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**Private Healthcare in 2015 And Beyond**

*An overview from Aon Hewitt*

**[Jan 2015]** With the start of the new year, the planning of personal finances for 2015 takes priority for many South Africa consumers, companies are equally grappling with a volatile economic environment and growing cost pressures that will see changes to employee benefits and how these are packaged in future. Some changes may prove to be challenging for employees, while others will be most welcome.

A key trend that is set to continue in 2015 is that of a ‘cost to company’ (CTC) approach to employee remuneration and benefits, and in particular moving away from the subsidising of medical scheme costs on a 50/50 basis of employer/employee contributions.

“In the face of continued economic constraints, many companies are looking at cost saving exercises and the subsidisation of medical scheme expenses is one aspect that is being focused on,” says Gavin Griffin, Business Unit Head of Employee Benefits Solutions at Aon Hewitt.

note, which in South Africa have been significantly greater than inflation and average salary increases for over a decade now.

“A CTC package means that you are offered a total salary that includes the cost of benefits that the company would have contributed to in your package, providing a means for employees to structure their own salaries and benefit expenditure. The one disadvantage of being employed on a CTC basis is that if you receive an annual salary increase of say 6%, but your medical aid contributions go up by 9%, you will need to self-fund the additional 3% increase on your medical aid premium,” explains Gavin.

That being said, even on traditional benefit packages, many companies cap the company contribution or subsidy in order to better control costs and fix annual increases. The cap can be based on a Rand value; or a percentage of contribution value; or a set option level value. Should the employee want to stay on a more expensive medical aid option, they will need to self-fund the difference in contributions.

Aon Hewitt remains concerned about the increases in healthcare prices experienced by consumers. “The Competition Commission of SA reported at the end of 2013 that the real per capita increase in expenditure from 2003 until 2012 for hospitals and medical specialists were 40.7% and 55.7% respectively. Furthermore, according to Statistics SA the increases experienced by households in healthcare prices exceeded headline CPI inflation by an annual average of 4.3% between 2009 and 2013. It was also estimated that 15.1% or R18.2 billion of private health expenditure in 2012 was paid by consumers on an out-of-pocket basis. These expenditure trends are not surprising, given the fact that the healthcare industry has been without a tariff benchmark for years,” says Gavin.

The aforementioned expenditure trends as well as other competition concerns has led to the first statutory market inquiry by the Competition Commission into the private health sector. The inquiry will evaluate the various explanations for cost, price and expenditure increases. It will also aim to identify all factors that prevented, distorted or restricted competition, including any evidence of market failure, regulatory failure or competition concerns.

“The full spectrum of inter-relationships in the private health sector, including the funding and supply side of healthcare products and services, will be evaluated,” says Gavin. “The intention is to obtain a factual basis upon which the Commission can make recommendations to promote competition in the private health sector that will result in more affordable, accessible, innovative and good quality private healthcare.”

The inquiry officially started on 1 August 2014 and is envisaged to conclude by November 2015. “The inquiry into the private healthcare sector heralds the implementation of appropriate price regulations that will make private healthcare services accessible and affordable to more South Africans, which is a step in the right direction,” explains Gavin. But until then the price of healthcare services remain unregulated with the concomitant risk of increased expenditure by medical schemes and consumers for these services.

In such an environment, many employees are opting to buy down on their medical cover in order to offset the difference between what they can afford, and the above inflationary cost increases of their medical aid cover.

“But the danger here is that members can end up compromising on their benefits and end up with significant costs in the event of hospitalisation and/or day-to-day care that they would have to self-fund. If you are considering buying down, it’s essential to consult with a financial advisor in order to analyse exactly what you are covered for, and that you don’t compromise on what you and your family needs from a medical perspective,” advises Gavin.

“In this regard, the approval of gap insurance cover during 2014, in principle, as part of the ongoing demarcation debate that is aimed at regulating the demarcation between health insurance products and medical schemes has been a welcome decision. The final regulations on the demarcation between health insurance policies and medical schemes are however only expected to be released in the second quarter of 2015,” says Gavin.

Gap insurance is designed to cover potential shortfalls that arise from specialist charges for in-hospital procedures – specialists often charge up to 400% of the benefits offered by your medical aid. So if your medical aid only pays out at 100% of tariff, you will then be liable for the shortfall of the other 300% out of your own pocket. Gap cover does not replace medical scheme cover, but complements certain shortfalls that may occur, as medical specialist fees far outpace medical aid tariffs.

“This year is set to be a challenging one for the healthcare sector with a host of legislative changes that are pending conclusion. It is essential that medical schemes make serious attempts to address cost factors to the best of their ability, because failure to do this will lead to a continued affordability challenge in accessing healthcare, thereby threatening the long term sustainability of the industry, since members are price sensitive,” Gavin explains.

“The outcome of the inquiry proceedings will also hopefully have a positive impact on the healthcare sector with the ultimate objective of making private healthcare services accessible and affordable to more South Africans, while at the same time paying a fair price to service providers. Right now the challenge for consumers as they plan their 2015 budgets is to ensure that they have the right level of health cover, at the right price for their needs and that they are properly covered for any health crisis. There is no one better positioned to assist you with this planning than a professional financial advisor,” concludes Gavin.

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