

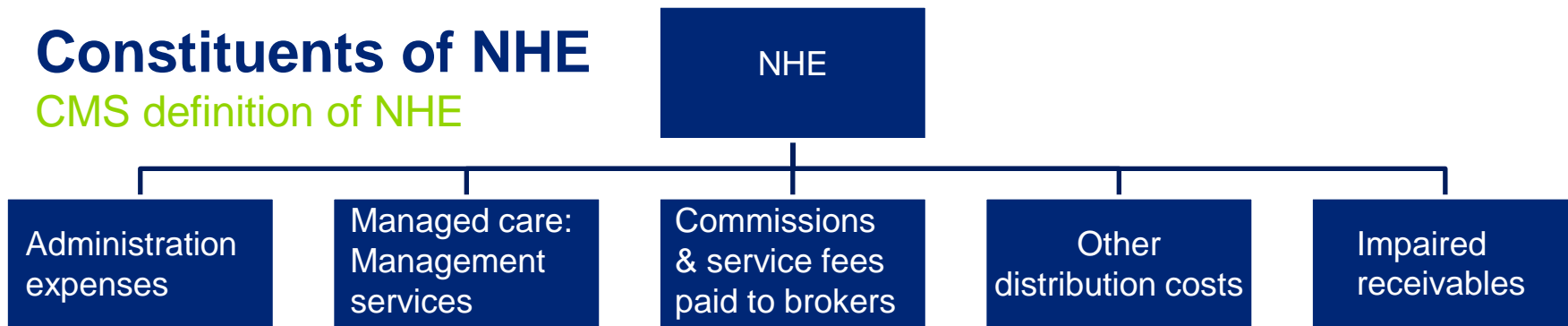
Analysis of Non-Healthcare Expenditure (NHE)

Ashleigh Theophanides



Constituents of NHE

CMS definition of NHE



20%

11%

1%

NHE pabpm: All registered schemes 2011

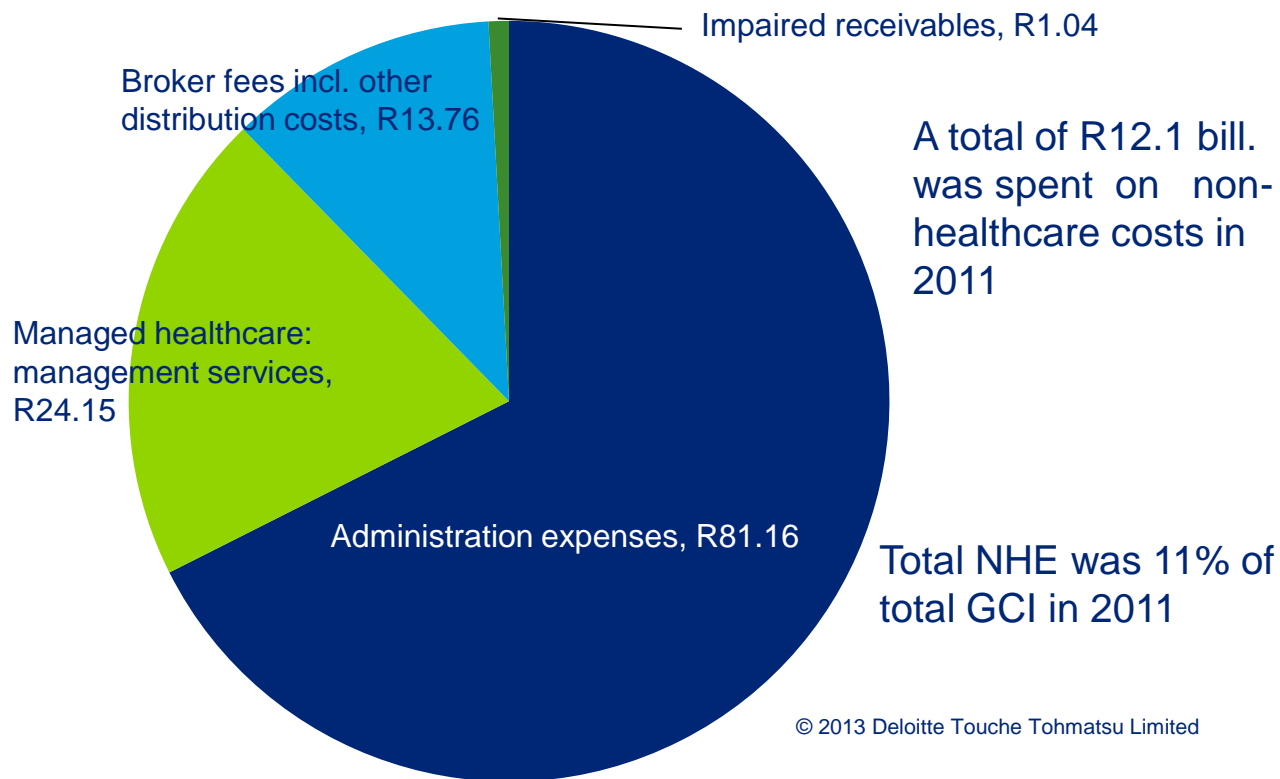
- Fees paid to administrator
- Trustees, PO and External Audit
- Marketing & Advertising
- Balance of administration expenses

51%

1%

4%

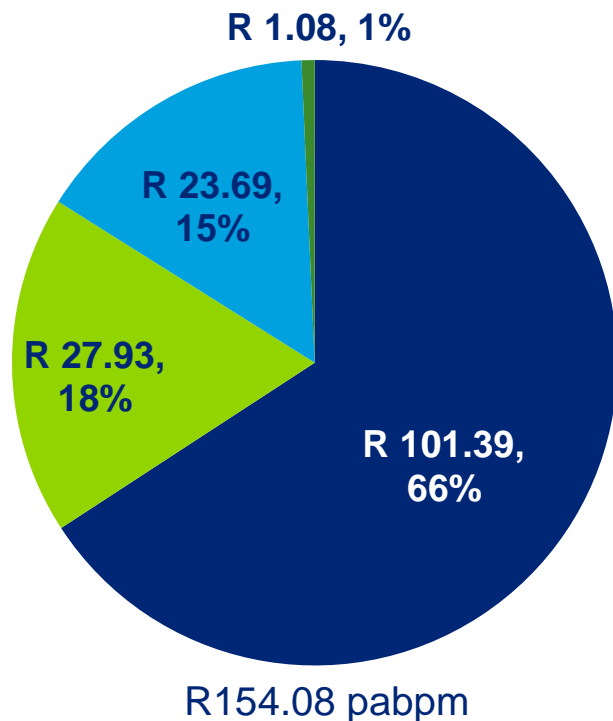
12%



Restricted vs. Open schemes

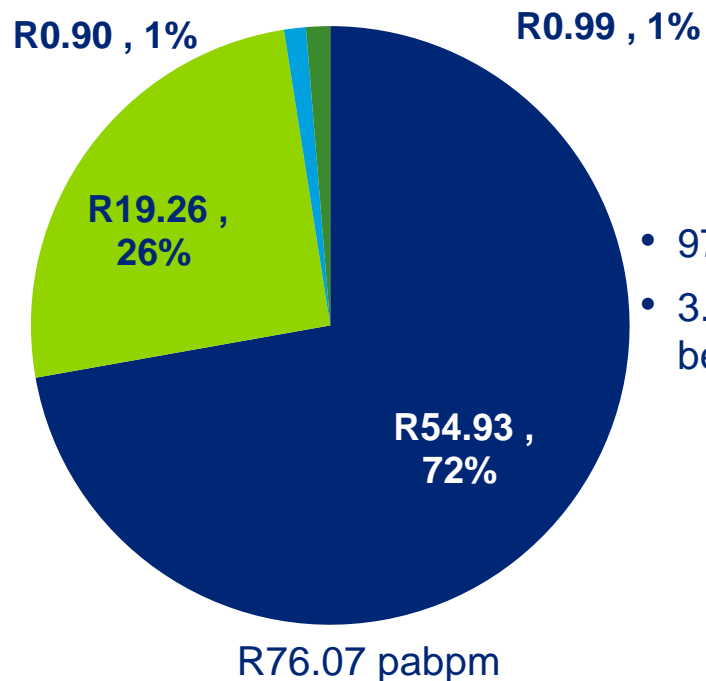
2011 Snapshot – Major components of NHE

Open schemes 2011

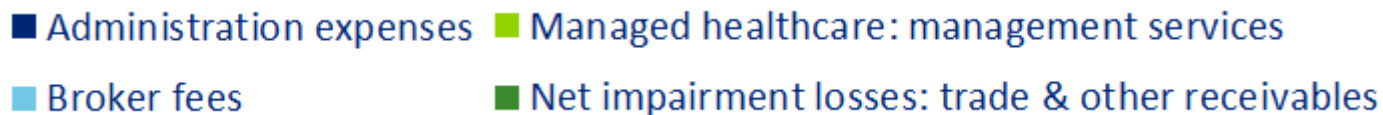


- 26 schemes
- 4.75 million beneficiaries

Restricted schemes 2011



- 97 schemes
- 3.66 million beneficiaries

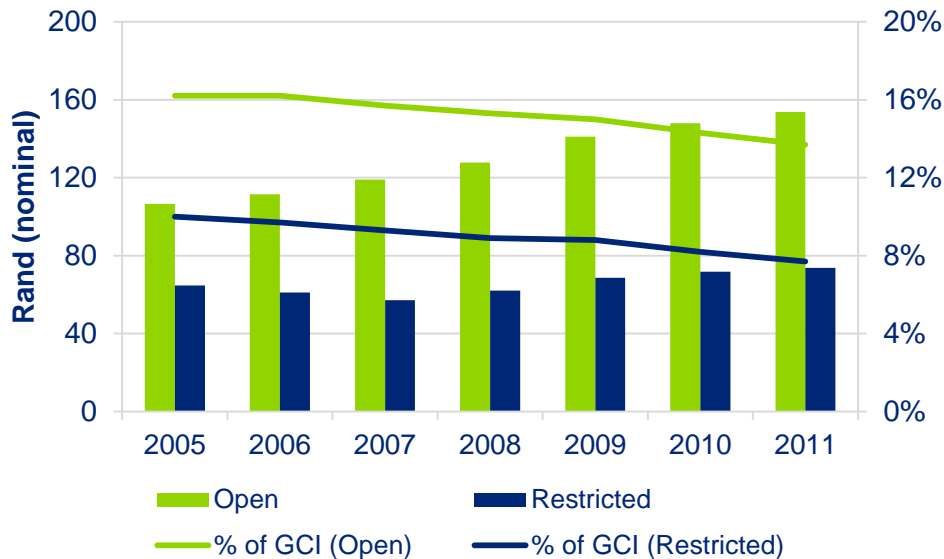


Source: CMS 2011-2012 annual report

Restricted vs. Open Schemes

Over time – Nominal and inflation-adjusted values

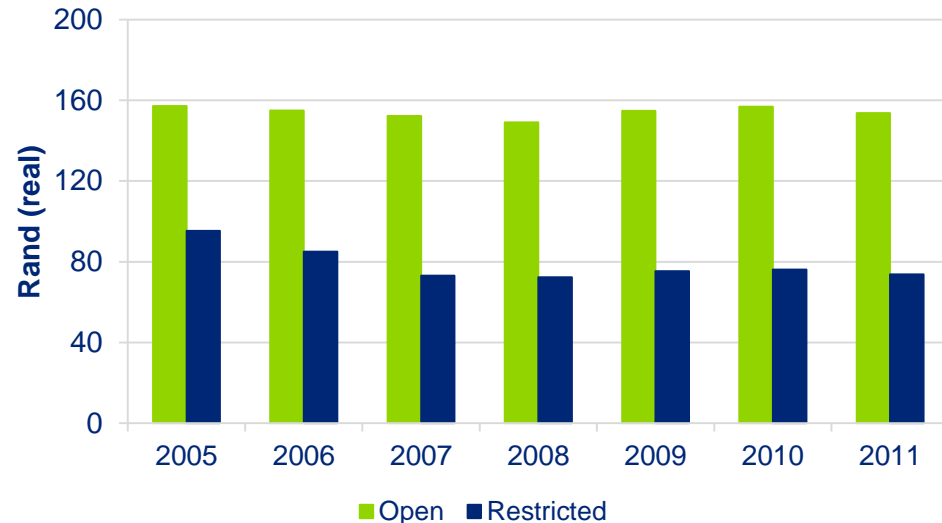
Nominal Average NHE pbpm



- The fall in nominal NHE as % of GCI is affected by different rates of inflation (Healthcare cost inflation vs. CPI)
- Nominal NHE as % of GCI approx. 6% higher for open schemes on average
- 2011 NHE 44% higher than 2005 NHE in nominal terms for open schemes and 14% higher for restricted schemes

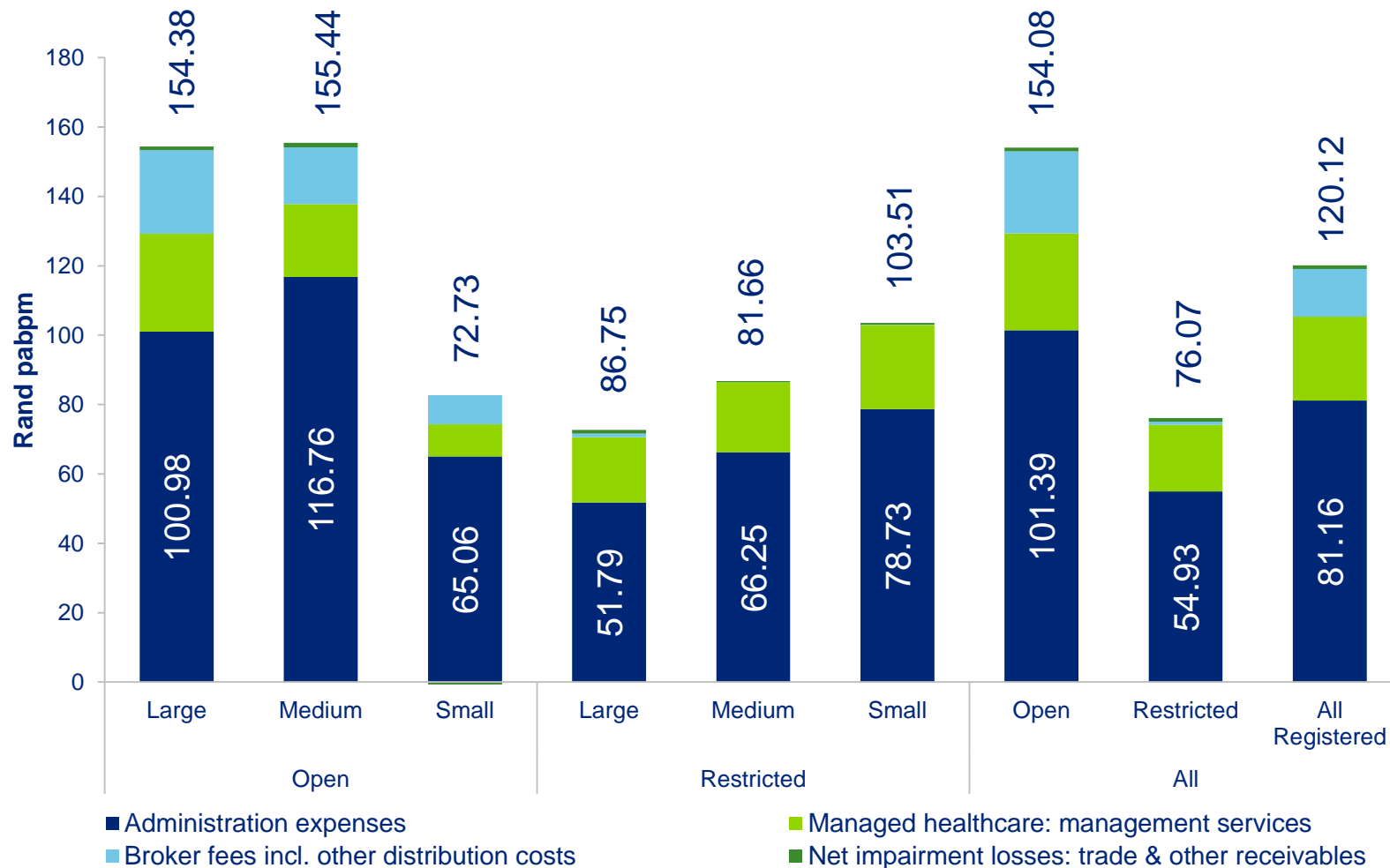
- Average real NHE has remained relatively stable in real terms over the last 6 to 7 years for open schemes
- Fall in real average NHE for restricted schemes can be partly attributed to the introduction of GEMS in 2006
- 2011 NHE is 2.2% lower than 2005 NHE in real terms for open schemes and 23% lower for restricted schemes

Real (2011 values) Average NHE pbpm



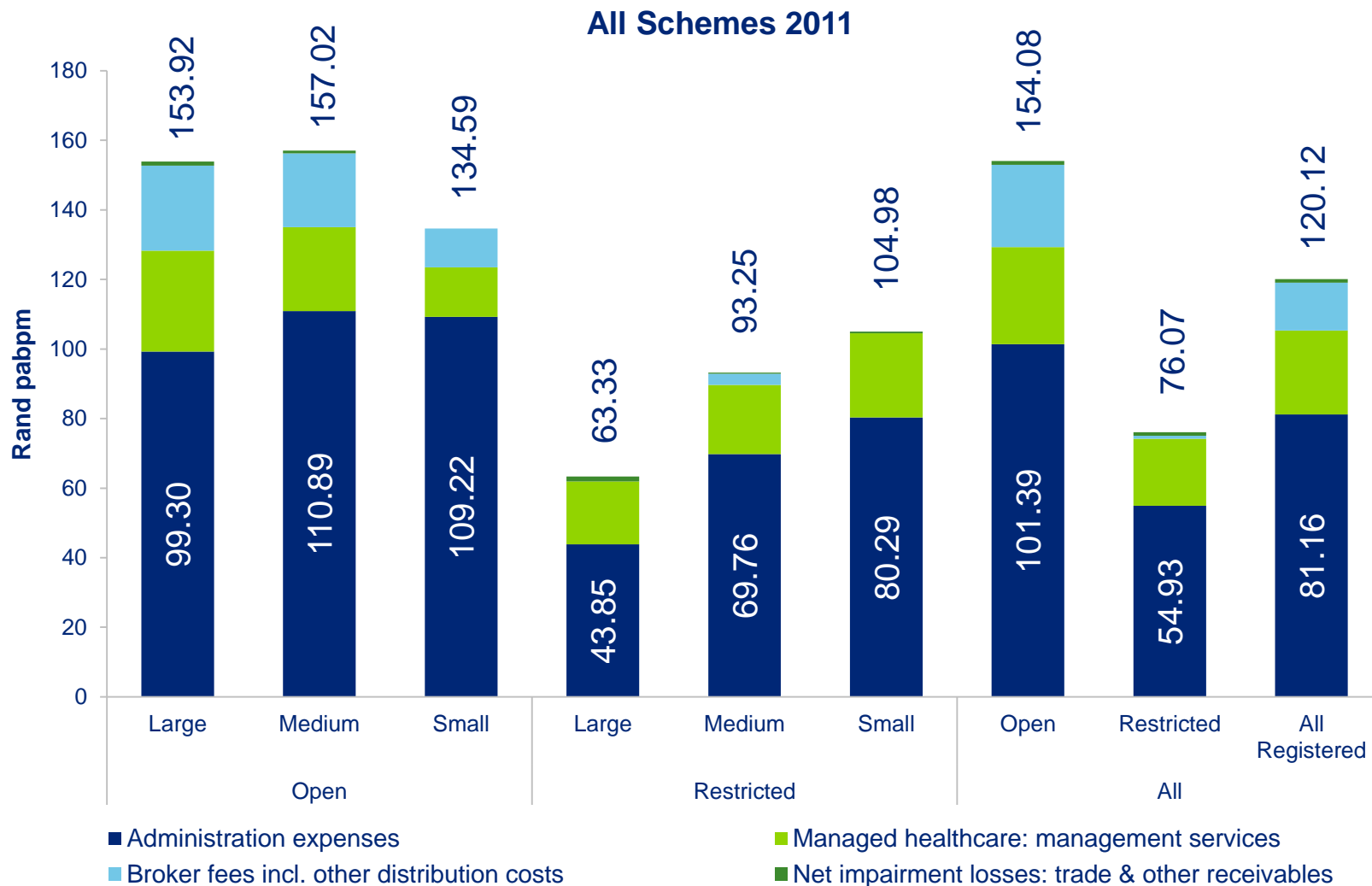
NHE by scheme size (CMS definition) and type

All Schemes 2011



Source: CMS 2011-2012 annual report

NHE by scheme size (Deloitte definition) and type

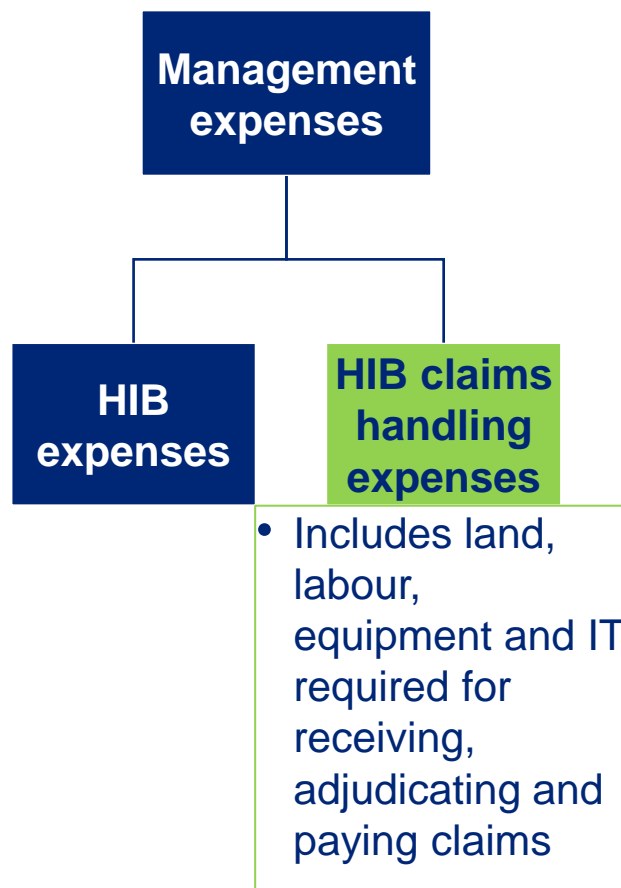


Source: CMS 2011-2012 annual report.

International experience - Australia

Non-healthcare expenditure

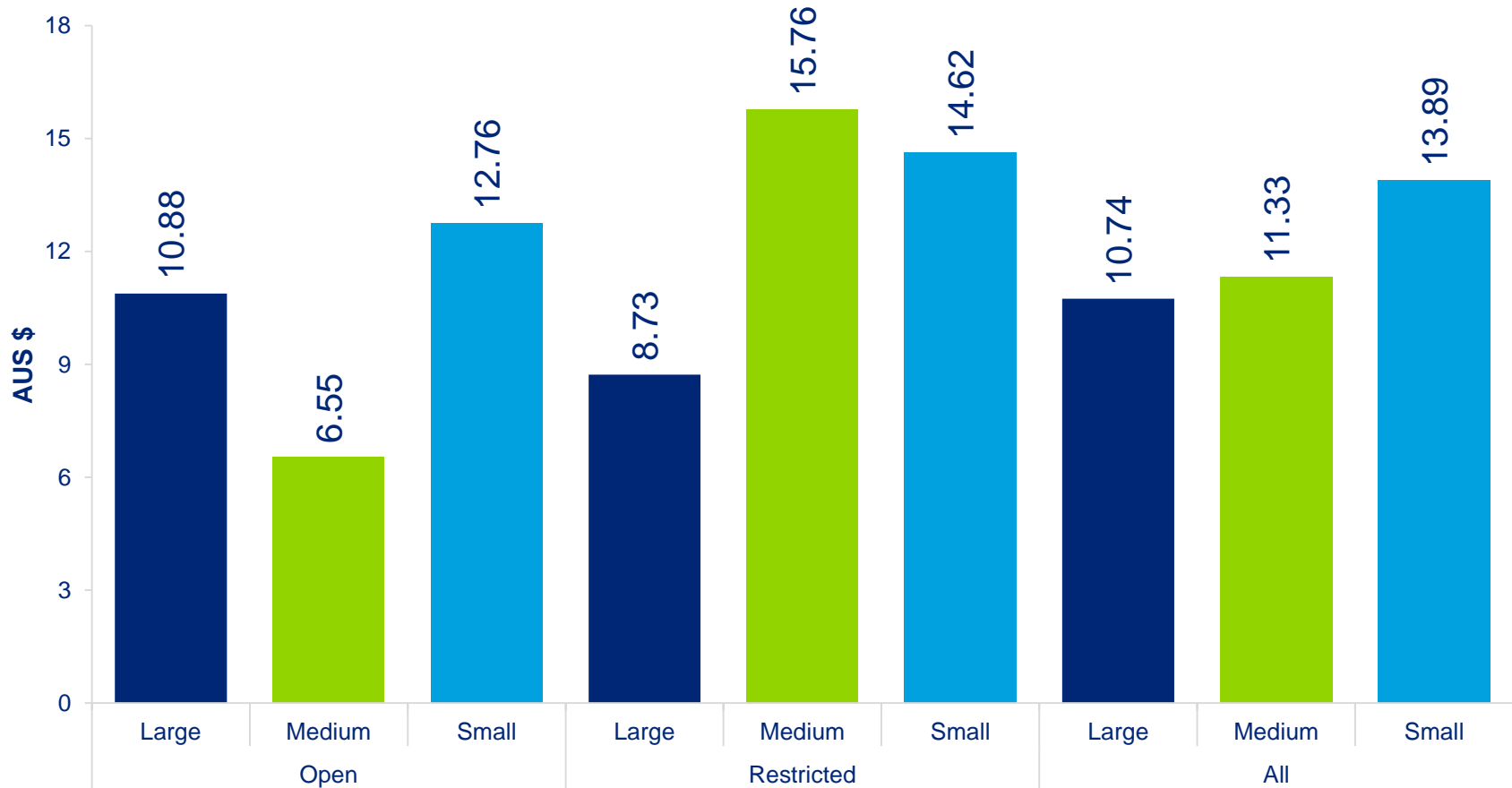
- “Management expenses” analogous to NHE in SA
 - defined as “The operating expenses incurred in the normal fund operations (i.e. salaries, commission, rent, etc.)”.
- Management expenses = HIB expenses + HIB claims handling expenses
- Management expense ratio commonly used to measure administrative efficiency
 - Accepted industry norm: 8% - 9% of premium. Actual is at 9.08%.



International experience - Australia

Management expenses by fund size (CMS definition) and type

Management Expenses pabpm 2011

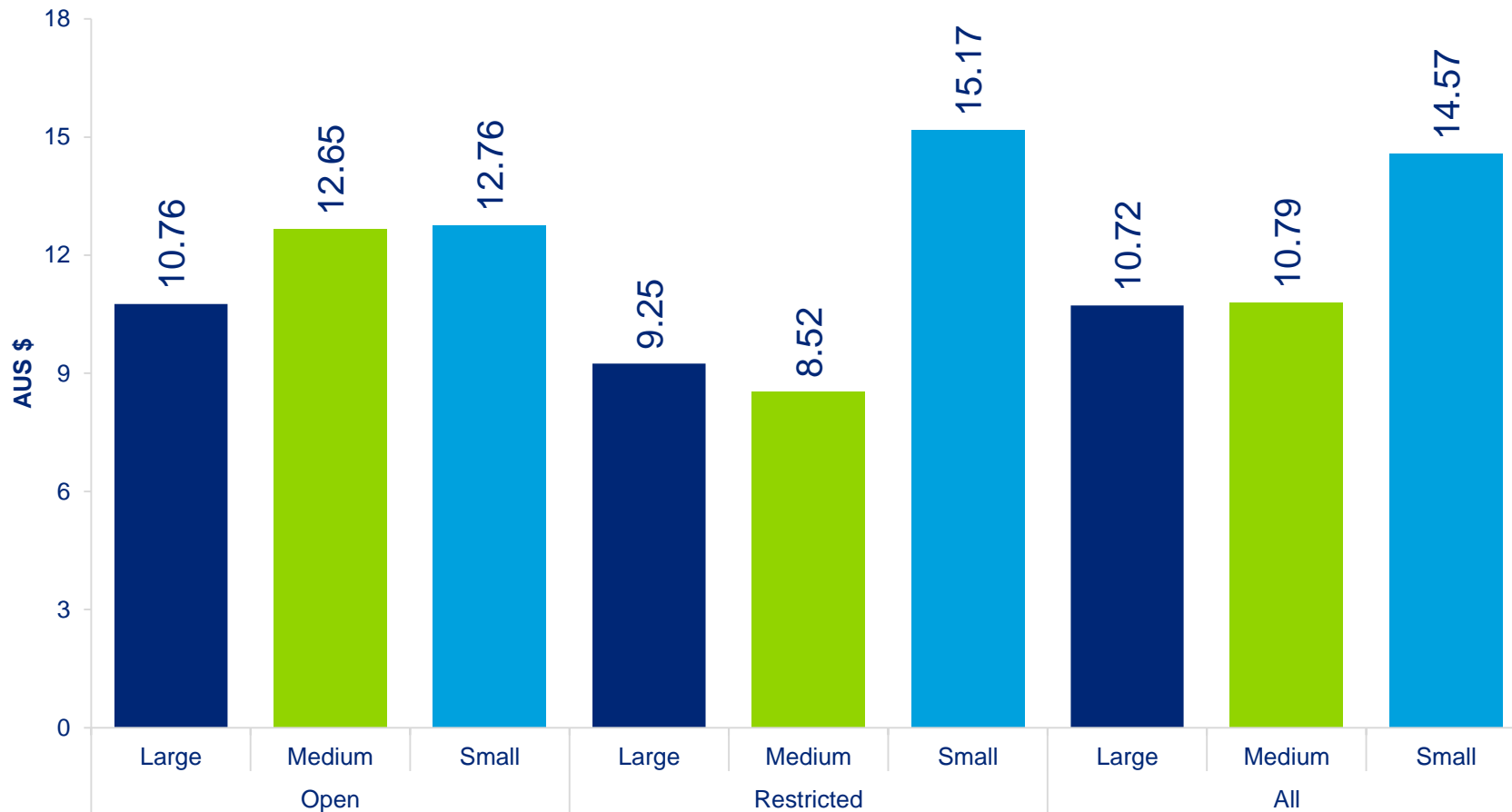


PHIAC : The operations of Private Health Insurers annual report 2011-2012. Deloitte analysis

International experience - Australia

Management expenses by fund size (Deloitte definition) and type

Management Expenses pabpm 2011



PHIAC : The operations of Private Health Insurers annual report 2011-2012. Deloitte analysis

International experience - USA

Economies of scale

Results of study performed by Milliman in 2010 on administrative expenses of commercial health insurers in the U.S.

Expenses Category	Insured Market		
	Large Group	Small Group	Individual
Expenses for improving healthcare quality	\$ 2.36	\$ 2.35	\$ 1.40
Claims adjustment expenses	\$ 7.88	\$ 8.76	\$ 8.26
Agents and brokers fees and commissions	\$ 6.13	\$ 15.34	\$ 12.05
Direct sales salaries and benefits expenses	\$ 1.69	\$ 2.13	\$ 2.16
Other general and administrative expenses	\$ 12.78	\$ 15.25	\$ 16.44
Total administrative expenses	\$ 30.84	\$ 43.83	\$ 40.31

- Smaller insurers have on average up to 42% higher administrative costs
- Main drivers of NHE in US market is broker fees and commissions which are regulated in SA market
- Administrative expenses averaged 19% for the individual market, 13% of premium in the small group market, and 9% of premium in the large group market.

International experience - USA

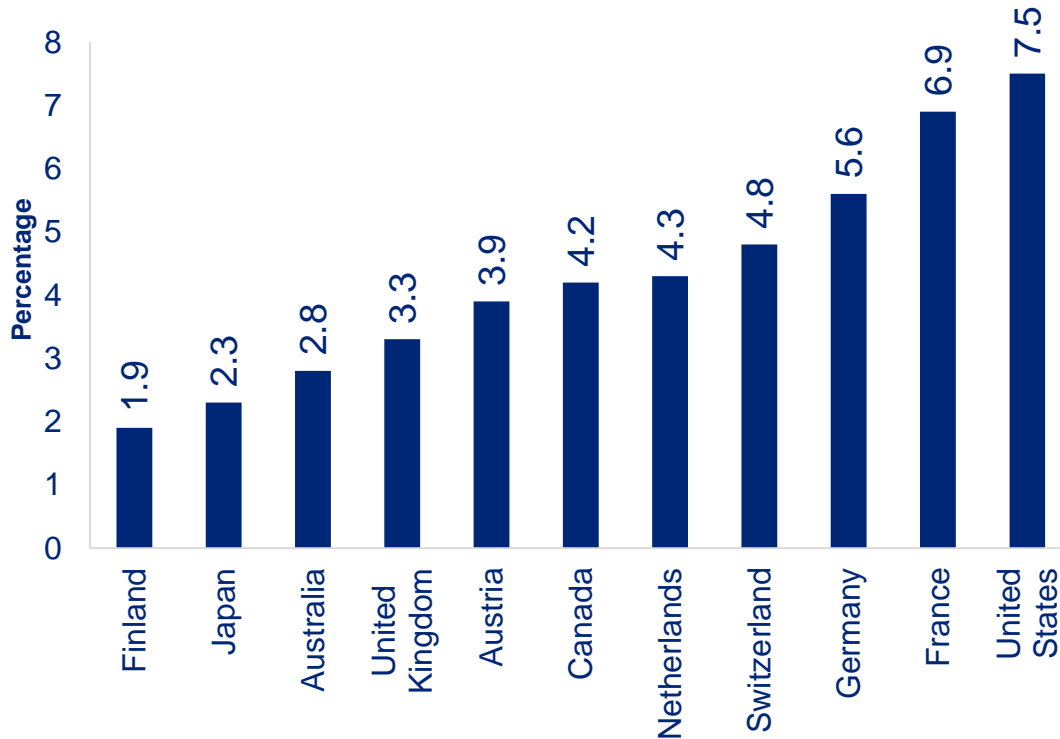
Comparison of components of NHE

	Insured Market (USA)			South African Market	
Expense category	Large group	Small group	Individual	Expense category	All schemes
Expenses for improving healthcare quality	8%	5%	3%	Managed care: Management services	20%
Agents, Broker fees & commissions	20%	35%	30%	Broker fees incl. other distribution costs	11%
Claims adjustment expenses	26%	20%	20%		
Other general & administrative expenses	41%	35%	41%		
Direct sales salaries and benefits expenses	5%	5%	5%		
Administration expenses	72%	60%	66%	Administration expenses	68%
				Net impaired receivables	1%
Total administrative expenses	100%	100%	100%	Total NHE	100%

International experience

NHE – Administration expenses

Administration expenses as % of National Health Expenditure

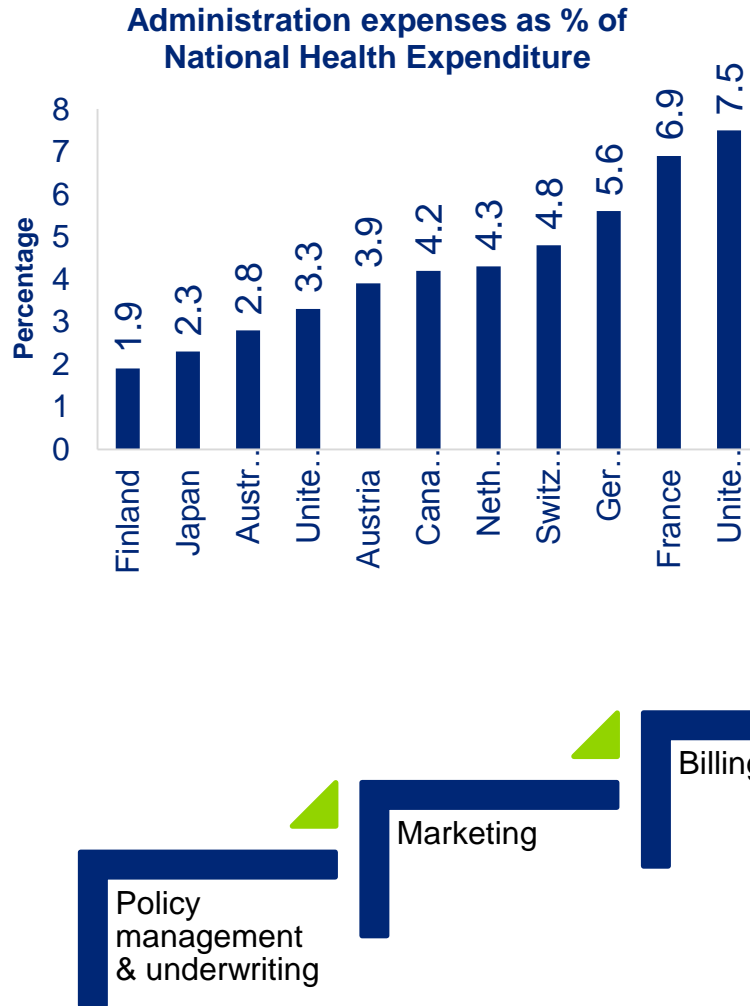


- Administrative expenditure varies significantly across the globe
- The figure illustrates the impact of insurance design on administrative costs
 - e.g. Single payer vs. multi-payer system

OECD Health Data 2007, Version 10/2007

International experience

NHE – Administration expenses cont.



- Aggregate measures are confounded by the mix of costs in public and private systems:
 - e.g. In the U.S., Health administration expenses amount to approx. 21.2% of private health insurance expenditures vs. 6.1% of public health insurance expenditure

- Recent Commonwealth Fund study showed that administrative costs for the largest insurers averaged from 13% to 18% of premium revenue in 2008.

Impact of NHI on NHE

It depends

- Administrative cost for NHI systems internationally tend to be low (approx. 3 % of the total cost)
 - Will this be the case for SA?
 - Role of NHIA (National Health Insurance Authority)?
 - What IT infrastructure will be in place?
 - Multiple payer or single payer?
 - Etc...

Thank you

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