

Where have all the Medicines gone?

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Innovative Medicines
South Africa

Presentation outline – some of the funding dynamics affecting insured market

A breakdown of some of the dynamics around

- MEDICINE SPEND &
- MEDICINE USAGE

In SA private sector

- Data is extracted from the following published sources
 - Mediscor Medicines Review 2006
 - Council for Medical Schemes Annual Report 2006-2007
 - REF Tables (H Mcleod)



First the basic dynamics around medicine benefits

Medical schemes Legislation:

- Schemes are obliged to pay from the common risk pool (Stokvel)
 - PMBs: 271 conditions, 25 CDLs and all emergency treatment (listed in regulations).
(In error this has been interpreted to be similar to hospital plan with result that there is a perception that PMBs are hospital based only)
 - Schemes cannot risk-rate patients to avoid payment
 - Schemes must pay in full for PMBs
 - May introduce formularies and other cost containing measures (must be EBM and effectiveness based) but may not ask co-pays for formularies



Prescribed Minimum Benefits

- The PMBs are set out in the Regulations made in terms of the Medical Schemes Act and consist of:
 - A list of 271 diagnosis and treatment pairs (**PMB-DTP**).
 - Emergency medical conditions (included in PMB-DTP).
 - Diagnosis, treatment and medication for 25 defined chronic conditions (The Chronic Disease List (CDL) or CDL conditions) (referred to here as **PMB-CDL**).

Missing from PMBs: **Primary healthcare package**



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Source: [illegible]

Consequences of containment measures by schemes:

- Patients pay from savings accounts (their own money) or
- they co-pay.
- Either way, the patient is absorbing the risk.

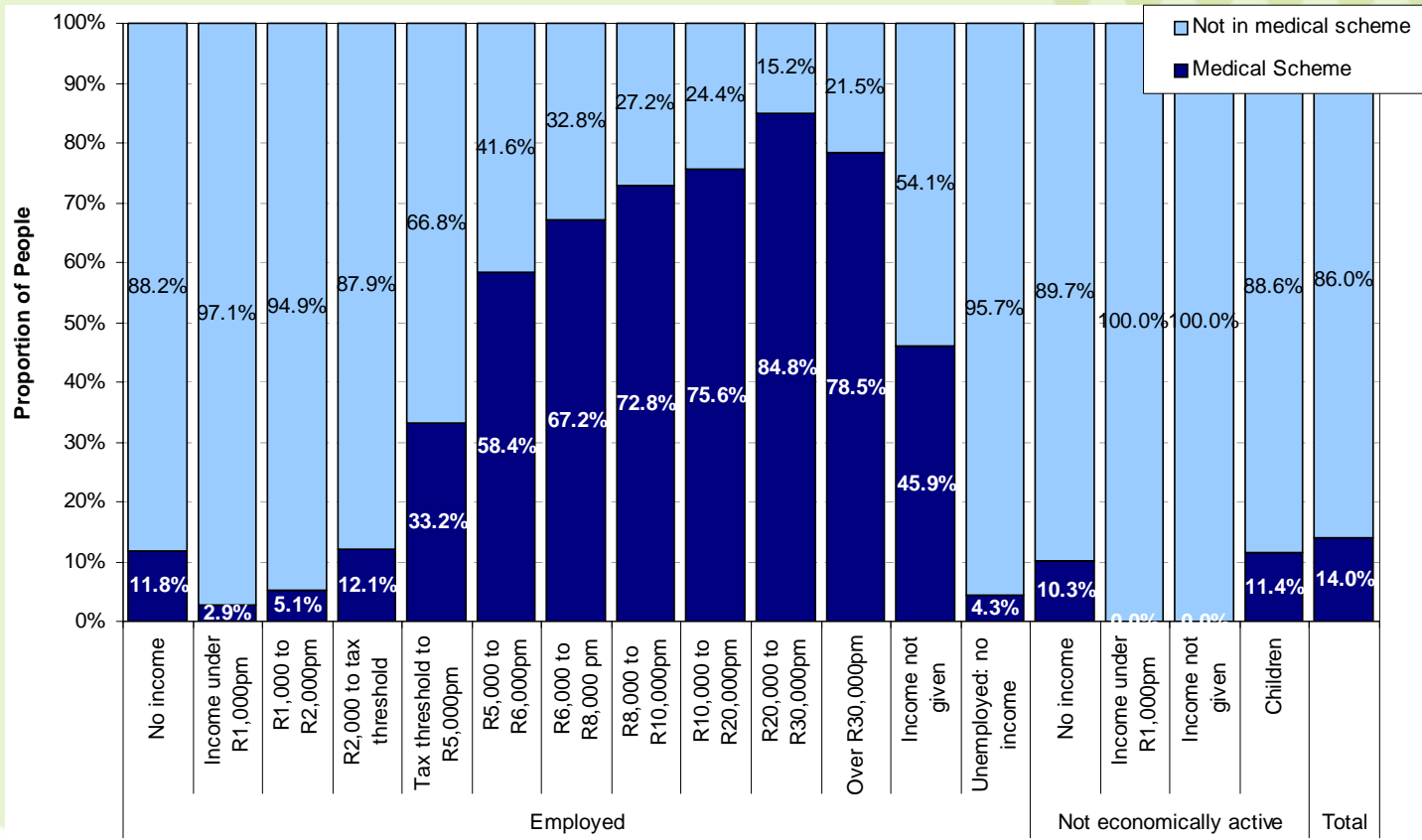


Break down of membership

- Beneficiaries 7.1m (up 4.3%).
- 124 Schemes with 391 different benefit options for patients to choose from
 - Open schemes 5m & Ave 5.3 options/scheme
 - Closed schemes 2.1m & Ave 2.1 options/scheme
- Average age 31
- 6.3% older than 65yrs
- Third of members in Gauteng



Medical Scheme Membership by Individual Income



Affordability

Healthcare Spend

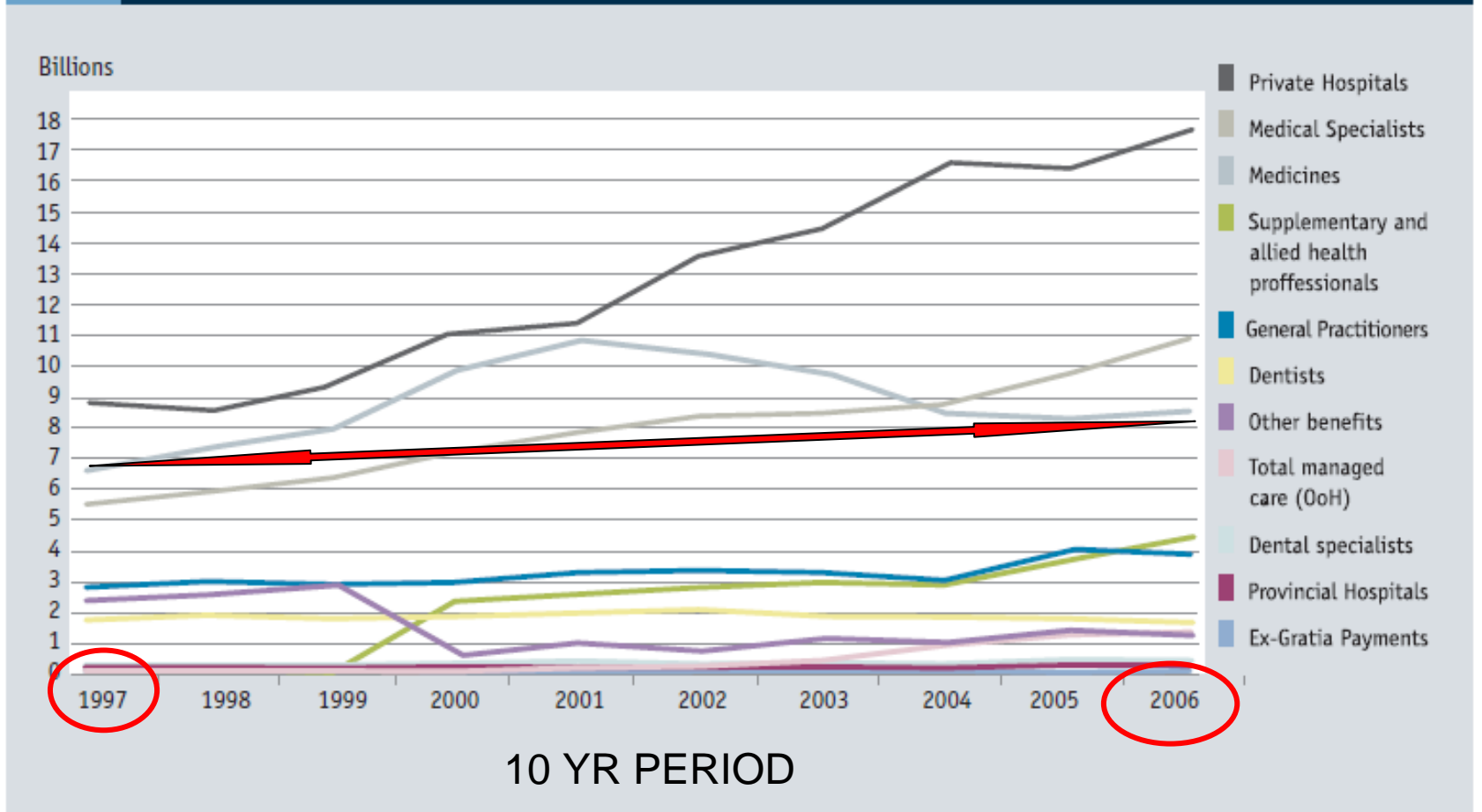
Total benefits paid

- Increased to R51.3b (up 12.5%)
- Private Hospitals R17.7b (35% of total) includes medicines (up 13.6%)
- Specialists R10.9b (21.4% of total –up 17.5%)
- **Medicines (providers and Drs – not hospitals) R8.7b (16.9% of total benefits– up 4%) (14.1% of total expenditure)**
- GPs R4.4b (8%)
- Dentists R1.8
- Supplementary & allied R4.5b



Medicines Spend has Significantly Declined Since Introduction of SEP Actual Rand Value – Expenditure in real terms adjusted for inflation

Figure 5 Trends in total benefits paid



Benefits paid from Risk Pool

- 88.5% of total Paid on benefits R45.4b
- Hospitals 39.4%
- Specialists 21.8%
- **Medicines 15.1%**
- GPs 7.5%



Benefits paid from savings accounts R5.9b (11.5%)

- Medicines largest share of savings accounts – 31.2%
- Supplementary providers (19%), GPs (16.9%), specialists (18.2%)
- Hospitals only 1.7% of savings accounts



Trends on savings accounts

- *“Medical savings accounts contributions and claims increased at greater rates than those recorded for the risk components. This indicates a move towards benefit designs requiring a greater proportion of benefits to be funded out of medical savings account rather than out of the general risk pool”.*
- *These figures show that schemes are increasingly shifting benefits from the risk pool. Put another way, members are increasingly funding more benefits out of their pockets.*



Summary of spend on medicines

Total benefits R8.7b (16.9%)

Paid from risk pool R6.8b 15.1%

Paid from savings accounts R1.8b (31.2%)

Average claim cost per item – R100 (Mediscor)

Average of 19 items per beneficiary annually

Medicines proportion of Hospital spend:

Private hospitals R2.4b

Provincial hospitals R40m

Total R11.14b being reported through ensured environment and include cost of medicines and of dispensing and professional fees related to dispensing.

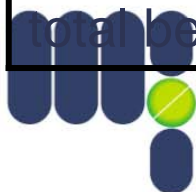
Medicines R11.14b R103.5 pabpm

(Per active beneficiary per month)

Dispensed by	Total 2006	Share of total spend	pabpm
Pharmacists	R7.5b	16.9% (up 8.8%)	R89.4
Practitioners	R0.9b	1.8%	R11.1
Medical Specialists	R0.6b	0.3%	R1.9
Allied & support health profs.	R16m		R0.2
Other Health Professionals	R75m	0.1%	R0.9
In public hospitals	R40m	0.1%	R0.5
INPvt Hospitals	R2.4b	4.7%	R28.6

Annual medicines Expenditure (Mediscor)

Measure	2004	2005	2006
Ave cost per beneficiary (R)	2,001	1,807	1,907 (up 5.5%)
Ave cost per utilising beneficiary (R)	2,295	2,084	2,197
Ave cost per item (R)	121	100	100
Ave items per beneficairy	17	18	19
Ave items per beneficiary NCEs			Up 1.6%
Utilising beneficiaries as % of total beneficiaries	87	87	87

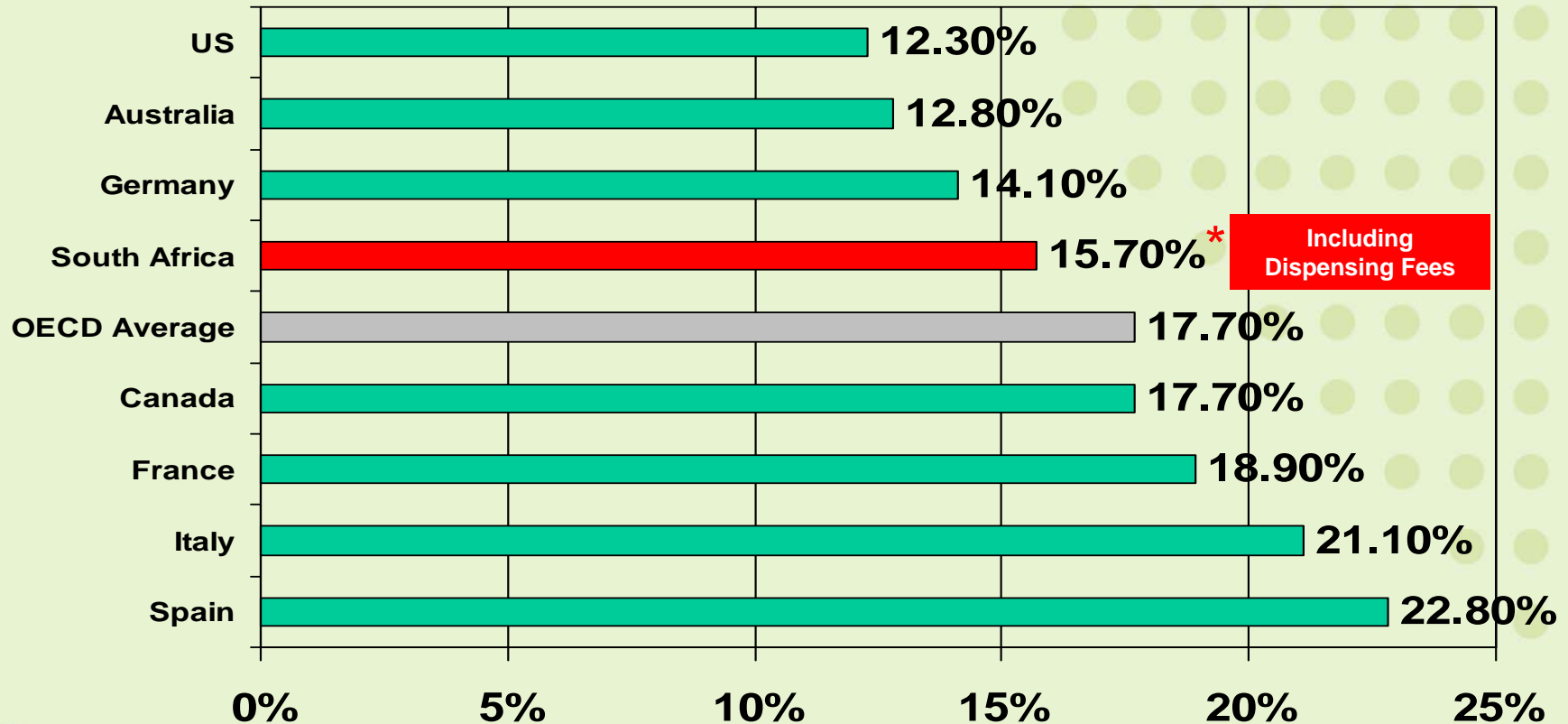


Mediscor Claims Breakdown

- 77% line items, 80% total spend community pharmacists
- 6.9% courier pharmacies
- 16% dispensing doctors
- Trend away from GPs



Benchmarking Medicines As A Percentage Of Healthcare Spend. (2004 OECD Data)



Sources: OECD Health Report 2006 (Data 2004), *South Africa 2005-6 CMS Annual Report Figure 12, Pg 50 (Includes Dispensing Fees), ** South Africa 2005-6 CMS Annual Report Pg 88,89,90 Annexure I, Pg 99 Annexure K (Includes Dispensing Fees)

SA Spend On Medicines In Line With OECD Benchmarks

Non-Healthcare Expenditure – Min Components

- Total R8.3b (16.1%)
 - Fees paid to Administrators R5.9b (up 7.3%), Managing health benefits R1.4b (up 9.6%), Commissions and service fees paid to brokers R982.5m (Up 7.1%)
 - Other distribution costs and impaired receivables.
- Average administration fee R70.33 pabpm
- *“The persistently high level of non-healthcare expenditure suggest that increase on members contributions have continued to be directed principally towards paying for non-health expenditure”*

Broker costs

- Include all commissions, service fees and other distribution costs paid to brokers

“Brokers service fees have been rising sharply over the past few years, resulting in their rates of increasing now far exceeding the increase in numbers of members. For those schemes that pay brokers, these service fees have increased on a pmpm basis by 114.35 since 2001 compared with a 46.9% net increase in members. The substantial increases in broker service fees are clearly not being matched by increases in new members.”

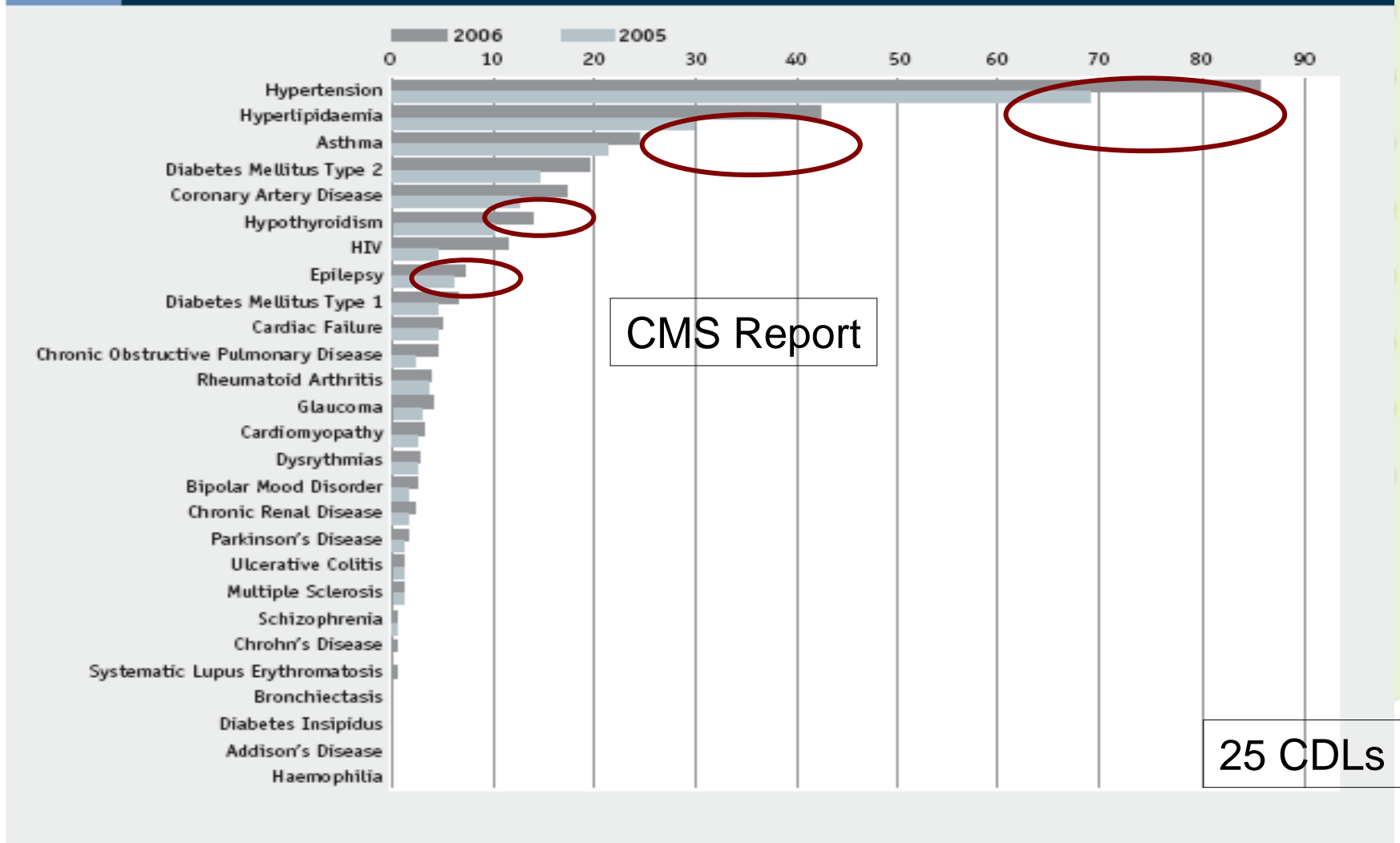
Medical Schemes and Collection

- 71.8% of beneficiaries, 72.3% of revenue collection via open schemes.
- Increase in open schemes from 50% in 1993 – coincides with under-the-table use of brokers.
- End 2005: **9,425 individual health brokers** accredited with Council for Medical Schemes. Estimated to be some **7,000 general practitioners**.
- Insufficient incentive for brokers to encourage growth at the low end of the market.

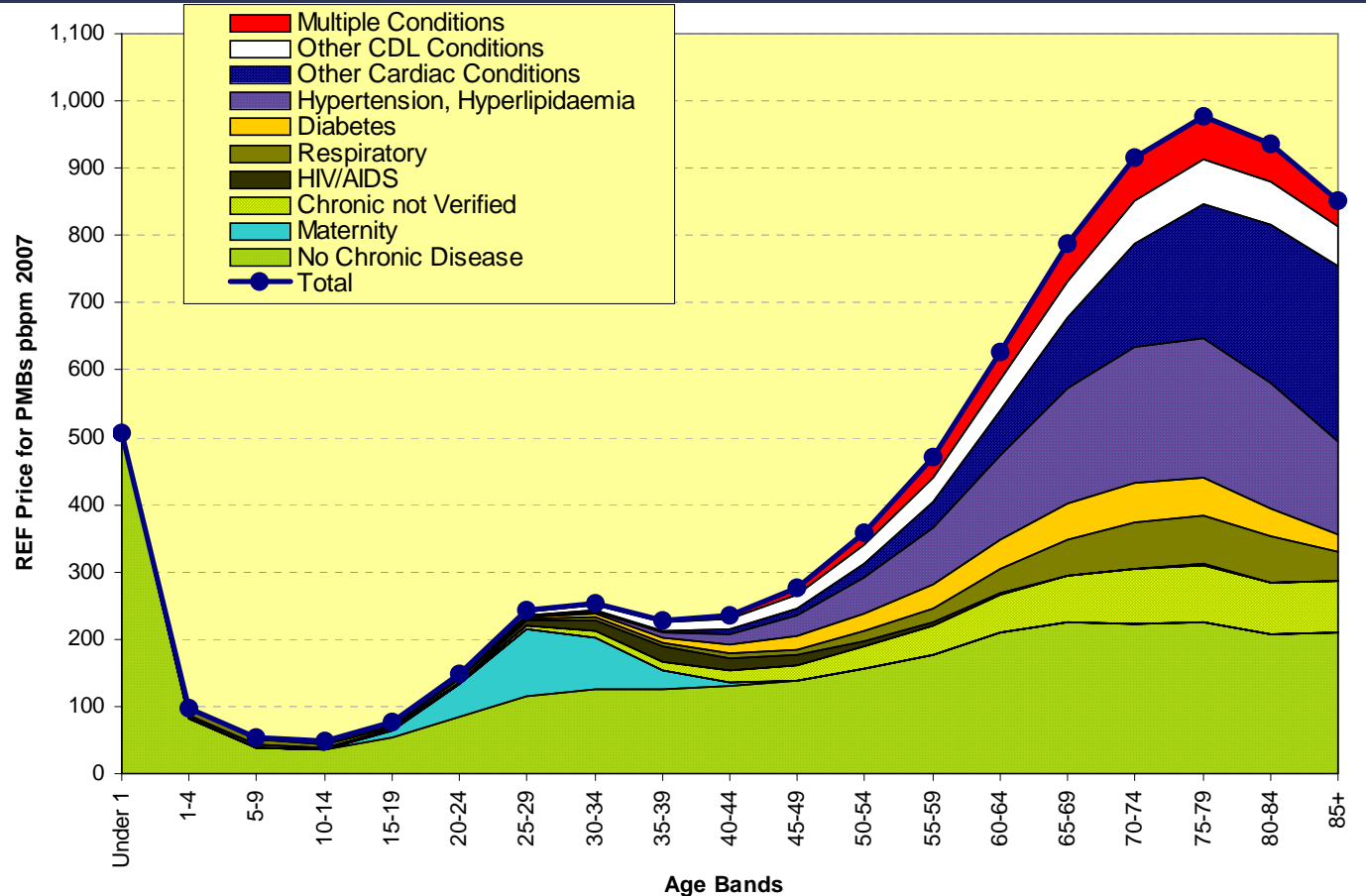


... in Spite of Increases in Chronic Disease Incidence in Medical Schemes (43% of overall expenditure – Mediscor)

Figure 18: Prevalence of chronic conditions in registered schemes



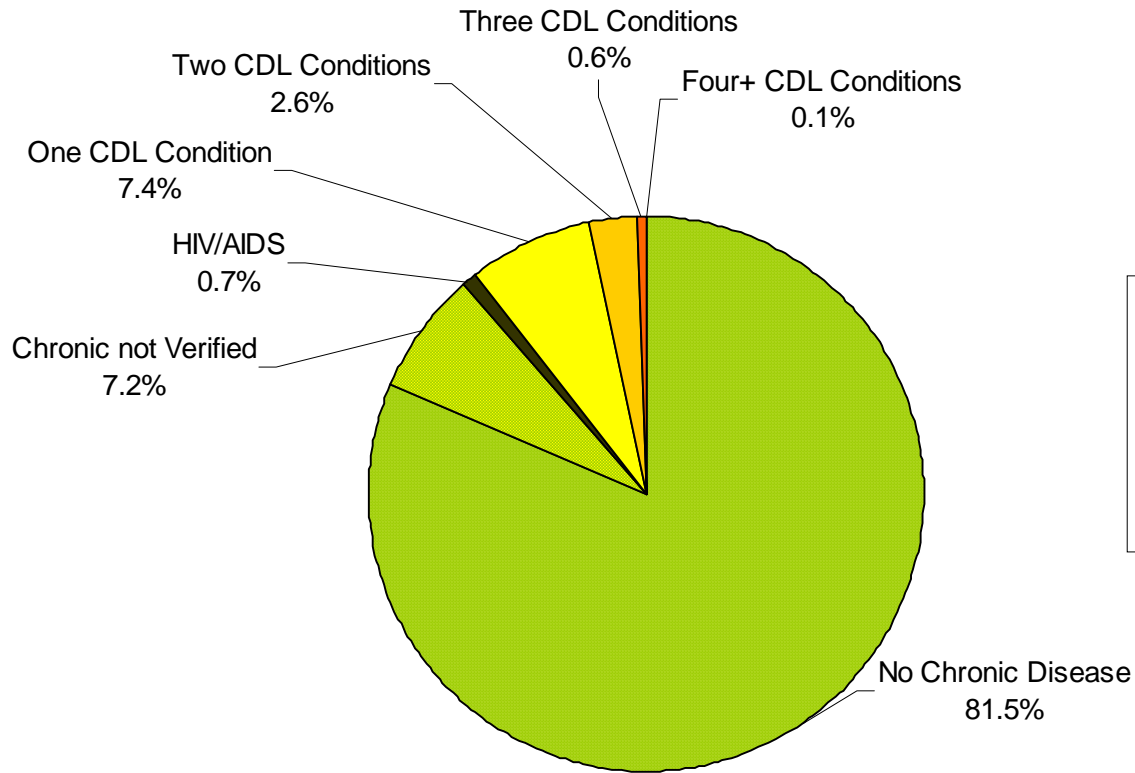
Price by Age of Chronic Disease



The burden of heart disease is clear.

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Source: REF Contribution Table 2007

Prevalence of Chronic Disease

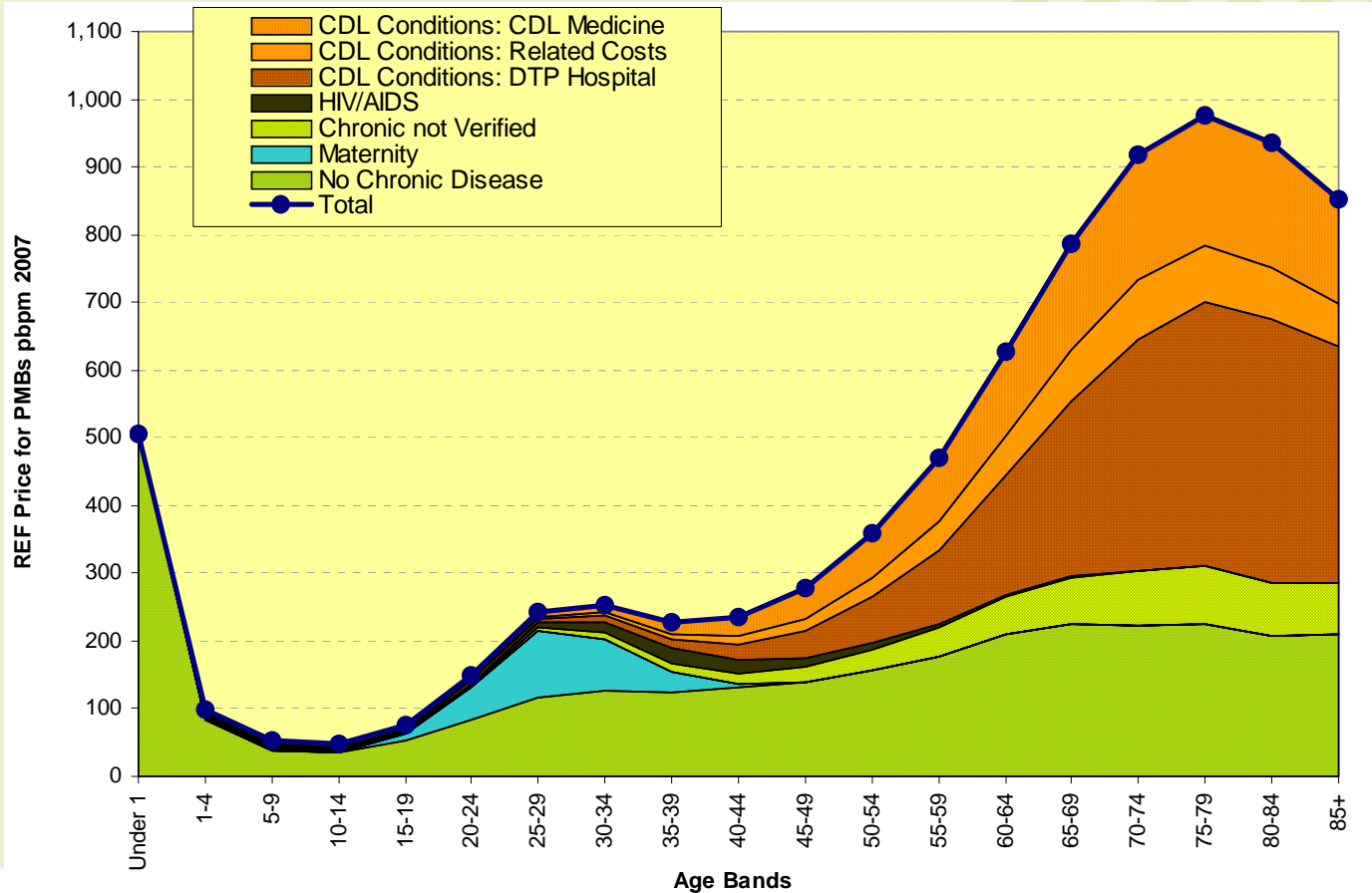


Cost per patient almost doubles with each additional condition

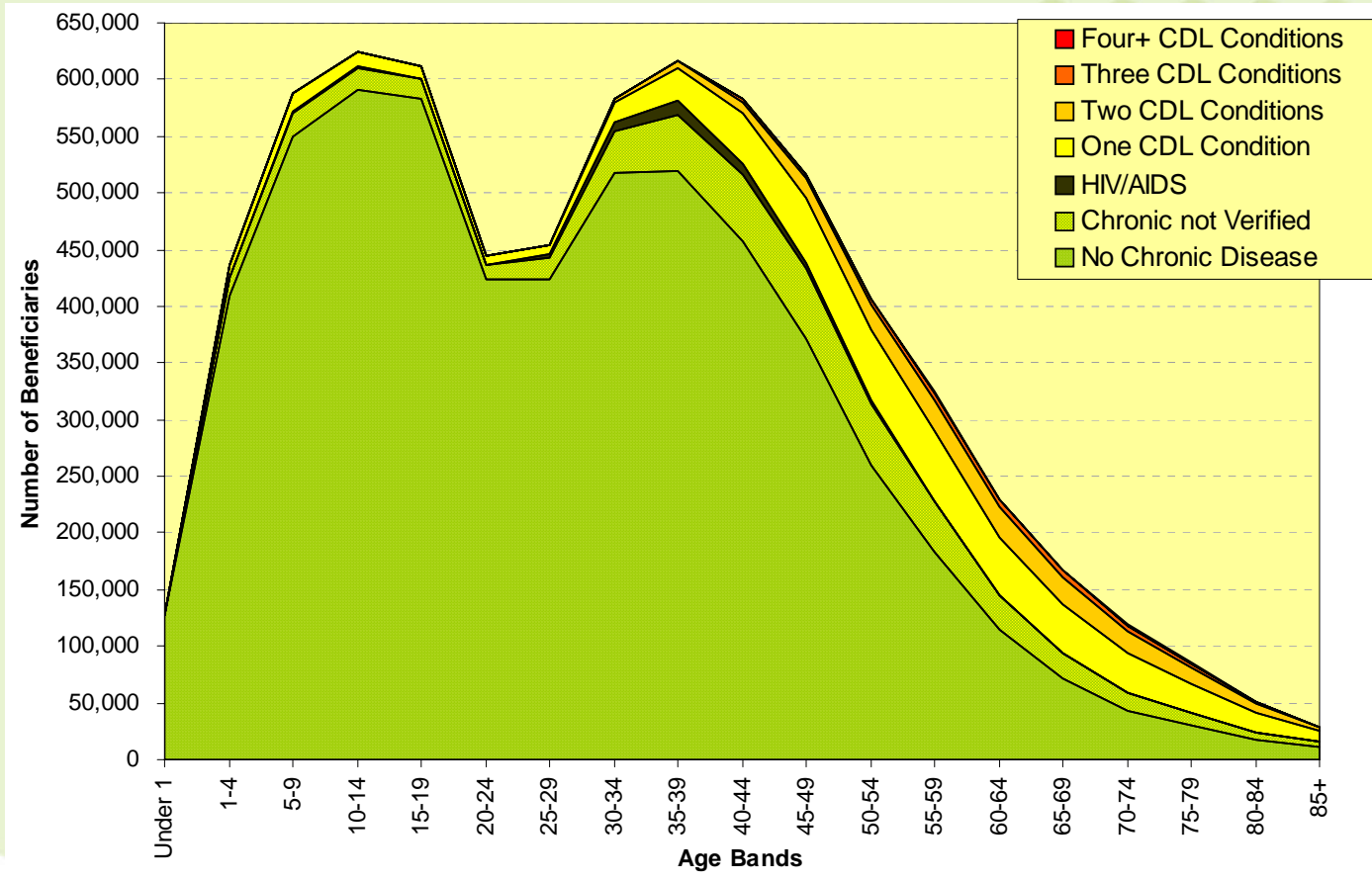
“Chronic not verified” are those identified with a chronic disease who do not meet the “treated patient” criteria for 2007.



Price by Age of Chronic Disease

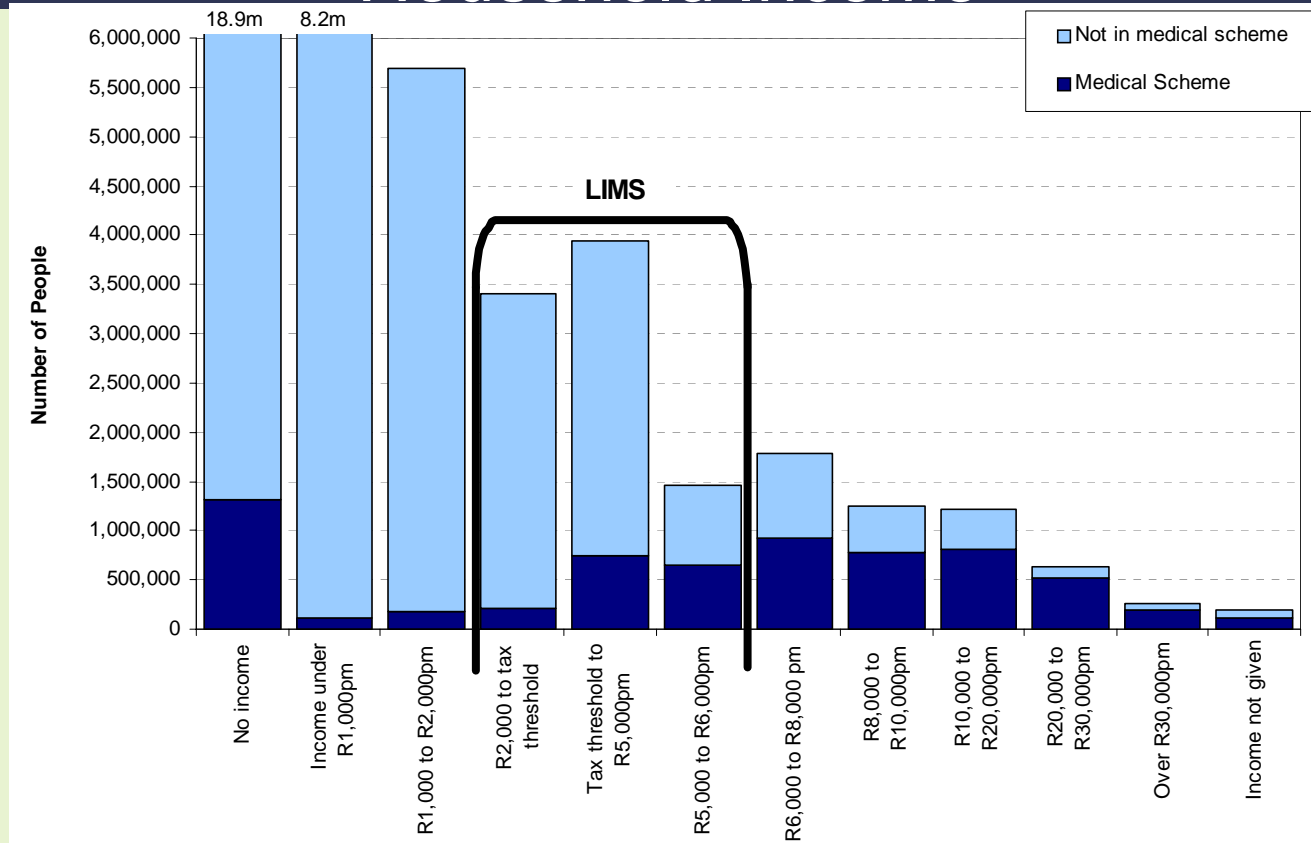


Prevalence by Age of Chronic Disease



Opportunities for the sector and for patients

Medical Scheme Membership by Highest Household Income



Affordability

Industry appeal

- Need to split pure medicines costs from pharmacists dispensing and professional fees in health expenditure metrics
- Focus should move from looking at just the cost of medicines to the bigger picture
 - Looking at health financing mechanisms and ways of increasing the insured population and increasing the risk pool. This will automatically bring down costs.
 - We see SHI as an opportunity to do this and would value engagement with private sector on where this could go.

