HMI Reports – Regulatory gaps in healthcare financing

WORKSHOP 1 FEB 2018

The problems we're discussing

01 | Risk pooling failures

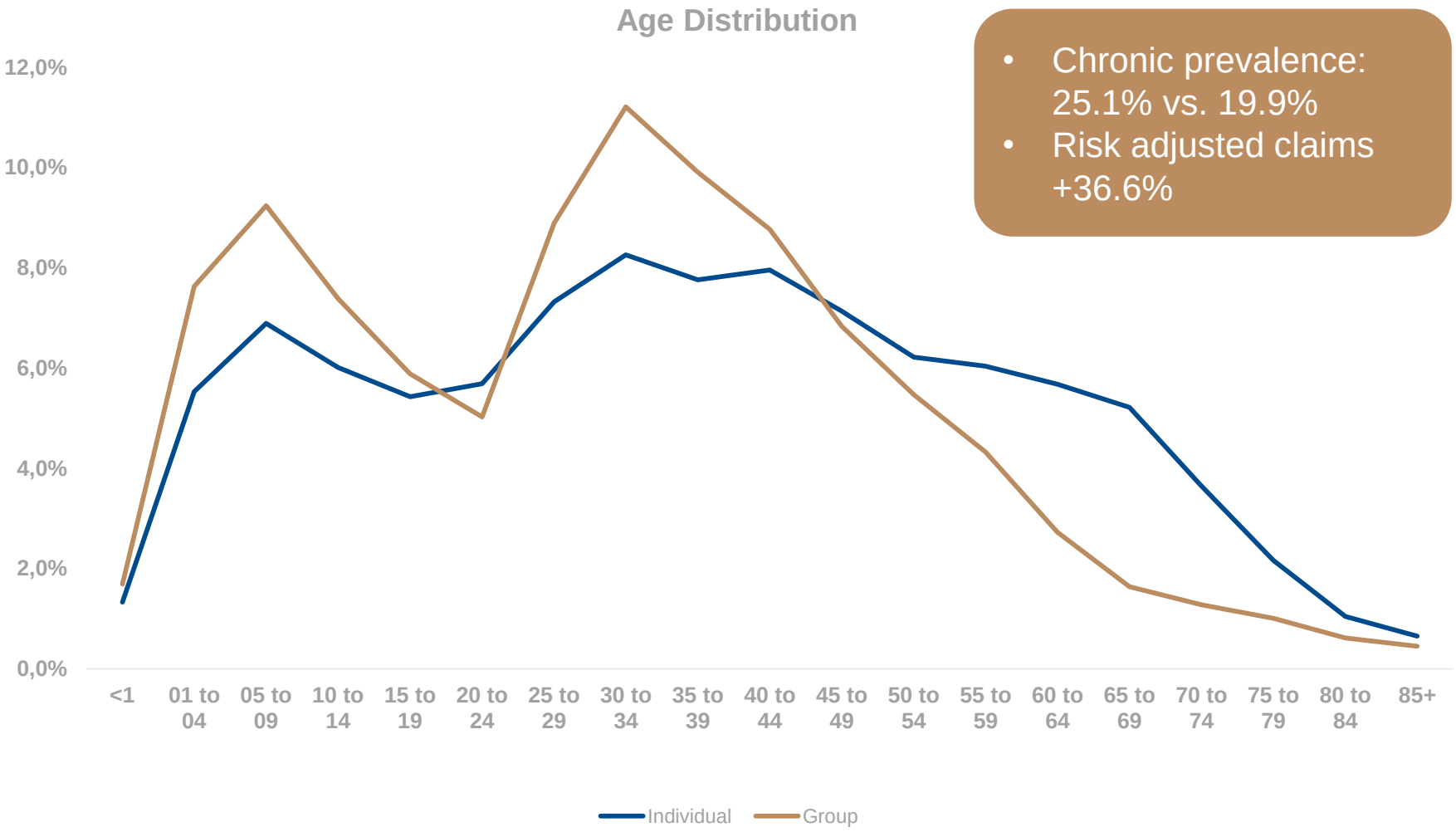
02 | Benefit complexity

Risk pooling failures

1. **Anti-selection** is real and incontestable and **significant**
2. Do **plan-mix adjustment** to properly identify **cost drivers**
3. Then design **interventions** to address:
    a. **Demand** side
    b. **Supply** side drivers
4. **Risk pooling failures** play out in demand side cost drivers, but is **exacerbated by PMB design**

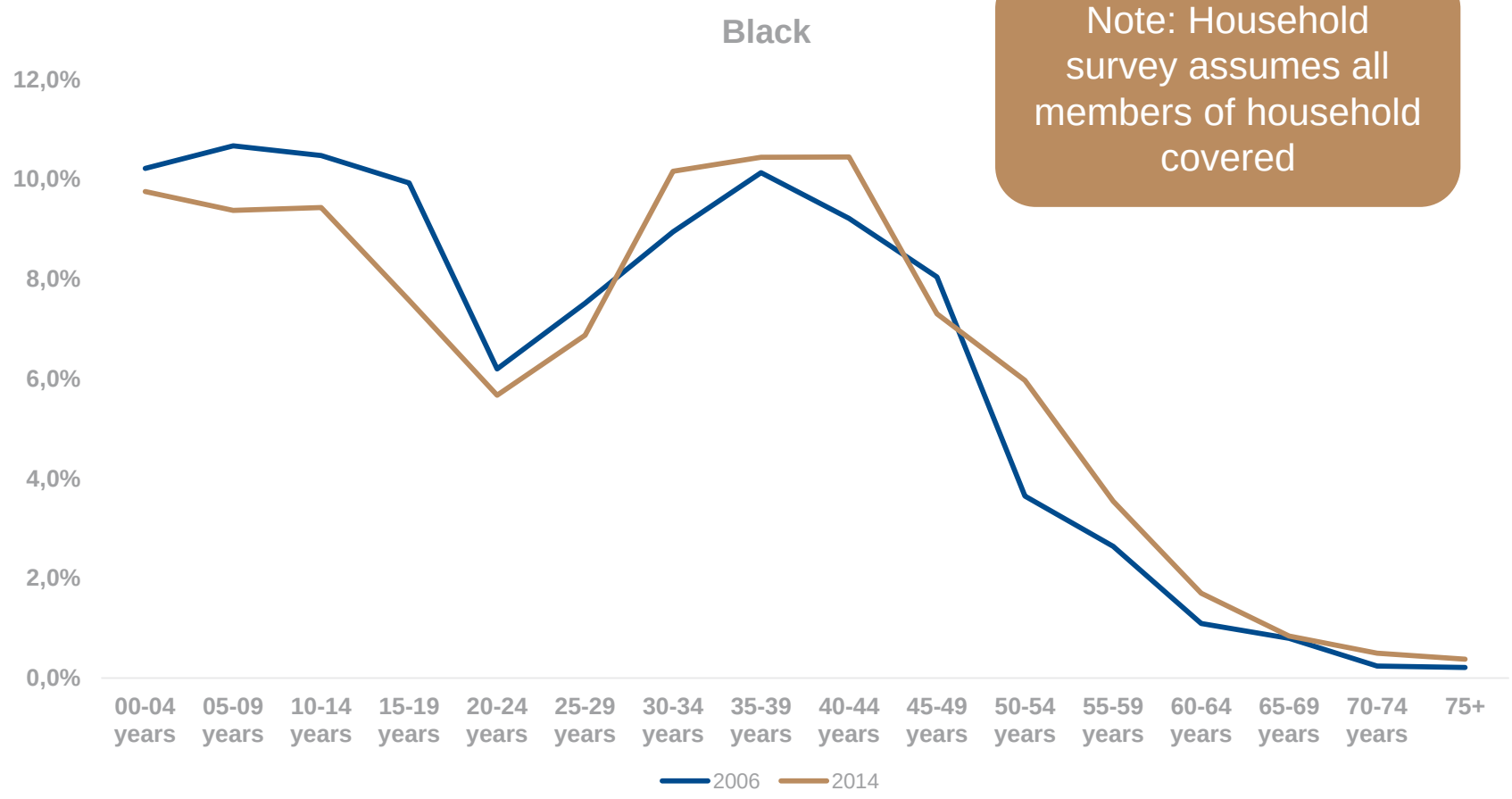
Evidence of anti-selection

DHMS Age distribution 2016: Individuals vs Groups



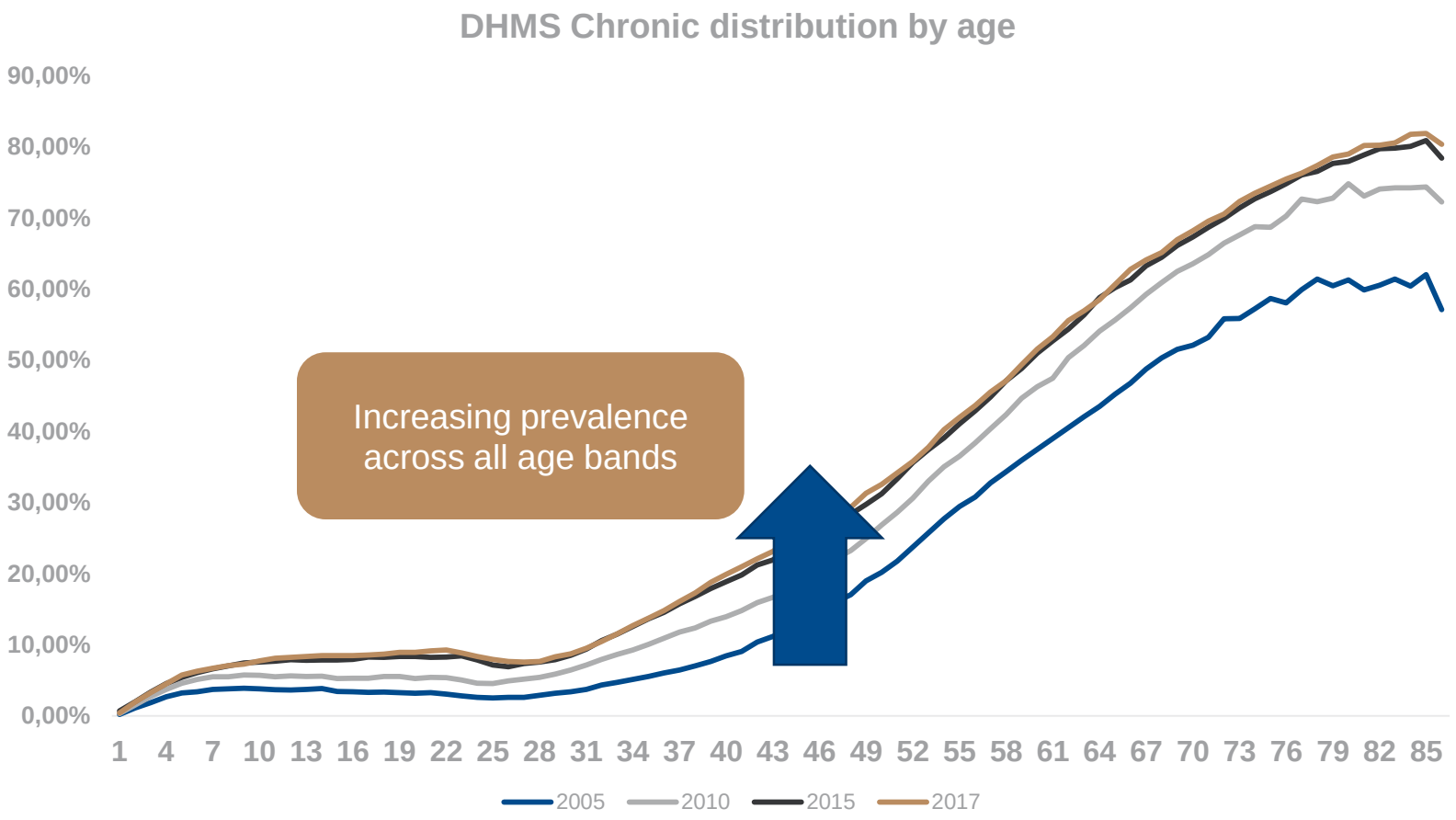
- Chronic prevalence: 25.1% vs. 19.9%
- Risk adjusted claims +36.6%

General Household Survey (GHS): No evidence of “normalizing”

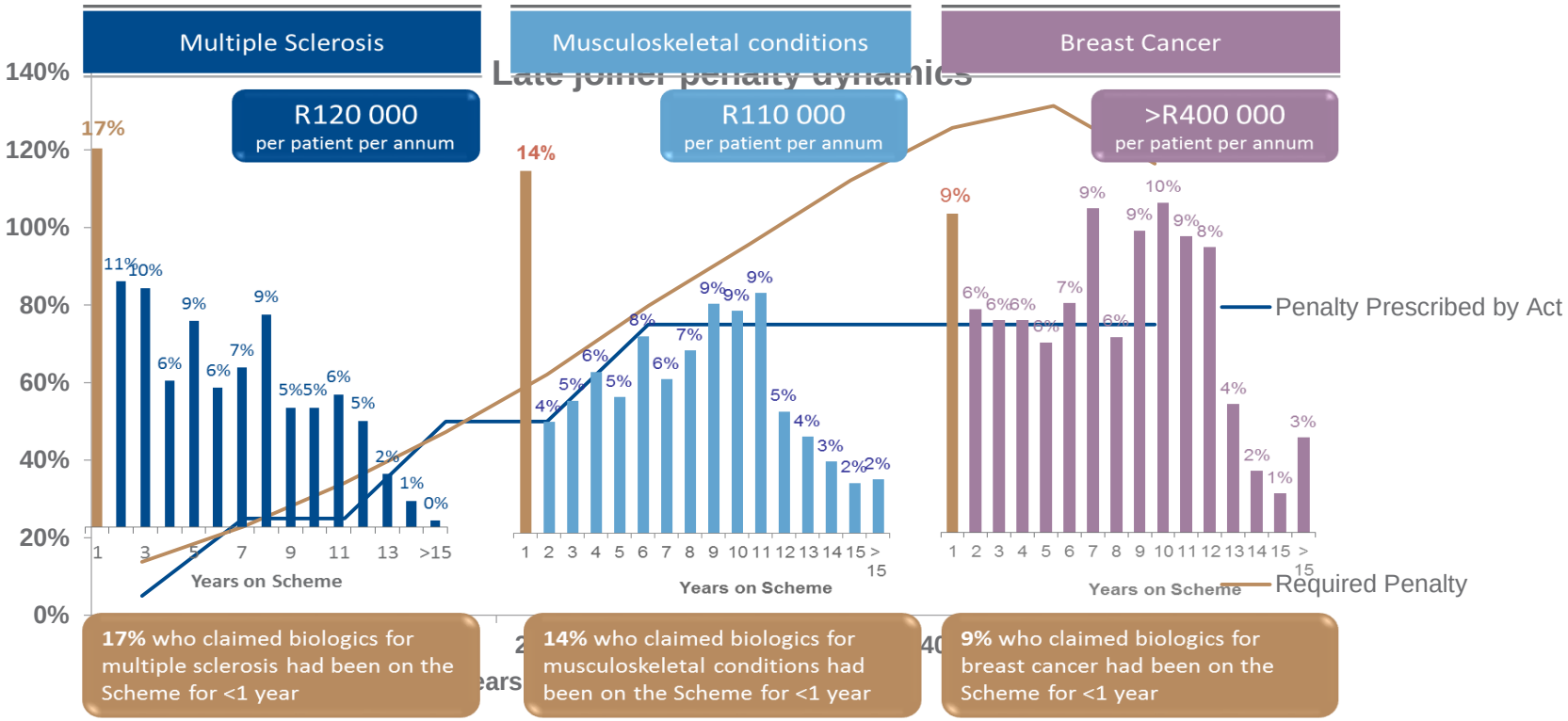


Note: Household survey assumes all members of household covered

Increasing chronic prevalence



Underwriting rules not effective



There appears to be basic mistakes in the analysis(?)

- HMI Analysis in Funders' report appears to compares claims for **6.7 months (new joiners)** to claims for **11+ months (balance) – because of the use of annual exposure**
- And uses that to conclude that there is **no evidence** of **anti-selection**

	Open Schemes 2014			
Duration	Propn	Exposure	Claims	
New joiner	13.3%	6.7	7,380	
1-2	13.0%	11.4	11,716	
2-3	9.2%	11.4	11,395	
3-4	7.8%	11.4	11,884	
4-5	8.1%	11.4	13,996	
5+	48.6%	11.4	18,117	
	100.0%	**10.8**	**14,415**	

- Adjusting properly for **exposure**, first year claims should be:

  7 380 x (11.4 / 6.7) = **12 557**
- Which is **higher** than claims in the following years
- Despite **new joiners** being younger on average

Plan mix adjustment

- **Plan mix adjustment:**
  - No one experiences **5.3% change**!
  - **95% get 8% increase** and **5% get 32.5% decrease** (and reduction in benefits)
  - Allow for this by using **the prior year mix**, not as a factor in the analysis.

	2017		2018		
	Propn members	Contribution pbpm	Propn members	Contribution pbpm	Increase
Comprehensive	50%	R 1500.00	45%	R 1620.00	8.0%
Standard	50%	R 900.00	55%	R 972.00	8.0%
Scheme		R 1200.00		R 1263.60	5.3%

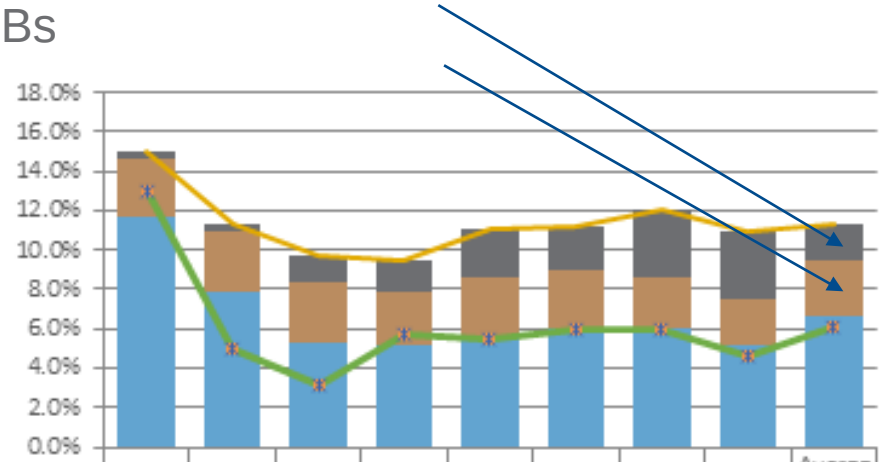
  - **Comparison to CPI basket:**
    - It would be **misleading** to say food prices have **reduced** because households can **afford less** and have had to **make substitutions**.
    - CPI measures a **fixed basket of goods** (LasPeyres) – Plan Mix adjustment requires the **same approach!**

	Units (1)	Price (1)	Units (2)	Price (2)	Change
Bread	5	R 100	6	R 108	8.0%
Meat	2	R 200	1	R 225	12.5%
Trolley		R 900		R 873	-3.0%
Fixed Trolley				R 990	10.0%

Explained factors can be addressed

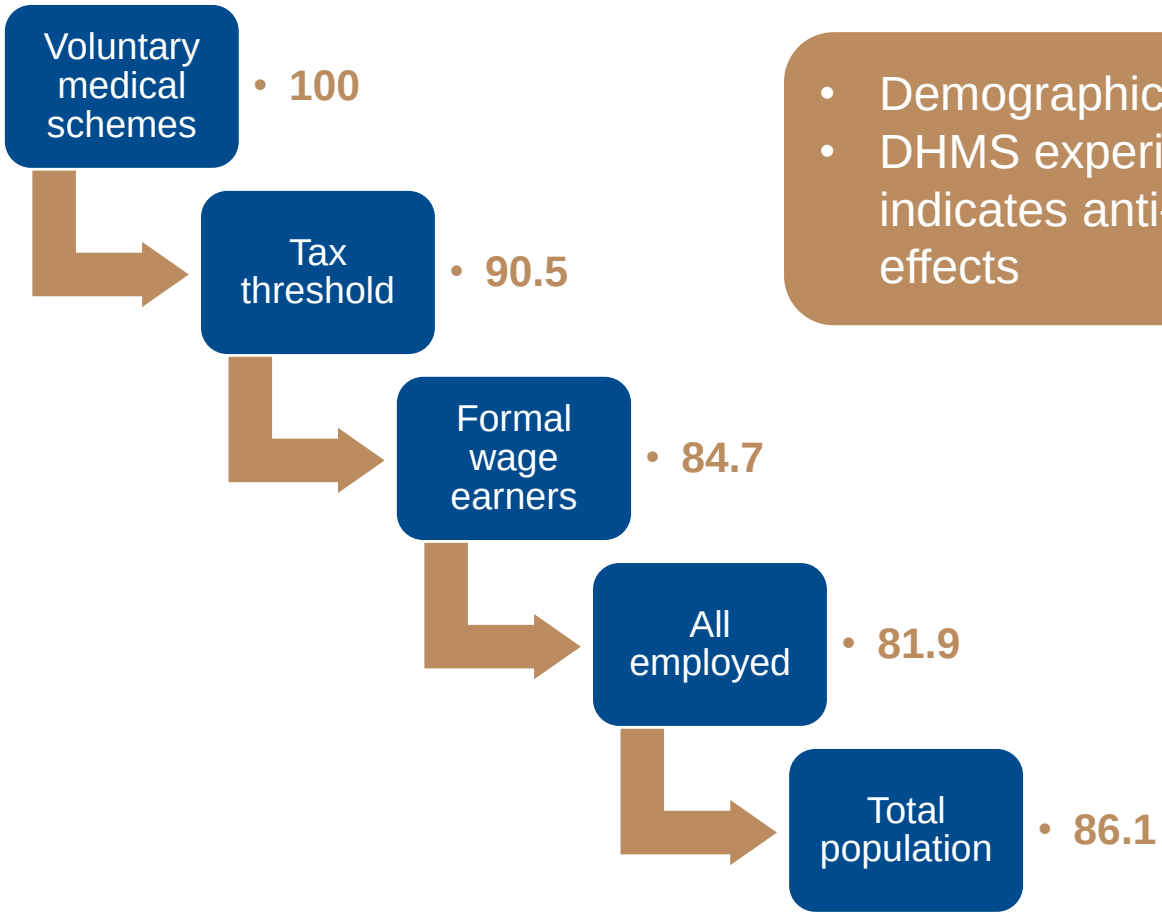
Address supply side & demand side via:

- **Mandates**
- **Risk equalization**
- **Strengthening**
- Whilst **fixing** PMBs



	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Average '08-'16
Supply side impact	0.4%	0.4%	1.4%	1.7%	2.5%	2.3%	3.5%	3.5%	1.9%
Demand side impact	2.9%	3.1%	3.1%	2.7%	2.9%	3.0%	2.6%	2.4%	2.8%
Tariff increase	11.7%	7.9%	5.2%	5.2%	5.7%	6.0%	6.0%	5.2%	6.6%
Total utilisation	3.3%	3.5%	4.5%	4.4%	5.4%	5.2%	6.0%	5.8%	4.8%
CPI at Sep of prior year	13.0%	5.0%	3.1%	5.8%	5.4%	6.0%	5.9%	4.6%	6.1%
Total plan mix adjusted increase	15.0%	11.3%	9.7%	9.5%	11.1%	11.2%	12.1%	11.0%	11.4%

Membership mandates



- Demographic risk only
- DHMS experience indicates anti-selection effects

- McLeod, H., & Grobler, P. (2009). The role of risk equalization in moving from health voluntary private insurance to mandatory coverage: the experience in South Africa

Re-engineer the PMB package

Discovery Health

Hospi-Centric Curative Care Review

→ ? **Review / Remove ?**

Care for Serious Medical Conditions

→ ✓ **Promote**

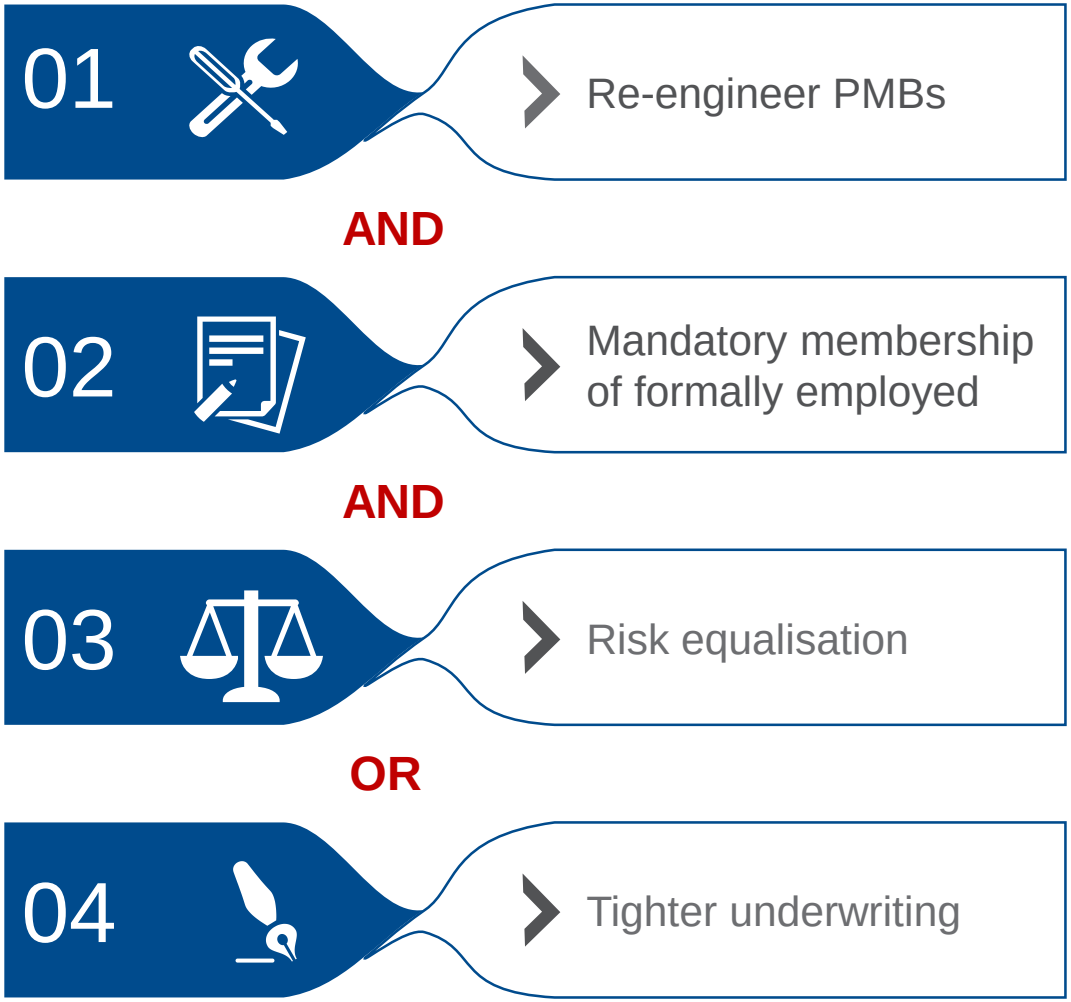
Primary and Promotive Care

→ ✓ **Expand**

1. New PMBs should cost less than current PMBs

2. Consider LCBO with employer subsidies

Recommendations to Mitigate Demand Side Drivers



Benefit complexity

1. Why are members **confused**?
2. **How** confused are they and **what** are they confused about?
3. What can be **done** about it?
4. Why **limiting** the number of benefit options **WON'T** work
5. Why **fixing PMB and tariffs rules** will make a huge difference

Why are members confused?

PMB Rules – as specified in the Act and Regs

IF a member suffers from a **PMB condition**, which is one of **271 acute** and **27 chronic conditions**, out of a total of about **15 000 possible conditions**,

THEN the Scheme has to cover the treatment in **full**

UNLESS the member makes use of a provider outside the Scheme's **nominated network providers**

– The Scheme may charge a **co-payment**, as specified in Scheme rules

– Which in turn depends on whether the provider has reached an **agreement** with the Scheme on the individually defined baskets of care

BUT, EXCEPT IF the member is in a **3 month waiting period** due to **not belonging** to a medical scheme before or had more than **90 days break in membership**

- **EXCEPT** ... **previous medical scheme** ... **being available** ...
- **OR** ... **12 months** ... **condition** ... **PMB**

UNLESS the member joins as part of a group which is **not underwritten**, or if the Scheme decided to waive its **underwriting conditions**

AND, IF THE SCHEME THEN DOES NOT PAY IN FULL DUE TO ANY OF THE ABOVE

- That Scheme does not have sufficient diagnostic information, and information ... severity of the treatment ... investigations required to verify that the treatment meets the **entry and** ... treatment ...
- **OR** ... **not being** ... **soon enough** ... **network**
- **OR** ... **no network provider** ... **within reasonable proximity** to the patient's work or **place of business or residence**
- **OR** if there is **no appropriate substitution of drugs** or the formulary drug has been ineffective
- **OR** in the case of an **emergency**

Why are members confused?
PMB Rules – as specified in the Act and Regs

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- **THEN** the Scheme has to cover the treatment in **full**
- **UNLESS** the Scheme does not have sufficient diagnostic information, and information on the severity of the treatment, or the treatments, procedures or investigations planned to verify that the treatment meets **entry and verification criteria**
  - **OR, UNLESS** the treatment falls outside of the individually defined baskets of care
- **AND, EXCEPT IF**
  - The member makes use of a provider **outside** the Scheme's **nominated network providers**
  - **EXCEPT**, if, in doing so, treatment was obtained **involuntarily** outside the network due to treatment **not being available in the network**, or treatment **not being available soon enough** in the network
  - **OR** if there was **no network provider within reasonable proximity** to the patient's **ordinary place of business or residence**
  - **OR** if there is an appropriate **substitution** of drugs if the formulary drug has been ineffective
  - **OR** in the case of an **emergency**
- **BUT, ALSO NOT IF**
  - The member is in a **3 month waiting period** due to **not belonging** to a medical scheme before
  - **OR** due to having more than a **90 days break in membership** from the **previous medical scheme**
  - **OR** if the person has not belonged to a medical scheme before or had more than a 90 days break, if they have a **12 month** condition-specific waiting period, **where the condition happens to be a PMB**
  - **UNLESS** the member joins as part of a group which is **not underwritten**, or if the Scheme decided to waive its **underwriting conditions**
- **AND**, IF THE SCHEME THEN **DOES NOT PAY IN FULL** DUE TO ANY OF THE ABOVE
  - The Scheme may charge **a co-payment**, as specified in Scheme rules
  - And the quantum of which depends on whether the service provider charges **at, above, or below** the **Scheme's tariffs**
  - Which in turn depends on whether the provider has reached an **agreement** with the scheme in respect of **non-PMB tariffs**

What are members querying?

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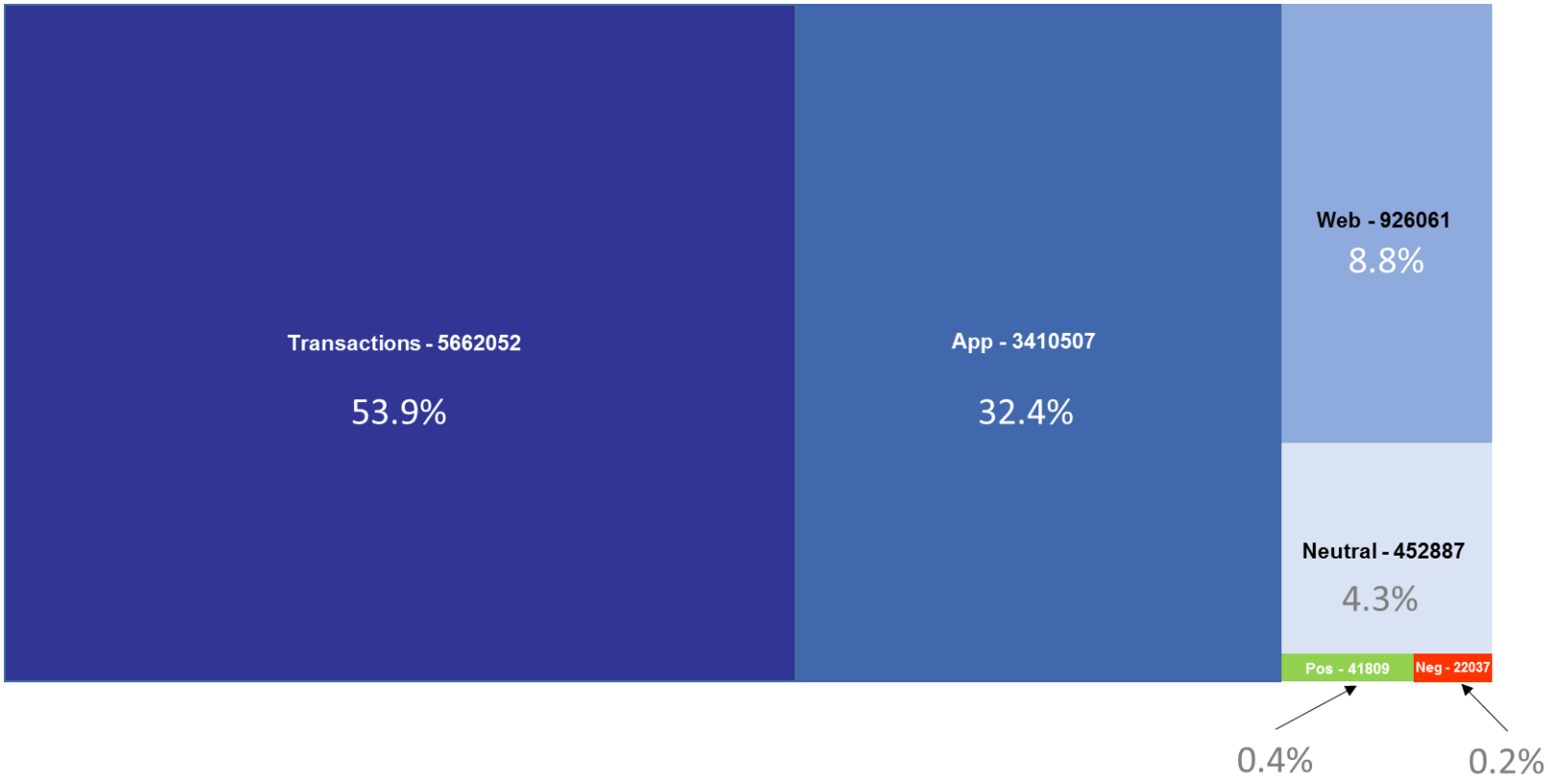

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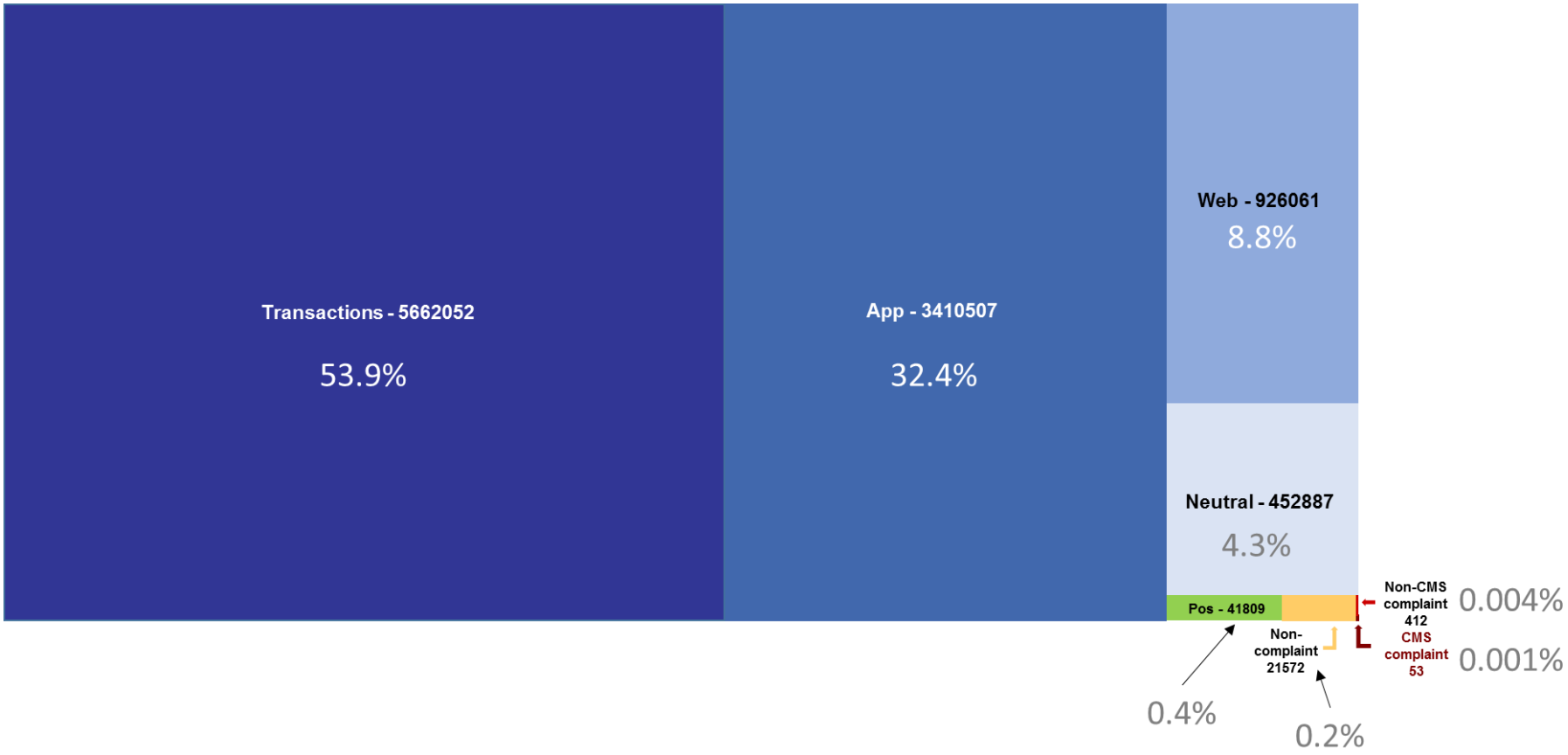


What are members querying?

Solutions ? Communicate clearly

- Follow principles of good communication generally

Categorisation

- Benefit option categories
- Highlighting differences

Concretisation

- Simple presentation format
- Showing building blocks

Phased Decision Making

- Benefit selection tools
- Intermediary roles (regulated)

Solutions? Personalise communication using technology

VIRTUAL ASSISTANT
PHASE II & II

Leveraging artificial intelligence principles to provide automated, personalized service, product information and support.

PHASE I

2017

- Implementation
- General Information
- Search & Return
- 9,500 Questions PD (44% Health)

PHASE II

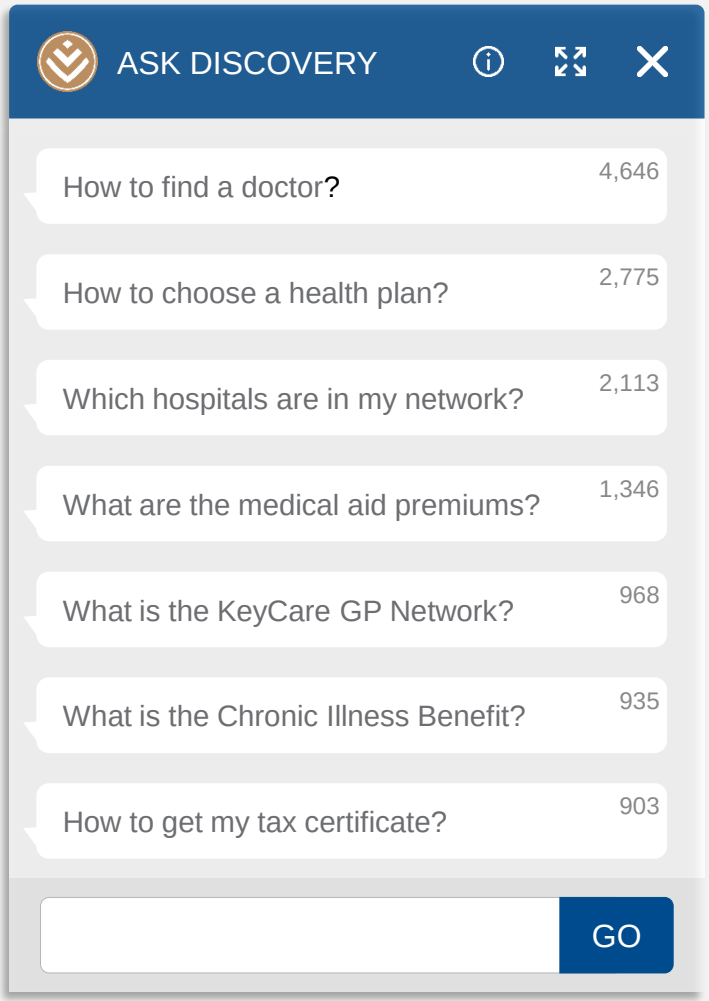
2017 - 2018

- Source System Integration
- Personalized Responses
- Extend to Mobile App

PHASE III

2018

- Transaction-Based Services
- Carry out Tasks



NOT a solution: limiting benefit options

Scenario1: Scheme with full options				
Member(s)	Plan Option	Contribution	Age	Surplus / Deficit
A	1	R 2 000	50	R - 500
B	2	R 1 750	46	R -100
C	3	R 1 500	42	R 50
D	4	R 1 000	40	R 80
E	5	R 750	36	R 20
F	6	R 450	30	R -100
Average		**R 1 242**		**R -92**

Scenario 2: Scheme with reduced options and downward migration				
Member(s)	Plan Option	Contribution	Average Age	Avg Surplus / Deficit
A and B	2b	R 1 750	48	R -425
C and D	4b	R 1 000	41	R -185
E and F	6b	R 450	33	R- 190
Average		**R 1 067**		**R - 267**

Scenario 2 leads to

- **2.9 times higher loss** for the scheme with **half** the members getting **less benefits** than they **previously had**
- Contributions need to **increase by 16%** for everyone to **compensate**

Recommendations to simplify benefits

- Modify **PMB package** – balance GP-led primary care and specialist-focused, hospital-centred care

- Make this **affordable** with risk equalization and mandatory membership and wise benefit choices

- **Simplify** the provider interface for members by:
  - Amending HPCSA rules to allow for **multi-disciplinary teams**
  - **Collective process** for updating and maintaining billing codes
  - Set collectively negotiated **maximum tariffs** for doctor PMBs (but NOT collective negotiation on corporate provider tariffs, which will have negative impact on competition)

- Use **technology** to enhance **communication**

Discussion