

The background features a complex, abstract graphic of white lines on a dark blue field. The lines form a series of overlapping, wavy patterns that resemble a fingerprint or a topographical map, with some lines intersecting to form a grid-like structure. A thin vertical white line is positioned to the left of the main text.

DISCOVERY **MEDICAL INFLATION INDEX**

SEPTEMBER 2019

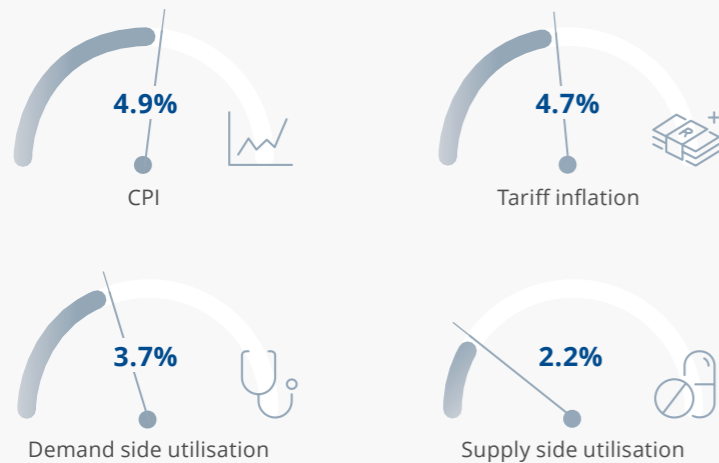


Summary

Medical inflation continues to track well above CPI with medical inflation for 2018 – 2019 measured at 10.6% (equivalent to CPI + 5.7%).

The key driver of the medical inflation rate for 2018-2019 is a 5.9% increase in utilisation of healthcare services, which represents one of the highest annual increases in utilisation of healthcare services over the past 10 years. Both supply and demand side elements of utilisation have increased, although the demand side increase has played a more prominent role in the 2018 – 2019 period. The ageing of the medical scheme population as well as the increase in the incidence of chronic diseases have played a major role in the increased demand-side utilisation levels.

The components of the medical inflation rate of 10.6% for the period were:



Overview

Access to quality healthcare at an affordable price is a critical priority for every family, and for society at large.

South Africans fortunate enough to afford private healthcare have rapid and convenient access to some of the best quality of care available anywhere in the world, provided by outstanding health professionals in the context of a robust, world-leading healthcare system. But the reality is that healthcare systems around the world are grappling with ageing populations, deteriorating lifestyle habits and, ultimately, rising healthcare costs. South Africa is no exception.

Medical schemes are defined by legislation as not-for-profit entities that charge monthly contributions in order to pay medical claims on behalf of their members. Almost 90% of the contributions paid by members are used to cover healthcare claims. As healthcare costs increase over time, so do the claims paid by the medical scheme. This requires the medical scheme to increase the contributions paid by members to ensure that the scheme can continue to pay claims, as well as to maintain solvency reserves equivalent to the legislated requirement of 25% of total annual contributions. According to the 2019 Global Medical Trends Survey Report, the average global medical inflation rate is expected to be 7.6% in 2019, 5.2% above the average general inflation rate across the surveyed countries.

This medical inflation index is based on data from the Discovery Health Medical Scheme (DHMS), which includes the claims of approximately 2.8 million lives, representing 32% of the total medical scheme population, and 56% of the open medical scheme population, for the period under review. DHMS data indicate that, between 2009 and 2019, medical inflation (defined as the annual increase in claims received by medical schemes) has increased by an average of 10.9% per year – approximately 5.7% above the Consumer Price Index (CPI), which averaged 5.2% per year, over this period.





The key drivers of medical inflation

'Medical inflation' is a function of both changes in the price of healthcare services (for example, the fee charged by a GP or specialist for a consultation, or the tariff charged by a hospital for a one night admission), and changes in the volume of healthcare services used by members of medical schemes (for example, the increase in the number of GP consultations, or the number of hospital admissions).

Take the simplified example of a medical scheme with 100 members. In year one, 20 of these members visit their GP. Each GP visit costs R400, so the medical scheme pays out GP claims to the value of R8 000 over the course of the year. In year two, the cost of a GP visit increases to R425 (a tariff increase of ~6.3%), and the number of members visiting the GP increases from 20 to 22 members (an increase in utilisation of ~10.6%). As a result, the medical scheme ends up spending R9,350 on GP visits in year two. The claims of the medical scheme therefore increased by ~16.9% from year one to year two, with ~6.3% of the increase due to the increase in GP tariffs and ~10.6% due to the increase in the utilisation of the GP benefit. In order to ensure that it has sufficient income to pay all claims, the medical scheme would need to increase its premiums the next year by ~16.9%. This is illustrated in Figure 1 below.

Figure 1: Illustrative example of utilisation and tariff increases experienced by a medical scheme

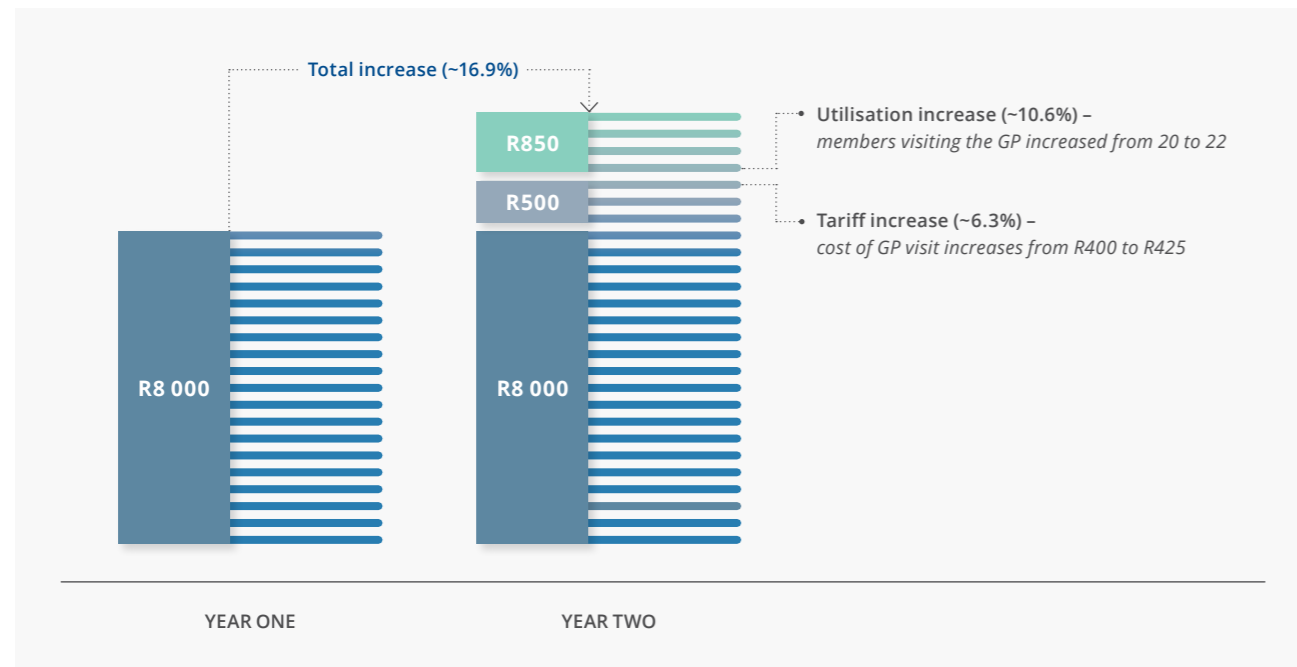
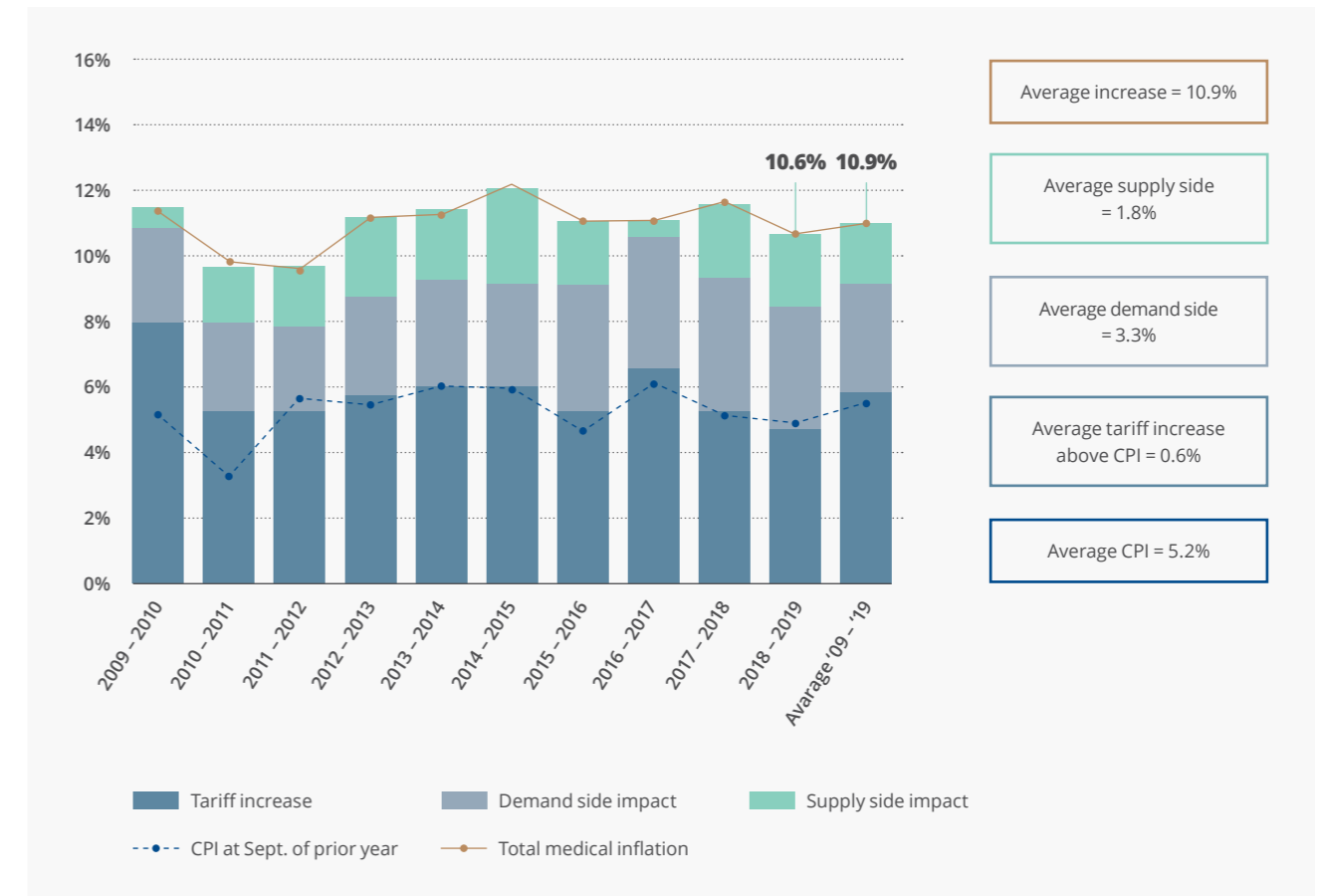


Figure 2 below illustrates the components of medical inflation over the period 2009 – 2019. As the figure shows, annual CPI over this period was 5.2%. Changes in the prices (tariffs) of each healthcare service charged by doctors and hospitals were closely linked to CPI, with annual tariff inflation increasing by an average of 0.6% above CPI each year over this period.

Figure 2: Components of medical inflation over the period 2009 – 2019



The figure also illustrates that utilisation of services increased by an average of 5.1% per year over the period. This increase in utilisation can be explained by factors linked to the medical scheme population, leading to an increase in the demand by members for services (termed 'demand side factors') and factors linked to service providers, which lead to an increase in the supply of services from service providers to members (termed 'supply side' factors).



Demand-side inflation

Increases in healthcare costs due to a greater demand for healthcare services, driven by an ageing medical scheme membership, and higher incidence of chronic diseases.

Out of the total 5.1% increase in utilisation per year, 3.3% was due to demand side factors. One of the major causes of increasing demand for healthcare is the ageing of the medical scheme population. With each year of ageing, healthcare claims increase by approximately 2% – 3% per year, since older individuals have higher rates of illness and use more healthcare services. Medical schemes are ageing for a number of reasons. Economic growth is slow, leading to fewer young people entering the workforce and joining a medical scheme. At the same time, affordability pressures lead many young people to stay out of medical schemes until they are older. In the nine months from January to September 2018, the entire open medical scheme industry grew by only 12 000 lives on a net basis.

The second factor driving demand is the sustained and significant increase in the prevalence of chronic diseases, such as diabetes or high blood pressure, and cancer within the medical scheme population. This increase in prevalence is due to existing members being diagnosed with medical conditions as well as a greater proportion of members with existing medical conditions joining the Scheme.

South Africa is very much part of the global pandemic of chronic diseases of lifestyle. Currently, at least one in four members of the Discovery Health Medical Scheme are registered for one or more chronic conditions, a 60% increase since 2009. Each of these members claims about four times more than a healthy member. Chronic members experience an age-standardised hospital admission rate 155% higher than the hospital admission rate of non-chronic members. Along with an increased hospital admission rate, the average cost of a hospital claim for a chronic member is 52% higher than that of a non-chronic member. Cancer is also a contributor to demand side inflation. Since 2010, the number of DHMS members with cancer has more than doubled.

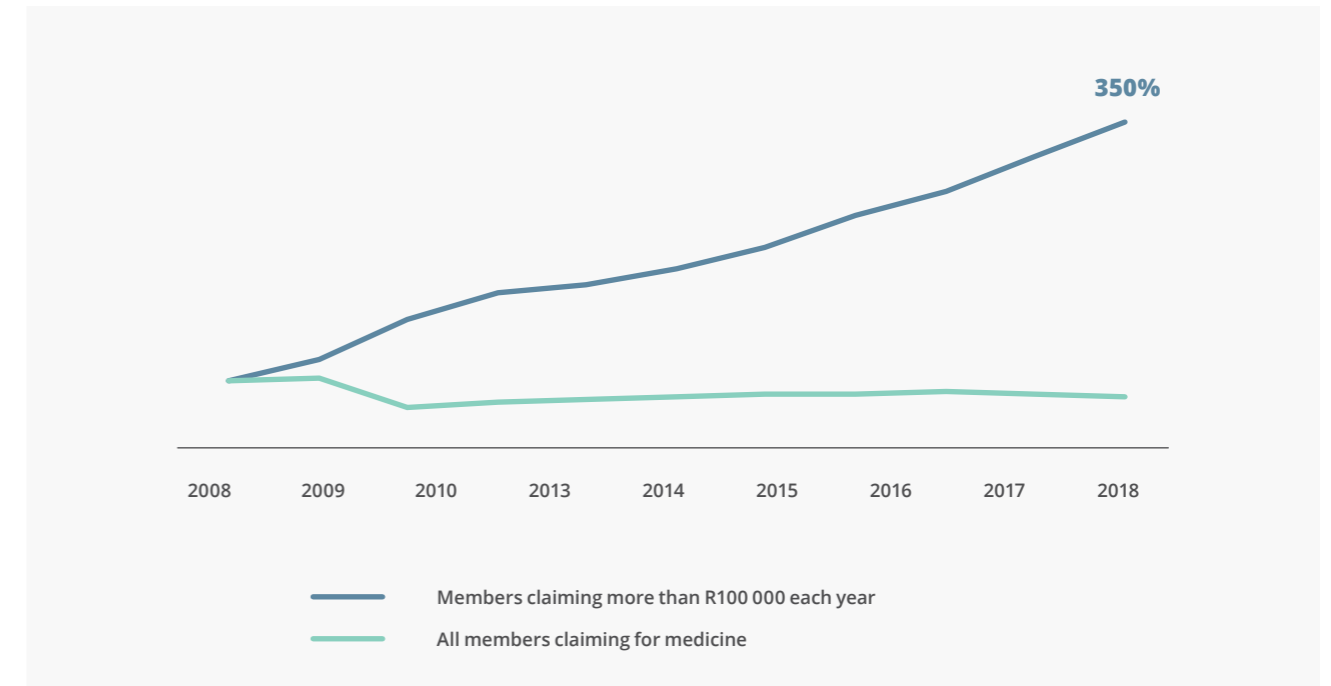
Supply-side inflation

Increases in healthcare costs due to a greater supply of healthcare services, driven by the introduction of more hospitals and advances in medicine, medical procedures and medical technology.

On the ‘supply side’ of the healthcare system, healthcare costs for medical schemes increase due to changes in the clinical practice of health professionals, and increased supply of healthcare resources (for example, new hospitals, medicines and medical technologies). Unlike information technology, new medical technology in healthcare typically comes at a much higher cost than the technology it replaces.

Similar trends are seen in the rapid emergence of high cost medicines, particularly for the treatment of cancer and certain chronic conditions such as Multiple Sclerosis and Rheumatoid Arthritis. Figure 3 below shows the sharp rise in the number of members that claim for high-cost medicine, - a 350% increase since 2008.

Figure 3: Increase in members claiming for medicine (2008 – 2018)



Another factor is the increasing supply of private hospital beds in South Africa. In the period January 2016 to March 2018, the number of private hospital beds available in South Africa increased by more than 2 200, which is the same number of beds that were added in the period 2010 to 2016. The total incremental cost to the Scheme of the additional 2 200 beds added since 2016 amounts to R855 million.

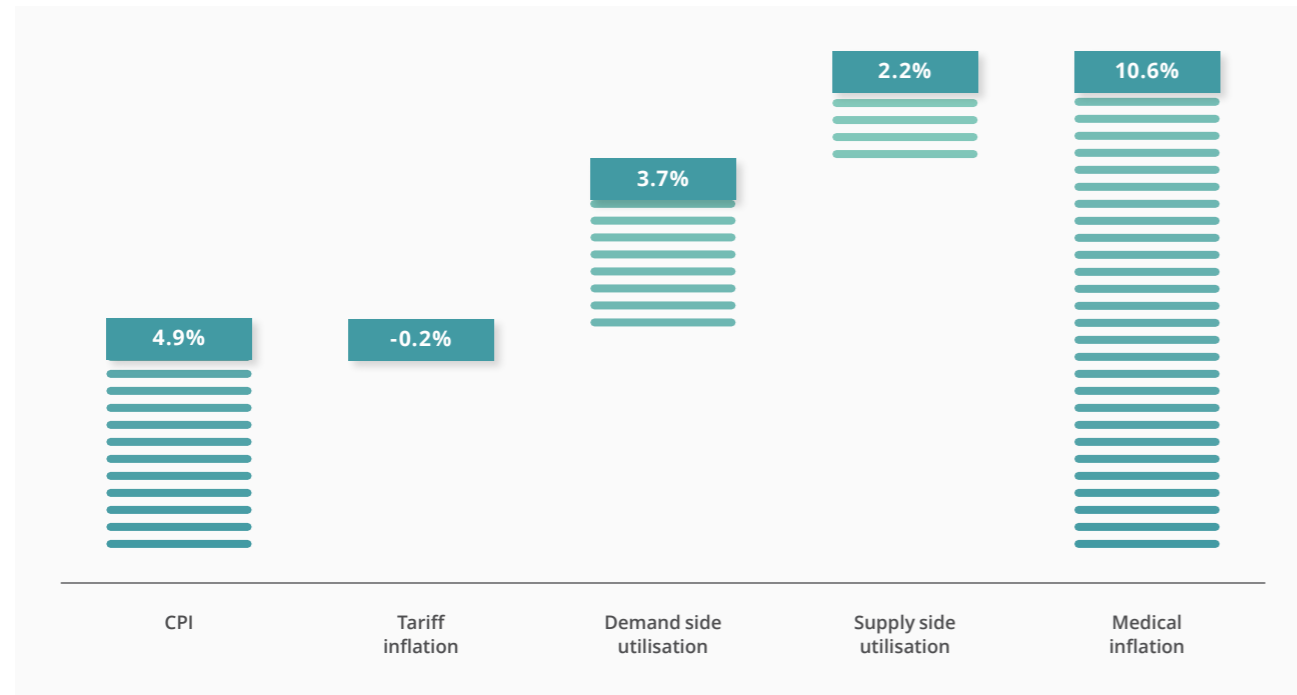


MEDICAL INFLATION FOR THE 2018-2019 PERIOD

In the most recent period (2018 – 2019), medical inflation was 10.6%, equivalent to CPI plus 5.7%.

The make-up of 2018-2019 medical inflation is illustrated in Figure 4 below.

Figure 4: Breakdown of medical inflation for 2018 – 2019



As the figure shows, over this period, CPI was 4.9%, annual tariff inflation was 4.7%, and utilisation increased by 5.9%, significantly higher than the 5.1% average utilisation increase of the past 10 years. Within the utilisation increase, supply side factors contributed 2.2% and demand side factors 3.7%.



Tariff inflation

Average tariff inflation for the period was 4.7%. This was made up of average tariff inflation of 5.0% for health professionals, 4.7% for hospitals, 3.8% for medicines as well as 0.2% for the impact of the VAT increase for three months of 2019.



Demand side factors

'Demand side' utilisation increased by 3.7% over the period. As illustrated in Figure 5 below, demand side inflation for the period 2018 – 2019 was consistent with the average for the previous five years. The demand side utilisation can be broken down into an ageing component, accounting for 1.1% of the increase, and an increase in the prevalence in the burden of disease, over and above what can be explained by the increase in the average age, accounting for the other 2.6% of the demand side utilisation increase. From June 2018 to June 2019 the average age of the medical scheme population increased by 4.7 months, whilst the proportion of members with a chronic condition increased by 1.0 percentage point, to 26.7%



Supply side factors

'Supply side' utilisation increased by 2.2% over the period. Supply side inflation for the period 2018 – 2019 has remained consistent with the 2017 – 2018 period. One of the factors contributing to the supply-side inflation is a 9.6% increase in high-cost claimants for medication from YTD May 2018 to YTD May 2019.

Figure 5: Average components of medical inflation for 2013/14 – 2017/18 compared with 2018/19

