Impact of New Hospitals on Medical Schemes

HMI Seminar | Regulatory Interventions for Licensing of Health Facilities
01 March 2018

Dr. Tebogo Phaleng
Chief Strategy Officer

Outline

1. Discovery Health Experience of New Hospitals

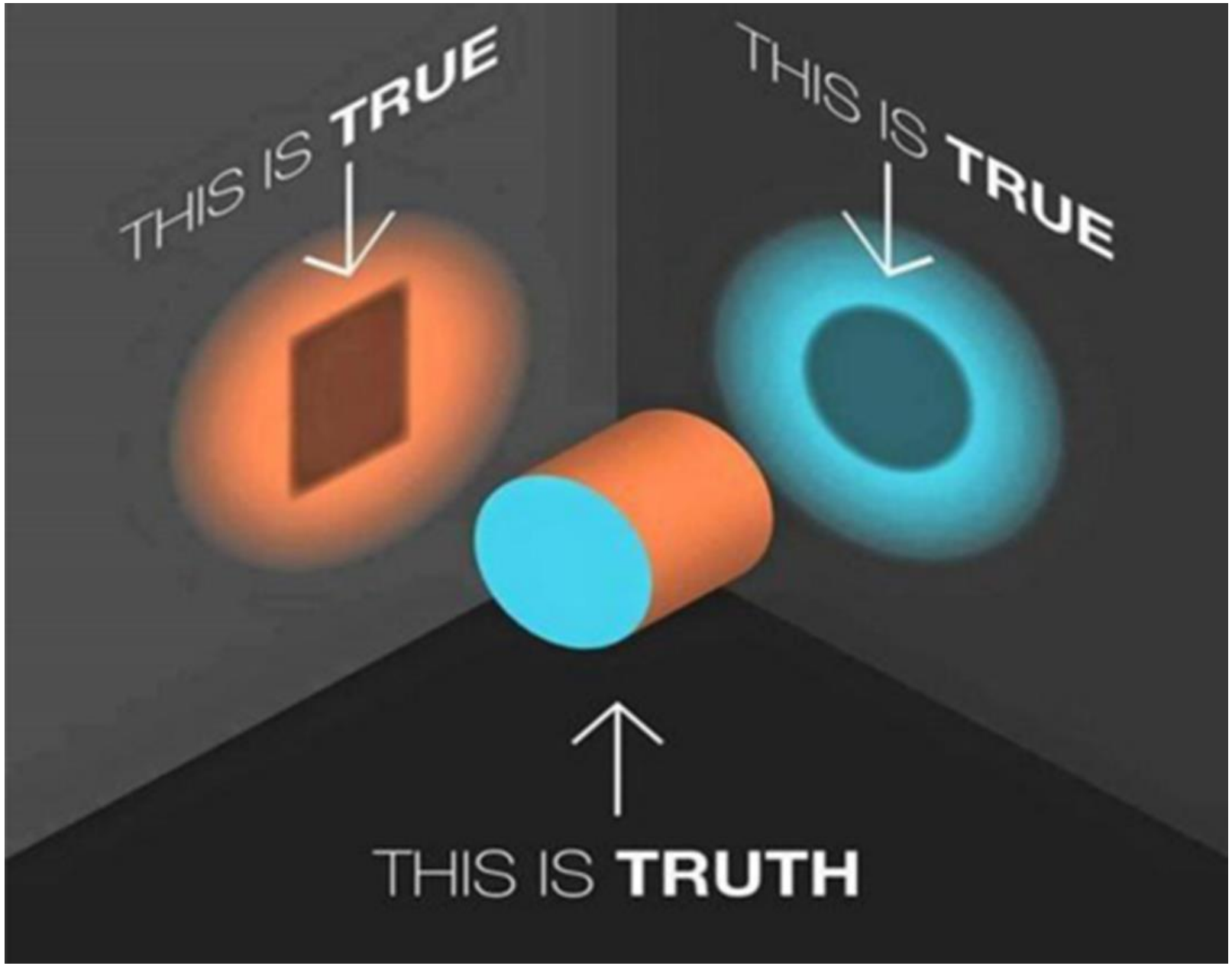
2. HMI Submission | Key Observations and Recommendations

3. Summary & Concluding Remarks

1. Discovery Health Experience of New Hospitals

2. HMI Submission | Key Observations and Recommendations

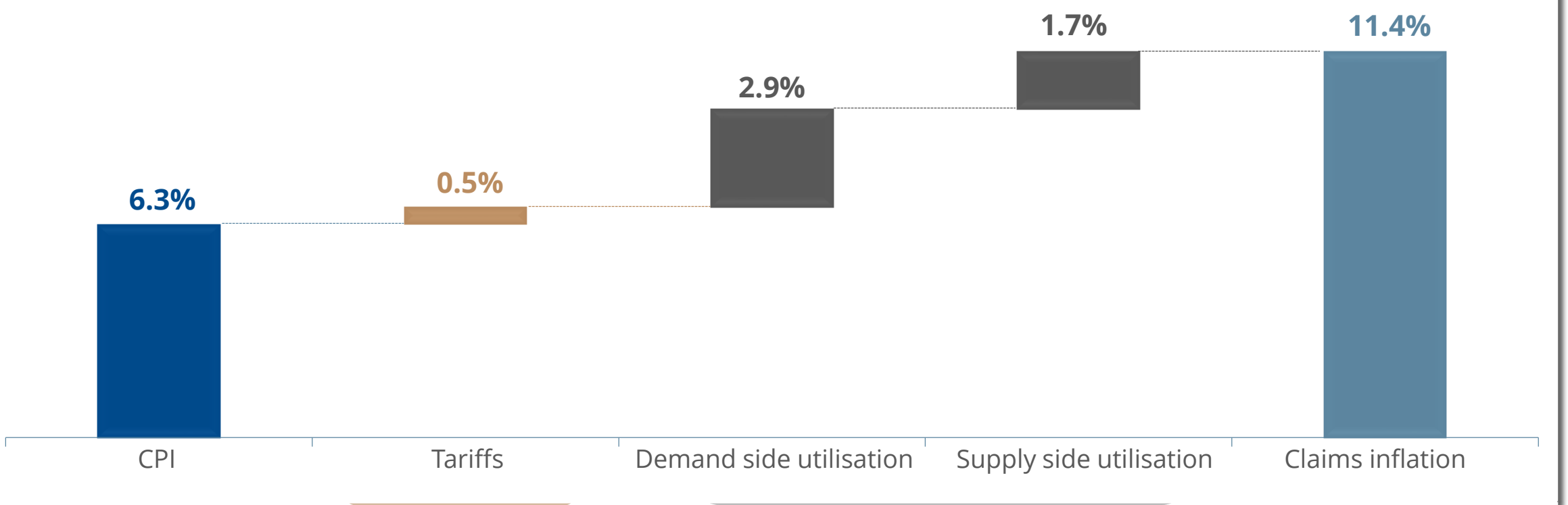
3. Summary & Concluding Remarks


THIS IS TRUE
THIS IS TRUE
THIS IS TRUTH

Claims Inflation – Increasing healthcare service utilisation is main driver

Discovery Health

Average annualised inflation rates (2008 – 2015)



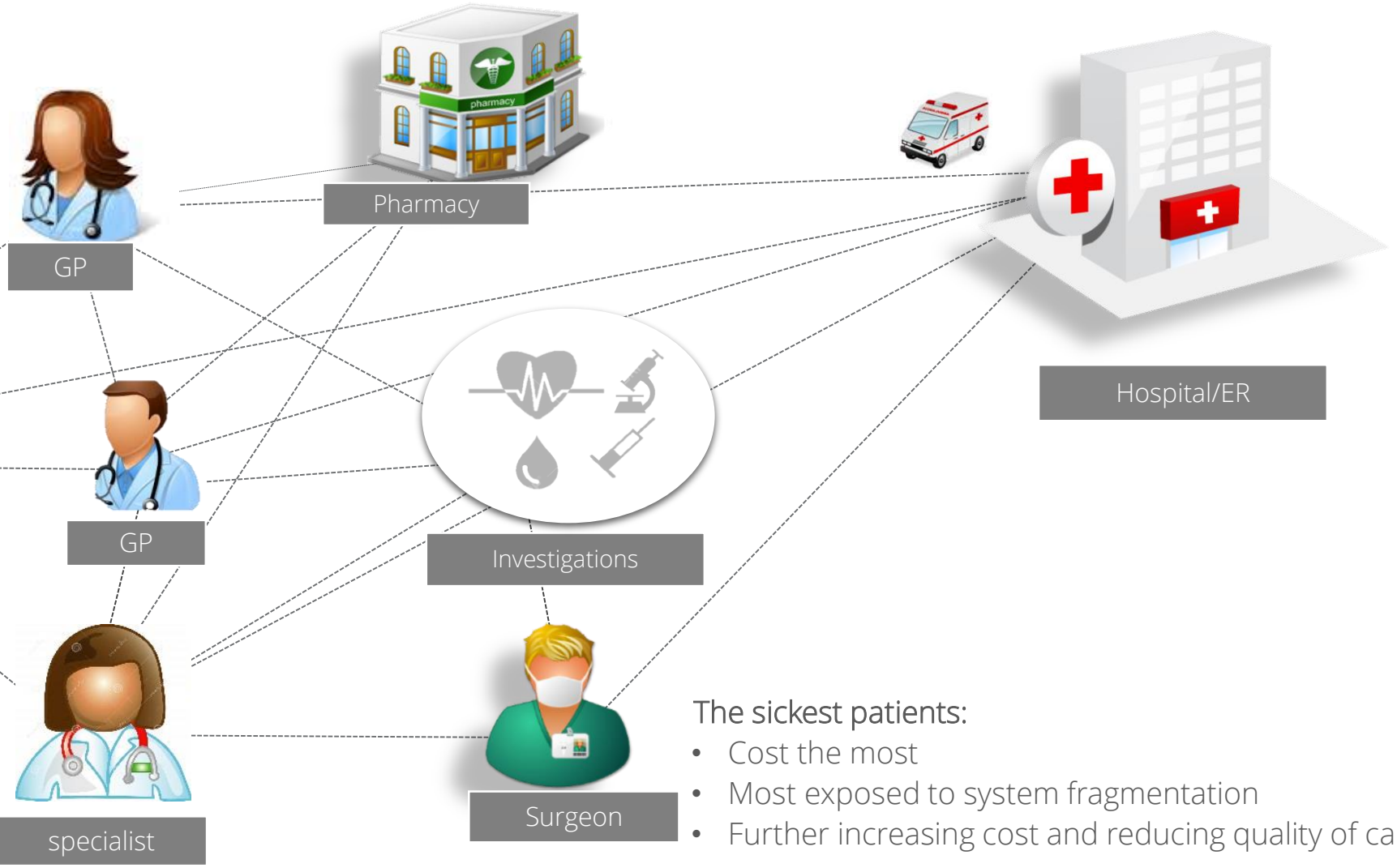
If tariff differential was 0% since 2008:
Contributions would be 2.8% lower

If utilisation was constant since 2008:
Contributions would be 27% lower

SUPPLY SIDE | Highly fragmented supply of healthcare

Lack of alignment:

- Limited incentive to manage level of care and downstream costs
- FFS model and PMBs at cost are key drivers



The sickest patients:

- Cost the most
- Most exposed to system fragmentation
- Further increasing cost and reducing quality of care

SUPPLY SIDE | When a new hospital opens

Scenario 1 | Competition

- Patients are admitted and treated in the **new facility** with surrounding hospitals losing or maintaining business, or **underserved needs** are met

Trend	Existing hospitals	New hospital
Admission	×	✓

Scenario 2 | Alternative care

- Patients are treated at the **appropriate level of care**
- **Capacity** is created for uncovered lives

Trend	Existing hospitals	New facility
Admission	✓	✓✓
LOS	↑↑	–

Scenario 3 | Behavioural change

- **Surrounding** hospitals increase business by;
  - Increased admissions for patients who were previously not admitted
  - Increased patient length of stay
- Admissions to **new hospitals** for patients who previously were unlikely to be admitted

Trend	Existing hospitals	New hospital
Admission	✓✓	✓✓
LOS	↑↑	↑↑

25 new private hospitals have opened during the period under review

Quantifying the financial impact of new hospitals (2008 – 2015)

Bed days = Admission rate X LOS

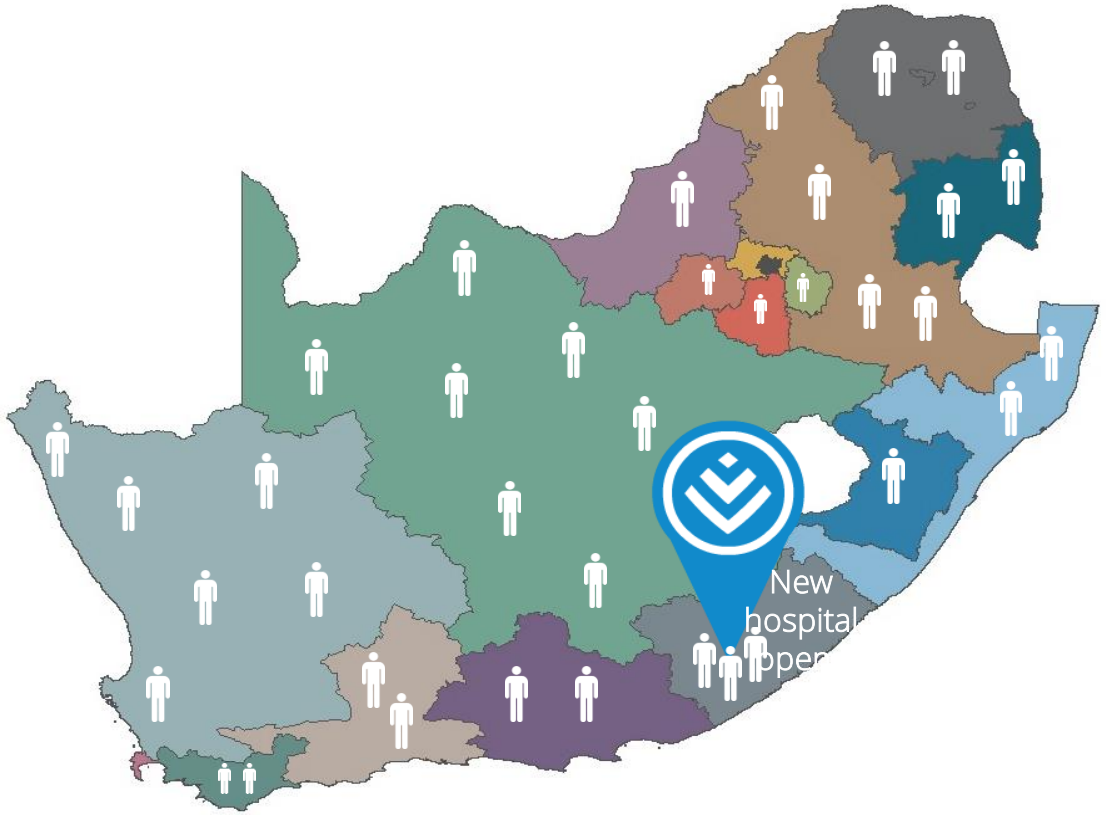
Adjusted for age, gender, chronic

LOS

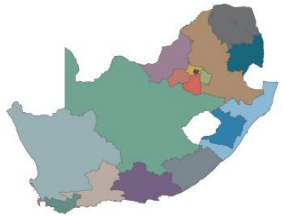
FUNCTION

CASE MIX

A measure of the type and severity of hospital admissions.



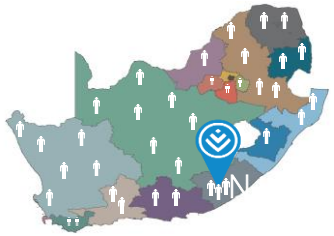
Claims Review Methodology (period under review 2008 – 2015)



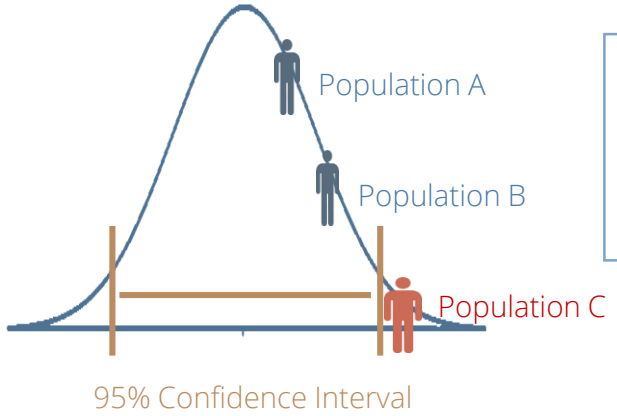
Discovery Health tertiary referral regions

Population bed day utilization patterns in regions with new facilities were compared against regions with no new facilities

To allow for a reasonable comparison, lives of the same plan, age, gender and chronic profile are selected



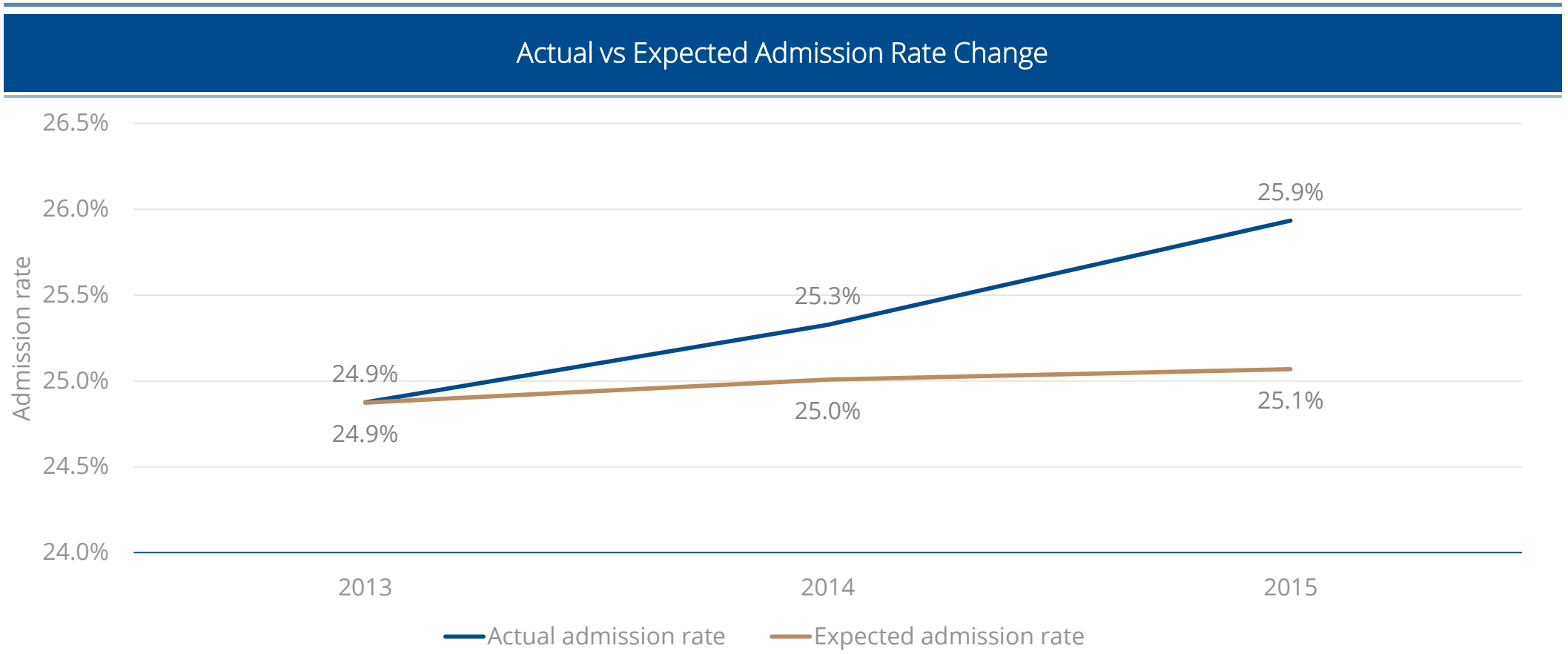
A sample of lives of the same risk profile are randomly selected repeatedly using bootstrapping in order to obtain a distribution of the utilization change



If the utilization change is statistically significantly different (95% CI), attribute excess bed day change over and above mean change of the comparator population as the financial impact of the new facility opening

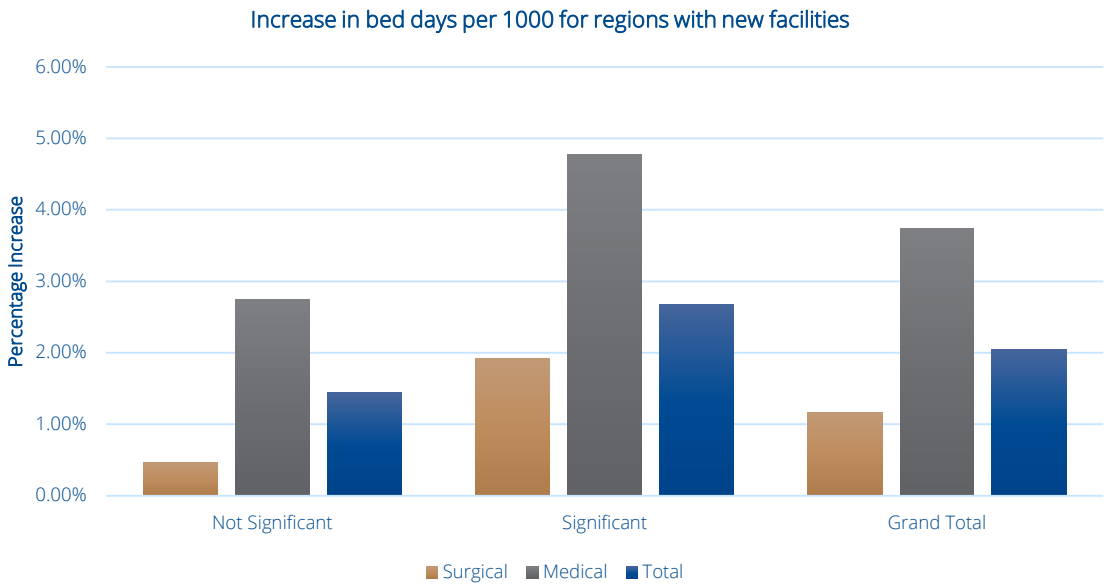
SUPPLY SIDE | Actual vs Expected hospital admission rates

Actual hospital admission rates exceed expected admission rates by 3.2% by the end of 2015

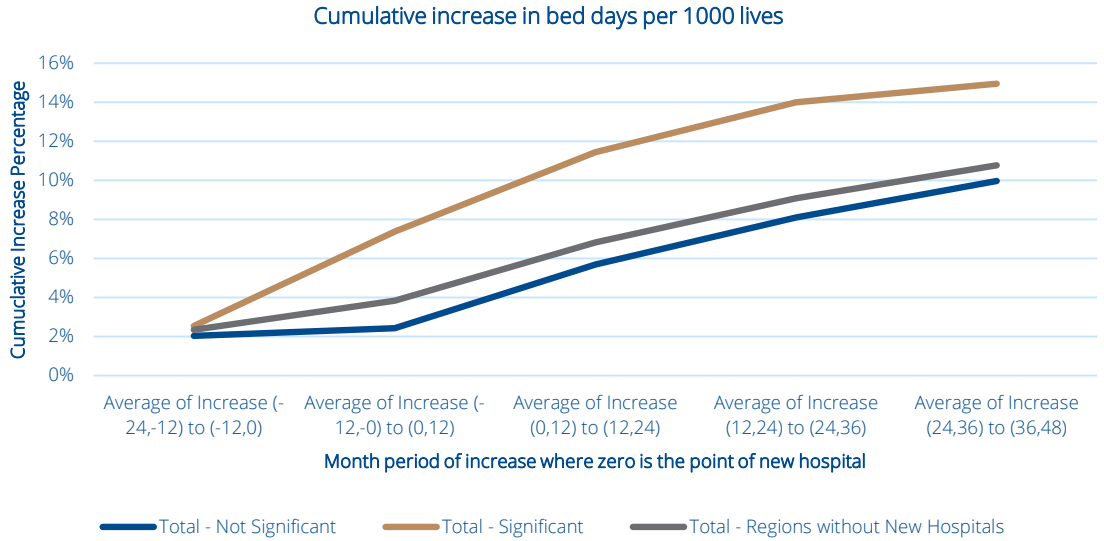


- **New hospitals** contribute significantly to higher admission rate
- Expected figures indicate what the admission rate should have been, taking into account changes in plan mix, age, gender, chronic status and tariff structures

SUPPLY SIDE | Regions with new facilities have increased bed days



- 12 of the 18 evaluations yielded statistically significant results
- Medical admissions had higher increases compared to surgical admissions



- Utilisation levels in regions with new facilities continue to increase at higher rates compared to regions without new hospitals, beyond the first year of the facility opening

SUPPLY SIDE | New hospitals have led to R1.1bn excess expenditure

Discovery Health

Impact of new hospitals (2008-2015)

25 NEW FACILITIES

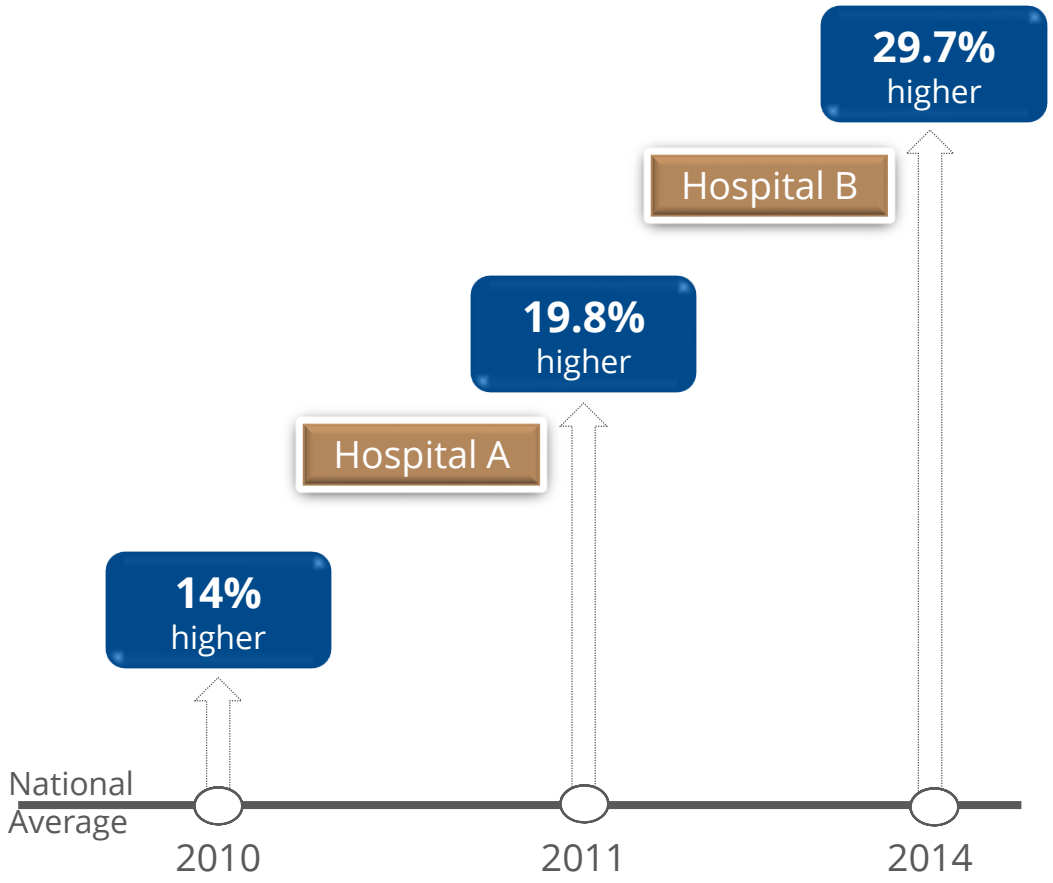
2,653 NEW BEDS

R1.1bn EXCESS COST*

*12 of 18 regional case studies show significantly increased utilisation levels, with total excess cost of R1.1 billion

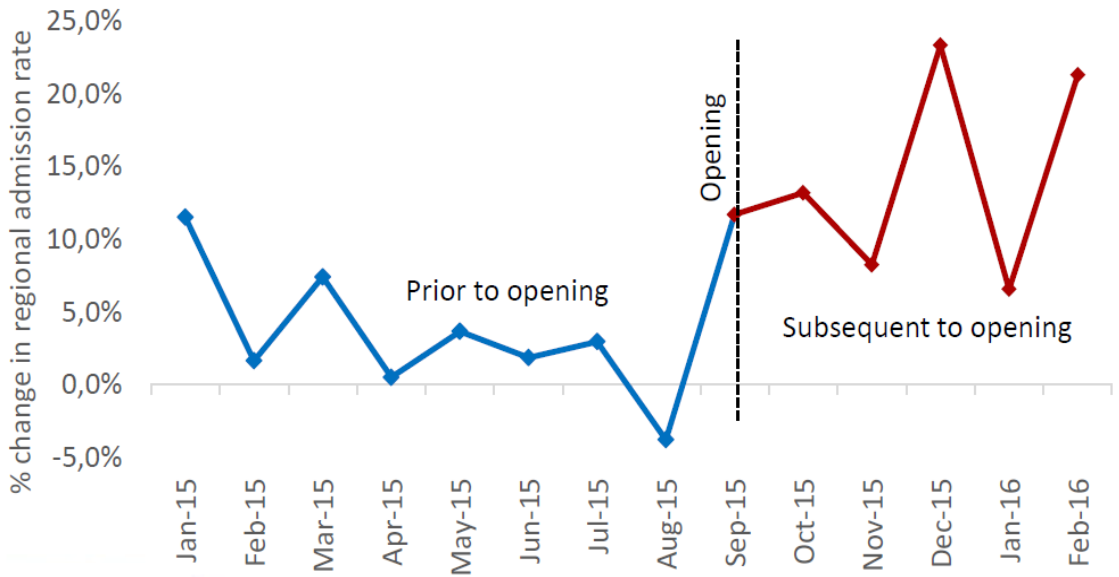
Regional Analysis: Durban

Regional admission rate vs national average

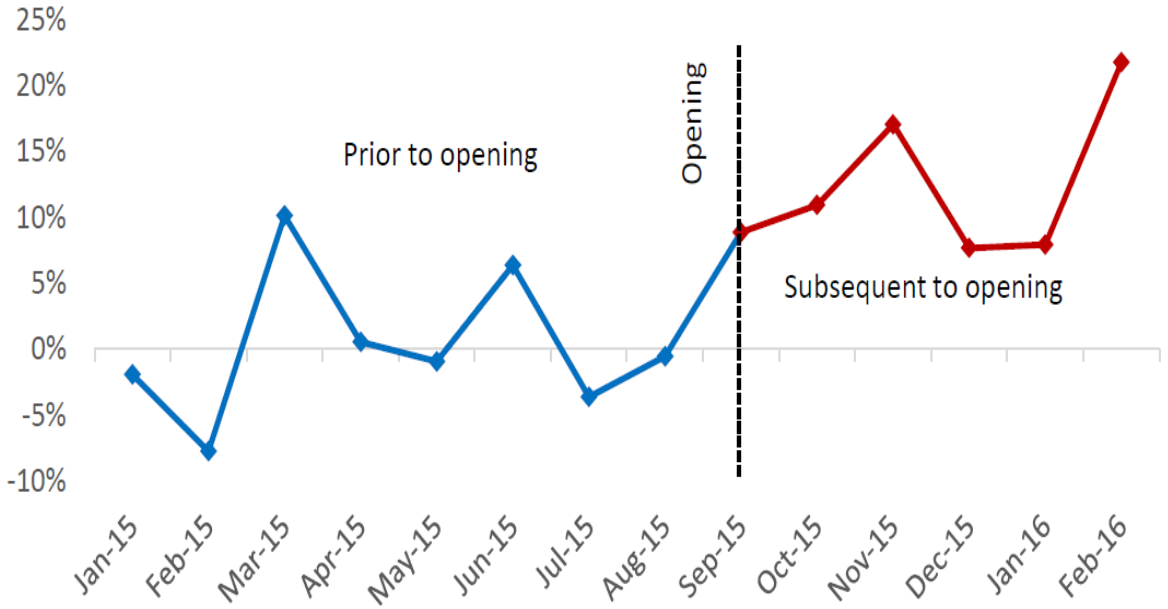


SUPPLY SIDE | GEMS experience also indicates increase in admission rates when new hospitals open in a region

Polokwane admission rate: GEMS



Pietermaritzburg admission rate: GEMS



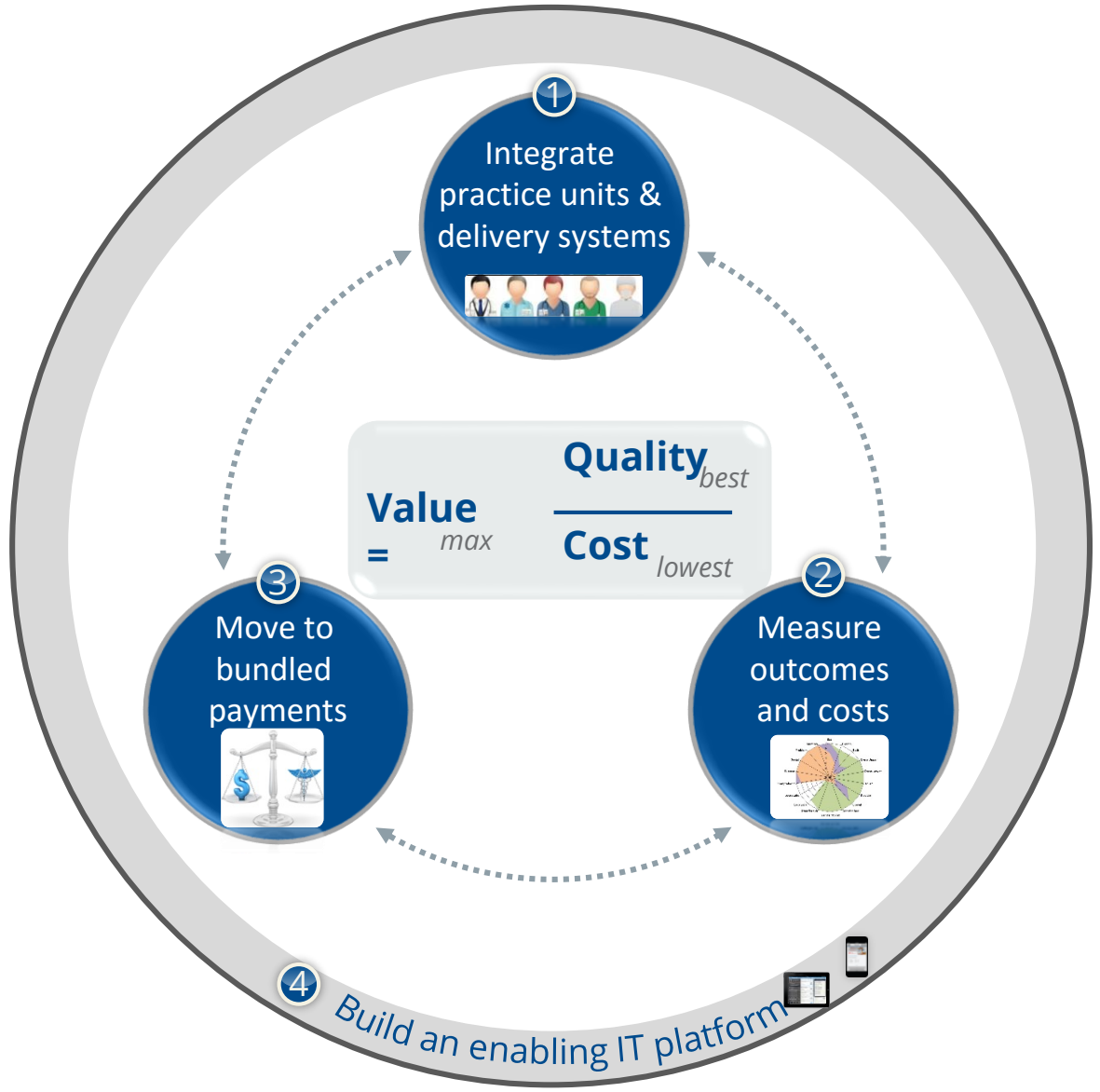
Source: GEMS presentation, The 17th Annual BHF Southern African Conference, July 2016

VALUE IN HEALTHCARE | Shift to a focus on value for patients, including cost and quality measures

Discovery Health

Key Observations
- New hospitals affect affordability of cover
- Strong correlation between an increase in supply of hospital beds and inefficient utilisation of hospital services
- Utilisation is not fully explained by demand-side factors and clinical needs (tends to be associated with reduced case severity)

Recommendations
- Adopt an objective, scientific process in assessing the need for new hospitals
- Introduce regulatory instruments to enable a progressive shift towards value based healthcare



1. Discovery Health Experience of New Hospitals

2. HMI Submission | Key Observations and Recommendations

3. Summary & Concluding Remarks

HMI Submission |Key observations and recommendations

Issue	Observations	Recommendation
Alignment of policy and regulations	• Inconsistencies between the National Health Act and the provincial regulations	• **Better alignment** will create more certainty and facilitate planning
Current health facility licensing framework	• Does not adequately take into account current or projected health service needs • May create barriers to new market entrants	• **Centralization** of healthcare facility licensing, with the proviso that this is based on a clear policy aim of ensuring more **equitable distribution** of health facilities, guided by **accurate data** on population characteristics and needs • Establish a **patient information system** • **Database of healthcare resources** in the public and private sectors • Independent, robust process for **data collection, analysis and dissemination of information**
Certificate of Need	• Uncertainty among healthcare service providers regarding status of Certificate of Need	• Appropriate **incentives** and remuneration structures to promote **efficient allocation of resources**
Co-ordination between regulatory bodies	• Inadequate co-ordination between regulatory bodies such as the HPCSA and CMS	• Greater **collaboration** to enable better understanding of healthcare system capacity, resource distribution and utilization (in the interest of ensuring better value for patients in general)
Role of Office for Health Standards Compliance (OHSC)	• Monitoring of facility capacity, quality and distribution is weak	• Assess and address **skills and resource requirements** of OHSC • Establish clear **process for addressing quality issues identified** • Framework for appropriate **sanctions** for non-compliance • Extend mandate and focus beyond structural compliance, to include healthcare **process and outcome measures** over time

HMI Submission | Key observations and recommendations (2)

Issue	Observations	Recommendation
Cost efficient care delivery models **Effective care coordination**	• Significant barriers to new market entrants	• Address **HPCSA rules** regarding employment and association of medical professionals • Encourage introduction of **multi-disciplinary primary care practices** • Enable development of specialized **centers of excellence** where appropriate
Issuing and maintenance of practice numbers to healthcare providers	• Board of Healthcare Funders (BHF) practice details are not necessarily updated and this would have created distortions in analysis of data such as practice allocations and case mix	• Clarity regarding BHF's **process for issuing practice numbers**
Licensing of mental health facilities	• Increase number of facilities and geographic concentration, combined with the PMB requirements, is associated with escalation in claims expenditure for medical schemes	• A **review of licensed mental health facilities** as well as relevant PMB requirements
Hospital mergers and acquisitions	• Competition Commission employs a rigorous approach and process in assessing potential anti-competitive effects of hospital mergers	• Facility licensing authorities should be mandated to apply a similar **robust approach in assessing health facility license applications**
Secondary license transfers	• There seems to be a secondary license transfer market for facility licenses that are not commissioned once granted by the licensing authorities	• **Eradicate such practices** as a matter of urgency • Licenses should be issued on a **non-transferable** basis, with **explicit timeframes for commissioning** of the health facilities
Payment mechanisms for healthcare service providers	• Predominant fee for service payment mechanism (private healthcare sector) coupled with the Medical Schemes Act requirement for PMB coverage at cost • Not aligned to value based healthcare • Limited incentives for professional bodies to support healthcare service provider engagement with alternative (value based) reimbursement mechanisms	• Introduce regulatory instruments that enable a progressive **shift towards value based healthcare**

1. Discovery Health Experience of New Hospitals

2. HMI Submission | Key Observations and Recommendations

3. Summary & Concluding Remarks

Summary and Concluding Remarks

1. New hospitals
    - New hospitals affect affordability of cover
    - Strong correlation between an increase in supply of hospital beds and inefficient utilisation of hospital services
    - Utilisation is not fully explained by demand-side factors and clinical needs (tends to be associated with reduced case severity)

2. Standardized national licensing regime should be implemented across provincial departments
    - Policy aim: Ensuring more equitable distribution of health facilities
    - Centralized, guided by accurate data on population characteristics and needs
    - Key elements:
        1. Patient information system
        2. Database of healthcare resources in the public and private sectors
        3. Independent process for data collection, analysis and information dissemination
    - Transparency and administrative fairness

3. Granting of facility licenses
    - Proper assessment of unmet demand-side need, with priority focus on underserviced areas
    - Preference for innovative models of care delivery, care coordination and alternative reimbursement models (ARMs)

4. Mandatory reporting requirements to facilitate
    - Monitoring of needs
    - Smart allocation of infrastructure and resources
    - Management of health system capacity on an ongoing basis

3. Market fragmentation means more beds lead to more bed days
    - Align incentives for quality of care
    - Re-engineer PMBs to focus on primary/promotive care and serious medical conditions

Thank You

Impact of New Hospitals on Medical Schemes

HMI Seminar | Regulatory Interventions for Licensing of Health Facilities
01 March 2018

Dr. Tebogo Phaleng
Chief Strategy Officer