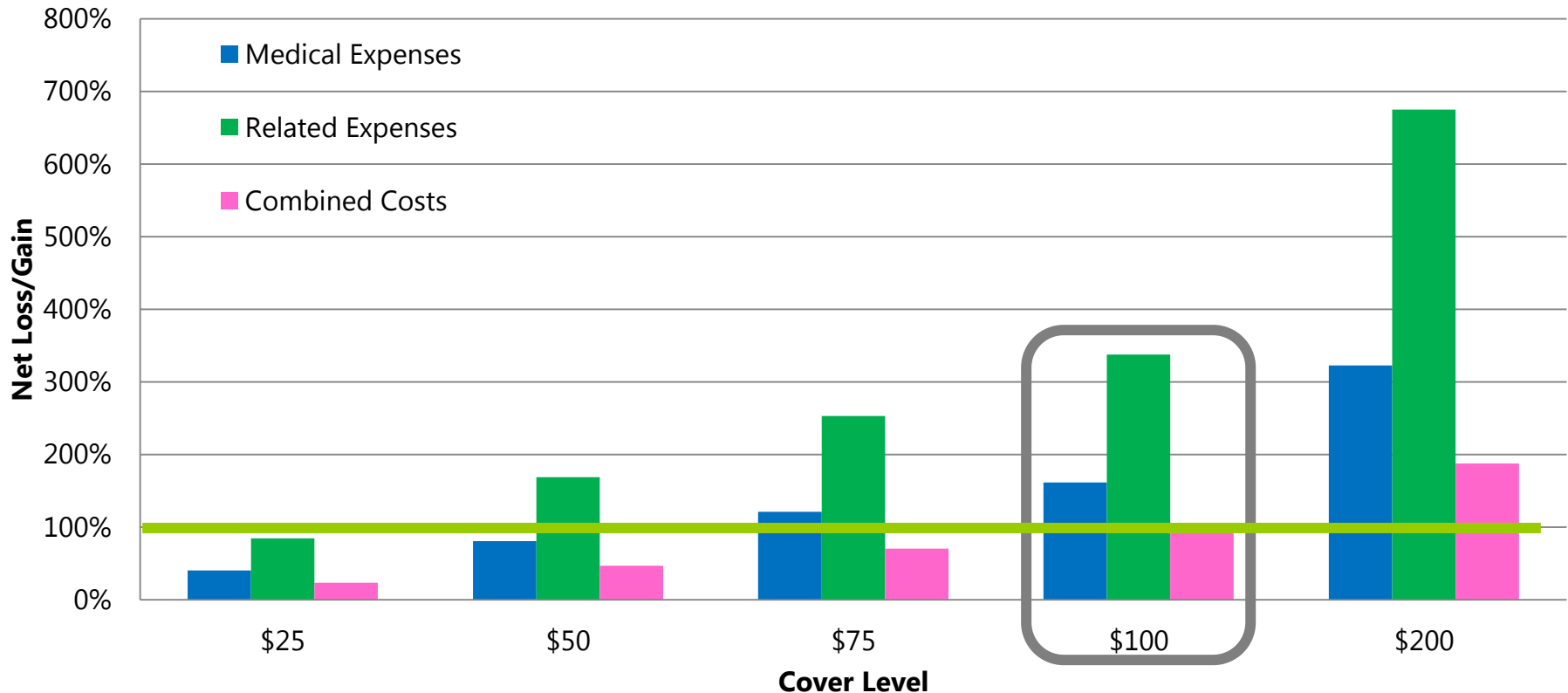# State Hospital Analysis - Benefit Richness Values H1 (Los >2 Days)

- All costs covered at benefit levels $ 50 per day in hospital (cost of $ 12 per month)
- Significant potential benefit for H1 persons at very low cost leve[l]

Source: LAC Signal model, MMI data and product brochures.

State Hospital Analysis - Benefit Richness Values H2 (Los >2 Days)

- Nearly all costs covered at benefit levels $ 100 per day in hospital (cost of $ 18 per month)
- Very affordable means to provide cover against these costs

Source: LAC Signal model, MMI data and product brochures.

Market Challenges

Legislative Changes – revised demarcation, products pushing the envelope

Health insurance profit margins – key ethical concerns

Miss-selling and consumer understanding. Limited financial knowledge

Fraud – syndicated, provider based/assisted

Cost escalation:
- **Buy down risk to medical schemes**
- **Value for insurance products**

Distribution and Target Market – undefined, hard and expensive to reach

Volume and quality of information – policyholder and products

Conclusion

Key Results:

- HCP are significantly cheaper than Medical Schemes and do not offer competing benefits

- HCP potentially effective vehicle to fund both the direct and related costs of a major medical event for low income persons in state facilities – questions about value

- HCP not the ideal solution, but currently one of the ONLY products that offer reasonable levels of risk mitigation at affordable levels for low income earners

- HCP's potentially an interim solution leading up to NHI

- Revised regulatory structure aims to protect medical schemes, but at the cost of a potentially effective sub-product class

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Key Questions

➢ What is the ideal role of health insurance (complicated issue in SA)

➢ What aspects of health care could and should be insured in an insurance mandate?

  ▪ Proliferation of insurance industry – good or bad?

  ▪ Extending medical scheme coverage vs. creating cheaper substitute insurance products

  ▪ What is the ideal function for the HCP market?

➢ Ideal vehicle to fund the needs of the poor (Insurance vs. community rated products) – today, tomorrow and during transition to NHI?