

Tariff increases reveal fractures in SA medical aid model

The massive 2017 tariff increases announced by the biggest medical aid schemes is no doubt another body blow for the already cash-strapped South African consumer. But it is also indicative of an industry model that is deeply flawed.

Even more concerning is the fact that fee increases are being accompanied by benefit reductions, which essentially means that medical aid consumers will be paying more for less.

According to Fedhealth principal officer, Jeremy Yatt, this shows that medical schemes are under more stress than ever. “Unlike other types of insurance, medical schemes get no benefit out of higher fees, as there are no shareholders, dividends or bonuses to be paid out,” he says, explaining that it’s the combination of several elements that is making medical aid so unaffordable.



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Insurance costs for medical practitioners is rising

Especially in medical fields like gynaecology and neurology, the costs of insurance are sky high for practitioners, as a result of the potential lawsuits involved. Yatt says that as South Africa becomes an increasingly litigious society, the number of malpractice and negligence suits is on the rise, with few of them actually being legitimate. In any event, the increase in legal action ultimately impacts costs for all scheme members.

More medical procedures

Related to the rising insurance costs, Yatt feels doctors practise a fairly conservative kind of medicine where they’re often quick to operate in order to avoid potential medical claims. In addition, the current socio-economic climate means more elective procedures and medical illnesses. All these factors, he says, lead to increased costs for all members of the scheme.

Government isn’t on board

If there were better state hospital facilities, Yatt says that this would mean that medical scheme members could use state facilities, which would cost private schemes less – and so we’d see less supplier-induced demand. He also feels that current plans to introduce a national healthcare system are unaffordable for the country in their current state.

Healthcare structure isn't all-inclusive

In countries like the United States and India, doctors work as salaried employees of a medical centre, which then charges one overall cost for a procedure. In contrast, the cost of an operation in South Africa is harder to estimate, as different elements like the ward and theatre use, anaesthetist, consulting doctor and surgeon are all charged for separately. With all these separate players involved, it's harder for medical aid schemes to negotiate lower costs as they'd be able to do with one provider.

Rigid laws limit member behaviour management

In South Africa, medical schemes aren't allowed to reward or penalise members – for example they can't lower premiums if a member doesn't claim for a certain number of years, and they can't raise them if a member claims too often (which is what car insurers do for example). Because of this industry regulation, there's no incentive for members to share the responsibility when it comes to their own health.

So, what can be done to solve these problems?

- **Government should get involved**

One solution is for government to be more involved in the medical industry, for example by putting caps on provider costs to alleviate some of the pressure. Yatt says they could also introduce a tiered compulsory enrolment, making it mandatory for young people above a certain salary bracket to contribute to a medical aid.

This would cross-subsidise and heavily decrease costs for members across the board. The burden of disease affects government in terms of productivity and healthcare expenditure among other things – so Yatt says it's in their best interests to sort it out, and do it fast.

- **Long-term health needs to be a priority**

Beyond industry regulation and government involvement though, people can also be encouraged to look after their own long-term health as a way to keep the strain on medical schemes down. For example, obesity is steadily on the increase in South Africa, which brings with it a host of potential medical costs such as chronic medication, operations to relieve joint problems, and an increased chance of heart attacks and strokes – all of which ultimately impact premiums.

- **We need to work together**

Finally, Yatt says that a cohesive approach where all industry players including doctors, hospital groups, medical schemes and government work together would help improve affordability by modifying people's behaviour when it comes to medical issues.

He believes that all players want to provide a service to the community and be properly remunerated. Instead of medical schemes competing by chasing a small pool of members, working together would mean they could fulfil their obligations to members, while still remaining sustainable.

Contrary to popular opinion, Yatt feels that while there may be consolidation of some medical schemes in future, this won't solve the issue around the rising costs associated with them. Unless government and all related role players – including members – start working together to tackle the legislative environment and cost drivers, the cost of medical aid will continue to rise above normal inflation, which will make it even more of a grudge purchase than before.

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