Private health care cost containment and supply-side regulation

CMS presentation to the Health Portfolio Committee

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CMS
COUNCIL FOR MEDICAL SCHEMES

Contents

- Introduction
- Private hospital context
- Economic considerations
- Concentration of hospital market
  - Market power
  - Countervailing power
- Necessary interventions
  - Statutory health pricing authority
  - Office of Standards Compliance (focus on quality not pricing)
  - Private hospital licensing processes
  - Managed care

Introduction

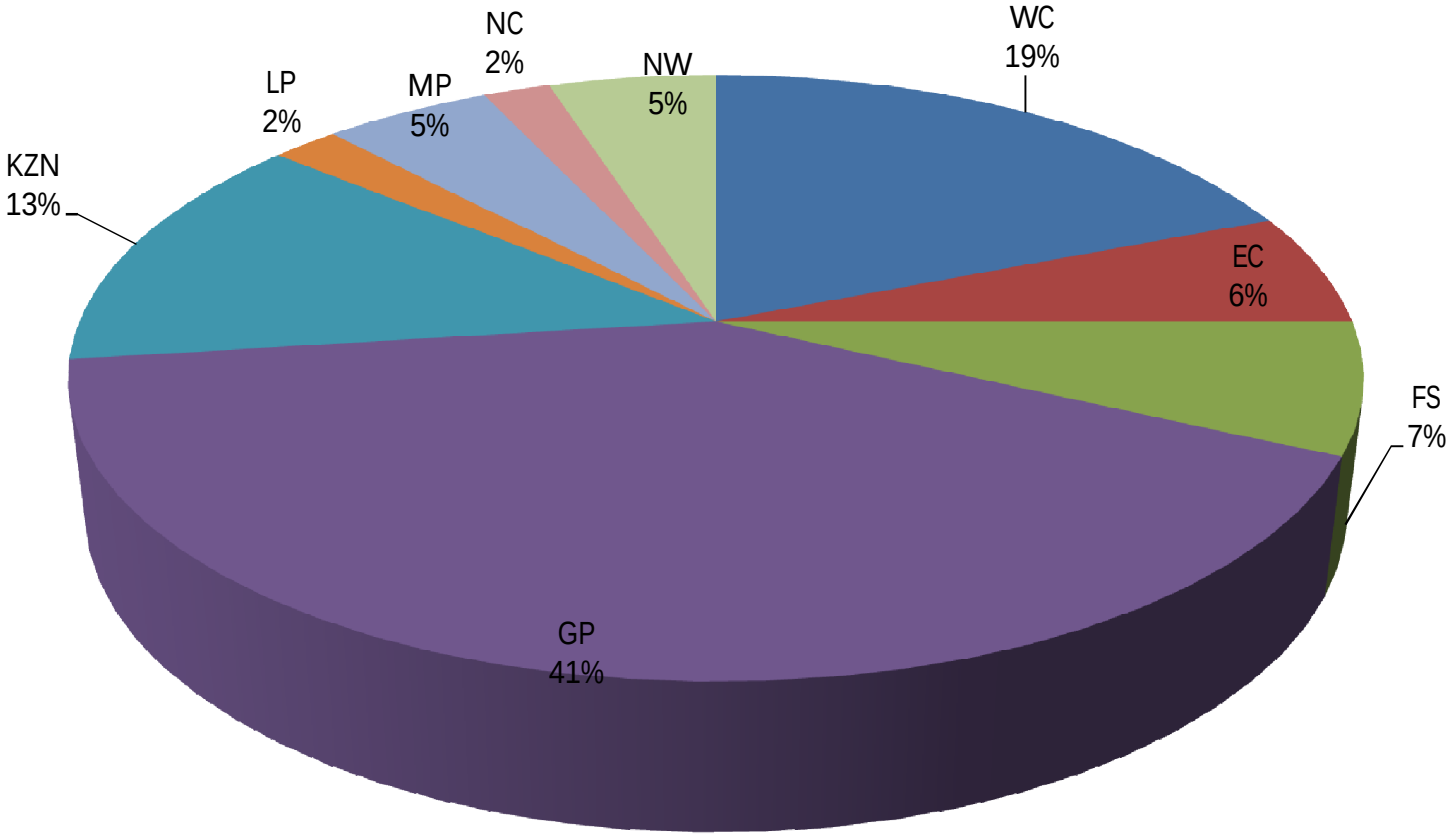
- In 2012 cost drivers in private health care include:
  - Private hospitals (40.5%)
  - Specialists (23.6%)
  - Medicine (13.9%)

- These three components accounted for 78% of the health care benefits paid from the risk pool

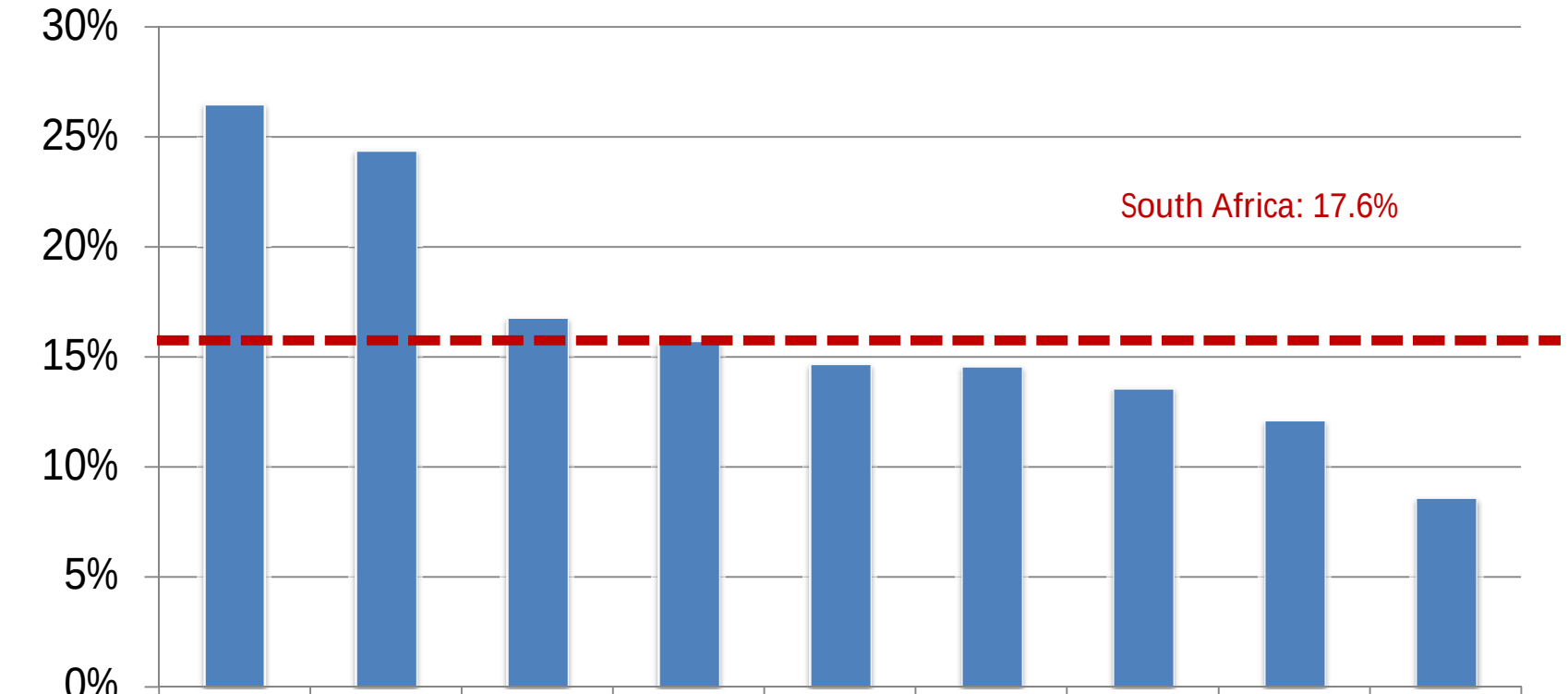
Private hospitals context

- Currently, it is estimated that there are approximately 3,500 privately run PHC clinics, and slightly more than 300 private hospitals and day clinics with a total of more than 34,572 beds in the private health care sector (Econex, 2013).

Private day clinics and hospitals per province, 2013

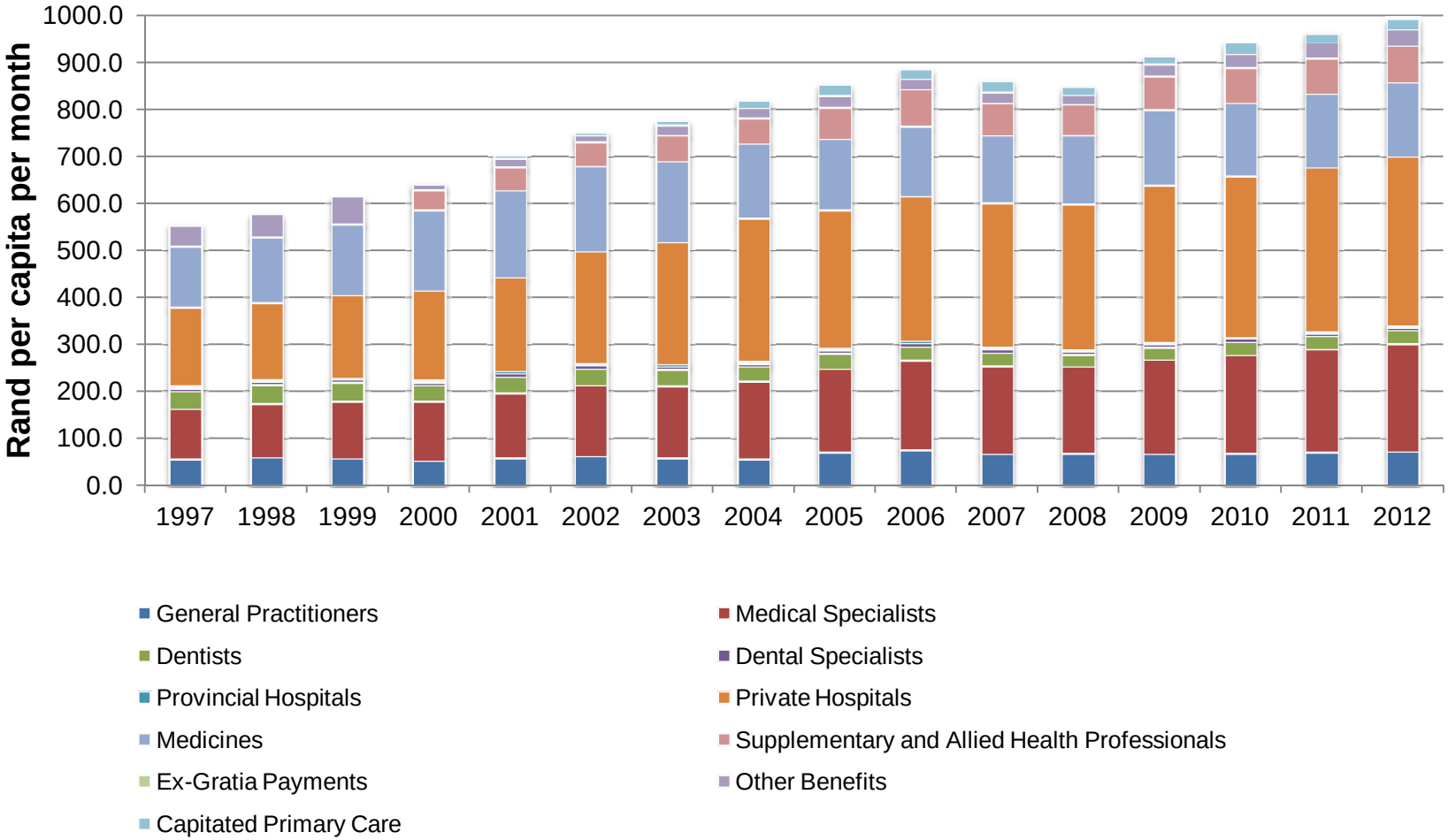


Membership – Inequity



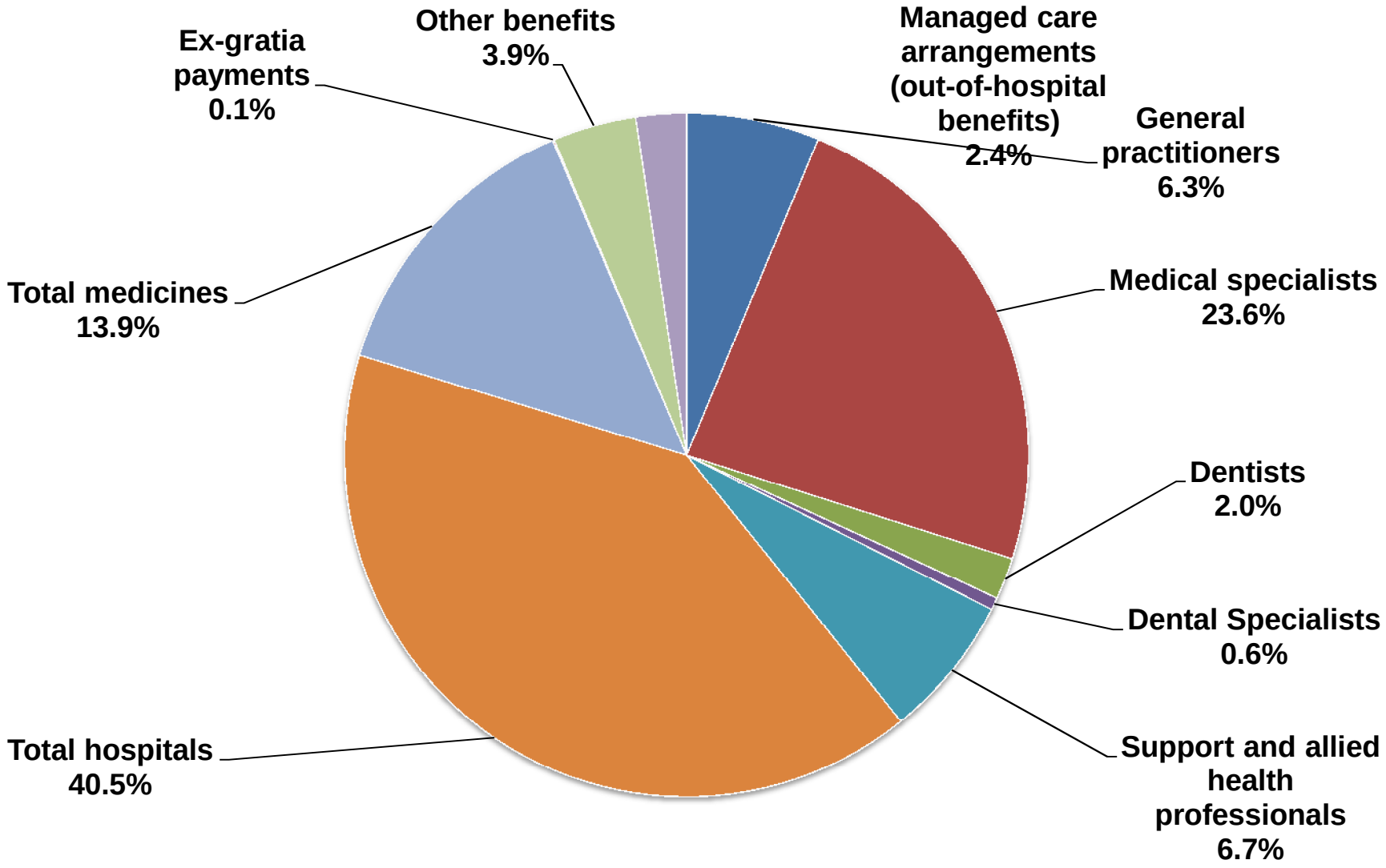
	Gauteng	Western Cape	Free State	KwaZulu Natal	North West	Mpmumalanga	Northern Cape	Eastern Cape	Limpopo
Provinces	26.5%	24.4%	16.8%	15.7%	14.7%	14.6%	13.6%	12.1%	8.6%

Sharp increases in costs from 2000-2005, stable from 2006-2008, sharp increases 2009-2012,

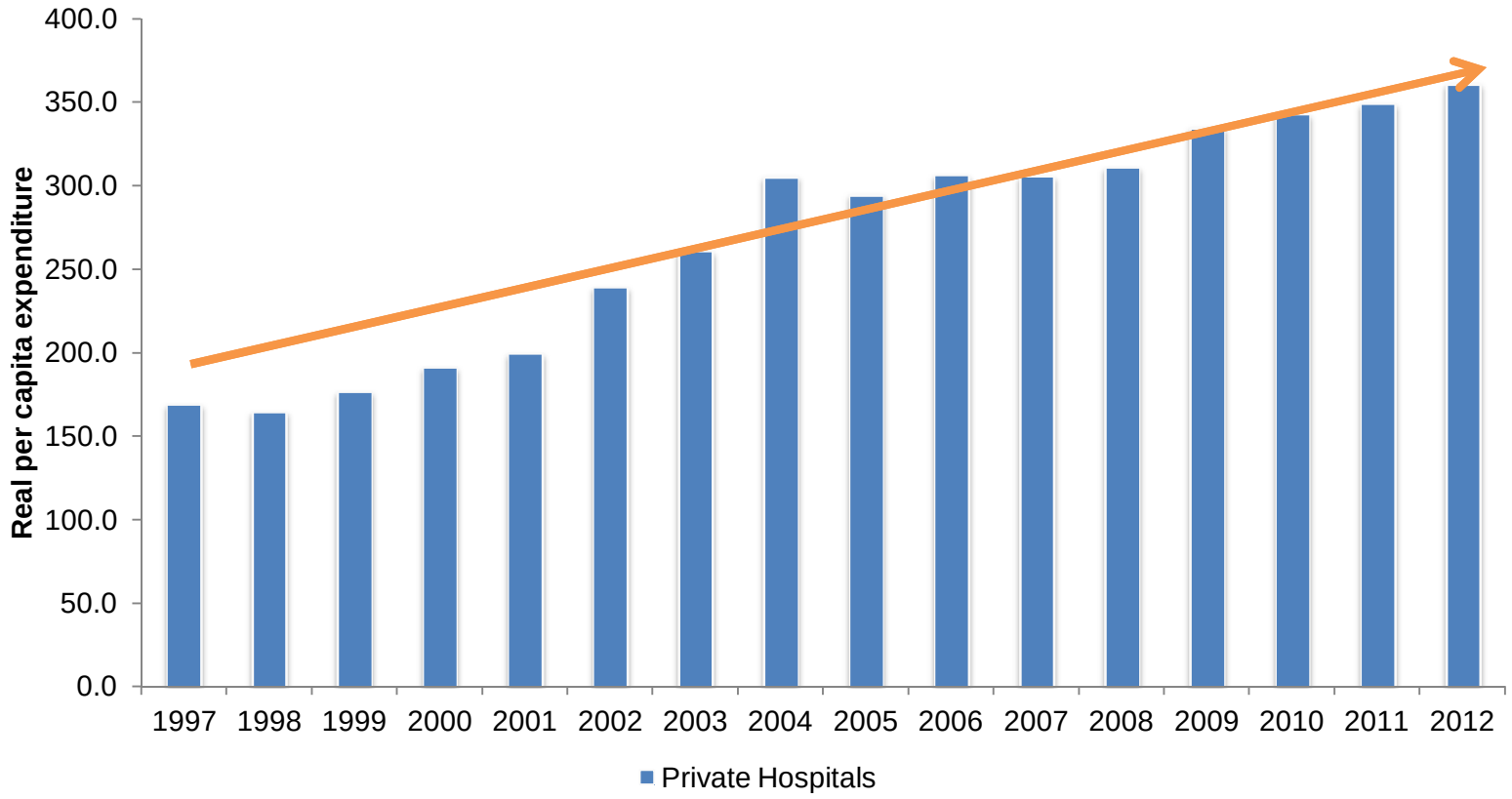


2012 prices

Benefits paid from the risk pool (2012)

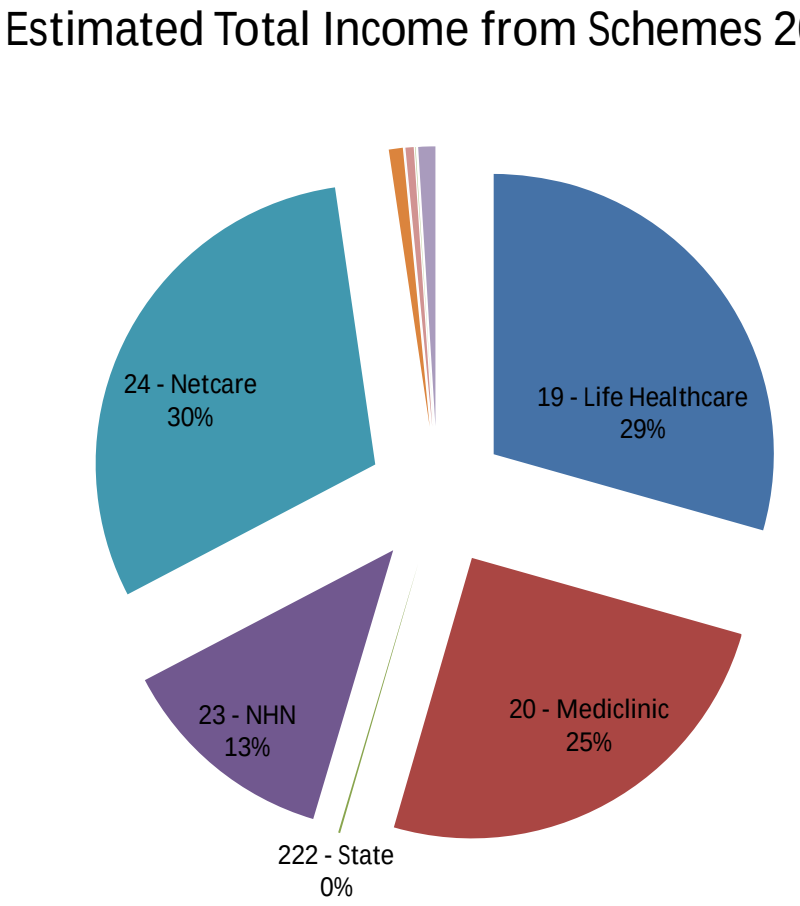


Private hospitals showed sharp increases , peaking again from 2009

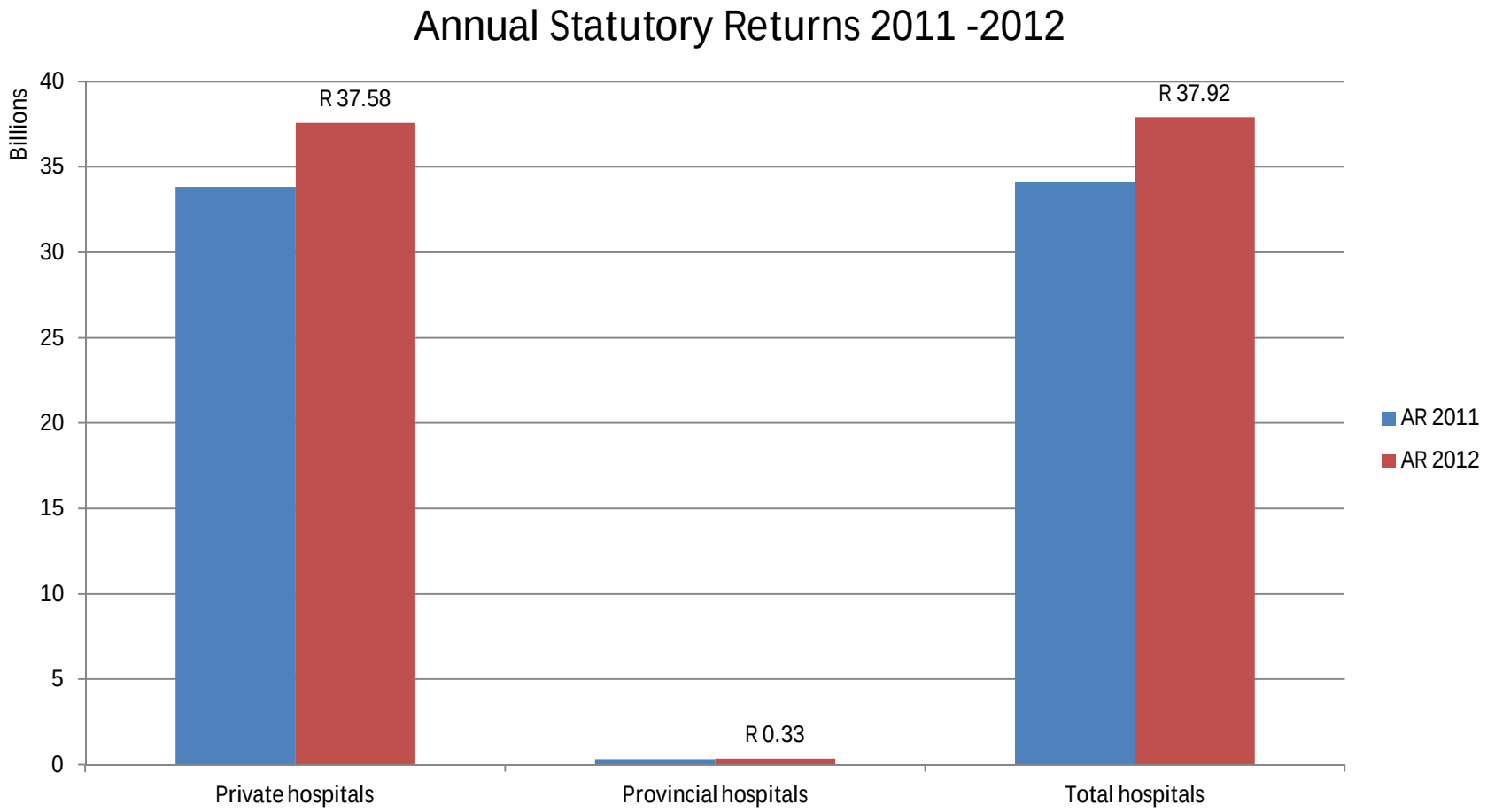


2012 prices

Estimated income from medical scheme industry



Hospitals – AR 2011 -2012



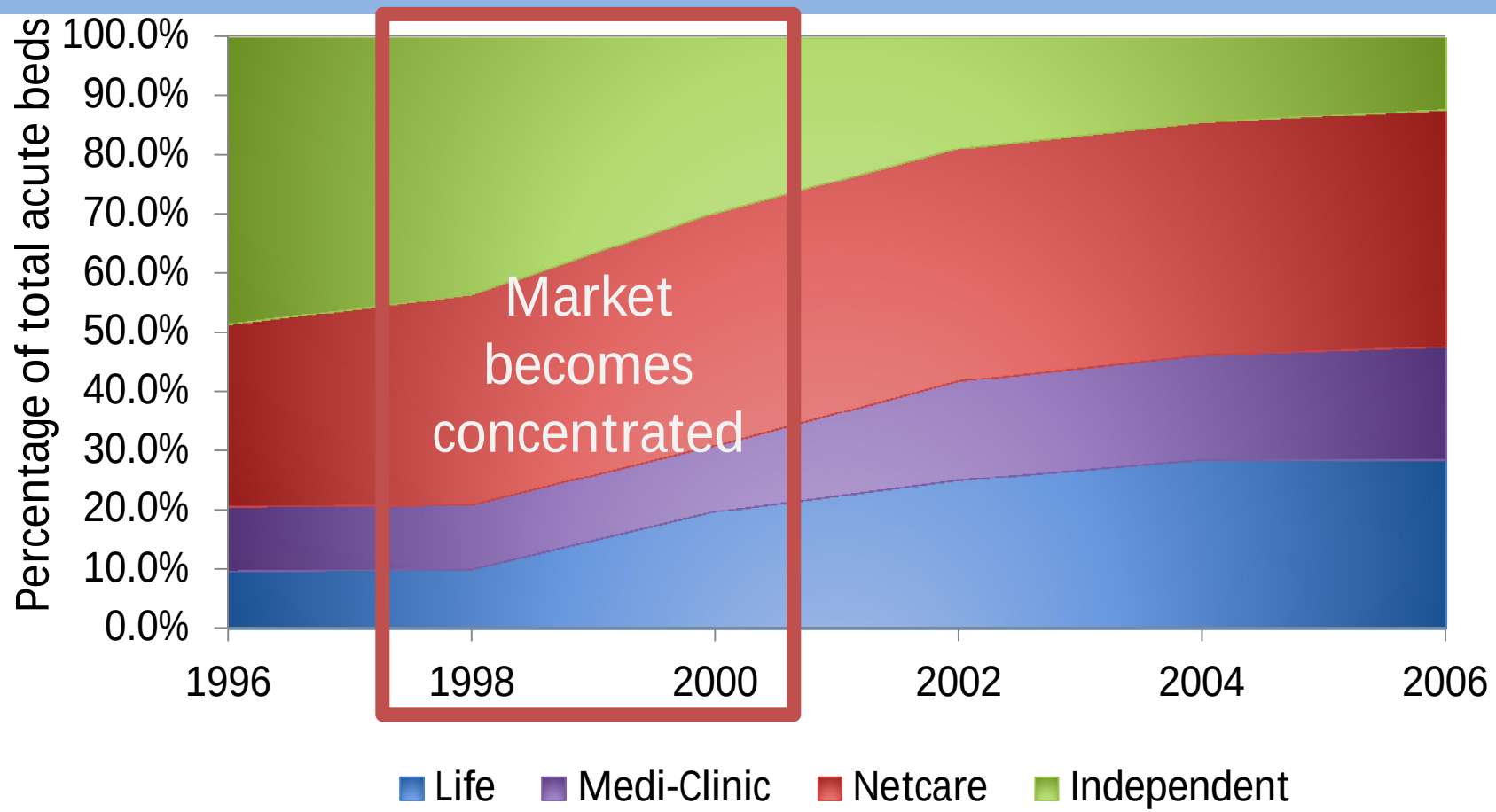
Private hospitals

- Hospital costs are a key cost driver, and the rising trend is important
- Challenges for consideration
  - o Equitable distribution of private hospitals
  - o Market concentration
  - o Medical “arms race” – Non price competition
  - o Detrimental relationships
  - o Lack of competition (public sector hospitals)

Private hospitals

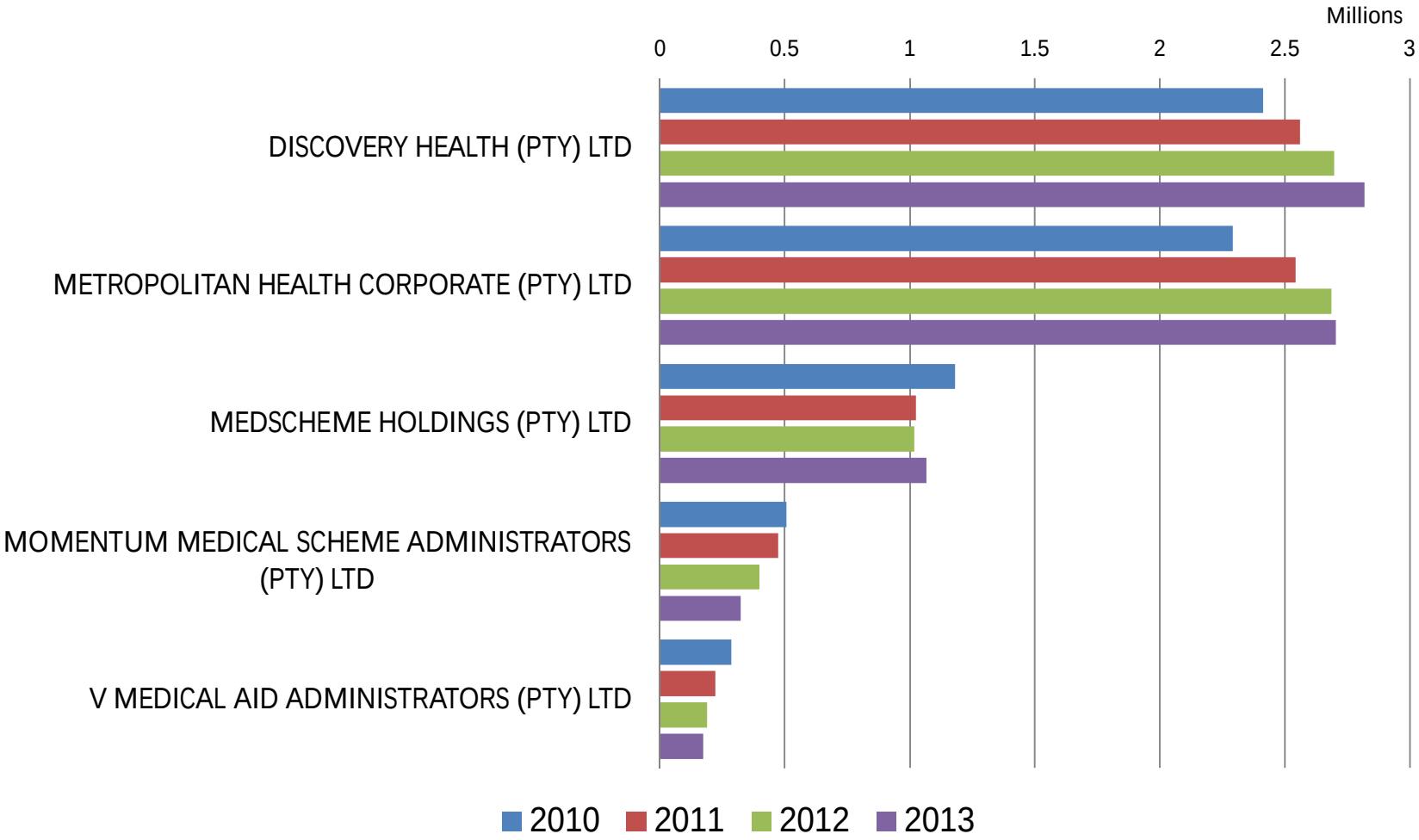
- Other factors influencing private hospital expenditure :
  a) Fee for service reimbursement incentivizes utilization increases
  b) New medical technologies drive up costs (allow for earlier diagnosis and more aggressive treatment)
  c) Principal -agent-relationship
     - Decision about provision of health care
     - Role of managed care
  d) Ageing population
  e) Disease burden and benefit utilization
  f) Adverse selection (member consumption behavior)

Market concentration

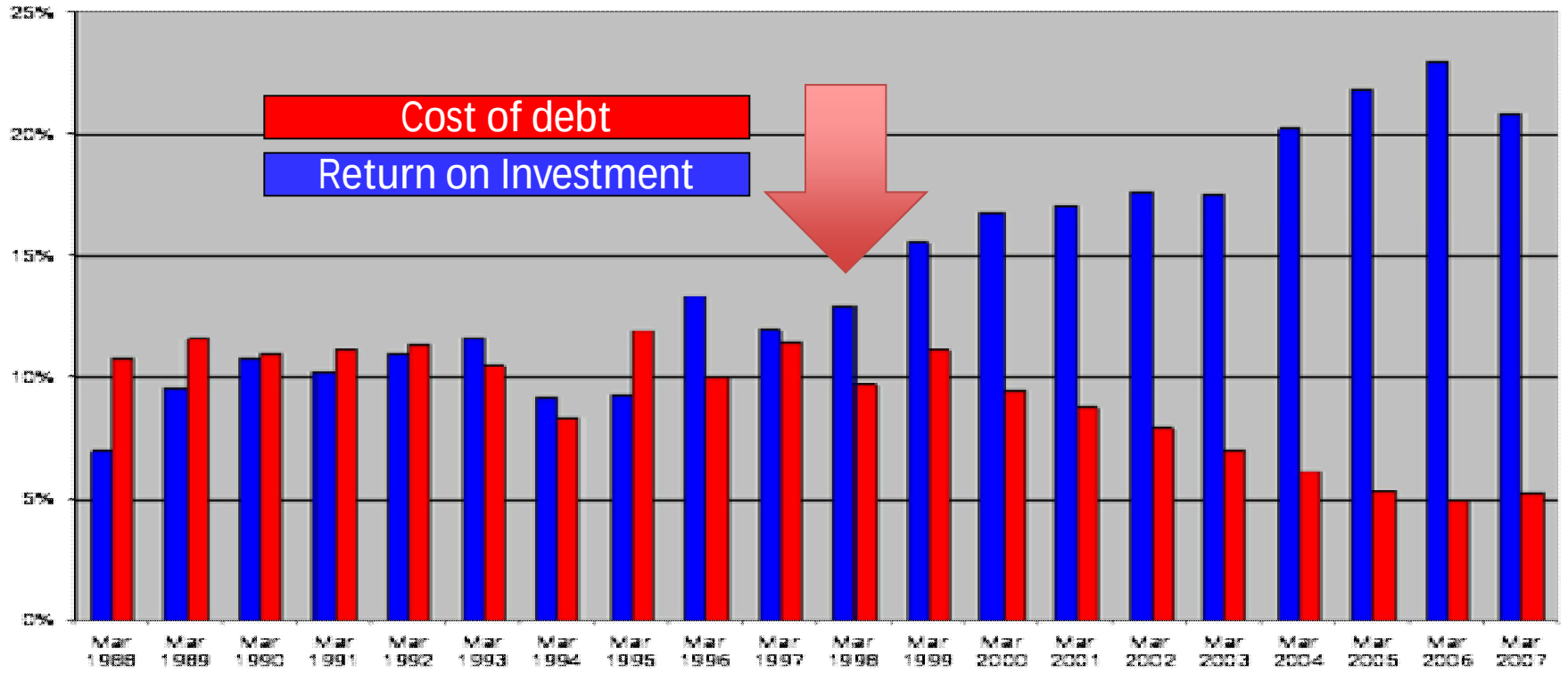


Only 12.3% of private hospital beds were outside three main hospital groups by 2006...

Top 5 Administrators : by total beneficiaries



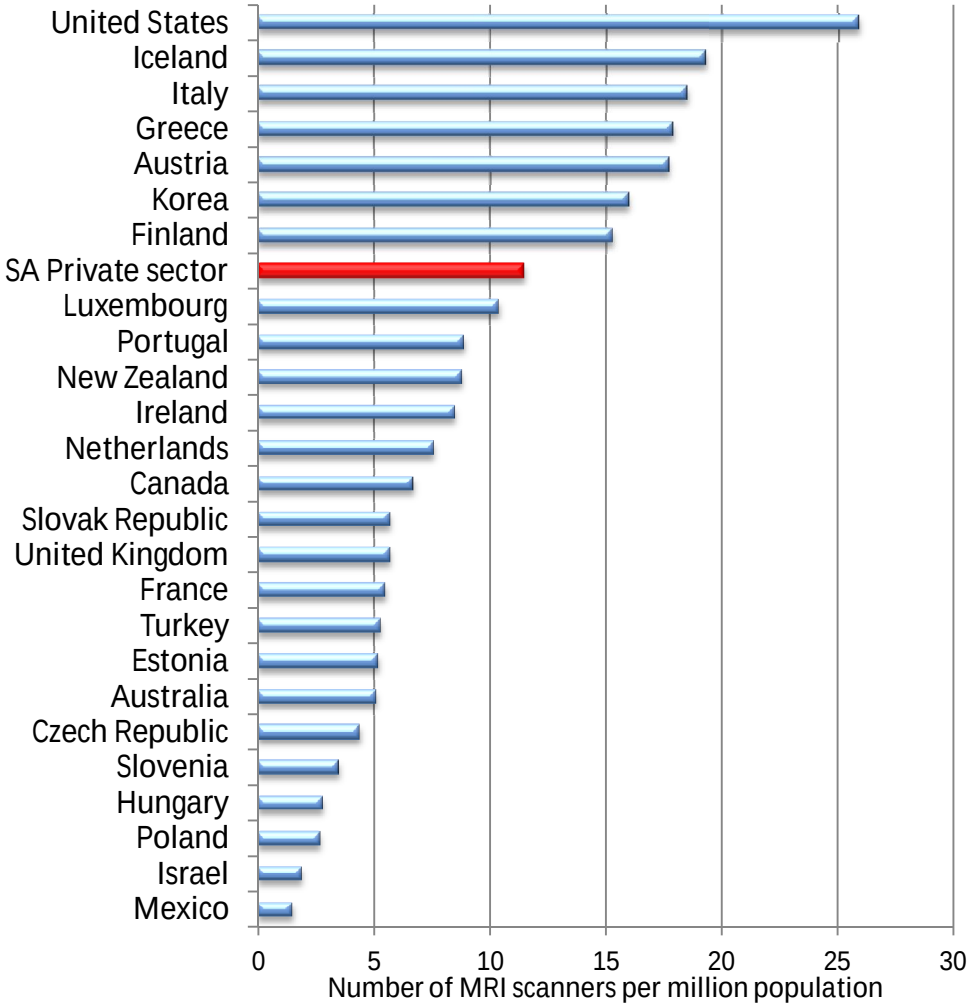
Private Hospital Return on Investment 1988 to 2007



Observations:

- The return on investment has grown from 10% to north of 20%. (Note: The acceleration in returns corresponds to the concentration of the market.)
- The cost of debt has dropped significantly since 1999.
- With the return on investment rising and the cost of debt falling the gap between blue and red has widened significantly. This gap represents the economic value which shareholders have enjoyed in increasing amounts over the last few years.

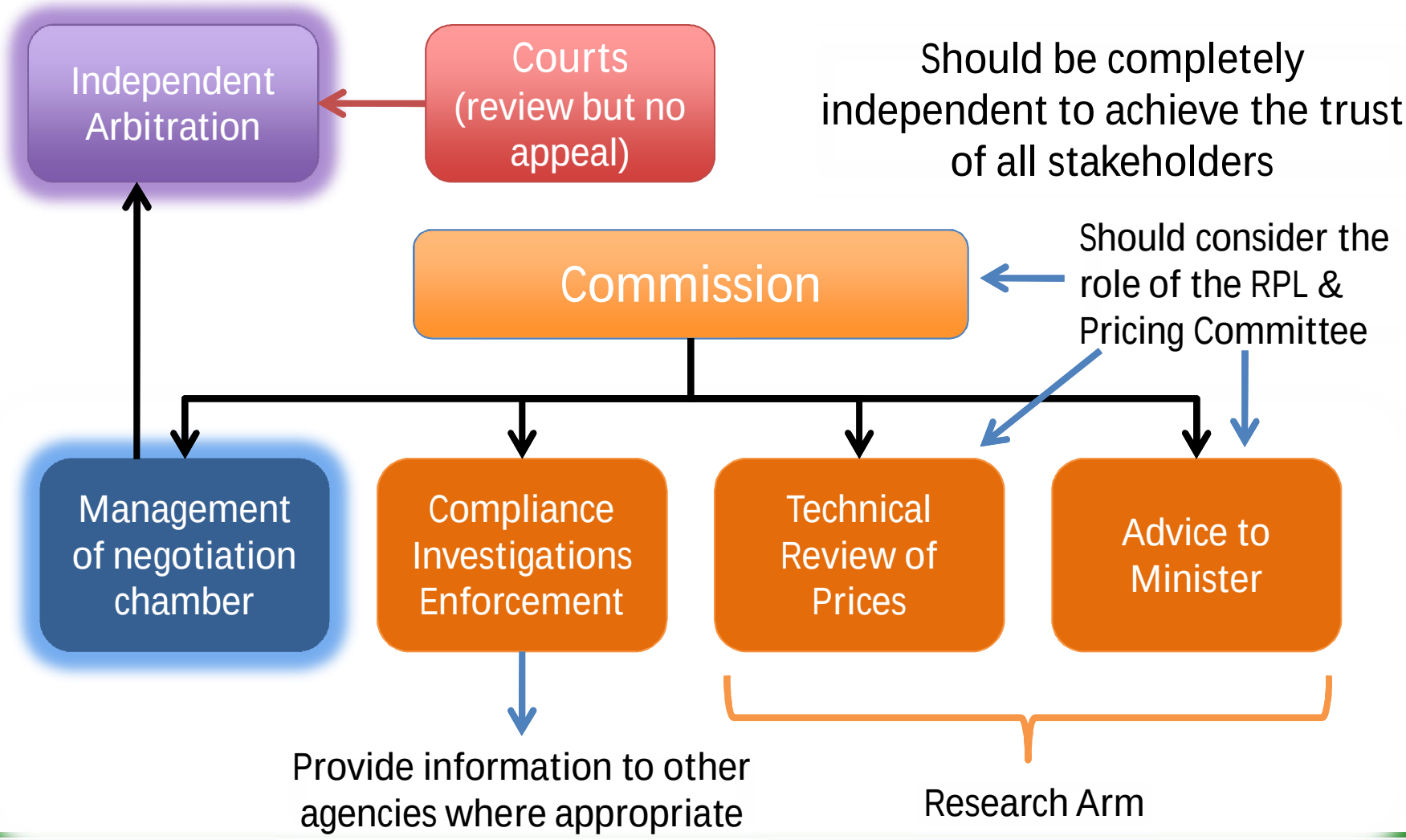
Health technology



Healthcare pricing authority

SOME THOUGHTS FOR CONSIDERATION

Statutory pricing authority



Necessary interventions in the private healthcare environment

1. Correct market power imbalance in “fee-for-service ” negotiation through central bargaining system: “Statutory pricing authority”

2. Removal of vertical relationships between hospital groups and their supply chain:
   - Pathology
   - Radiology
   - Pharmacy and pharmaceuticals
   - Medical devices
   - Consumables and surgicals used in-hospital

Necessary interventions (continued)

3. Addressing conflicts of interest through ownership links, shares, and other inducements, with:
   - Specialists
   - Emergency transport
   - General practitioners

4. Improvement of hospital licensing system:
   - Capacity building within Provincial Departments of Health
   - Emphasis on the needs-based criteria for the licensing of new private hospitals.
   - Diversity in hospital ownership through the licensing system:
     - Addressing market barriers for new hospitals
     - Introduction of private not –for- profit hospitals
     - Minimum level of hospital licenses held by non-profit hospital groups

Necessary interventions (continued)

7. Continual support and strengthening of medical schemes managed healthcare interventions:

- To address market failures within the supply and demand sides of the private healthcare industry.
- Influence the provision and consumption of healthcare by members and providers.
- To control the rising cost of healthcare by keeping patients out of hospital

Necessary interventions (continued)

7. Continual support and strengthening of medical schemes managed healthcare interventions:

   - Influence health-seeking behaviour (“healthcare consumers”) and the care-providing behaviour of doctors and other health professionals.

   - Member education on issues of access, cost and quality health outcomes

   - To manage access, utilisation, costs, and health quality outcomes.

Conclusion (continued)

- The current statutory framework is limited in addressing market failures associated with private hospitals:
  - CMS and Office of Health Standards Compliance (OHSC) have unique mandates.
  - Mandates do not include price regulation
  - HPCSA administrative tariff process not currently underway is not sufficient to address private hospital pricing
  - Statutory pricing authority will enable effective price regulation within the industry.

Conclusion (continued)

- Capacity building and revitalization of public hospitals is important so as to influence competition within the industry.

- It is envisaged that the market inquiry will amongst other things provide evidence required for the establishment of the Statutory Pricing Authority will enable effective price regulation within the industry.

Conclusion (continued)

- Any failure to address the central systemic cost factors on the supply-side of the health system will lead to a continued deterioration in access to healthcare through medical schemes.
- The consequences will be significant for the country, for while the industry will remain extremely profitable and unsustainable, it will do so at the cost of access to healthcare for all

THANK YOU