PSG Employee Benefits Linking your healthcare options

NEWSFLASH

December 2013

*'Health is like money, we never have a true idea of its value until we lose it'*

*Josh Billings*

*PSG Employee Benefits is part of the PSG Konsult Group – one of the largest independent financial services providers in South Africa today and focused on serving the SME institutional and public sector markets*



# Sound the Alarm : There is No NHI in SA's Budget Plans

EVER since the Department of Health published its Green Paper in 2011, the public debate about how to finance the National Health Insurance (NHI) reform has been in limbo. But behind closed doors, there has no doubt been a fierce debate between the department and the National Treasury. The Treasury was to publish a discussion paper in April last year, but that did not happen. Rumour has it that the discussion paper will be published soon. It will be interesting to read, to put it mildly. In the medium-term budget policy statement last month, the acronym NHI does not appear. In real terms for 2012/16 alone, the Treasury is about R150 billion behind the plan for public health reform modelled in the 2011 Green Paper. Indeed, there are no traces whatsoever of the NHI in the Treasury's budget plans. The 2011 Green Paper proposed that the size and strength of the public health sector ought to be more than doubled between 2010 and 2025, making clear that resources would have to be transferred to public health from private health. This is a very reasonable position. Private health comprises about four percent of gross domestic product (GDP), or half of South Africa's spending on health, but it serves only 16 percent of the population. Public provision of health is under severe pressure.


Taking into consideration the need for services in health, education and social development, South Africa should ensure that it has a public sector capable of playing a bigger role in the economy. Redistribution from private to public must therefore be on the agenda. First, there is a limit to possible reallocations within the budget. Second, a thorough going reform like NHI cannot be financed with increased borrowing. Third, and whatever the National Development Plan says, it is very unlikely that economic growth will be above three percent every year until 2025. In 2010, the Treasury projected 4.2 percent GDP growth for 2012/13. Today the prediction is 2.4 percent. The global recession continues. Using the numbers from the 2011 Green Paper, the share of public health in GDP grows by two percentage points, even if we assume a 3.5 percent real average growth of GDP until 2025. With lower average GDP growth, a public health sector reformed in the spirit of the department will be larger than 5.8 percent of GDP in 2025. The conclusion from this is that anything the least like the NHI reform envisioned in the department's Green Paper cannot be financed by growth alone.

Redistribution of resources from private to public is necessary. To scrap tax deductions for private medical insurance comes first to mind. Obliging the

## Sound the Alarm: There is No NHI in SA's Budget Plans …contd.

private health industry to put some of its resources at the disposal of public health on a cost price or rebated basis is another option. All in all, the tax revenue to GDP ratio must increase from around 25 percent. Tax rates should rise for high-income earners and the very rich who dodge taxes must be brought into the system. Corporate-tax dodging and avoidance must be effectively curbed. The Treasury, in order to free up the much-needed funding, must end its series of tax cuts. From the side of financing, the two or more percentage points that popped out from the simple model above must be added to the tax revenue. The lower the GDP growth rate, the more we have to exceed 25 percent tax revenue to GDP to implement the NHI alone. In contrast, since 1989 - save for three to four years in the middle of the 2000s when GDP at one point even fell - the tax revenue to GDP ratio has hovered around 25 percent. Since 2009/10, we are back at the usual levels. Still, so we have been told, Finance Minister Pravin Gordhan argues at meetings that there exists no tax revenue to GDP policy, confusing his critics. The 25 percent tax revenue policy rule was spelled out in the 1996 Gear (Growth, Employment and Redistribution) document. It was repeated again in the 2012 Budget speech. Tax revenue to GDP was to be "stabilising" at a quarter of GDP, the Finance Minister said. In addition to declaring his belief in a small public sector, he promised to decrease the budget deficit from 4.8 percent to three percent of GDP (a goal inherited from the EU), to cut public sector borrowing from 7.1 percent to five percent over three years and to limit real growth in non-interest public expenditure to 2.6 percent a year. The Department of Health and the Treasury are miles away from each other in their vision of a reformed public health sector. The gulf in numbers reflects of course an ideological gulf and two kinds of politics. In short: the Treasury does not want to confront the private insurance industry and the private health oligopoly. Friends of public health, who neither want a mere parody of public sector health reform nor a public sector health turned into another Eldorado for tenders and corporate profiteering, must sound the alarm. Much of the financing discussions on the NHI have been kept out of the public domain. All secrecy must end now.

Dick Forslund is an economist and researcher at the Alternative Information and Development Centre
Source: *Dick Forslund: Business Report, 27 November 2013*

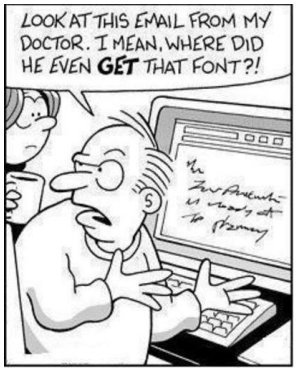
## Neighbourhood Doctor the Key to Healthcare Costs

YOU hear it like a broken record on every platform discussing medical aids, hospitals and costs across South Africa: medical costs are out of control and must be brought down. It is almost an irrelevant statement because no one, obviously, disagrees with that sentiment. But the real issue, like many of our challenges in South Africa, is how to do it. Based on our experience of running one of the biggest medical aids in the country, it seems there is one central way to attack these costs directly - improve the skills of doctors and practitioners. This means patients will get better-quality care, costs will go down and they will get more immediate relief. It is clear where the costs are coming from in the system. The latest Council for Medical Schemes annual report shows that hospitals and specialist services' are the primary cost drivers. The payments for hospital services accounted for 36.7 percent of the total benefits paid to healthcare providers during 2012, whereas specialist fees accounted for a further 23.3 percent. Together, payments to hospitals and specialists accounted for 60 percent of the total paid to providers - and the especially worrying part is that these costs are escalating at a rate of between 11 percent and 12 percent annually. Drilling down further, using our own data at Bonitas, shows that a large proportion of our hospital costs result from overnight admissions. In particular, admissions for pneumonia and gastroenteritis feature in our scheme's top five admission categories and represent the top cost drivers. This is an apt example of the point.

*"Nurse, get on the internet, go to SURGERY.COM, scroll down and click on the 'Are you totally lost?' icon."*

You could avoid admitting people to hospital for this by educating general practitioners on clinical guidelines and giving them clear instructions on how to manage these conditions in outpatients. Equally, if we provide GPs with greater skills, they would be equipped to perform relatively minor procedures in their rooms rather than referring them to specialists and hospitals. All medical aids are trying to respond to this issue as best they can. We at Bonitas

# Neighbourhood Doctor the Key to Healthcare Costs… contd.




have established a programme designed to enhance the surgical and medical skills likely to be needed by GPs. The ultimate objective is to increase the GPs' ability to manage patients more appropriately at a primary care level to reduce the pressure on the already overburdened secondary care level. In practice, this means that GPs who use this programme are rewarded for managing clinical and surgical conditions that are contributing to the escalating costs. When the National Health Insurance scheme takes off in the next few years, this and similar schemes will be invaluable to keep a lid on costs. In a country like ours, which is not rich yet faces sharply escalating health costs, we need to encourage behaviour change to keep costs in check while ensuring the right quality and clinical outcomes. The neighbourhood doctor, who typically has the best relationship with the patient, is the key to whether South Africa can do this effectively. If we cannot form such a partnership, nobody wins - not the doctors, not the medical aids and certainly not the patient.

Ramasia is a principal officer of Bonitas Medical Fund

*Source: Dr Bobby Ramasia: Business Times, 24 November 2013*

# Demand for Health on the Increase, Despite Costs

If the results of SA's listed private hospital groups are anything to go by, the demand for private care in this country continues to rise despite concerns that it is unaffordable, even to those who have medical cover. The financial year to September was another bumper season for Netcare, Mediclinic International and Life Healthcare - SA's only listed private healthcare groups. Together they account for 75 percent of SA's medically insured population. Though all of them have offshore operations, SA remains their cash cow. However, at group level, the numbers are skewed, affected by currency differences and weaker performances by offshore operations in some instances. Mediclinic's normalised group revenue was up 21 percent, to R14bn, boosted by foreign currency gains in the interim period under review. Netcare's grew by 10 percent, to R27,8bn, while Life Healthcare posted an eight percent top-line rise, to R11,8bn. If offshore operations are taken out of the equation, the SA businesses have been consistent performers.

Netcare SA's revenue from hospitals and emergency services grew 8,6 percent to R14bn, while earnings before interest, tax, depreciation and amortisation (Ebitda) rose 12 percent, to R3bn. Patient days Netcare SA's revenue from hospitals and emergency services grew 8,6 percent to R14bn, while earnings before interest, tax, depreciation and amortisation (Ebitda) rose 12 percent, to R3bn. Patient days grew by 2,7 percent, while net revenue per patient day increased 5,7 percent. Mediclinic Southern Africa's normalised revenue increased by 11 percent, to R5,6bn, for the period under review, driven by a 5,8 percent growth in bed days sold. Normalised Ebitda was 12 percent higher at R1,2bn. Life Healthcare's hospital division's revenue increased by eight percent, to R11bn, driven by a 2,7 percent increase in PPDs (paid patient days) and higher revenue per PPD of 5,3 percent. Paid patient days or bed days sold refer to a formula hospital groups use to measure their efficiencies by counting the number of days they were paid for compared with actual beds used. The companies say what drives hospital admission is ageing and a growing disease burden. Michael Flemming, the outgoing CE of Life Healthcare, said SA's disease burden was four times that of the UK and twice that of Ghana and Nigeria. And, because of the disease profile in this country, there was significant demand for beds.

Netcare CE Richard Friedland concurred, citing figures published recently by the Council for Medical Schemes, which noted an increase in chronic and lifestyle diseases. In its 2012 annual report, the council reported an 84 percent increase in the prevalence of diabetes type 2 per 1 000 people between 2006 and 2011. The prevalence of renal diseases surged by 50 percent, bipolar disorders by 228,6 percent and hypertension 36,8 percent over the same period. The rise of lifestyle diseases in developing countries like SA is a new phenomenon, as they were mostly limited to wealthier countries. This means there remain huge opportunities for growth. Analysts are upbeat despite potential regulatory concerns, including the competition probes into the sector. Bonolo Magoro, analyst and partner at First Avenue Investment Management, said regulatory pressure would always exist in this sector, given the call by health ministries across the globe to lower costs. She said that as a volume-driven industry, investors should look to have exposure to healthcare providers that focused on providing the lowest-cost service, and had built capacity that was

## Demand for Health on the Increase, Despite Costs … contd.

aligned with capturing volume growth. Bonolo said consistent high cash generation, consistent renewal of corporate value and low use of leverage were some of the factors to consider when evaluating opportunities in this space. She said it was a defensive sector in a disciplined oligopoly in SA, and urged investors to explore this sector with keen interest. *Source: Andile Makholwa: Financial Mail, 29 November 2013*

## World AIDS Day – 1 December 2013


**Getting to zero: Zero new HIV infections. Zero discrimination. Zero AIDS-related deaths**

World AIDS Day is celebrated on 1 December every year to raise awareness about HIV/AIDS and to demonstrate international solidarity in the face of the pandemic. The day is an opportunity for public and private partners to disseminate information about the status of the pandemic and to encourage progress in HIV/AIDS prevention, treatment and care around the world, particularly in high prevalence countries.

Between 2011-2015, World AIDS Day has the theme: "Getting to zero: zero new HIV infections. Zero discrimination. Zero AIDS-related deaths".

The WHO's focus for the 2013 campaign is improving access to prevention, treatment and care services for adolescents (10-19 years), a group that continues to be vulnerable despite efforts so far.

WHO will release new guidance for HIV testing and counselling and care for adolescents living with HIV on World AIDS Day 2013. *Source: World Health Organisation*

## ARVs to be Labelled with Patients' Names


Health Minister, Aaron Motsoaledi says an increase in the number of HIV-positive patients is a big challenge. (SABC)

HealthMinister, Aaron Motsoaledi, says half a million HIV-positive people will from now on receive antiretroviral packaged and labelled with their names. He says they will no longer have to visit clinics to collect their drugs.

Motsoaledi was responding to questions about the reported shortage of antiretrovirals in the country. He says they've put measures in place to minimise the shortages.

"Two weeks ago, we called all the pharmaceutical companies in the country; we are issuing a contract starting with half a million people who are on ARVs. They no longer have to go to clinics and hospitals. They must choose an area whether a doctor or a pharmacy, etc. where they will go and collect ARVs so that they are labelled with their names. They are packed right from the manufacturer directly to where the person wants to receive them. They don't have to go to clinics where they will get a stockout, it is one of the things we are doing."

Motsoaledi says, however, an increase in the number of HIV-positive patients is a big challenge.

"The number of people who are on treatment is growing. In 2010, it was 923 000 now it is 2.4 million. That is very good but it comes with challenges. Obviously, hospitals get very congested. It's not easy to keep drugs for each and every clinic and hospital. You do sometimes run out of drugs because of the large number of people. We have got bigger problems of logistics, but we are putting plans to try and resolve that." Source: SABC Friday 29 November 2013 06:24

## Seasonal Greetings Message

As the holiday season begins, our thoughts turn to you our clients. It is in this spirit that we want to thank you for your loyal support and from all of us at PSG we want to wish you and your family, good health and a prosperous new year for 2014!

Contact your PSG Employee Benefits advisor for more information on any of the topics contained in this newsflash