



ACTUARIAL  
SOCIETY  
OF SOUTH AFRICA



QUANTIFYING RISK, ENABLING OPPORTUNITY



## **MEDICAL INSURANCE**

**An affordable means to widening the Medical Aid net and a brief reflection on moral philosophy in understanding the need for change**

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# 1. The significance of moral PHILOSOPHY in understanding CHANGE

## JEREMY BENTHAM (1748 – 1832)

### Utilitarianism – Cost vs. Benefits

Jeremy Bentham was an English moral philosopher and legal reformer who founded the doctrine of Utilitarianism. The highest principle of morality is to maximise happiness, the overall balance of pleasure over pain. The right thing to do is whatever will maximise utility – whatever will produce pleasure or happiness and whatever prevents pain or suffering.

Utilitarianism claims to offer a science of morality, based on measuring, aggregating and the calculation of happiness. It weighs preferences without judging them.

The non judgemental spirit is the source of much of its appeal and its promise to make moral choice a science informs much contemporary economic reasoning.

Cost benefit analysis tries to bring rationality and rigor to complex social choices by translating all cost and benefits into monetary terms and then comparing them.

The most glaring weakness of utilitarianism, is that it fails to respect individual rights. By caring only about the sum of satisfaction, it can run roughshod over individual people.



## IMMANUEL KANT (1724 – 1804)

### Morality, Freedom and Reason

Rejection of Utilitarianism – in the 'Groundwork' after 1776 but before 1789 offered a powerful basis for the rights of man what we today in the 21st century call 'Universal Human Rights'. Kant's philosophy informs much of the basis for contemporary thinking about morality and politics which is implicit in our public life today,

Kant distinguishes between duty and inclination – in understanding what has 'moral worth' – A contemporary example would be an Anaesthetist who charges standard rates for a life threatening event without any consideration for what he could have charged – has acted from a duty within and therefore his actions would according to Kant have moral worth.

Kant's argument for 'humanity' stems from his realisation that man is not only a sentient being, governed by pleasure and pain but is a rational being capable of reason which determines his will, and is therefore capable of Freedom. And in this sense humanity has to be treated with the utmost respect and dignity – as ends in themselves.

Freedom can only be defined when we act Autonomously (without influence), as opposed to Heteronomously (actions determined externally by desires and inclinations)

In his explanation Kant distinguishes between the Categorical and the Hypothetical Imperatives in understanding the ways reason can command the 'will'. And explains how the hypothetical imperative is always conditional whereas the Categorical Imperative is unconditional without dependence on any purpose and hence is the only imperative that has morality. We all have a right to life and to choose etc.

This way of thinking about morality and freedom led Kant to a devastating critique on utilitarianism. The effort to base morality on some particular interest or desire i.e happiness or utility, is bound to fail. "For what they discovered was never duty but only the necessity of acting from a certain interest". But any principle based on interest was bound to be always a conditional one and could not possibly serve as a moral law.

## 2. MEDICAL AID - FACTS

### OPEN ENROLMENT

#### May not refuse membership

The MSA 131 of 1998 sought to redress the inequities of earlier provisions of earlier Acts with the introduction of idealistic doctrines of:

- Community rating means that all members belonging to an option pay the same contributions
- Open enrolment – schemes must admit anyone as a member

### LATE JOINING FEE

#### Can charge late joiner fee

The Starting age for penalties is 35 years of age. The penalty is based on the number of years after 35 years an applicant was without medical scheme cover. The late joiner fees follow you eg you cannot join a scheme for two years and then hop to another scheme hoping that the two year membership with the previous scheme will absolve you from the penalty.

Foreigners over the age of 35 cannot claim creditable coverage for membership of schemes registered outside of RSA and the maximum penalty can imposed.

### CROSS SUBSIDISING

#### Depends on cross subsidising i.e. young and strong financing the old and frail

The provision of Primary Healthcare is mostly confined to individual savings accounts which inhibits proper cross subsidisation.

### LIMITED FLEXIBILITY

#### Limited flexibility in respect of benefits and hence costs

Medical Schemes are non-profit organisations. They do not have shareholders and therefore do not pay dividends and if profits are made the money carried forward to the following year.

When members are denied care for medical problems in terms of the rules of the scheme, Brokers / Financial advisors must be able to explain the non profit legal structure and status of the scheme.

Scheme rules and new options can only be amended and approved by the Registrar on an annual basis.

## 2. MEDICAL AID - FACTS continued

### a) PMB's – what this means to the member

Essential benefits that by law all schemes must cover. They cover all medical emergencies, 270 conditions that if left untreated would have a significant impact on your life and 25 common chronic conditions.

In the MSA 131 of 1998 the Minister of Health introduced Prescribed Minimum Benefits – enforceable via ICD 10 codes ensuring that members had a safety net and were not denied care for serious illnesses. With the minor exception that schemes may reduce the extra cost associated with paying for the minimum benefits by the use of formularies, protocols and designated service providers.

However the overall result being that service providers can charge what they like knowing that a deep pocket in the form of a medical scheme will be footing the bill the moment anything becomes life threatening.

### b) Cash reserves - 25%

Solvency / reserving rules

Schemes are obliged by law to hold 25 % of their contributions in reserve in order to protect themselves against large claims and no relief is expected in the proposed Medical Schemes Amendment Bill as proposed by the CMS to the Department of Health.

Many Medical Scheme industry experts say this percentage is unnecessary high and that scheme reserves should be aligned to their exposure to risk.

### 3. Ever increasing costs of Private Care vs Resources

#### c) Costs of Private Funding

The annual increase in contributions over past 12 years is (CPI +4%points).

It is common for a person to spend 15% of their monthly income on a medical aid and if current trends continue in 10 years time people will be spending 22% of their income on

A Pensioner with a an income of R5000 per month is faced with paying 23% of their income (R1,138) the average monthly contribution for healthcare.

We also know that wastage and or overservicing by Service providers = 30% of medical aid spend – between R3 and R22 Billion every year.

Not for nothing that The Green Paper on NHI stated that :

‘The high costs linked to high service tariffs, provider – induced utilisation of services and the continued over-servicing of patients on a fee-for-service basis will clearly result in the private sector not being sustainable in the medium to long run’.

#### d) Two – Tiered Health System

Total number of Private Hospital Beds: 37 869 servicing 10,5 million:

|                           |             |
|---------------------------|-------------|
| Netcare                   | 9 266 (25%) |
| Life Healthcare           | 8 044 (21%) |
| Mediclinic                | 7 130 (19%) |
| National Hospital Network | 7682 (20%)  |
| Independent               | 4 353 (11%) |
| Clinix                    | 1 394 (4%)  |

Public Sector Beds: 47 051 servicing 40 million.

# 4. MEDICAL INSURANCE VS. MEDICAL AID

## Basic Differences

| Medical Insurance        |                                                                                                                                                                                                            | Medical Aid                                                                                                                                                             |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> | Medical Insurance governed by Life and Short Term Insurance Acts                                                                                                                                           | Medical Aids governed by Medical Schemes Act                                                                                                                            |
| <input type="checkbox"/> | Pays a stated benefit – lump sum to the member however a signed letter of authority ensures payment to hospital / provider                                                                                 | Pays the Service Provider and in respect of PMB's expected to cover 100% of costs                                                                                       |
| <input type="checkbox"/> | Premiums are not linked to Salary bands. Community rating doesn't necessarily apply. Affordable premiums linked to Capped Stated Benefits not required to cover PMB's and can decline members from joining | Community rated premiums linked to salary bands. High premiums due to PMB's and open enrolment                                                                          |
| <input type="checkbox"/> | Greater flexibility can adjust benefit design and include Dread Disease, Disability and Funeral benefits and adjust premiums monthly etc.                                                                  | All options have to be self-supporting, be financially sound and not jeopardise the financial soundness of any existing benefit option within the medical scheme        |
| <input type="checkbox"/> | Stated Benefit limit Service Provider Abuse                                                                                                                                                                | Medical Schemes are obliged to conduct business so as to be in a position to meet its liabilities at all times. Premium increases have to be agreed by the CMS annually |
| <input type="checkbox"/> |                                                                                                                                                                                                            | PMB's encourage service provider abuse – can charge what they like                                                                                                      |

## 4. MEDICAL INSURANCE VS. MEDICAL AID

## Day1 Health Plan Description

[illegible]

## Medical Scheme Plan Description

Please refer the table on the benefits will be added in proportion to the period of membership left for the year (month date of joining)

| Sapphire                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Beryl                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Ruby                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Emerald                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Onyx                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Opal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Member's Details</b></p> <p>NAME: [Name]<br/>           ADDRESS: [Address]<br/>           CITY: [City]<br/>           STATE: [State]<br/>           PIN: [PIN]<br/>           PHONE: [Phone]<br/>           EMAIL: [Email]</p> <p><b>Do of Health Details</b></p> <p>HEALTH STATUS: [Health Status]<br/>           MEDICAL HISTORY: [Medical History]<br/>           CURRENT MEDICATIONS: [Current Medications]<br/>           ALLERGIES: [Allergies]<br/>           SURGICAL HISTORY: [Surgical History]<br/>           VACCINATION RECORD: [Vaccination Record]</p> | <p><b>Member's Details</b></p> <p>NAME: [Name]<br/>           ADDRESS: [Address]<br/>           CITY: [City]<br/>           STATE: [State]<br/>           PIN: [PIN]<br/>           PHONE: [Phone]<br/>           EMAIL: [Email]</p> <p><b>Do of Health Details</b></p> <p>HEALTH STATUS: [Health Status]<br/>           MEDICAL HISTORY: [Medical History]<br/>           CURRENT MEDICATIONS: [Current Medications]<br/>           ALLERGIES: [Allergies]<br/>           SURGICAL HISTORY: [Surgical History]<br/>           VACCINATION RECORD: [Vaccination Record]</p> | <p><b>Member's Details</b></p> <p>NAME: [Name]<br/>           ADDRESS: [Address]<br/>           CITY: [City]<br/>           STATE: [State]<br/>           PIN: [PIN]<br/>           PHONE: [Phone]<br/>           EMAIL: [Email]</p> <p><b>Do of Health Details</b></p> <p>HEALTH STATUS: [Health Status]<br/>           MEDICAL HISTORY: [Medical History]<br/>           CURRENT MEDICATIONS: [Current Medications]<br/>           ALLERGIES: [Allergies]<br/>           SURGICAL HISTORY: [Surgical History]<br/>           VACCINATION RECORD: [Vaccination Record]</p> | <p><b>Member's Details</b></p> <p>NAME: [Name]<br/>           ADDRESS: [Address]<br/>           CITY: [City]<br/>           STATE: [State]<br/>           PIN: [PIN]<br/>           PHONE: [Phone]<br/>           EMAIL: [Email]</p> <p><b>Do of Health Details</b></p> <p>HEALTH STATUS: [Health Status]<br/>           MEDICAL HISTORY: [Medical History]<br/>           CURRENT MEDICATIONS: [Current Medications]<br/>           ALLERGIES: [Allergies]<br/>           SURGICAL HISTORY: [Surgical History]<br/>           VACCINATION RECORD: [Vaccination Record]</p> | <p><b>Member's Details</b></p> <p>NAME: [Name]<br/>           ADDRESS: [Address]<br/>           CITY: [City]<br/>           STATE: [State]<br/>           PIN: [PIN]<br/>           PHONE: [Phone]<br/>           EMAIL: [Email]</p> <p><b>Do of Health Details</b></p> <p>HEALTH STATUS: [Health Status]<br/>           MEDICAL HISTORY: [Medical History]<br/>           CURRENT MEDICATIONS: [Current Medications]<br/>           ALLERGIES: [Allergies]<br/>           SURGICAL HISTORY: [Surgical History]<br/>           VACCINATION RECORD: [Vaccination Record]</p> | <p><b>Member's Details</b></p> <p>NAME: [Name]<br/>           ADDRESS: [Address]<br/>           CITY: [City]<br/>           STATE: [State]<br/>           PIN: [PIN]<br/>           PHONE: [Phone]<br/>           EMAIL: [Email]</p> <p><b>Do of Health Details</b></p> <p>HEALTH STATUS: [Health Status]<br/>           MEDICAL HISTORY: [Medical History]<br/>           CURRENT MEDICATIONS: [Current Medications]<br/>           ALLERGIES: [Allergies]<br/>           SURGICAL HISTORY: [Surgical History]<br/>           VACCINATION RECORD: [Vaccination Record]</p> |

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# Medical Aid vs Insurance

## HOUSEHOLD PROFILE #1 Medical Aid

### COUPLE + 2 CHILDREN

|                             |            |
|-----------------------------|------------|
| Household Income            | R80,000.00 |
| Household Income (less tax) | R61,180.00 |
| Bond                        | R20,000.00 |
| Water & Lights              | R4,000.00  |
| Private School              | R8,000.00  |
| Motor Car                   | R6,000.00  |
| Fuel                        | R2,500.00  |
| Living Expenses             | R10,980.00 |
| Medical Aid                 | R6,500.00  |
| Life Insurance              | R1,200.00  |
| Motor, House Insurance      |            |

**Total Expenses:**

**R61,180.00**

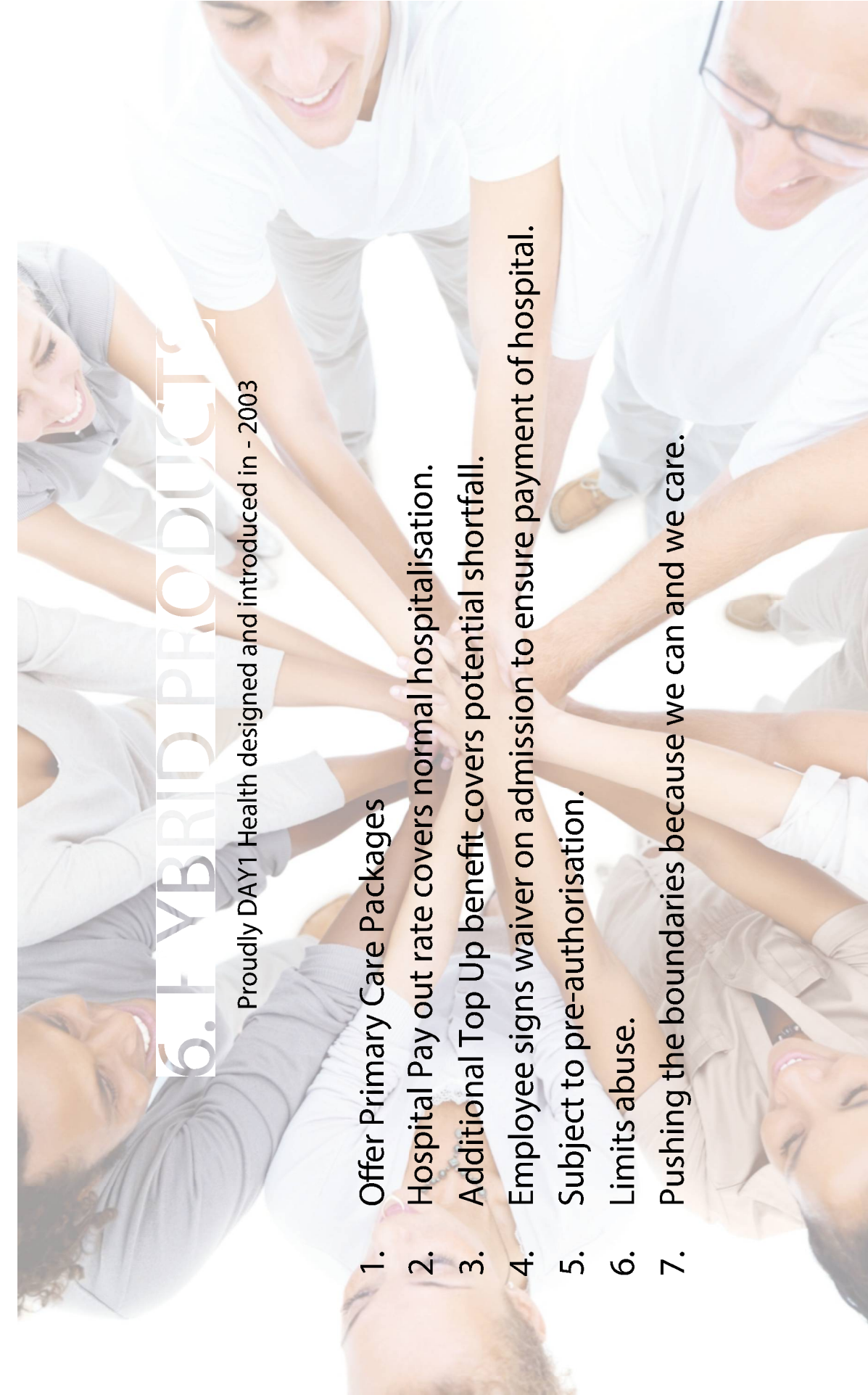
## HOUSEHOLD PROFILE #2 Insurance Hospital Plan

### COUPLE + 2 CHILDREN

|                             |            |
|-----------------------------|------------|
| Household Income            | R20,000.00 |
| Household Income (less tax) | R18,408.00 |
| Bond / Rent                 | R6,500.00  |
| Water & Lights              | R1,000.00  |
| Government School           | R2,000.00  |
| Motor Car                   | R3,000.00  |
| Fuel                        | R1,400.00  |
| Living Expenses             | R4,008.00  |
| Medical Insurance           |            |

**Total Expenses:**

**R18,408.00**



## 6. HYBRID PRODUCTS

Proudly DAY1 Health designed and introduced in - 2003

1. Offer Primary Care Packages
2. Hospital Pay out rate covers normal hospitalisation.
3. Additional Top Up benefit covers potential shortfall.
4. Employee signs waiver on admission to ensure payment of hospital.
5. Subject to pre-authorisation.
6. Limits abuse.
7. Pushing the boundaries because we can and we care.

# 7. TARGET MARKET

1. The objective and emphasis of Day1 Health has been to draw uninsured persons / families into the Healthcare industry and in so doing lessening the burden on State Facilities.
2. According to the Finmark Trust review published at the end of 2013, there are currently 1,5 million traditional Insurance Hospital Cash Plan policy holders covering approximately 2,4 million people.
3. The importance of Hospital Cash Plans paying small daily lump sum benefits such as R1000 per day to cover loss of income, transportation and food costs when an insured member is incapacitated cannot be underestimated. Unfortunately though, the benefits afforded by such Hospital Cash Plans is not adequate to guarantee private medical care hence the development and design in 2003 of DAY1 Health being the first Hybrid product introduced into the market 13 years ago.
4. Day1 Health's target market includes employees that need everyday 1st world medical benefits but cannot afford traditional Medical Aid.

# 7. TARGET MARKET

5. Products are not salary band designated.
6. Day1 Health Medical Insurance is NOT designed to REPLACE existing medical aids.
7. Makes medical care available to a much wider pool of employed and self employ people (estimated at 5 million) - cost effectively and congruent with Section 27 of the Constitution which provides the right for every citizen to access healthcare services.
8. Designed to cover day-to-day, necessary hospitalisation and emergency hospitalisation.

## 8. DAY TO DAY DOCTOR PLANS

1. In 2003 DAY1 Health (Pty) commenced its business being the first Non Medical Aid (Health Insurance Product Provider) to couple a Stated benefit Hospital Plan with a Day to Day Doctor package. Initially having outsourced the Day to Day function to existing service providers.
2. In January 2010, in order to guarantee service excellence, 1 Doctor Health (Pty) Ltd – a subsidiary of DAY1 Health, obtained exemption from the Council of Medical Schemes to offer a Day to Day service via its own network to its current and fast growing Hospital Plan member base.
3. The 1Doctor Health Network supports 1434 practices of which 946 pertain to GP practices and 488 Dental practices country wide.

## 9. WHAT'S IN IT FOR THE DOCTOR / DENTIST?

- ✓ Immediate expansion of possible patient client base
- ✓ Partnership with Doctor – becomes gatekeeper of members health going forward
- ✓ House doctor concept
- ✓ Preventative medicine
- ✓ Guaranteed payment
- ✓ Dispensing opportunity



# 10. Allied Services

- ✓ Allied Healthcare services:
- ✓ Access to basic Pathology (diagnostic pathology tests)
- ✓ Access to basic Radiology (black and white diagnostic x-rays)



# 11. Stated Benefit Hospital Cover - Unexpected

1. ER24 Emergency Services – pre-authorisation and admissions
2. In hospital Illness Cover:
  - ✓ 1<sup>st</sup> day, up to R6500,
  - ✓ 2<sup>nd</sup> day, up to R4500,
  - ✓ 3<sup>rd</sup> day, up to R4500
  - ✓ thereafter R1500 up to 21 day per illness event
3. Illness Top Up Benefit of up to R40,000 per family per annum
4. Accident Benefit – up to R150,000 per individual and up to R300,000 per family per incident
5. Dread Disease Benefit – up to R250,000 per annum
6. Optional Death Benefits
7. Gives access to private medical care in cases of emergency



**084 124**

# 12. Demarcation: A Collaborative Approach - A

## to Widen the Medical Aid Net



1. Two vital pillars of Healthcare provision:
  - ✓ Medical Schemes ( for the affluent who can afford and
  - ✓ Medical Insurance (for persons with marginal incomes)
2. You have a categorical right to choose the option that fits you best.
3. You can have a combination of both – that is the FUTURE
4. With regard to Income threshold and prevention- Patrick Bracher of Norton Rose proposes that: 'compulsory buy ups for members who exceed certain agreed income threshold unless they cannot afford to do so according to an affordability assessment as provided for in the National Credit Act'.

# 13. Conclusion

1. Both Medical Aids and Medical Insurance have a role to play in the provision of Health benefits – Clearly persons with a marginal income have a categorical right to choose between the two options.
2. With 84% of the population (42 Million) reliant on the state for provision of Health Services against the meager 4.2% of GDP expenditure allocation for this sector, in comparison to the 4.1% of GDP expenditure allocated to 16% of the population (8.3 million) in the private sector – clearly respect for humanity has to prevail over any interest group.
3. In closing I quote Professor Michael Sandel (Professor of Government at Harvard University) in his promotion of a politics of moral engagement – ‘A more robust public engagement with our moral disagreements could provide a stronger, not weaker, basis for mutual respect ....a politics of moral engagement is not only a more inspiring ideal, than a politics of avoidance. It is also a more promising basis for a just society’.