ADDRESSING PRIVATE MEDICAL PRACTITIONER STRATEGIC RESPONSE TO THE COVID-19 PANDEMIC

This presentation has been prepared for the

Progressive Health Forum

and reflects the outcome to date of discussions amongst civil society and private medical practitioners to develop a holistic strategic response to the COVID pandemic

Prof Alex van den Heever

Wits School of Governance

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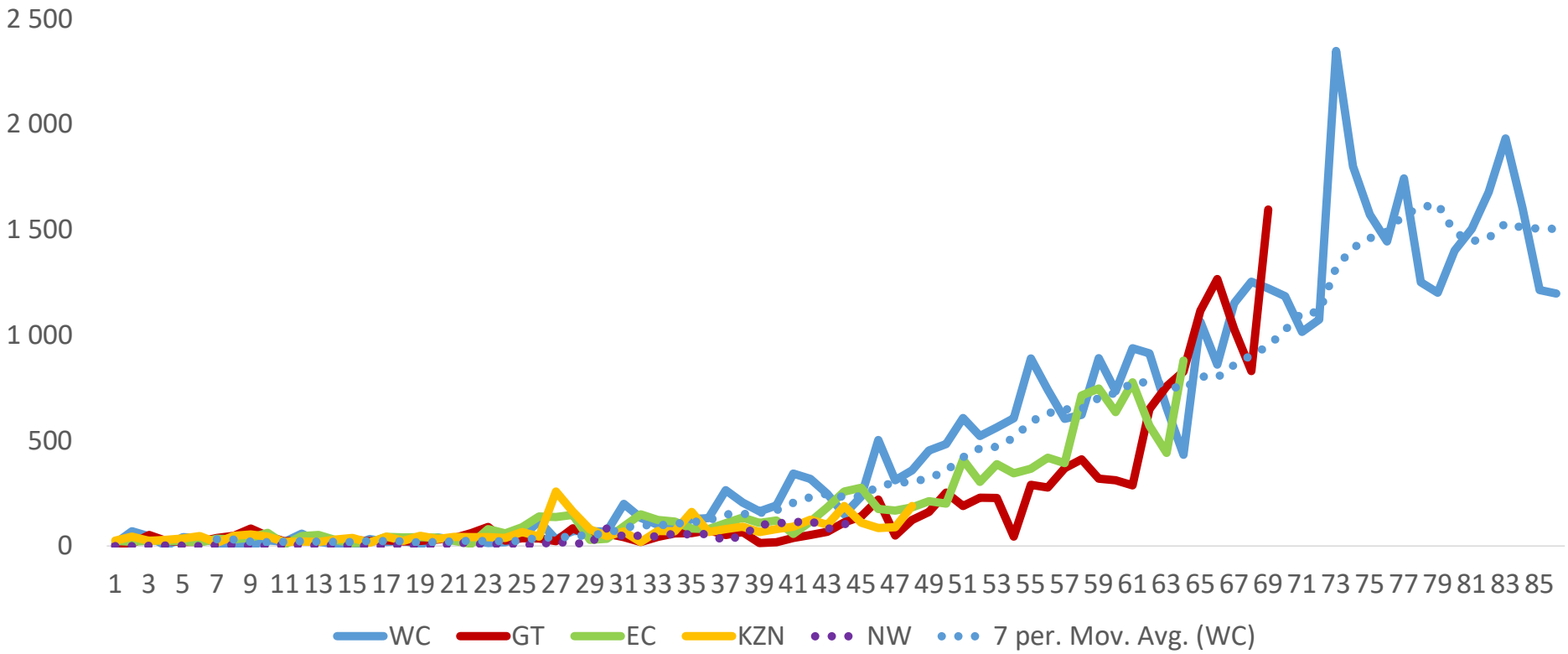
Process to navigate through the strategic COVID response for private medical practitioners

- Facilitated discussions included
  - Technical experts accessible through the PHF
  - Key representatives of medical practices
  - Major corporate bankers

South Africa: New cases by province – adjusted



COVID implications for the health system

- **There are substantial COLLATERAL AFFECTS resulting from the COVID pandemic for the health system**
  - Public sector finances are significantly compromised due to the lockdown and to the closing of businesses at high risk of transmitting the epidemic
  - Patient demand for non-COVID healthcare has dropped in both the public and private sectors
  - COVID demand for health services, particularly for critical care (HC and ICU), is likely to exceed public sector capacity, and may exceed private sector capacity
  - Private medical practices and related services are in financial distress arising from the way services are financed by medical schemes

The Pandemic has both direct effects (such as serious illness) and complex indirect effects (arising from government action and the self-preserving actions of society) which, although supposedly temporary, could result in long-term structural harm **if not addressed holistically**

Inter-dependencies

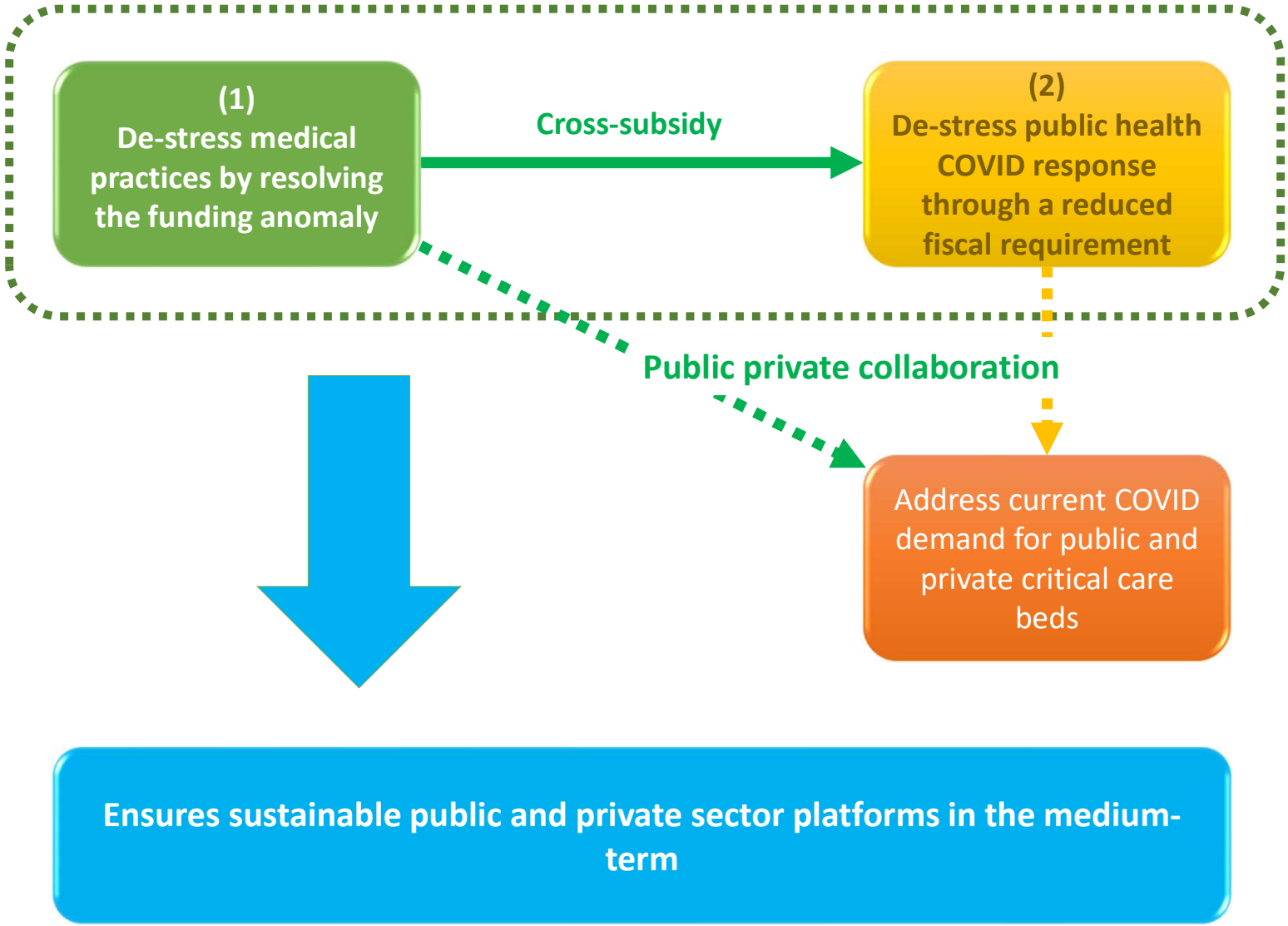
- Reduced public sector finances affect the ability of the public sector to contract for private sector COVID-related services – undermining a unified response
- Increased financial distress of private medical practices impacts on their ability to support public sector patients in the absence of adequate compensation
- The deferment of normal healthcare treatment will require a restored healthcare system as the COVID crisis tapers off, creating a medium-term problem that must be addressed with a functioning and resilient health system
- **BUT – the expected demand for critical care services for public and private COVID patients is immediate, urgent and CANNOT be postponed**

A holistic response to the immediate crisis requires that these three concerns are addressed simultaneously in such a way that the medium-term normalisation of the health system also becomes possible

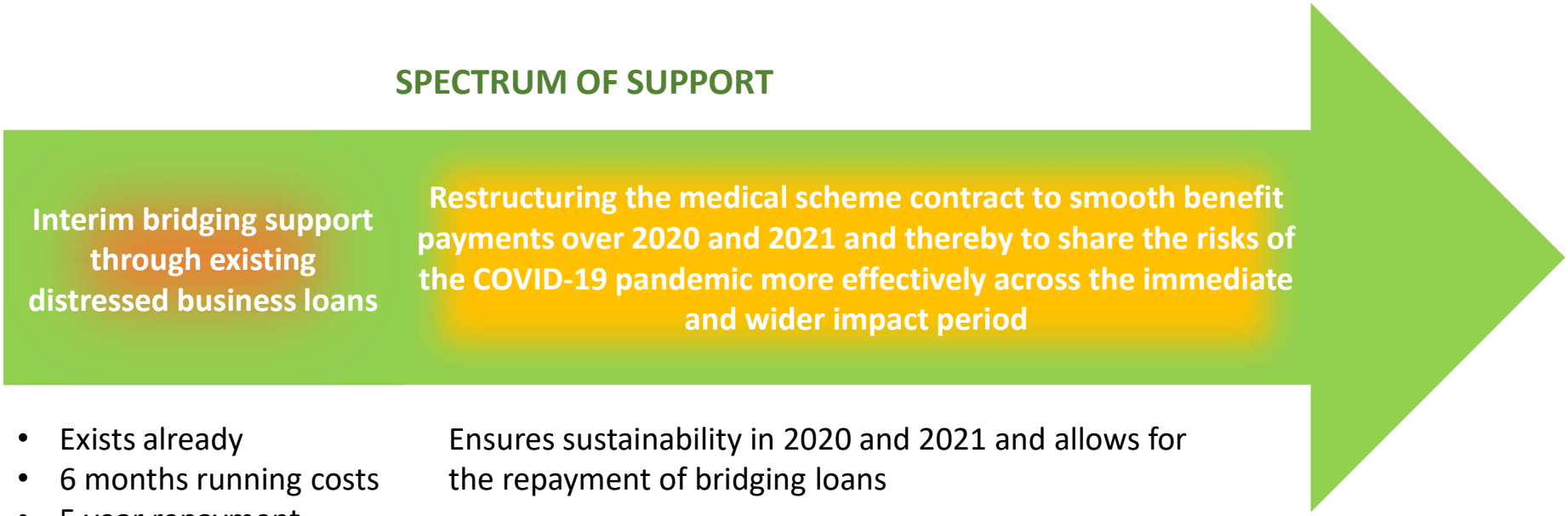
Contractual rigidities

- Private medical practices are presently in a state of distress largely due to a technical anomaly in how they are funded
  - While the budget for medical practices is effectively allocated to medical schemes (ex ante), the funding is only triggered when a service is rendered (ex post)
  - Essentially this is a contractual rigidity which has unforeseen and undesirable consequences within the current exceptional set of circumstances
- Medical schemes also face considerable uncertainty over the period 2020 and 2021
  - While they may accrue initial surpluses due to the reduced demand, it is not unreasonable to expect resurgent demand to run down these surpluses in due course
  - When this resurgence is combined with private demand for COVID-19 treatment, much of which will involve critical care, surpluses may become deficits
- Addressing a contractual rigidity requires little more than the mutually agreed introduction of flexibility
  - If achieved, medical practices would be in a strong position to support public sector efforts to manage the COVID-19 crisis
  - No financing is required from the public sector as the funds already reside in the private funding pools – which if not spent, will accrue as temporary surpluses – which may however translate ultimately into underwriting losses

STRATEGIC APPROACH



De-stressing private medical practices in 2020 and 2021



- Exists already
- 6 months running costs
- 5 year repayment
- Available to businesses that were profitable prior to COVID

Ensures sustainability in 2020 and 2021 and allows for the repayment of bridging loans

Framework for de-stressing private medical practices

- First, it is proposed that the reimbursement of medical practices be converted from full fee-for-service into a combination of capitation fee component, funded in advance on the basis of a monthly drawdown (referred to as the capitation fee), equivalent to 70% of historical experience, and fee-for-service for the remaining 30% of historical claims (referred to as the risk fee)
  - The 70% is seen as a measure to **core fund the basic overhead costs** of practices
  - The percentage is chosen at a level that seems reasonable to **accommodate a wide range of practice types**
  - The value of 30% is regarded as sufficient to **accommodate variable costs** associated with patient activities where these activities exceed 70% of historical claims experience
- Second, overall reimbursement would be capped (referred to as the global cap) at 100% of the 2019 activity experience (referred to as the base year) by medical practice, multiplied by the relevant price agreements reached for 2020 and 2021
  - The global cap could be adjusted for **declines in beneficiaries covered** (due to the COVID-19 economic decline)
  - For any within-year reconciliation, this adjustment should be **applied to the risk fee portion** rather than the cap fee
  - The cap fee would logically be adjusted if the **contribution revenue decline exceeds 30%** on an annualised basis

- Third, the global cap would apply to the full year (i.e. it would not be applied on a monthly-by-month basis)
  - In 2020 the cap can be designed to apply to the period from **1 April to 31 December** as the first three months could be considered normal
  - For 2021 the global cap would logically apply to the **full twelve months**
- Fourth, capitation payment, equivalent to 70% of demand in the base year, would be allocated as a fixed fee advance payment in anticipation of the delivery of benefits to medical scheme members

  This is consistent with the definition of a **capitation agreement** contained in regulation 15 to the Medical Schemes Act

  ""capitation agreement" means an arrangement entered into between a medical scheme and a person whereby the medical scheme pays to such person a pre-negotiated fixed fee in return for the delivery or arrangement for the delivery of specified benefits to some or all of the members of the medical scheme…" [Underline added]

- Fifth, the risk fee (i.e. the residual 30%) would be paid out for all claims in excess of the capitation fee
  - Medical practices would **continue to submit claims** as with normal fee-for-service
  - These claims would be offset against the capitation fees paid, with any residual claims paid out until the annual global cap is reached
- Sixth, while the arrangement works best with risk benefits, it is envisaged that medical, dental and related practices that derive their revenue substantially from medical savings accounts, would also be supported through this framework
  - Where appropriate, the capitation fee will be **recouped from a member's medical savings account** when a claim is submitted
- Seventh, medical practices must continue to provide services to members despite the capitation fee
  - **Service level agreements** may be considered by medical schemes to address this requirement
- Eighth, as a measure to protect the public, balance billing agreements and limits should form part of the framework

- Ninth, the annual price increase into 2021 should be fixed at the consumer price index
  - This is needed to minimize medical scheme contribution increases into 2021 due to the condition of the economy
  - While a conservative increase, it is proposed as a measure to manage uncertainty for members, funders and medical practices
  - It is expected that this conservative approach also be reflected in medical scheme contribution increases
- Tenth, for the framework to work for all, participation should be near universal for all medical practices
  - As all medical practices achieve a high degree of financial certainty out of this framework it is hoped that near complete participation will occur
  - It is unlikely that medical schemes will support the framework if there is a significant opt out of the agreement

Advantages of the framework

- The de-stressing framework has as its foremost outcome **the achievement of certainty for medical practitioners and medical schemes such that they can carry more risk in directly addressing the COVID-19 pandemic in collaboration with the public sector**
- These include:
  - First, medical practitioners are guaranteed minimum revenue for 2020 and 2021, with the opportunity to earn at least to levels consistent with 2019 without any need for government assistance
  - Second, medical schemes are insulated against any deferred demand surge in 2020 and 2021 and any COVID-related demand surge affecting medical scheme beneficiaries in 2020
  - Third, medical schemes are partially insulated against contribution revenue declines
  - Fourth, the de-stressed private health system is in a position to support and even cross-subsidise public COVID-19 patients when and where required
  - Fifth, no exemptions are required in terms of the Medical Schemes Act as all arrangements fall within the discretion of the contracting parties

Concluding remarks

- The proposals recognise that substantial unresolved issues remain within the private and public health systems that need to be addressed going forward – all parties are well aware of this
- The apparent narrow emphasis should be seen as solving a particular set of time-sensitive problems holistically that make it easier to address wider concerns – both in the short- and medium-term
  - Macro-fiscal – keeping the economy going
  - Risk mitigation to address a shock to the health system – demand and supply
  - De-risking the private health system so that it is positioned to cross-subsidise the public system