



QUANTIFYING RISK, ENABLING OPPORTUNITY

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Critique of the OECD Paper: International Comparison
of South African Private Hospital Price Levels

Summary of Key Points

OECD Conclusions

Areas of Concern



☐ Prices are high, increase above CPI

☐ Prices are unaffordable

☐ Low LOS, high admissions -> supply induced demand and poor quality

☐ Price controls recommended

☐ Data anomalies, data unrepresentative

☐ PPP methodology inconsistent, Rand weak and volatile

☐ Private prices in SA compared to OECD public prices

☐ A holistic study required to identify the drivers of healthcare inflation

Introduction

- The study was commissioned by the NDoH
- Report published by the WHO and OECD: International Comparison of South African Private Hospital Price Levels in March 2016
- This paper was presented to the Competition Commission at the Health Market Inquiry hearings in March
- Discovery Health participated in the study by providing data to the OECD
- Critical shortfalls remain unaddressed in the OECD final report.

Study Objectives

To compare utilisation and price levels of hospital services in South Africa against the OECD

1. Examine correlations between a countries wealth and hospital price levels
2. Compares hospital price levels in South Africa against the OECD
3. Evaluate the cost drivers of hospital prices: price inflation, no of admissions, length of stay, and components of cost

Study Data Sources

OECD

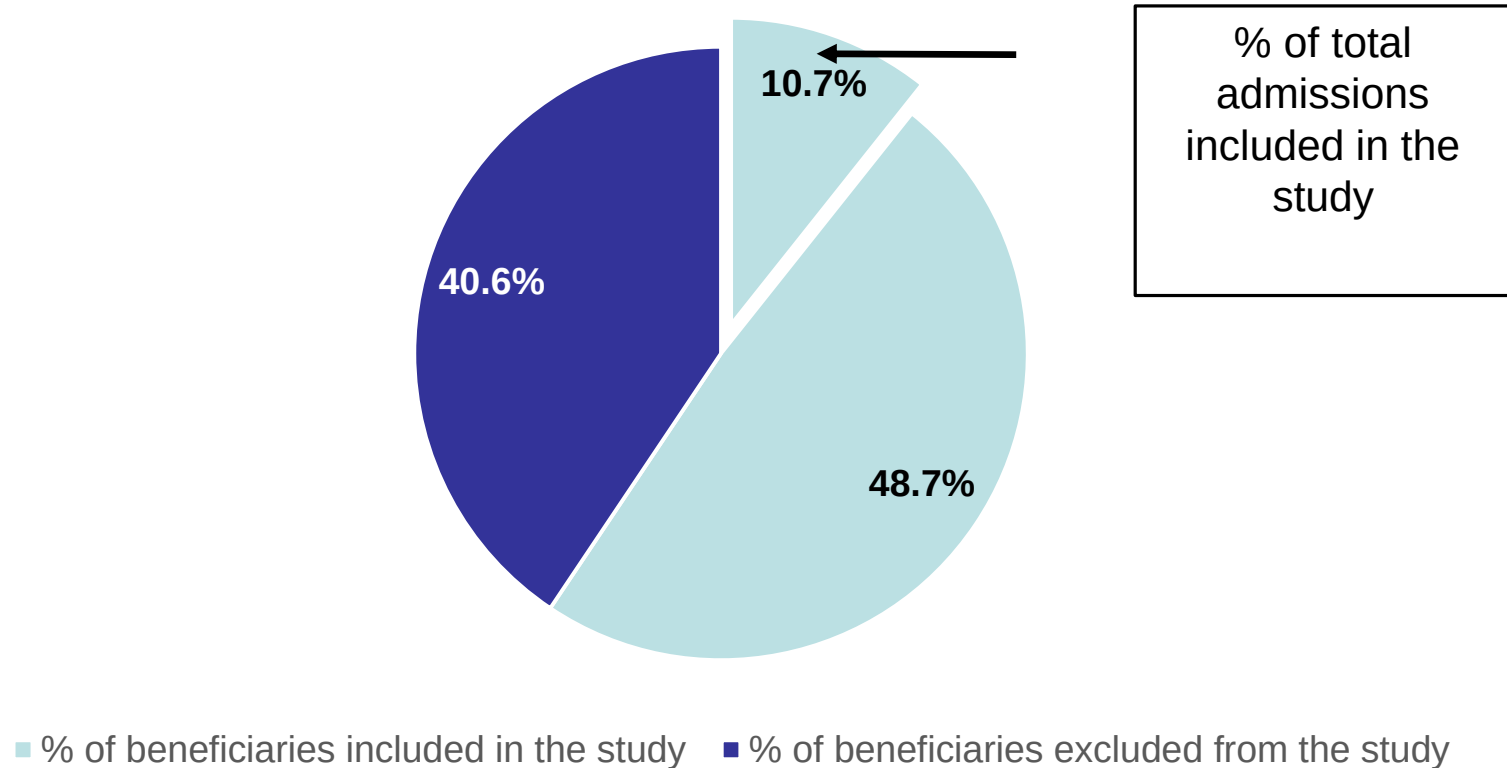
- Used existing data collected for previous PPP projects
- 20 countries: Austria, Czech Republic, Estonia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovenia, Spain, Sweden, Switzerland and United Kingdom

South Africa

- Data for 28 case types from large administrators, representing 59.4% of beneficiaries for 2011 – 2013

Study Data Sources

% of total hospital admissions represented by the OECD



Sample size is unrepresentative

Study Methodology

- Created a Hospital Comparator Price Level (CPL) index for each country
- 7 medical procedures and 21 surgical procedures (case types)
- OECD - prices paid by public purchaser for each case type but includes the cost of capital. South Africa – prices paid by medical schemes
- Prices expressed in PPP terms, to equalize purchasing power across countries
- Weighted by the volume per case type to calculate the index
- Average is equal to the geometric mean of CPLs across all countries and set to 100
- Each country's price level is then expressed relative to this average

What is PPP?

Economic Theory: The adjustment required to the exchange rate between countries, in order for the exchange to be equivalent to each other's purchasing parity



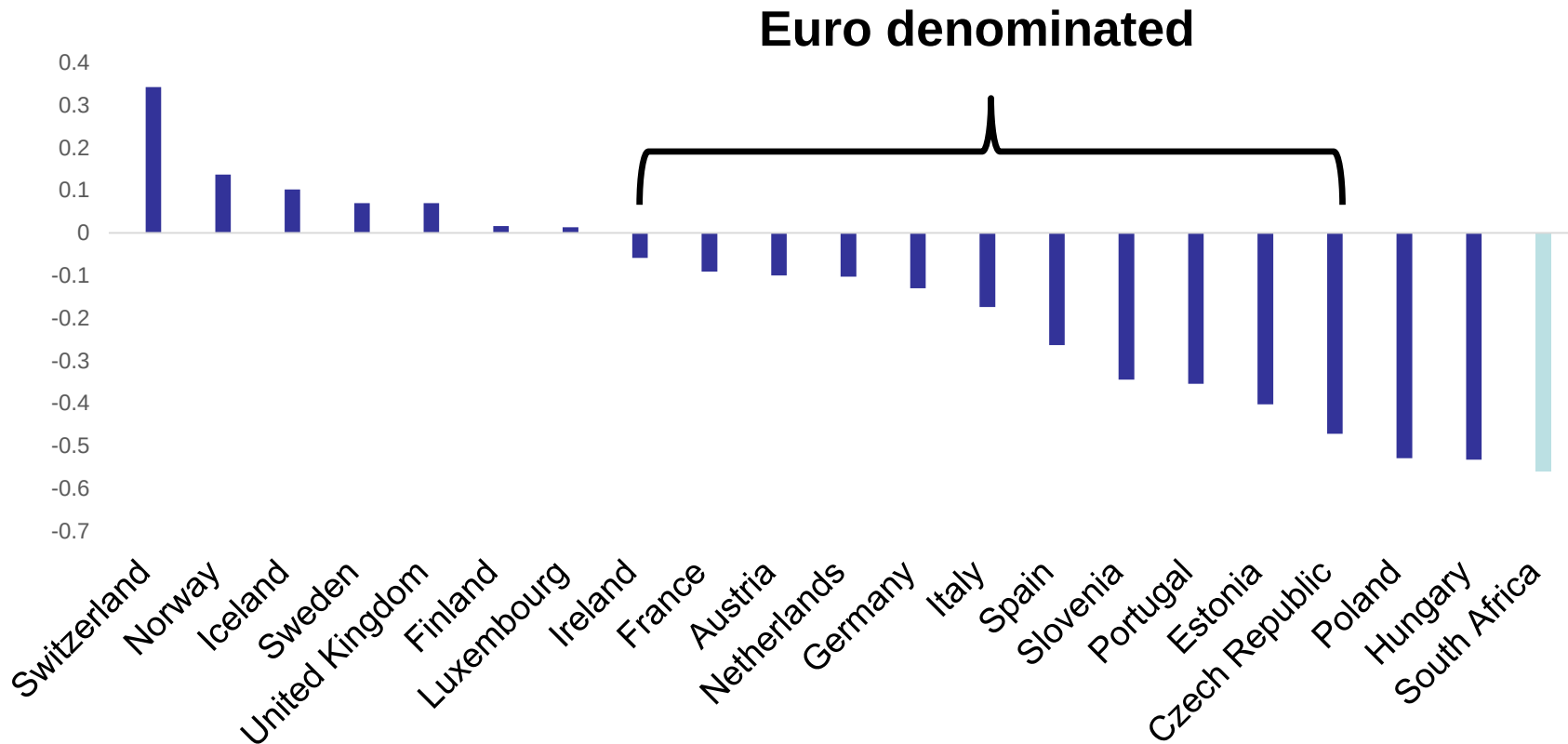
R200



\$26

PPP
exchange
rate =
R7.50/\$1

OECD PPP Index (2015)

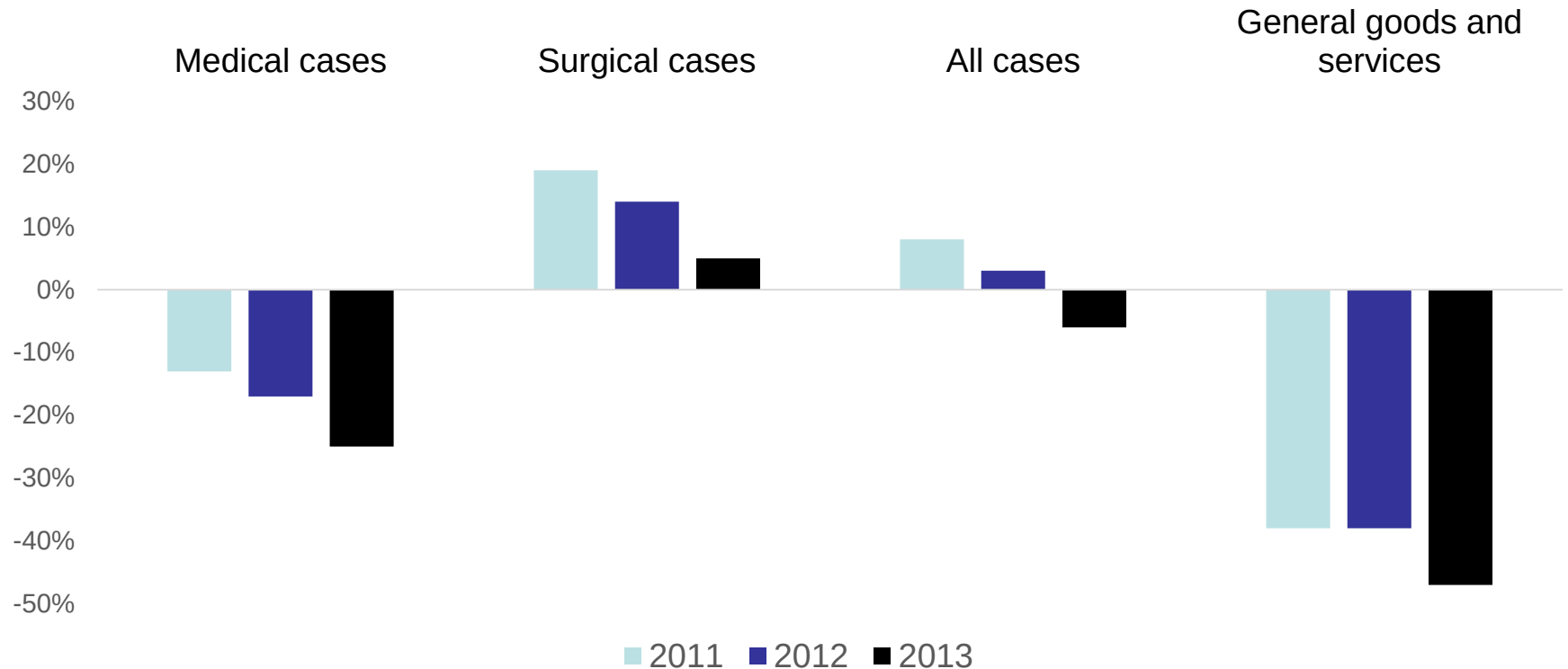


Source: OECD data base

Rand is volatile and undervalued
PPP comparisons have limitations and must be interpreted with care

Study Results

Price levels of South Africa compared to the OECD average



Source: OECD report

Rand depreciated 58% over the period → volatile results
Surgical cases expensive due to high cost of imported goods

Pharmacy and Equipment Weighting of CPE

Case Type	Pharmacy weighting	Equipment weighting	Pharmacy and Equipment weighting
Angioplasty	45.1%	17.1%	62.1%
Knee replacement	42.7%	0.5%	43.2%
Hip replacement	38.7%	0.3%	39.0%
Bypass Surgery	25.6%	2.9%	28.6%
Cataract	16.0%	3.1%	19.1%
Appendectomy	9.9%	1.4%	11.3%
C-section	3.8%	0.0%	3.8%
Normal Delivery	3.2%	0.0%	3.2%

Source: DHMS data

Inconsistent to adjust/compare products with high import component against PPP levels of general goods and services

SA Private vs UK Private Prices

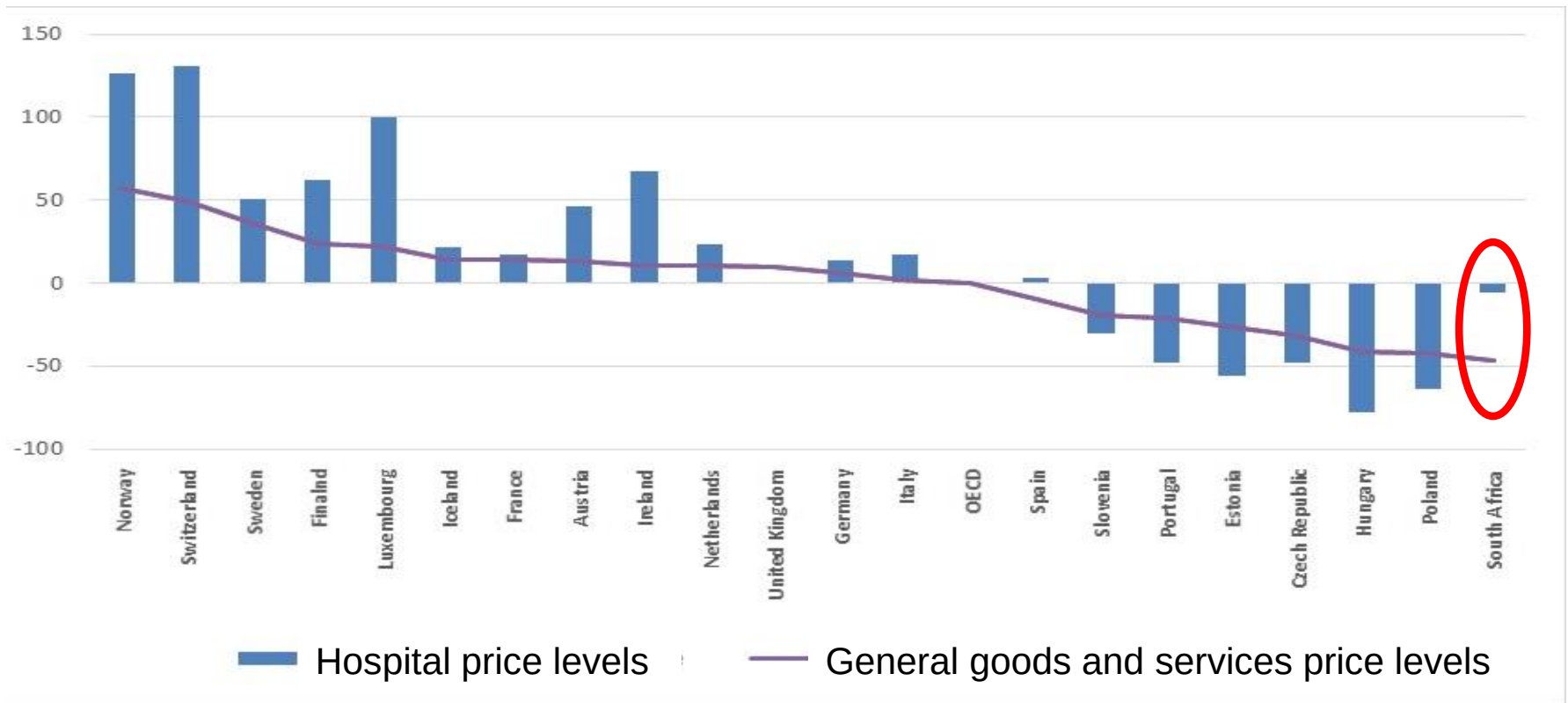
	South Africa	UK	Price Differential
Bypass surgery	R 301,642	R 341,153	13.1%
Cataract	R 19,074	R 46,884	145.8%
Hip Replacement	R 125,573	R 215,979	72.0%
Knee Replacement	R 125,705	R 215,979	71.8%

Source: DHMS and www.privatehealth.co.uk

Inconsistent to compare public prices against private prices
Public prices not reflective of full cost of production

Study Results

Hospital Price Levels vs Price Levels of General Goods and Services

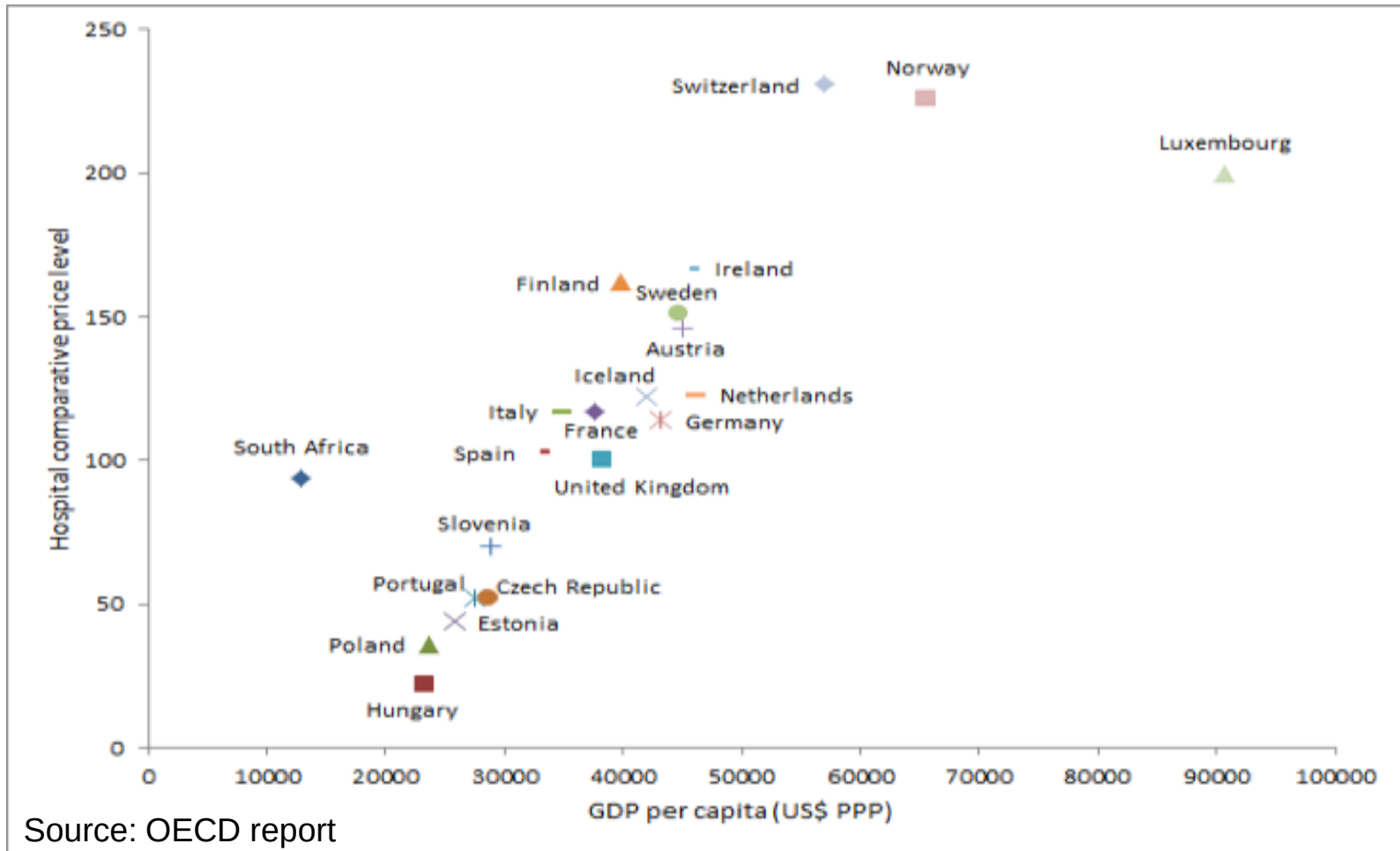


Source: OECD report

Weak relationship between price levels of general goods and services and prices of a specific sector

Study Results

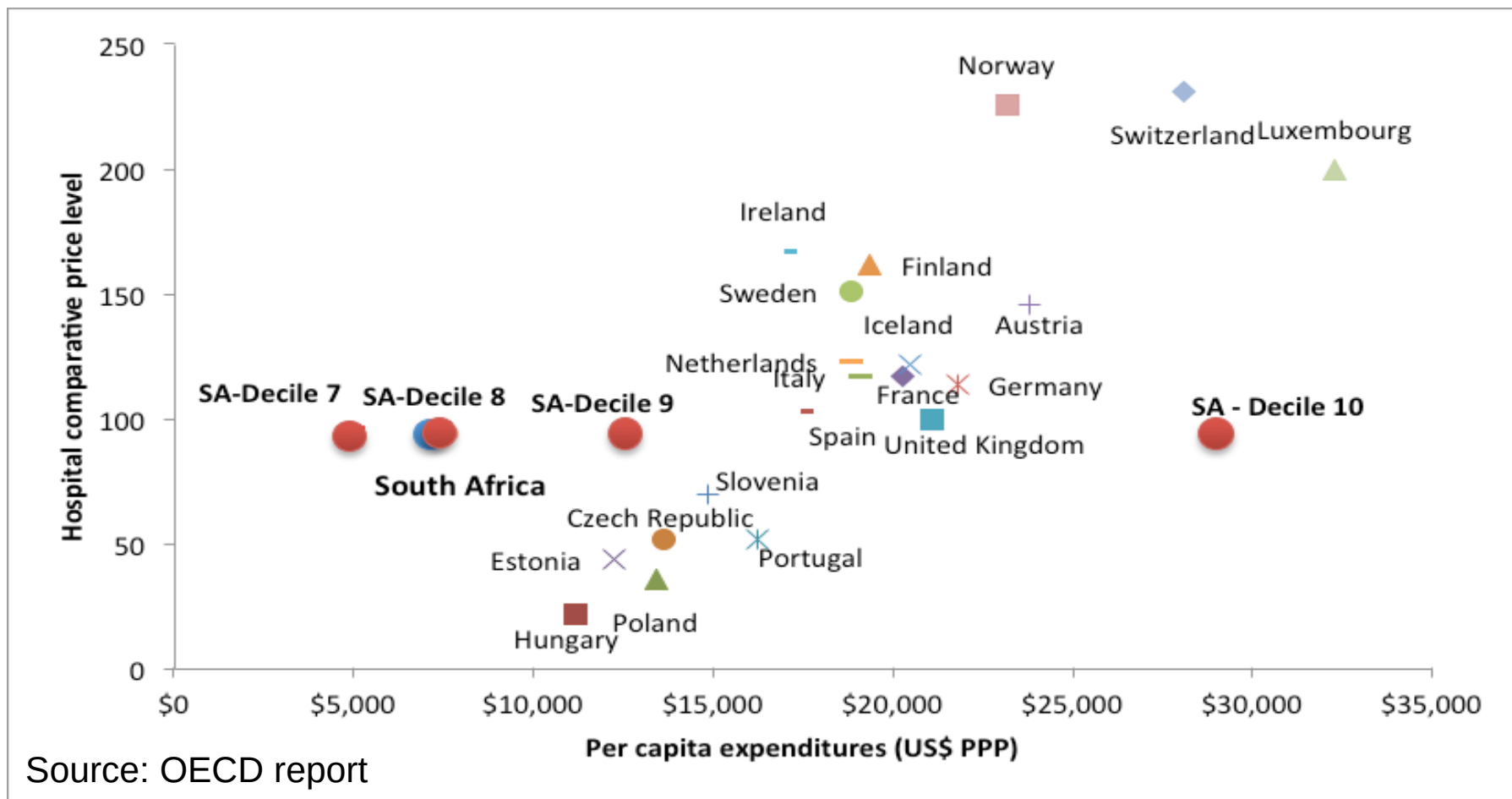
Hospital Price Levels vs GDP per capita



South Africa has a high unemployment rate and Gini coefficient
Assessing the affordability of a private good for the entire population

Study Results

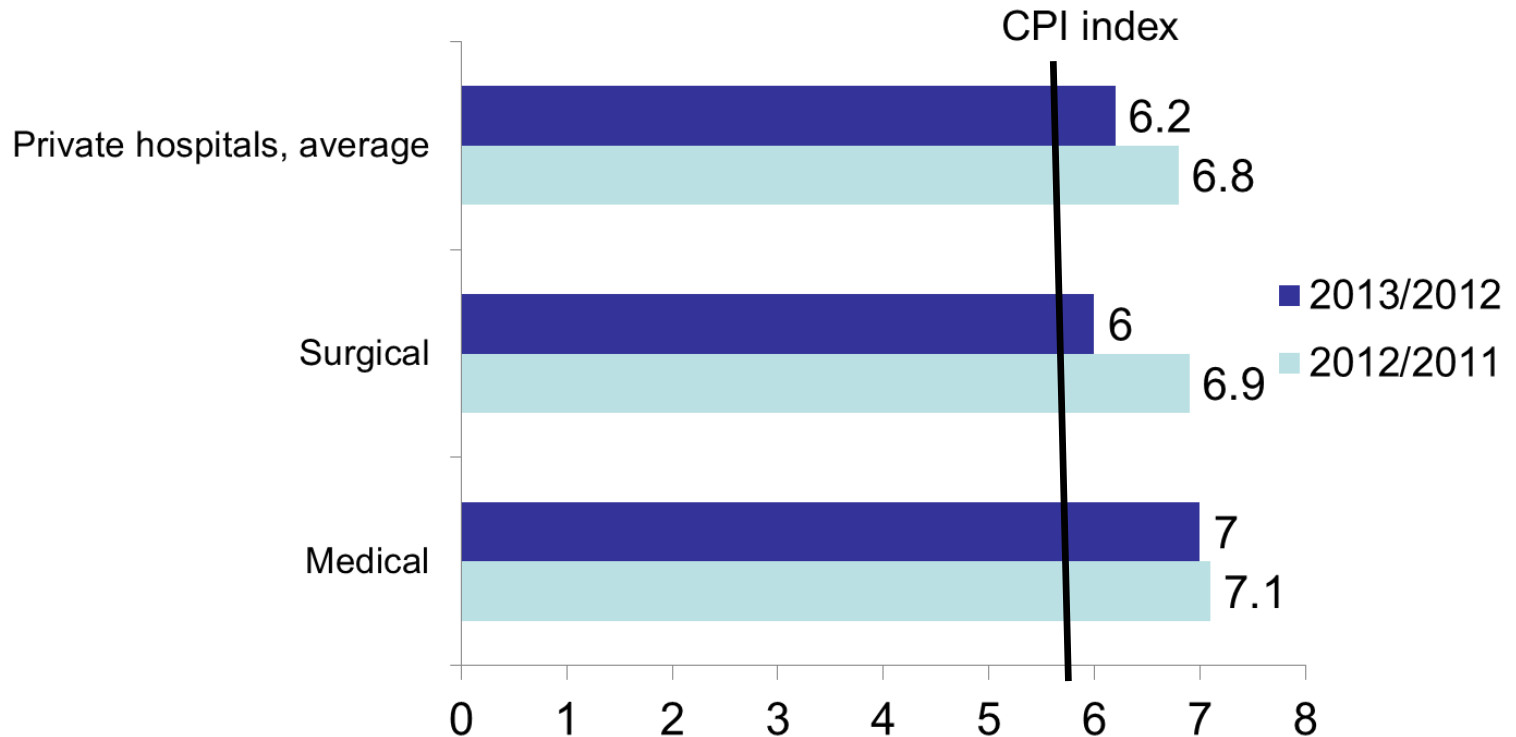
Hospital Price Levels vs GDP per capita



This analysis ignores income cross subsidies in benefit design
Top 15% of SA income earners within OECD trend

Study Results

CPE increases vs CPI

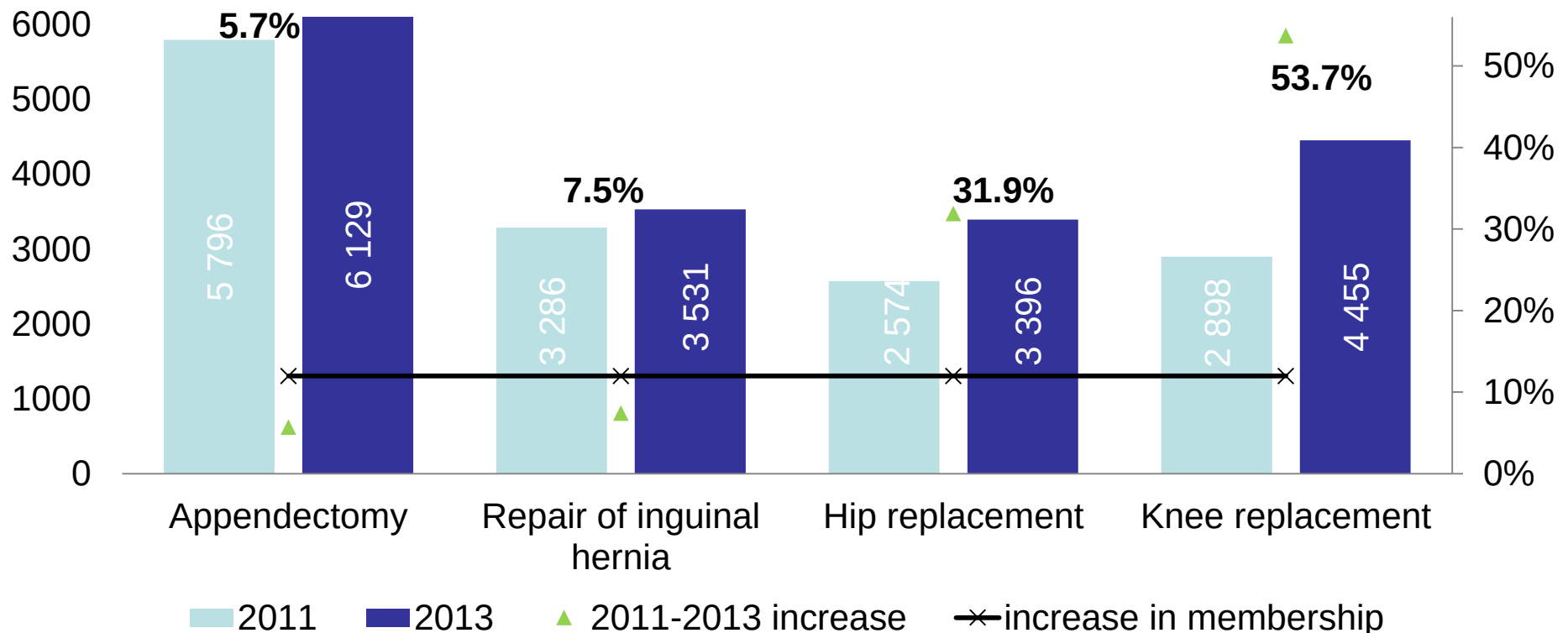


Source: OECD report

**Increase in CPE not reflective of increase in provider tariffs
Provider tariffs higher than CPI, due to input components**

Study Results

Cumulative increase in admission rates by case type

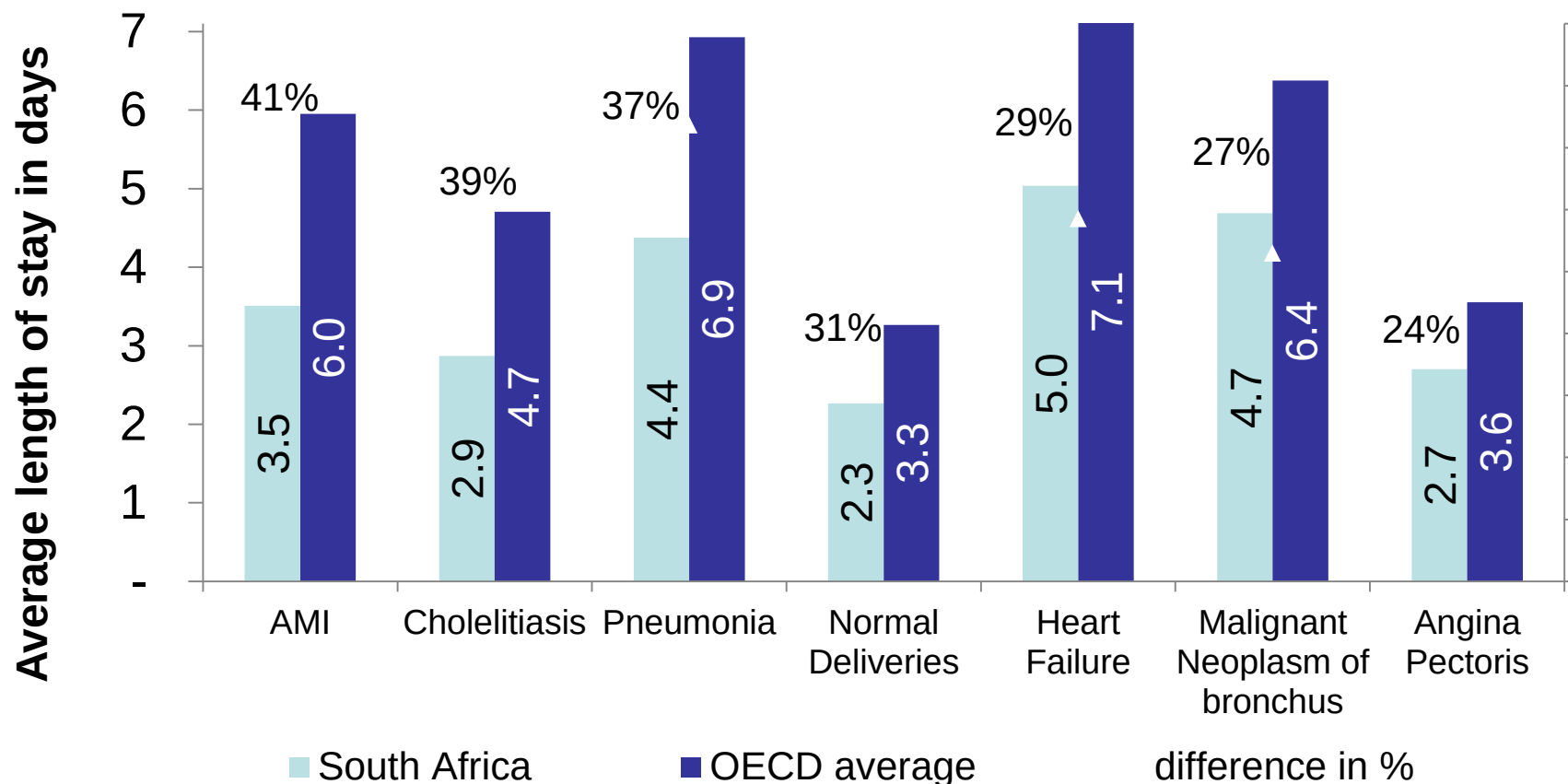


Source: OECD report

Large increases in admission due to poor classification tool
DRG grouper is more accurate, and results more moderate

Study Results

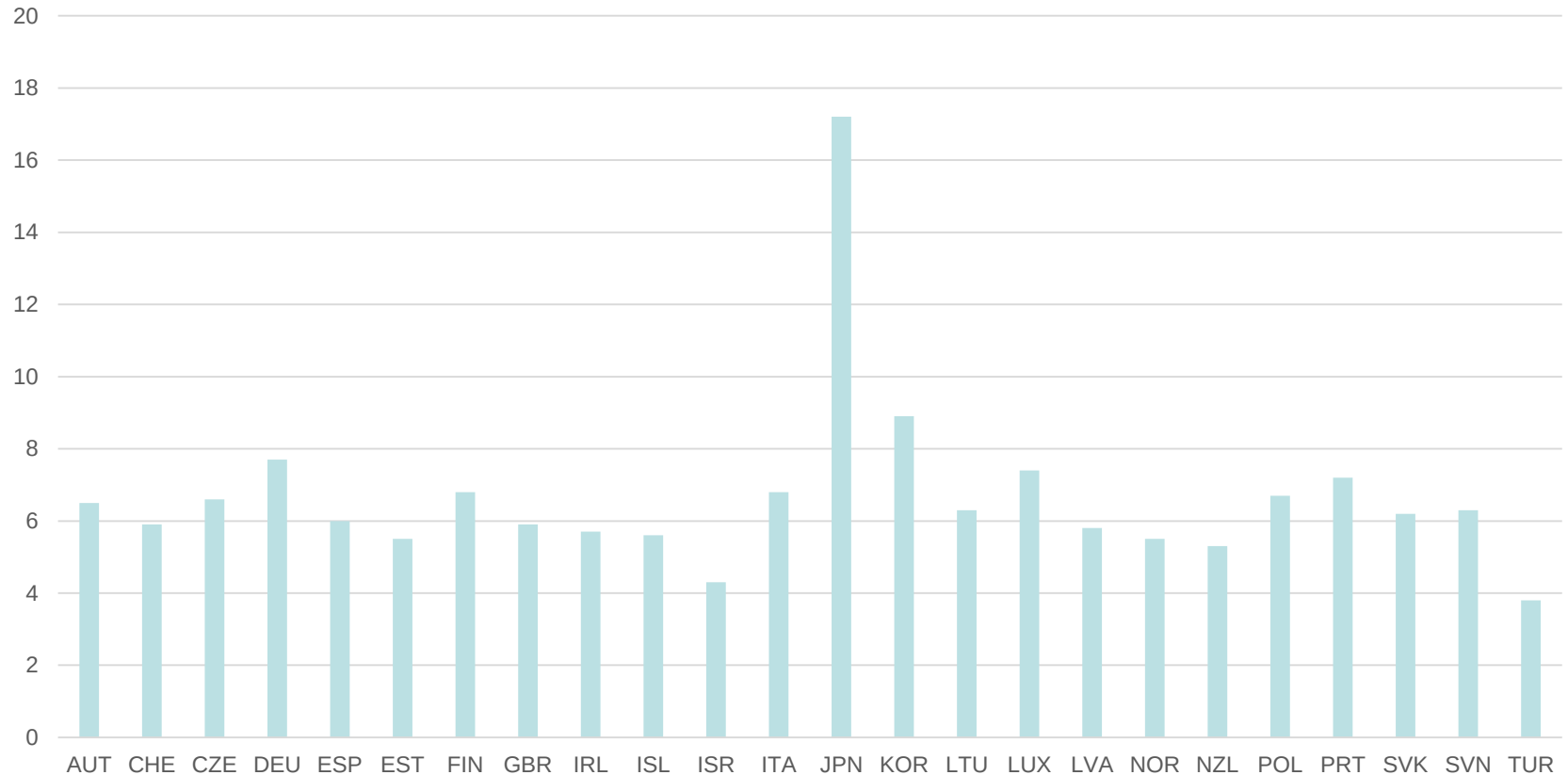
ALOS: South Africa vs OECD



Source: OECD report

South Africa does have a lower LOS
Extent of variation may be due to inconsistent classification tool

ALOS across the OECD 2013

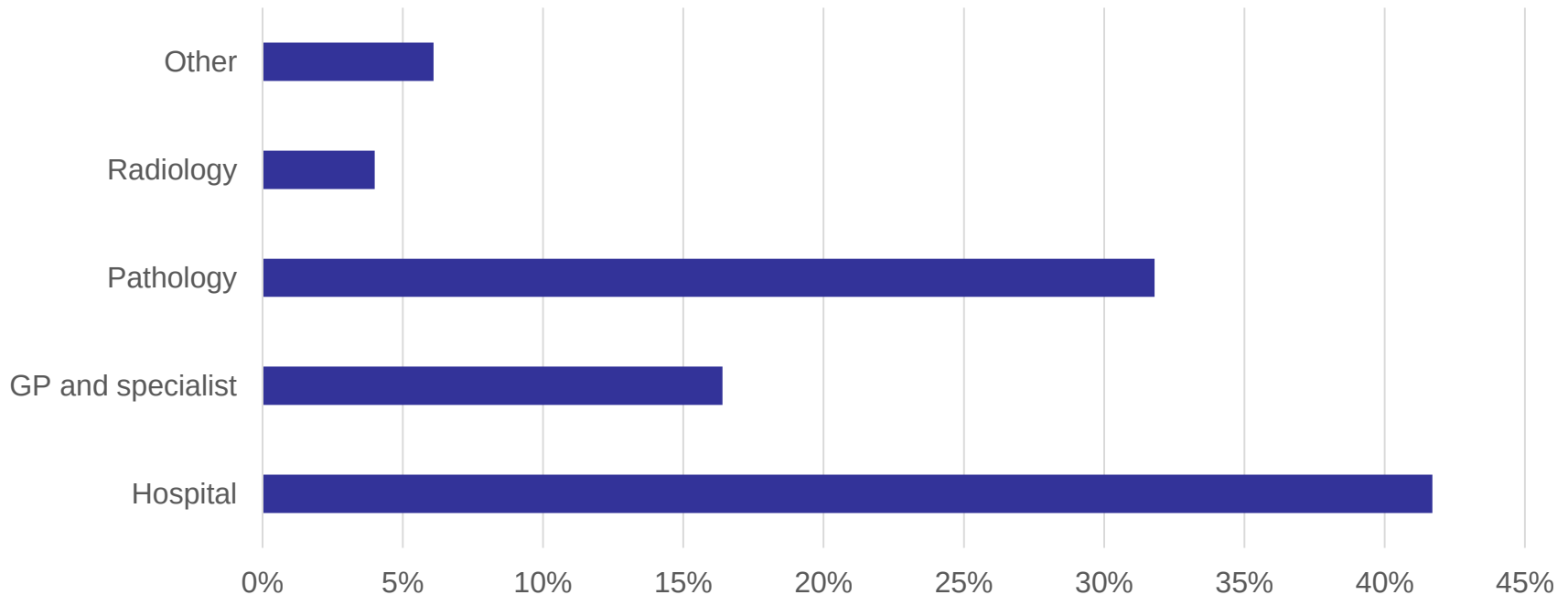


Source: OECD

High variation in ALOS across the OECD countries themselves
Variation in ALOS due to non-clinical factors
Need quality indicators to assess appropriateness of ALOS

Study Results

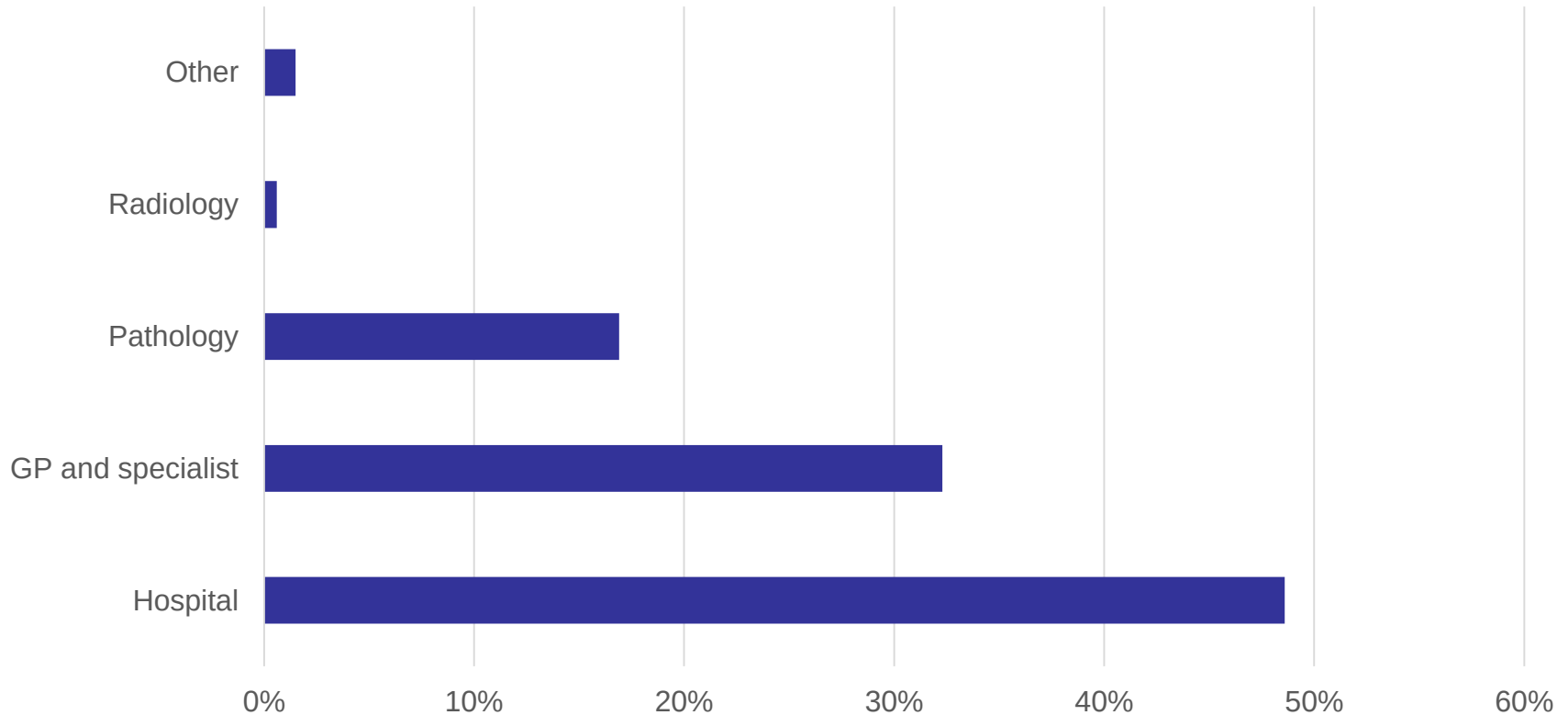
CPE by provider type for surgical case types 2013



Pathology component of CPE very high
Large discrepancies between results and DHMS data

Study Results

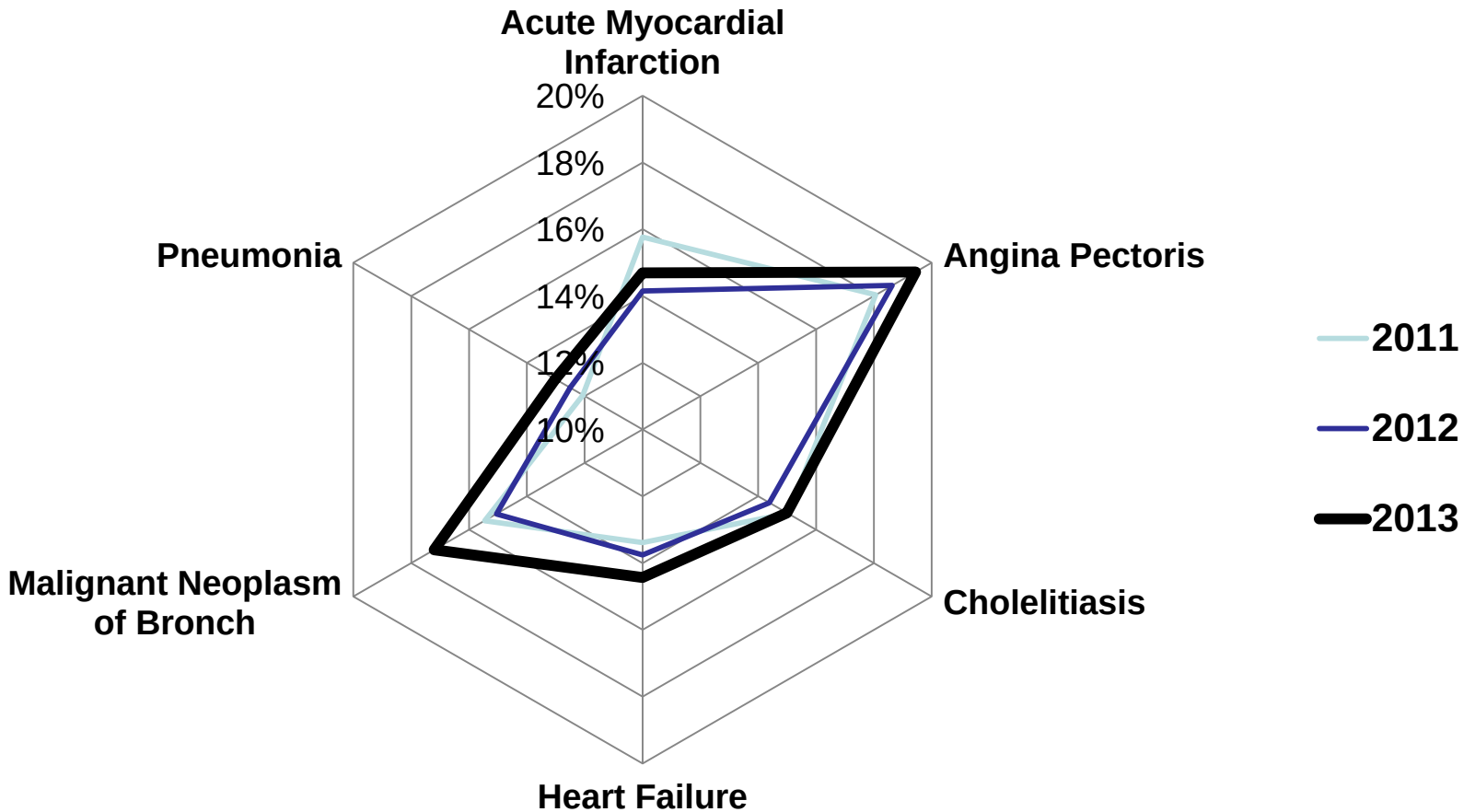
CPE by provider type for medical case types 2013



Pathology component of CPE very high
Large discrepancies between results and DHMS data

Study Results

Specialists proportion of CPE 2011 to 2013



Specialists component of CPE could have increased due to other factors, not necessarily higher tariffs

Study Conclusions

- The prices of private healthcare are high, and are increasing at rates higher than CPI
- Hospital share is the main component of the price, but specialists fees are driving the increase
- Private hospital prices are unaffordable, even for higher income individuals
- High admission rate and low LOS imply poor quality
- Price controls are needed to ensure better accessibility and improved quality of care provided

Shortfalls

- Sample size is unrepresentative
- Comparing private prices against public sector prices
- Comparing South Africa to the OECD
- Assessing the affordability of a private good for the general population
- No adjustment made for imported pharmaceuticals and equipment on hospital PPPs
- Comparing prices of an individual sector to CPI basket
- Assessment of price and length of stay, without quality outcomes

End Remarks

- The study is a rudimentary analysis which fails to provide any insight on the drivers of healthcare inflation into its components, such as price, utilisation and CPI. Without breaking healthcare into its components, it is difficult to pinpoint the exact driver of healthcare inflation crippling the industry.
- The authors make sweeping recommendations of price control without considering the implications on the industry and whether it will in fact curb the high healthcare inflation observed in the industry

