Mergers lead to fewer, bigger medical schemes

October 28 2012 at 12:20pm
By Laura du Preez

The amalgamation of Bonitas Medical Fund and Pro Sano Medical Scheme this month is the latest in a string of medical scheme mergers that have taken place over the past few years.

Besides reducing the number of schemes overall, the mergers have led to a decline in the number of small schemes, with less than 6 000 beneficiaries (members and their dependants), and an increase in medium-sized schemes, with between 6 000 and 30 000 beneficiaries, over the past 11 years, according to the Council for Medical Schemesô annual report for 2011/12.

The number of large schemes, with more than 30 000 beneficaries, has stayed more or less the same, but two supersized schemes ï Discovery Health Medical Scheme (DHMS) and the Government Employees Medical Scheme (Gems) ï have emerged.

DHMS provides health care to more than 2.3 million beneficiaries, while Gems, which opened its doors in 2006, has 1.6 million beneficaries.

So what does the evolution of bigger schemes mean for you?

Alexander Forbes Health, in a recent edition of its publication Diagnosis, says the emergence of a few dominant players is likely to have a distinct price advantage for these schemes and will fast-track the further consolidation of schemes.

Anthea Towert, head of scheme consulting at Alexander Forbes Health, says bigger schemes can achieve economies of scale which facilitates cheaper administration.

Bigger schemes also have more negotiating power with provider groups such as specialists, and when it comes to setting up networks, she says.

Healthcare providers who participate in networks agree to charge certain rates. Members who use these providers are not liable for co-payments.

Towert says in this way large schemes stop being price takers. In other words, they are no longer forced to accept prices set by providers, thus reducing the cost of treatment for members.

In addition, larger schemes have larger risk pools, which reduces the volatility of claims, and this reduces volatility in contribution increases, she says.

DHMS regularly uses its size to argue its competitive advantage over other schemes.

Dr Jonathan Broomberg, chief executive of Discovery Health, the administrator of DHMS, says that over the past 10 years open medical schemes other than DHMS have lost some 1.3 million beneficiaries to DHMS or Gems.

Open schemes are obliged to admit anyone who wants to join, while restricted schemes can limit membership to a group, such as employees of a company.

Over the past 10 years DHMS has more than doubled its membership from just under one million beneficiaries to more 2.3 million. This massive growth has meant the average age of DHMSô beneficiaries has increased at slower rate than that of other open schemes, Broomberg says.

Over the past five years, the average age of DHMS beneficaries has increased from 31.1 years to 31.8 years, while the average age of beneficiaries of other open schemes has risen from 31.7 years to 34.8 years.

A higher average beneficiary age generally means higher claims and, consequently, higher contributions by you.

Broomberg says DHMS has also used its large member base to reduce the cost of certain healthcare services and products.

For example, he says, the scheme has negotiated medicine price reductions with pharmaceutical companies in return for putting their medicines on the scheme’s formulary. As pharmaceutical companies by law have to set a single price for medicines, the lower price benefits all consumers of that particular medicine.

Broomberg says that this year, DHMS has obtained price reductions of between 10 and 50 percent on medicines used to treat hyperlipidaemia (too much cholesterol or fat in the blood), high blood pressure (hypertension) and renal failure.

A scheme that appears to prove that bigger isn’t always better, however, is Genesis Medical Scheme, an open scheme with about 12 900 members.

Genesis has reserves of more than 114 percent, it has a relatively low average contribution rate, and its contribution increase for next year is a below-inflation 4.95 percent. The increases are between R25 and R85 for an adult dependant and between R0 and R30 for a child dependant.

Brian Watson, chief executive of Genesis, says one of Genesis’s big advantages is its lower administration costs (see “Does being bigger reduce admin costs?”). Watson also points out that the number of members in a scheme is immaterial if a scheme doesn’t have the money to pay claims.

He says the important question is whether a scheme has reasonable resources to settle its claims, and this is less about size than about benefit design and the risk profile of a medical scheme’s members.

He says if Genesis and DHMS were liquidated, DHMS beneficaries would receive R3 112 each, while Genesis beneficaries would receive R10 810 each.

Watson says one of the reasons Genesis has been able to keep its contributions low is it doesn’t need to build up the required reserves, which many other schemes are still doing.

The scheme also has a board of professional trustees whose fees are among the lowest among open schemes, Watson says.

When it comes to negotiating with providers, Watson says, schemes can always negotiate better rates if they pay more promptly than the 30 days that schemes are entitled to take to pay claims.

DOES BEING BIGGER LOWER ADMIN COSTS?

The argument that bigger is better is still being debated when it comes to the administration fees your medical scheme pays its administrator.

The Council for Medical Schemes 2011/12 annual report notes that despite their market dominance and the inherent benefits of economies of scale, larger administrators do not appear to offer any cost advantages over their smaller rivals.

“Perhaps their size makes them less efficient and less responsive to clients’ needs,” the report says.

According to the councilôs annual report, Discovery Health Medical Scheme (DHMS) spends on average R103.60 per beneficiary per month on administration, while the industry average is R89.10 per beneficiary per month.

But Dr Jonathan Broomberg, the chief executive of Discovery Health, the administrator for DHMS, says its administration fee includes some costs not included in other schemesô administration fees.

He says it is more accurate to compare what schemes spend on administration, managed care and marketing. DHMS spends R163 per average beneficiary per month on all these expenses, while the industry average is R158.10, he says.

Alexander Forbesôs research shows that DHMS spends R135.03 on administration and managed care per beneficiary per month. It says these non-healthcare costs plus broker fees and bad debts amount to 18.2 percent of the schemeôs gross contribution income.

While DHMS has the highest non-healthcare expenditure as a percentage of contributions among the 10 largest open schemes and five largest restricted schemes, Alexander Forbes research shows DHMSôs administration and managed care fees per beneficiary per month are exceeded by those of three large open schemes: Bestmed (R152.62), Fedhealth (R149.23) and Keyhealth (R136.70).

Broomberg says DHMS has reduced its administration fees in real (after-inflation) terms each year since 2006 and aims to have its administration fees at 10 percent of its gross contribution income in two to three yearsô time.

He also says for every rand the scheme spends on managed care fees it saves R3 in healthcare costs.

Anthea Towert, the head of scheme consulting at Alexander Forbes Health, says DHMSôs below-inflation increase in its administration fee last year meant a R100-million discount to members.

At the schemeôs most recent annual general meeting in June, two members asked for a review of the administration fees the scheme was paying.

Milton Streak, DHMSôs principal officer, says the schemeôs trustees had at that stage already embarked on a detailed independent review of the fees. He says this review will include benchmarking the fees the scheme pays to those paid by healthcare funders in other countries. The results are likely to be made known at the schemeôs annual general meeting next year, Streak says.

Medium-sized open scheme Genesis is self-administered and spends R93.64 per beneficiary per month on administration and managed care.

Genesis chief executive Brian Watson says the biggest cost of administering a scheme is salaries, and self-administered schemes that employ their own administration staff have the advantage of not having to pay VAT for administration services.

Watson says Genesis does its own managed care and saves R250 000 to R300 000 a month auditing all claims to ensure there is no over-charging, over-servicing and charging errors.

Restricted medical schemes typically have lower non-healthcare costs than open schemes because they do not have marketing costs or pay brokers.

Alexander Forbesôs figures show this clearly, with Gems paying R53.04 per beneficiary per month for administration and managed care.

The equivalent figure for Bankmed, a large restricted scheme of about 200 200 bank employees and their dependants, is R110.80.