

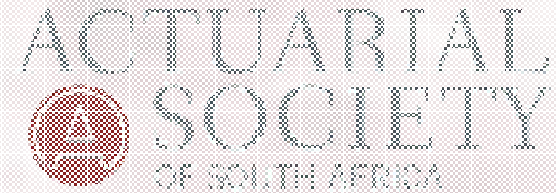


# Practice Cost Study Submissions for NHRPL: Methodology and Issues

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**medscheme**   
health risk solutions

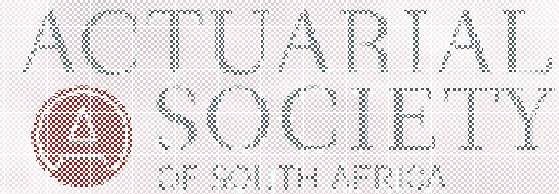
# Agenda



- 1. Introduction**
- 2. DoH Methodology**
- 3. DoH Methodology vs Practice Cost Study Submissions**
- 4. Implied Increases in Tariffs & Impact**
- 5. 'Model' Practice Design and Income Statements**
- 6. Overhead Costs, Salary, Time/Productivity**
- 7. Sensitivities and Scenarios**
- 8. Issues**

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# Introduction



- Aim: Not to comment on policy, but to inform to enable you to set your own view
- NHRPL, or RPL, is a set of standardised benchmark tariffs.
- Not enforced tariffs, but may become PMB reimbursement rate?
- Regulation 681 in the Government Gazette on 23 July 2007 sets out the underlying guidelines
  - Model spreadsheet is available on DoH website
- Requires a 'cost plus' methodology, whereby practice costs are measured plus ROI, divided by productive time in order to derive the benchmark tariffs

## Introduction cont...

- Concentrating on GP and Specialist submissions of SAMA, as produced by Healthman in the 2008 submission
- The following specialist disciplines are considered:

| Consulting Specialists | Surgical Specialists               |
|------------------------|------------------------------------|
| Psychiatry             | Otorhinolaryngology (ENT)          |
| Cardiology             | Gynaecology and Obstetrics         |
| Neurology              | Neurosurgery                       |
| Paediatrics            | Ophthalmology                      |
|                        | Orthopaedics                       |
|                        | Urology                            |
|                        | Plastic and Reconstructive Surgery |
|                        | General Surgery                    |

# DoH Methodology

Basic Formulae:

$$\frac{\text{Salary} + \text{Overheads} + \text{ROI}}{\text{Available time} \times \text{Productivity}} = \text{Cost per minute}$$

$$\begin{aligned} &\text{Cost per minute} \\ &\times \text{Responsibility Factor} \\ &\times \text{Time per consult/ procedure} \\ &= \text{Tariff per consult/procedure} \end{aligned}$$

## DoH Methodology cont...

Basic Formulae:

**Tariff per consult/procedure** split as follows:

$$\mathbf{RCF \times RVU = \text{Tariff per consult/procedure}}$$

where

RCF = Rand Conversion Factor  
(akin to cost per unit time)

RVU = Relative Value Unit

# DoH Methodology

DoH set @ upper end of package for public sector healthcare provider

Staff salaries + overheads + amortised equipment cost, etc.  
*REDUCED to lower 95% CI (about 10% reduction)*  
+ 2.5% for bad debts

$$\frac{\text{Salary} + \text{Overheads} + \text{ROI}}{\text{Available time} \times \text{Productivity}}$$

Bankers acceptance rate, earned on overheads

8 hour day; 5 days a week (120 000 mins. pa approx.)  
Less: 22 days annual leave; 8 days sick leave

75% productivity factor:  
(= 6 hours per day treating patients)  
overheads : 90 090 mins pa  
direct labour : 79 290 mins pa

## DoH Methodology cont...

Basic Formulae, detailed:

$$\frac{\text{Salary}}{79\ 290} + \frac{\text{Overheads} + \text{ROI}}{90\ 090} = \text{DL Cost p. Min} + \text{OHD Cost p. min}$$

**DL Cost p. min**

x Responsibility Factor

x Time per consult/ procedure

+

**OHD Cost p. min**

x Time per consult/ procedure

**= Tariff per consult/procedure**

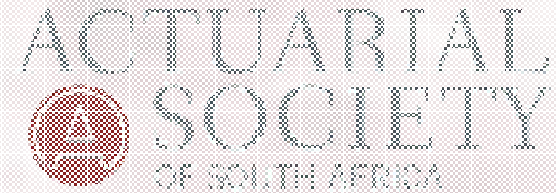


## DoH Methodology cont...

### Time per consult/ procedure:

- From activity based time studies
- Submissions did not do time studies;
  - For consults?
    - Used SAMA RVUs
    - Allowed for tiered consult tariffs
  - For procedures?
    - CPT4 codes and AMA relative value based time units applied with cross-walk to SAMA codes
    - Else missing

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# DoH Methodology Adjs

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

| Description               | DoH / Survey | GP & Specialist Submission |
|---------------------------|--------------|----------------------------|
| <b>Direct Salary:</b>     |              |                            |
| GP                        | R473k        | R601k                      |
| Specialist                | R757k        | R859k                      |
| <b>Overheads</b>          |              |                            |
| <b>Productive Time:</b>   |              |                            |
| GP Overheads              |              |                            |
| Specialist Overheads      |              |                            |
| <b>Productive Time:</b>   |              |                            |
| Equipment                 |              |                            |
| <b>Time per procedure</b> |              |                            |

Note\*: 65% equipment productivity is challenged, but still used.

# DoH Methodology Adjs

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

| Description   | DoH / Survey    | GP & Specialist Submission |
|---|-----------------|----------------------------|
| <b>Direct Salary:</b><br>GP<br>Specialist                       | R473k<br>R757k  | R601k<br>R859k             |
| <b>Overheads</b>  | Random sampling | No random sampling         |
| <b>Productive Time:</b><br>GP Overheads<br>Specialist Overheads |                 |                            |
| <b>Productive Time:</b><br>Equipment                            |                 |                            |
| <b>Time per procedure</b>                                       |                 |                            |

Note\*: 65% equipment productivity is challenged, but still used.

# DoH Methodology Adjs

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Description   | DoH / Survey               | GP & Specialist Submission |
|---|----------------------------|----------------------------|
| <b>Direct Salary:</b><br>GP<br>Specialist                       | R473k<br>R757k             | R601k<br>R859k             |
| <b>Overheads</b>  | Random sampling            | No random sampling         |
| <b>Productive Time:</b><br>GP Overheads<br>Specialist Overheads | 90 090 mins<br>90 090 mins | 90 090 mins<br>79 290 mins |
| <b>Productive Time:</b><br>Equipment                            | 65%                        | 65%*                       |
| <b>Time per procedure</b>                                       |                            |                            |

Note\*: 65% equipment productivity is challenged, but still used.

# DoH Methodology Adjs

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Description   | DoH / Survey               | GP & Specialist Submission |
|---|----------------------------|----------------------------|
| <b>Direct Salary:</b><br>GP<br>Specialist                       | R473k<br>R757k             | R601k<br>R859k             |
| <b>Overheads</b>  | Random sampling            | No random sampling         |
| <b>Productive Time:</b><br>GP Overheads<br>Specialist Overheads | 90 090 mins<br>90 090 mins | 90 090 mins<br>79 290 mins |
| <b>Productive Time:</b><br>Equipment                            | 65%                        | 65%*                       |
| <b>Time per procedure</b>                                       | Activity based             | SAMA / AMA / missing       |

Note\*: 65% equipment productivity is challenged, but still used.

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# Implied Increases in NHRPL

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Prac. No.   | Practice Type | Increase in Tariffs | Impact on Total Claims |
|---|---------------|---------------------|------------------------|
| 14  | GP            | 70%                 | 8.4%                   |
| 21  |               |                     |                        |
| 44  |               |                     |                        |
| 30  |               |                     |                        |
| 16  |               |                     |                        |
| 24  |               |                     |                        |
| 26  |               |                     |                        |
| 28  |               |                     |                        |
| 32  |               |                     |                        |
| 18  |               |                     |                        |
| 36  |               |                     |                        |
| 22  |               |                     |                        |
| 42  |               |                     |                        |
| 46  |               |                     |                        |
| <b>Total increase in claims<br/>(of above practice types only, ignoring benefit limits)</b> |               |                     | <b>8.4%</b>            |

Ave.  
benefit  
richness  
(incl DtD  
bnfts)



# Implied Increases in NHRPL

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

| Prac. No.   | Practice Type            | Increase in Tariffs | Impact on Total Claims |
|---|--------------------------|---------------------|------------------------|
| 14  | GP                       | 70%                 | 8.4%                   |
| 21  | Cardiology               | 314%                | 1.5%                   |
| 44  | Cardiothoracic           | 91%                 | 0.2%                   |
| 30  | ENT                      | 316%                | 1.1%                   |
| 16  | Gynaecology              | 110%                | 1.8%                   |
| 24  | Neurosurgery             | 154%                | 0.5%                   |
| 26  | Ophthalmology            | 78%                 | 0.8%                   |
| 28  | Orthopaedics             | 157%                | 1.5%                   |
| 32  | Paediatrics              | 160%                | 1.6%                   |
| 18  | Physicians               | 219%                | 3.3%                   |
| 36  | Plastic & Recon. Surgery | 179%                | 0.1%                   |
| 22  | Psychiatry               | 61%                 | 0.4%                   |
| 42  | Surgery                  | 168%                | 1.5%                   |
| 46  | Urology                  | 338%                | 1.2%                   |
| <b>Total increase in claims<br/>(of above practice types only, ignoring benefit limits)</b> |                          |                     | <b>24%</b>             |

# Implied Increases in NHRPL

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Practice Type          | Increase: Consulting Tariffs | Increase: Procedure Tariffs | Increase: All Tariffs | Impact on Claims |
|------------------------|------------------------------|-----------------------------|-----------------------|------------------|
| GP                     | 70%                          |                             | 70%                   | <b>24%</b>       |
| Consulting Specialists | 128%                         | 259%                        | 196%                  |                  |
| Surgical Specialists   | 147%                         | 354%                        | 229%                  |                  |

# Implied Increases in NHRPL

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

## 2008 Submissions:

| Practice Type          | Increase: Consulting Tariffs | Increase: Procedure Tariffs | Increase: All Tariffs | Impact on Claims |
|------------------------|------------------------------|-----------------------------|-----------------------|------------------|
| GP                     | 70%                          |                             | 70%                   | <b>24%</b>       |
| Consulting Specialists | 128%                         | 259%                        | 196%                  |                  |
| Surgical Specialists   | 147%                         | 354%                        | 229%                  |                  |

## DoH Parameters (with overheads as per submission):

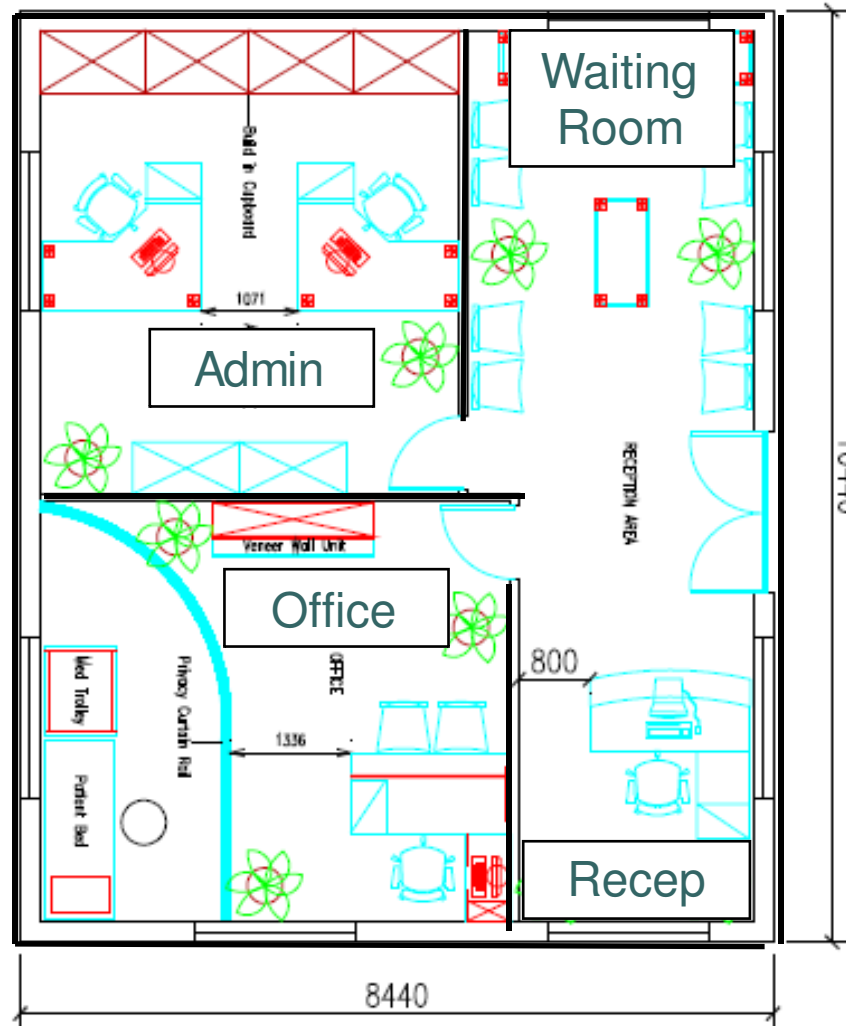
| Practice Type          | Increase: Consulting Tariffs | Increase: Procedure Tariffs | Increase: All Tariffs | Impact on Claims |
|------------------------|------------------------------|-----------------------------|-----------------------|------------------|
| GP                     | 40%                          |                             | 40%                   | <b>21%</b>       |
| Consulting Specialists | 105%                         | 156%                        | 130%                  |                  |
| Surgical Specialists   | 136%                         | 279%                        | 207%                  |                  |

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# 'Model' Practice



Capital outlay std equipment:

GP = 175k

Cardiology = R466k

Rent pm:

R3k to R4k

Transport pm:

R3k to R4k

Salaries pm:

Receptionist = R12k

Cleaner = R1.5k

Accounting = R7k

Accounting/audit/mang fees  
pm = R2k

Communication = R4k pm

Advertising = R1k pm

Printing & stationery = R1k pm

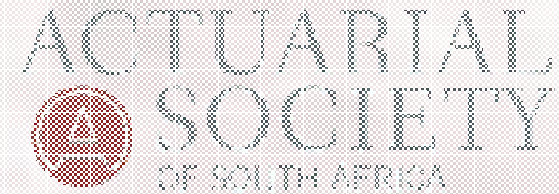
# 'Model' Practice: Inc Statement

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

DoH Parameters:

|  | GP               | Consulting Specialists | Surgical Specialists |
|--|------------------|------------------------|----------------------|
| <b>Income (less VAT)</b>                               | <b>1 319 272</b> | <b>1 864 787</b>       | <b>2 098 150</b>     |
| <b>Expenses</b>  | <b>1 102 322</b> | <b>1 460 197</b>       | <b>1 633 897</b>     |
| Practitioner Salary CTC                                | 472 758          | 756 602                | 756 602              |
| Other overheads  | 629 564          | 703 595                | 877 295              |
| <b>Nett income</b>                                     | <b>216 951</b>   | <b>404 590</b>         | <b>464 253</b>       |
| Less: Bad debt provision                               | 27 558           | 36 505                 | 40 847               |
| <b>Nett income after bad debt provision before tax</b> | <b>189 393</b>   | <b>368 085</b>         | <b>423 405</b>       |

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# Overhead Costs

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| 79 290 |   | 90 090          |

| Prac. No. | Practice Type       | No.*  | Responses | Response % |
|-----------|---------------------|-------|-----------|------------|
| 14        | GP                  | 7 568 | 125       | 2%         |
| 21        | Cardiology          | 117   | 29        | 25%        |
| 44        | Cardiothoracic      | 80    | 11        | 14%        |
| 30        | ENT                 | 231   | 58        | 25%        |
| 16        | Gynaecology         | 690   | 64        | 9%         |
| 24        | Neurosurgery        | 123   | 24        | 20%        |
| 26        | Ophthalmology       | 260   | 54        | 21%        |
| 28        | Orthopaedics        | 486   | 102       | 21%        |
| 32        | Paediatrics         | 392   | 35        | 9%         |
| 18        | Physicians          | 518   | 72        | 14%        |
| 36        | Plstc & Recon. Surg | 138   | 17        | 12%        |
| 22        | Psychiatry          | 377   | 69        | 18%        |
| 42        | Surgery             | 471   | 47        | 10%        |
| 46        | Urology             | 165   | 23        | 14%        |

\* DoH Notice no. 4 of 2009, showing 2007 number of practising practitioners.



# Overhead Costs

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

| Prac. No. | Practice Type       | No.*  | Responses | Response % | Min. No. @ 10% error |
|-----------|---------------------|-------|-----------|------------|----------------------|
| 14        | GP                  | 7 568 | 125       | 2%         | 77                   |
| 21        | Cardiology          | 117   | 29        | 25%        | 25                   |
| 44        | Cardiothoracic      | 80    | 11        | 14%        | 41                   |
| 30        | ENT                 | 231   | 58        | 25%        | 52                   |
| 16        | Gynaecology         | 690   | 64        | 9%         | 36                   |
| 24        | Neurosurgery        | 123   | 24        | 20%        | 32                   |
| 26        | Ophthalmology       | 260   | 54        | 21%        | 54                   |
| 28        | Orthopaedics        | 486   | 102       | 21%        | 57                   |
| 32        | Paediatrics         | 392   | 35        | 9%         | 35                   |
| 18        | Physicians          | 518   | 72        | 14%        | 66                   |
| 36        | Plstc & Recon. Surg | 138   | 17        | 12%        | 41                   |
| 22        | Psychiatry          | 377   | 69        | 18%        | 42                   |
| 42        | Surgery             | 471   | 47        | 10%        | 74                   |
| 46        | Urology             | 165   | 23        | 14%        | 46                   |

\* DoH Notice no. 4 of 2009, showing 2007 number of practising practitioners.

# Overhead Costs

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| 79 290 |   | 90 090          |

| Prac. No. | Practice Type       | No.*  | Responses | Response % | Min. No. @ 10% error | Min No. @ 5% error |
|-----------|---------------------|-------|-----------|------------|----------------------|--------------------|
| 14        | GP                  | 7 568 | 125       | 2%         | 77                   | 301                |
| 21        | Cardiology          | 117   | 29        | 25%        | 25                   | 61                 |
| 44        | Cardiothoracic      | 80    | 11        | 14%        | 41                   | 65                 |
| 30        | ENT                 | 231   | 58        | 25%        | 52                   | 124                |
| 16        | Gynaecology         | 690   | 64        | 9%         | 36                   | 124                |
| 24        | Neurosurgery        | 123   | 24        | 20%        | 32                   | 72                 |
| 26        | Ophthalmology       | 260   | 54        | 21%        | 54                   | 133                |
| 28        | Orthopaedics        | 486   | 102       | 21%        | 57                   | 169                |
| 32        | Paediatrics         | 392   | 35        | 9%         | 35                   | 110                |
| 18        | Physicians          | 518   | 72        | 14%        | 66                   | 191                |
| 36        | Plstc & Recon. Surg | 138   | 17        | 12%        | 41                   | 87                 |
| 22        | Psychiatry          | 377   | 69        | 18%        | 42                   | 126                |
| 42        | Surgery             | 471   | 47        | 10%        | 74                   | 200                |
| 46        | Urology             | 165   | 23        | 14%        | 46                   | 100                |

\* DoH Notice no. 4 of 2009, showing 2007 number of practising practitioners.

## Overhead Costs cont...

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Practice Type          | Average | 25 <sup>th</sup> Percentile | Median  | 75 <sup>th</sup> Percentile | Minimum | Maximum   |
|------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------|
| GP                     | 525 000 | 343 000                     | 473 000 | 670 000                     | 132 000 | 1 072 000 |
| Consulting Specialists | 549 000 | 387 000                     | 526 000 | 691 000                     | 103 000 | 1 287 000 |
| Surgical Specialists   | 719 000 | 500 000                     | 671 000 | 902 000                     | 84 000  | 1 991 000 |

## Overhead Costs cont...

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

| Practice Type          | No. of Group Practices | No. of Individual Practices | Avg Costs Group Practices | Avg Costs All Practices | Diff % |
|------------------------|------------------------|-----------------------------|---------------------------|-------------------------|--------|
| GP                     | 39                     | 86                          | 475 000                   | 525 000                 | -10%   |
| Consulting Specialists | 19                     | 186                         | 546 000                   | 549 000                 | -1%    |
| Surgical Specialists   | 20                     | 380                         | 659 000                   | 719 000                 | -8%    |

## Overhead Costs cont...

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

Need to consider bias...

Either;

- Random sample from non-respondents, OR
- Adjust results by assuming an average cost for the non-respondents;
  - Considered using average costs of lowest quartile;  
= response% x average overhead costs as per submissions  
+ (1 – response%) x average of lowest quartile overhead costs

# Overhead Costs cont...

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Practice Type          | No.   | % Responses | Adjusted for Bias Avg Costs* | Un-adjusted Avg Costs (Surveys) | Diff % |
|------------------------|-------|-------------|------------------------------|---------------------------------|--------|
| GP                     | 7 568 | 2%          | 269 000                      | 525 000                         | -49%   |
| Consulting Specialists | 1 404 | 15%         | 321 000                      | 549 000                         | -42%   |
| Surgical Specialists   | 2 644 | 15%         | 436 000                      | 719 000                         | -39%   |

\* Weighted response % average of survey average costs and average of lowest quartile of surveyed costs.

# Overhead Costs Summary

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

|   |  | GP      | Cons. Spec. | Surg. Spec. | Difference % from survey |           |           |
|---|--|---------|-------------|-------------|--------------------------|-----------|-----------|
|   |  |         |             |             | GP                       | Cons Spec | Surg Spec |
|   | <b>Average Overhead Costs (survey)</b>   | 525 000 | 549 000     | 719 000     |                          |           |           |
|   | <b>Adj. Overheads Used in Submission</b> | 564 000 | 604 000     | 734 000     | 7%                       | 10%       | 2%        |
| 1 | Less CI adjustment                       | 527 000 | 573 000     | 705 000     | 0%                       | 4%        | -2%       |
| 2 | Median                                   |         |             |             |                          |           |           |
| 3 | 25 <sup>th</sup> Percentile              |         |             |             |                          |           |           |
| 4 | Group practices only                     |         |             |             |                          |           |           |
| 5 | Bias adjusted                            |         |             |             |                          |           |           |

## Overhead Costs cont...

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

|   |  | GP      | Cons. Spec. | Surg. Spec. | Difference % from survey |           |           |
|---|--|---------|-------------|-------------|--------------------------|-----------|-----------|
|   |  |         |             |             | GP                       | Cons Spec | Surg Spec |
|   | <b>Average Overhead Costs (survey)</b>   | 525 000 | 549 000     | 719 000     |                          |           |           |
|   | <b>Adj. Overheads Used in Submission</b> | 564 000 | 604 000     | 734 000     | 7%                       | 10%       | 2%        |
| 1 | Less CI adjustment                       | 527 000 | 573 000     | 705 000     | 0%                       | 4%        | -2%       |
| 2 | Median                                   | 473 000 | 526 000     | 671 000     | -10%                     | -4%       | -7%       |
| 3 | 25 <sup>th</sup> Percentile              | 343 000 | 387 000     | 500 000     | -35%                     | -30%      | -30%      |
| 4 | Group practices only                     | 475 000 | 546 000     | 659 000     | -10%                     | -1%       | -8%       |
| 5 | Bias adjusted                            | 269 000 | 321 000     | 436 000     | -49%                     | -42%      | -39%      |



# GP Salary

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

- Salary Level 12:
  - Min = R408k; Max = **R473k** p.a.
  - Thus, maximum has been used in DoH model
  - Scarce skills allowance +15% for 60% of base pay
  - Include overtime = **56 hours** per week
  - Combined increases package by about 45%
  - Overtime + skills allowance = **R685k** p.a.

**=> Lowers tariff increase by about 20%**

# Specialist Salary

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| 79 290 |   | 90 090          |

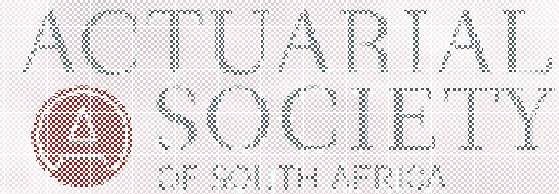
- Public Sector Packages:

| SMS Grade | 01-Jan-08 | 1-Sep-08 | 2009         |
|-----------|-----------|----------|--------------|
| A         | R557k     | R574k    | R624k        |
| B         | R655k     | R696k    | <b>R757k</b> |
| C         | R794k     | R842k    | <b>R868k</b> |

- Grade B is 'principal specialist' & 'head-of-dept'
- Add scarce skills allowance +15% of 60% of base pay  
= **R825k** p.a.
- Applies to **52 hour week**, not 40 hour week

=> **Lowers tariff increase by about 40% to 55%**

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5. 'Model' Practice Design and Income Statements
6. Overhead Costs, Salary, Time/Productivity
- 7. Sensitivities and Scenarios**
8. Issues

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# Sensitivities: Overheads

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Sensitivity   | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|---|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| Base -10%   | 32%             | 106%                     | 171%                     | <b>17%</b>          |
| Base +10%   | 47%             | 125%                     | 199%                     | <b>21%</b>          |
| Median  | 32%             | 108%                     | 178%                     | <b>19%</b>          |
| Bias adjusted   | 3%              | 74%                      | 133%                     | <b>11%</b>          |

# Sensitivities: Direct Salary

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Sensitivity   | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|---|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| Base -10%   | 34%             | 105%                     | 172%                     | <b>17%</b>          |
| Base +10%   | 46%             | 126%                     | 198%                     | <b>21%</b>          |

# Sensitivities: Productivity

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Sensitivity   | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|---|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| <b>Productivity labour (75%):</b>                     |                 |                          |                          |                     |
| Base -10%   | 46%             | 127%                     | 199%                     | <b>21%</b>          |
| Base +10%   | 35%             | 106%                     | 174%                     | <b>18%</b>          |
| <b>Productivity overheads (75%):</b>                  |                 |                          |                          |                     |
| Base -10%   |                 |                          |                          |                     |
| Base +10%   |                 |                          |                          |                     |

# Sensitivities: Productivity

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Sensitivity   | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|---|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| <b>Productivity labour (75%):</b>                     |                 |                          |                          |                     |
| Base -10%   | 46%             | 127%                     | 199%                     | <b>21%</b>          |
| Base +10%   | 35%             | 106%                     | 174%                     | <b>18%</b>          |
| <b>Productivity overheads (75%):</b>                  |                 |                          |                          |                     |
| Base -10%   | 49%             | 128%                     | 203%                     | <b>22%</b>          |
| Base +10%   | 32%             | 105%                     | 170%                     | <b>17%</b>          |

# Sensitivities: Working Hours

|        |                 |
|--------|-----------------|
| Salary | Overheads + ROI |
| -----  | -----           |
| 79 290 | 90 090          |

| Sensitivity  | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|--|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission  | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| <b>Working hours per week (40):</b>  |                 |                          |                          |                     |
| Base -10%  | 55%             | 139%                     | 217%                     | <b>24%</b>          |
| Base +10%  | 27%             | 96%                      | 159%                     | <b>16%</b>          |
| <b>Add: Scarce skills +15% and<br/>GP overtime to salary; 56hrs<br/>for GP; 52hrs for Specialists:</b> |                 |                          |                          |                     |
| Result   |                 |                          |                          |                     |



# Sensitivities: Working Hours

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Sensitivity  | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|--|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission  | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| <b>Working hours per week (40):</b>  |                 |                          |                          |                     |
| Base -10%  | 55%             | 139%                     | 217%                     | <b>24%</b>          |
| Base +10%  | 27%             | 96%                      | 159%                     | <b>16%</b>          |
| <b>Add: Scarce skills +15% and<br/>GP overtime to salary; 56hrs<br/>for GP; 52hrs for Specialists:</b> |                 |                          |                          |                     |
| Result   | 19%             | 73%                      | 128%                     | <b>12%</b>          |

# Sensitivities: Mix

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

| Sensitivity   | Increase:<br>GP | Increase:<br>Cons. Spec. | Increase:<br>Surg. Spec. | Impact on<br>Claims |
|---|-----------------|--------------------------|--------------------------|---------------------|
| Base Case: DoH params,<br>overheads as per submission | 40%             | 115%                     | 185%                     | <b>19%</b>          |
| <b>Volume of procedures:</b>                          |                 |                          |                          |                     |
| Base +10% more procedures                             | 41%             | 118%                     | 193%                     | <b>20%</b>          |
| <b>Times per consult/procedure:</b>                   |                 |                          |                          |                     |
| Base -10%   | 26%             | 94%                      | 156%                     | <b>15%</b>          |
| Base +max(+10%; +5 mins)                              | 99%             | 164%                     | 262%                     | <b>33%</b>          |

# Scenarios: Increases

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| 79 290 |   | 90 090          |

|   | Scenario   | GP   | Cons. Spec. | Surg. Spec. | Impact on Claims |
|---|--|------|-------------|-------------|------------------|
| 1 | As per submission  | 70%  | 196%        | 229%        | 24%              |
| 2 | Submission with 65% productivity   | 96%  | 241%        | 280%        | 31%              |
| 3 | DoH params; Submission overheads   | 40%  | 115%        | 185%        | 19%              |
| 4 | DoH params; Bias adj overheads   | 3%   | 74%         | 133%        | 11%              |
| 5 | DoH params; GP 56hr week & overtime pay; Spec 52 hr week; +15% skills allow.   | 19%  | 73%         | 128%        | 12%              |
| 6 | DoH params; Bias adj overheads; GP 56hr week & overtime pay; Spec 52 hr week; +15% skills allow.   | -8%  | 41%         | 88%         | 6%               |
| 7 | DoH params; Bias adj overheads; GP 56hr week & overtime pay; Spec 52 hr week; +15% skills allow.; 85% productivity; time per consult/procedure 10% lower | -27% | 12%         | 49%         | 0%               |

# Agenda

1. Introduction
2. DoH Methodology
3. DoH Methodology vs Practice Cost Study Submissions
4. Implied Increases in Tariffs & Impact
5. 'Model' Practice Design and Income Statements
6. Overhead Costs, Salary, Time/Productivity
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- 8. Issues**

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# Issues

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

- Survey response bias and small sample sizes
- Overheads – large variations
- Benchmark salaries and working hours
- Productivity
- Coding issues
- Overlapping activities may be charged twice

# Issues

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

- **Submissions across disciplines not consistent**
- **Practice cost studies seen as ‘fair rate’**
- **No allowance for trends in up-coding or changing behaviour, e.g. more procedures being performed**
- **Not linked to impact on the market (members),**
  - **ignores affordability, impact of buy-downs and loss of members from risk pool.**

# Issues

|        |   |                 |
|--------|---|-----------------|
| Salary | + | Overheads + ROI |
| -----  |   | -----           |
| 79 290 |   | 90 090          |

## MAIN ISSUES:

- Should benchmark reflect an *average* or *efficient* practice?
- Setting the RPL at average;
  - all practices charging below the 'fair' RPL may increase their rates => increased claims costs across industry.
- Time per consult/procedure
  - Results highly sensitive to unknown times



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