

This policy brief analyses non-healthcare costs (NHC) in medical schemes and considers evidence from other markets on administration expenses. The definition used is:

Non-health expenditure = administration costs + managed care management services + broker fees & other distribution costs + net reinsurance loss + bad debts^a

The medical schemes industry spent R9.745 billion on NHC in 2008. This was 13.2% of total contributions for the year and equated to R105.33 per beneficiary per month (pbpm). In aggregate, NHC for open schemes (R128.78 pbpm) are almost double that of restricted^b schemes (R65.20 pbpm), but otherwise there are very few trends by type of scheme other than broker fees and distribution costs being found predominantly in open schemes.

These summary statistics mask the significant variation in NHC between schemes, even when they are differentiated by type and ranked by size. There was a very wide range of NHC in medical schemes in 2008, from the highest scheme at R193.38 pbpm to the lowest at only R3.28 pbpm.

Despite expecting some evidence of economies of scale, it was found that there was no discernable pattern and schemes with more than 100,000 beneficiaries have dissimilar NHC. Discovery Health Medical Schemes, the largest in the country, had the highest NHC at R144.03 pbpm in 2008. In contrast, the next biggest scheme, GEMS, had NHC of only R40.91 pbpm. The key difference is the administration fees paid to the administrator: Discovery Health paid R94.98 pbpm while GEMS paid R21.54 pbpm.

Moreover, NHC differs for schemes administered by the same administrator such that it is not feasible to look at an administrator and generalise about the NHC of the schemes under administration. For example, in 2008 Metropolitan Health (Pty) Ltd administered 5 schemes with NHC ranging from R67.74 to R130.95 pbpm, for an average of R95.41 pbpm. The average NHC for all self-administered schemes was R83.94 pbpm compared to third-party administered schemes of R107.40 pbpm.

Records of NHC for medical schemes have been kept since 1974. Figure 1 shows that relative to total contributions, NHC steadily reduced from 9.5% in 1974 to 5.2% in 1992, and then accelerated sharply in the 1990s to 14.5% before moderating to the current level of 13.2%. As aforementioned, in aggregate, more of total contributions is spent by open schemes (15.3%) than restricted schemes (8.9%) on total NHC, ranging from 1.4% to 32.8% in the industry.

It was shown in Policy Brief 8 that there were 355 separate definitions of benefits in 2008. With R1.163 billion being spent on broker fees and distribution costs and R0.327 billion on marketing and advertising, there must be significant savings in both items if fewer packages were to be allowed.

Gross Administration Expenditure at R6.764 billion formed 69.4% of NHC in 2008. The question then remains: what is an appropriate level for administration expenses and total NHC? To answer this, cost studies in other countries are considered. However, it is not a simple matter to compare costs across countries, let alone assume that the total cost of administration will resemble that of any particular country.

In estimates for COSATU, "Overall administration of the NHI is assumed to be 3% of the total cost, which is similar to other countries with NHI" although these assumptions have not been tested yet in South Africa.

Alex van den Heever wrote that the ANC proposals for National Health Insurance (NHI) envisage an organisation similar to the South African Social Security Agency (SASSA). SASSA, with simpler functions, presently has administration expenditure equal to 8% of turnover, which exceeds the NHC relative to contributions of GEMS (6.1%). It is recommended that researchers focus on the Rands needed per beneficiary, rather than the percentage, in making assumptions about a future NHI.

^a *bad debts = bad debts written off – bad debts recovered + increase in provision for bad debts

^b Restricted membership schemes are allowed to restrict who may become a member, and are typically employer or union-based. Open schemes must accept anyone who wants to be a member.

The amount of administration needed across the whole system is highly dependent on the form of reimbursement and the requirements to report that are imposed on healthcare providers. Until these are known, estimating administration costs is a difficult exercise. Until there is a White Paper or Government document on the proposed National Health Insurance system, it is more appropriate to focus on the level of administration expenses in medical schemes and to ask what parts of the current health insurance system are increasing the need for administration.

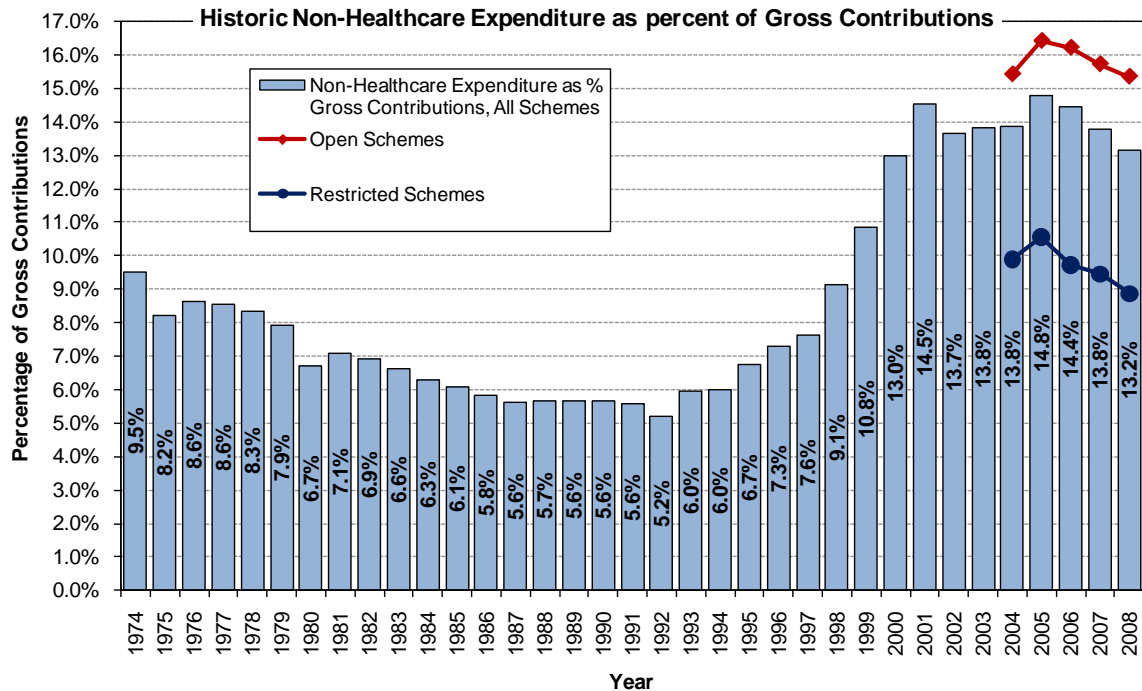


Figure 1: Historic Non-Healthcare Expenditure relative to Gross Contributions

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Further resources on the IMSA NHI web-site

http://www.innovativemedicines.co.za/national_health_insurance.html

- The full policy brief, as well as the slides and tables used.
- The historic series on non-healthcare expenditure, collated from Annual reports of the Council for Medical Schemes.

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