

- Health Economics basics
- **Your biggest Asset?**
- Budgeting – short & long term
- Understanding Options for private practice or public service
 - National Health Insurance
 - Challenges in private/public sector
 - Health Market Inquiry
 - **Entering private practice?**

- Interpretation of basic financial statements
- Business Sustainability/Resilience
- **Financial Planning**
 - Tax Efficiency
 - Investment Planning
 - Insurance
 - Retirement Planning



Health Economics basic ...

- **Science of scarce resources**
- Maximum value for money = clinical effectiveness + cost of service
- 'applied common sense'
- System of prioritization
 - Allocative efficiency (high risk patients; preventive medicine)
 - Technical efficiency
- **Importance of perspective**
 - limited budget
 - Societal – where indirect costs have to be included
 - Balance of costs and benefits
- **Uncertainty** ' evidence based medicine > healthcare outcomes
 - Limited experience/exposure
 - Where clinical evidence is lacking
 - Pharmaceutical studies – systematic reviews
 - Bias in decision making

What is your biggest asset?

Your ability to earn an income!!

Debt

Both a necessary evil & a valuable tool

Overall, try to limit

Consolidate into tax-deductible forms:

mortgages, home equity loans

Avoid credit card debt, auto loans, etc.

Err on the side of living modestly:

Avoid conspicuous consumption

THE CLASSIC physician pitfall!!

don't feel entitled, or allow your significant other to do so

Don't become "house poor", "car poor", etc.

Budgeting ... **common sense!**

- What do you do when you receive your pay cheque!
- You need to establish a budget so that you can live on your salary, and also accomplish some other financial planning objectives:
 - Pay off the credit cards, etc.
 - Accumulate a Rainy Day Fund
 - Save up a down payment for a new house
 - Start saving for retirement
 - Start repaying loans
 - Start saving for the kids' education
- Make and Stick to a Budget

Credit Cards ...



Public sector challenges

- Job Security
- Quality of Life
- Team atmosphere
- Organisational culture

- Economics of Power, Esteem and Property

Private sector challenges

- **Own boss** – not necessarily team culture
- Uncertainty - NHI
- Quality of Life
- Competitive landscape
- **Small business peculiarities**

National Health Insurance

- **The Core Objectives of the bill includes the Establishment of a central NHI Fund that aims to achieve:**
 - Consolidation of revenue streams from mandatory prepayment;
 - Be the Single purchaser and financier of healthcare services in the country;
 - Ensuring the sustainability of funding;
 - Equity;
 - Contracted service providers
- There would be Strategic purchasing for healthcare servicing – no tenders/ look into the field and who is providing that service/ credibility / ethics
- ***The Entry point is primary healthcare / patients should not be allowed to enter healthcare at other levels – clinics/GPs/ other levels; the phenomena of not going to GP first is only about 35 years and this act of bypassing the GP have raised the costs of healthcare to unsustainable levels***
- **Referral pathways?**

National Health Insurance

These Transitional arrangements, as described in section 54 of the NHI Bill, shall span 14 years and incorporate 3 phases:

- i. 2012 to 2017
 - ii. Current phase from 2018 to 2022 includes legislation
 - iii. Last phase from 2022 to 2026 includes the actual creation of the fund
-
- **What do the next few years hold in store?**
 - With NHI, the **DRG model** is going to be used at a hospital level rather than the current Fee for Service model with its artificially inflated pricing
 - For primary care, the **capitation model** is being mooted as the appropriate risk transfer model for community based care
 - The plan now to Implement several NHI projects whilst these Bills are being promulgated against which 4.1 Billion has been allocated by National Treasury

Private Sector Income Spread

- The history and subsequent court challenges to the RPL led to the NDOH setting up the Health Market Inquiry (HMI) to essentially test whether private healthcare is expensive or not, at certain levels and whether anti-competitive practices are affecting the market at various levels.
- Medical scheme expenditure trends shall in all likelihood continue to be the same with little impact of care interventions from administrators:
 - **35% of premiums to hospitals**
 - **25 % to specialists**
 - **8.5% to GPs**
 - **Unacceptably high non-healthcare expenditure**

Health Market Inquiry

- The National Development Plan as the backbone and precursor to the NHI, had established that there were *'deep seated' problems entrenched in the private healthcare industry* and that there was a need to solve the **exorbitant private health care costs at mainly the upstream private hospital and specialist level...corroborated by findings**
- **Competition Commission Issues – Financial and Non Financial ?**
- According to a 2014 World Health Organization (WHO), the total amount spent on healthcare in SA was 8.8% of the country's GDP. The difference from other countries is in the ratio of private spending on health versus government spending. In South Africa however, Private spending is 51.76% of the total amount spent with medical aids account for 82.8% of private healthcare spending, looking after just 16% of the population. Government spending is 48.24% (including funding of public hospitals and government medical workers)

Starting your own private practice ... 1

- Ideal step to set up own independent practice
- Improved personal care to patients
- Better esteem from ownership and accountability
- Freedom
- **Time management**
- Greater professional autonomy

- **Things to consider:**
 - the administrative burden of a small business
 - operational costs
 - hiring of resources/ right personnel
 - statutory registrations and obligations – HPCSA, local government, NDOH, SARS, waste management
 - Risk management including medical indemnity insurance

Starting your own private practice ... 2

- There is a lot of research and planning that goes into the opening of a private practice.
- Location – certificate of need?
- Medical scheme environment
- Business planning
 - viability completely independent practice, a partnership, or other
 - advice from other private practitioners.
 - Start up capital
 - Working capital
 - set-up costs, operation costs, personnel and other resources
- Legal: contracts – staff, medical scheme, ? DSP, supply chain, waste, support group
- Insurance – medical indemnity, sickness, dreaded disease, incapacity, life
- Practice management - A reliable service provider or PMA (practice management for medical billing)
- Support Groups – organised doctor groups – IPAs, SAMA

Starting your own private practice ... 3

- In process ...
- Office of Health Standards and Compliance
- Medical scheme consolidation despite proposed amendment of medical scheme bill 2018
- Limited focus on enhanced primary healthcare benefits
- Medical neighbourhood
 - Team based
 - Collegial referral pathways
 - Shift from walk in to disease management
 - Wide scope of service
- NHI – capitation pricing at primary care level/ risk transfer
- Dispensing licence
- CME > Maintenance of Licensure
- Anti competitive practices
- Disintermediation – other primary care practitioners

Trends to adapt to

- Medical schemes still being principal party
- Consumer Advocacy
- Steady increase in expectations of patient
- Chronic disease burden
- Family Practitioner – more organised and streamlined
 - Real time
 - Web based
 - Lower administration
- Balance of clinical and financial risk
 - Predictive modelling to control upstream costs
 - Series of direct and indirect incentives and disincentives
 - Benefit design
 - Referral processes
- Integrated care model

Regulatory Trends - HPCSA concerns

- Confidentiality of information
- Financial consent
- Accountability of providers
- Role of optimal care protocols / professional autonomy
- Perverse arrangements
- Requirements for contracts
- Supersession of Care
- Designated Service Provider Arrangements
- Maintenance of Licensure / Accreditation of providers
- Financial incentives to providers
- Storage of Information – record keeping
- Fraud and Abuse

- Interpretation of basic financial statements
- Business Sustainability/Resilience
- **Financial Planning**
 - Tax Efficiency
 - Investment Planning
 - Insurance
 - Retirement Planning

ACCOUNTING OVERVIEW

- Accounting is the language of business.
- Corporations need to communicate their results to the world.
- Range of interested stakeholders
 - **Accounting Rules (GAAP)**
 - **Accounting Concepts**
 - **The Financial Statements**
 - **Ratio Analysis**
 - **Managerial Accounting**

How the
beans are
being
counted

Mapping your journey

Financial
Statements
?

Cash Basis
Versus
Accrual
Accounting

Transaction
Definition and
Objectivity

Accounting
Conservatism
and Historical
Costs

Going Concern

Consistency
Materiality

The
Doctor
...

...

3 major financial statements

Financial statements are the final product of the accounting function.

Cash Flow Statement

Income Statement

Balance Sheet

Cash

- Working Capital
- "Cash is King"

Income

- "flow" of activity and transactions over a specific "period" of time.

Balance Sheet Statement at a specific date of assets, liabilities and ownersequity

- presents the assets owned by a company, the liabilities owed to others, and the accumulated investment of its ownets

BALANCE SHEET

Foundation for all accounting records

- The Fundamental Accounting Equation
 - As the name implies, the balance sheet is a “balance” sheet. The Fundamental equation that rules over accounting balance is:
 - Assets (A) = Liabilities (L) + Owners’ Equity (OE)
- Examples of the ‘Balancing Act’
- The Accounting Process: The Double Entry System
 - Journal entries in their books to record each of a business individual transactions
 - Accountants call their books the general ledger

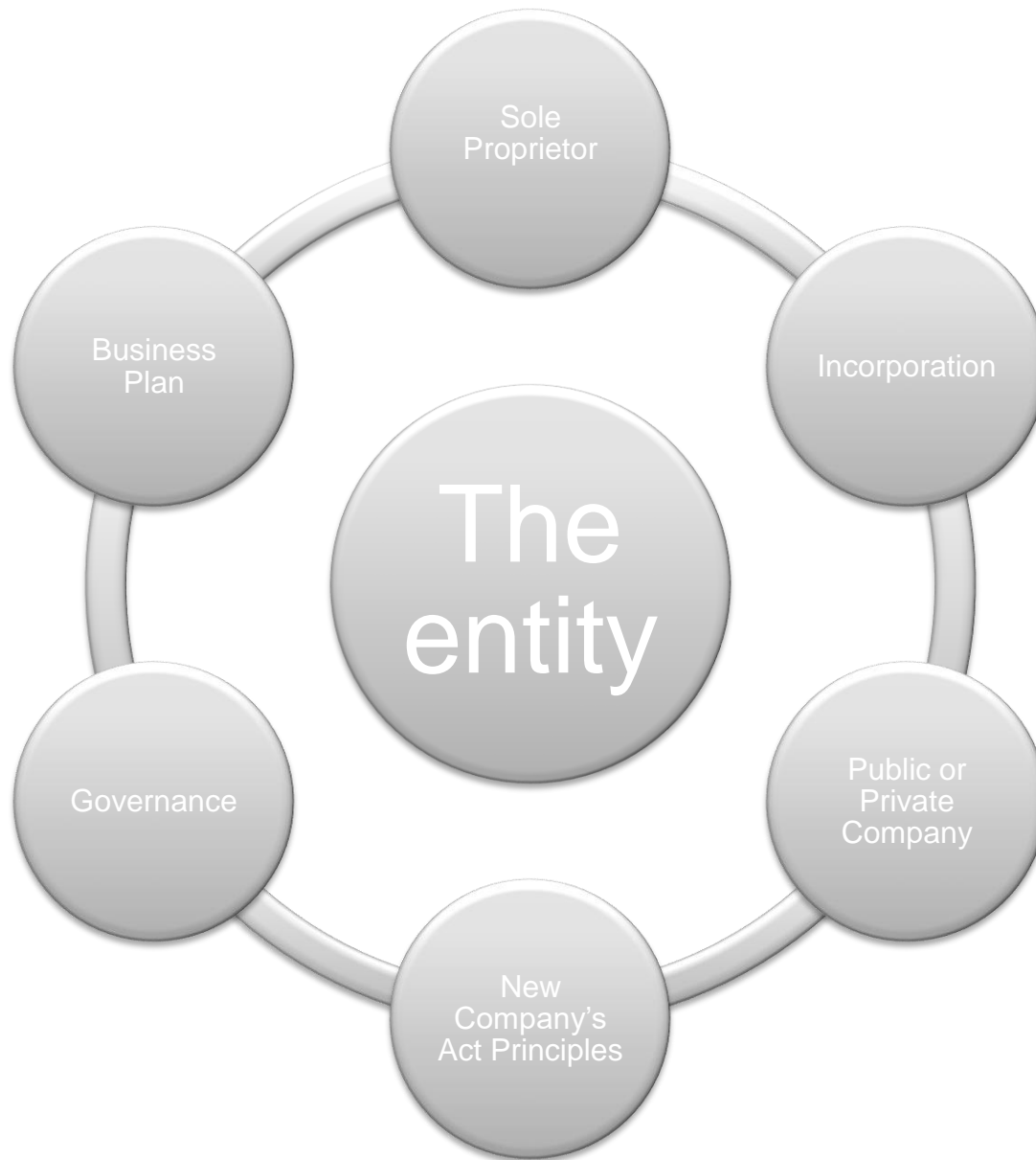
The Inc Practice Balance Sheet

Assets

Non-current Assets	
	Goodwill
	Equipment
	Stock
	Vehicles
Current Assets	
	Cash in Bank
	Customer Control Account

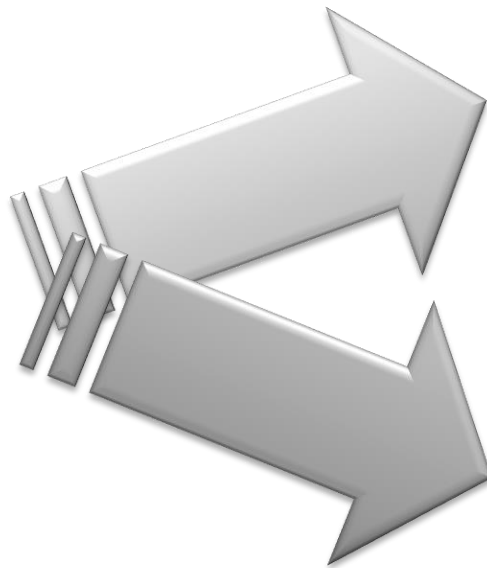
Equity and Liabilities

Capital and Reserves	
Issued Capital	
Retained Income	
	Accumulated Funds / (Deficit)
	Net Profit/Loss this year
Non-current Liabilities	
	Shareholders Loan
	Capital Account
	Drawings Account
Current Liabilities	
	Bank overdraft
	Supplier Control Account
	Taxation



Risk Management

Manage the
risk



Controllable

Career choices,
budgeting, work ethic,
life choices and
decisions /
strategies

Uncontrollable

Sickness, Injury,
Disability,
Incapacity,
Death

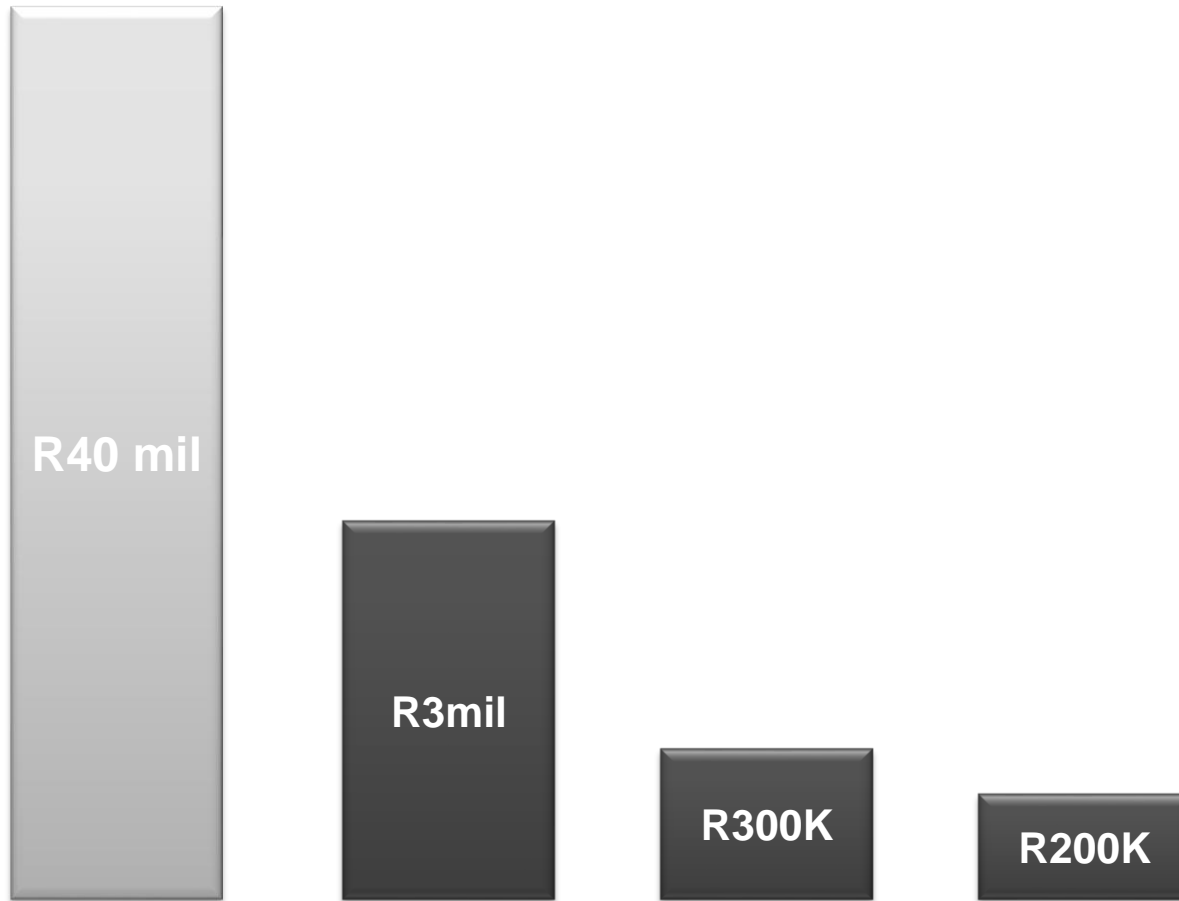
Risk Management

Manage the
risk

**Insurance is a tool
for managing these
uncontrollable risks**

Uncontrollable
Sickness, Injury,
Disability,
Incapacity,
Death

Your Future Earning Power



What can go wrong?

Short term Risks “off the field”

Sickness
(Loss of earnings)

Dread Disease

Medical Aid

Short term Insurance

Long term Risks “out of the game”

Income Protection
(Permanent loss of earning power)

Disability

Retirement

Death

The 5 Risk Protection Products that Professionals need!

Sickness cover

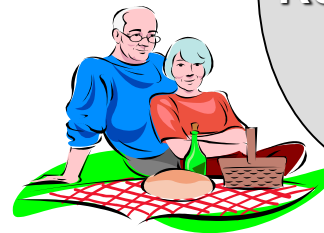
Income Protection

Permanent Disability

Dread Disease

Retirement

Death



Insurance benefits

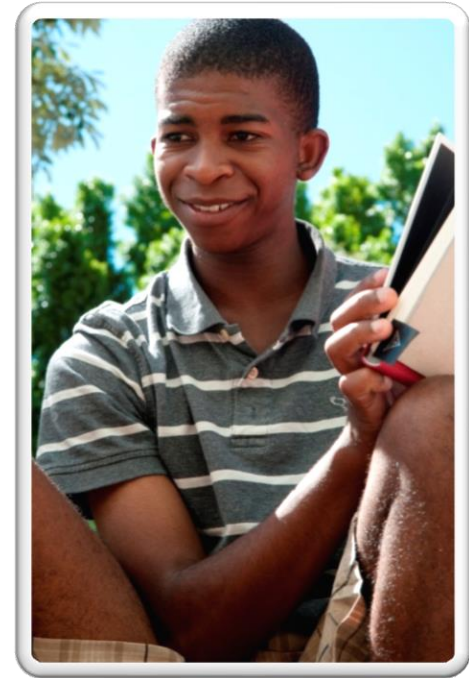
- Sickness Benefit
 - If you cannot work due to Sickness – pays income for 24 months
 - Proof of lost income
 - benefits tax-free
- Income Protection
 - Long term inability to practice profession
 - which means lost income
 - Pays lost income
 - **No longer Tax deductible premium**
- Disability: Lump Sum
 - Pays a Lump Sum, tax free
 - Paid as soon as declared Permanently Disabled (NB – watch out for definitions!)
 -

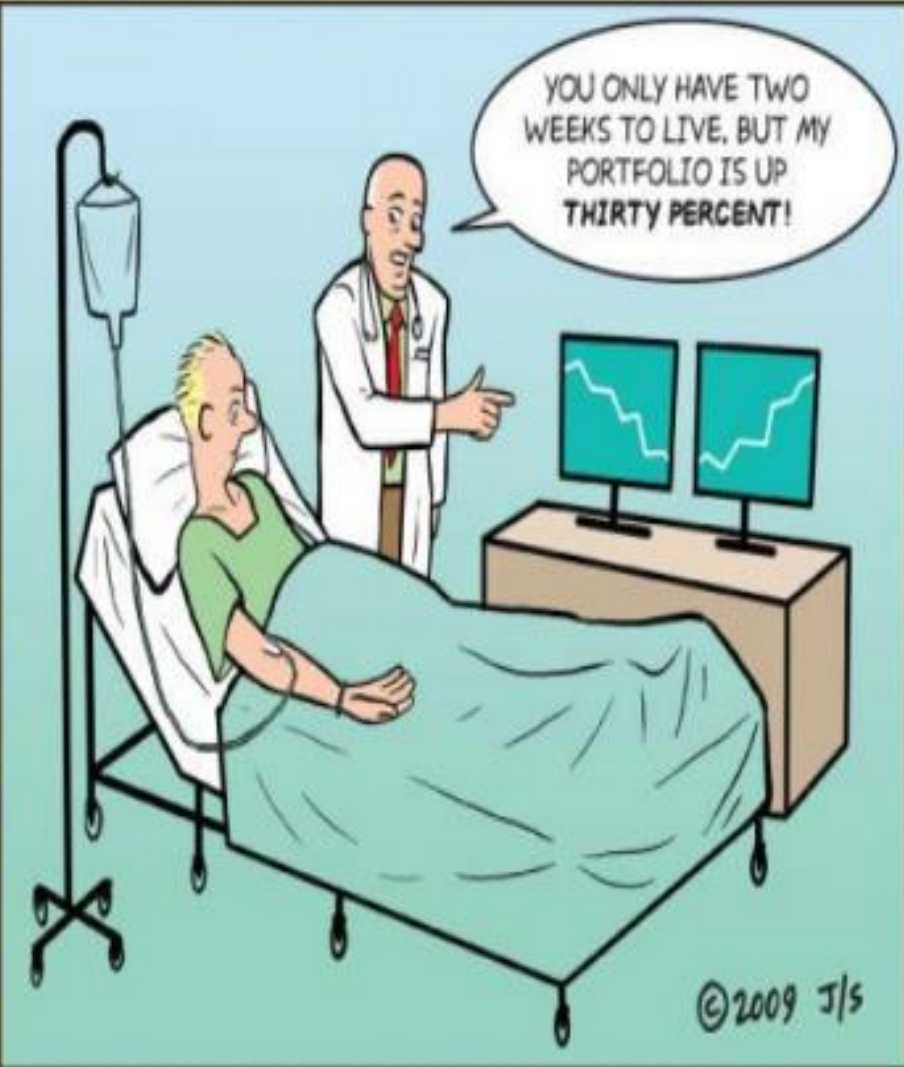
Insurance benefits c/o

- Dread Disease and Trauma Cover
- The Purpose – to provide a lump sum of money, tax free to you, for use to ...
 - Pays a Lump Sum, tax free
 - Paid as soon as declared Permanently Disabled (NB – watch out for definitions!)
- Death/Life Cover
 - The Purpose – to provide income for surviving spouse and dependants and to pay off all debt
 - Provision for maintenance of family - income
 - Lump Sum paid at Death to nominated beneficiary
 - spouse, children, business partners, **estate**
 - Security – required by Banks
 - Property/mortgages
 - Loans – to buy practice equipment
 - Debt – surety, guarantees

Financial Planning : **How to sabotage your financial future?**

- **Don't plan**
- **Don't communicate**
- **Procrastinate – delay saving**
- **Assume bad things won't happen**
- **Don't diversify your personal finances**
- **Chase the market**
- **Try to do it yourself**





YOU ONLY HAVE TWO
WEEKS TO LIVE, BUT MY
PORTFOLIO IS UP
THIRTY PERCENT!

Investment Planning

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The Pyramid Approach to Financial Planning

**Nice to Do
(Greater Wealth Potential)**

**Aggressive
Investments**

Speculative
Investments

**Should Do
(Strive to Beat Inflation)**

**Wealth
Accumulation**

J. Strong Growth
Investments

I. Conservative Retirement
Investments

**Must Do
(Save for
Opportunities)**

**Capital
Accumulation**

H. College Education Funding

G. Savings (3-6 Mos.), Vacations, Etc..

F. Home Ownership

**Absolutely
Necessary
(Survival)**

**Risk
Management**

Insure the "What If's"

A. Medical Coverage B. Disability Insurance C. Life Insurance
D. Auto/Homeowners/Liability E. Emergency Cash Fund
F. Debt Management G. Early Retirement Planning H. Estate Planning

The power of compound interest?

“Compound interest is the 8th
wonder of the world”

-- Albert Einstein -

Savings

- Various options
 - Short, medium and long term
- Different vehicles for different needs
- Your risk profile
- Diversification

- Need easy access, liquidity, short term
- Low Risk – but therefore low return

Savings Vehicles

- Use INTEREST BEARING instruments or accounts
 - Banks
 - Bonds
 - Money Market Funds
- Endowment policies – min 5 years

INVESTMENTS

- MEDIUM TERM

- Unit Trusts – moderate investment mandates etc
- Specialised Funds and Multi Managed Funds
- Endowment Policies

- LONG TERM

- Equity Market – direct investment into securities
- Unit Trusts – aggressive mandates
- Property – either direct or Property Funds
- Specialised Funds and Multi Managed Funds



Rationale for Planning Retirement

RETIREMENT INVESTMENT STRATEGY (CONT'D)

How Much Money is Needed?

- ✘ 50% -100% or more of pre-retirement income?
- ✘ No “one size fits all” answer
- ✘ Amount needed depends on:
 - ✘ Age at retirement
 - ✘ Health status and life expectancy
 - ✘ Goals (e.g., travel, hobbies, work after retirement)
 - ✘ Lifestyle decisions (e.g., choice of area and housing)
 - ✘ Available resources (e.g., retiree health benefits)

5 key Variables

- ✘ Age at retirement
- ✘ Current love of investments
- ✘ Amount of annual income needed
- ✘ Rate of return on investments
- ✘ Number of years in retirement

RATIONALE FOR PLANNING RETIREMENT

- + Retirement is inevitable
- + The major reason for working is to be able to provide for when one stops working
- + Any one who does not plan, plans to fail
- + Demographic studies in the last decade indicates an increasing life expectancy leading to progressive ageing and increase in longevity
- + Though longevity is desirable there is the risk is that the individual might outlive his financial capacity to maintain himself and his dependants.

AGE GROUPING AND RETIREMENT PLANNING

Attitude towards retirement is generally influenced by age and circumstance at the point in time

× **Under 30yrs**

- ★ Generally unconcerned about pensions and retirement. Enjoying financial freedom. More concerned with career opportunities. This usually results to loss of great opportunity to plan for a secure future.

× **Mid 30s and Late 40s**

- ★ Have inherent responsibilities including providing for children's upkeep/ education
- ★ Need to maintain lifestyle, while striving to improve standard of living.
- ★ Involved in various ventures and often diversifies their investments to strengthen their financials.
- ★ Stage most people tend to acquire own houses through mortgage or company financed scheme.

AGE GROUPING AND RETIREMENT PLANNING (CONT'D)

× **Between 50 to 60 yrs**

- * Full realization that time is running out
- * For those at the top of their careers – feel a sense of achievement
- * For others who may not have been so lucky, retirement becomes priority.
- * Questions are raised about quantum of retirement package as well as security of the benefits, if any.

× **65 & Above**

- * The expectation is that the consolidated returns from various sources of are likely to fully support your lifestyle.
- * Doctors are often still able to engage in other gainful employment (full time or part-time basis).
- * As one ages, a critical area of concern is managing retirement resources
- * Unfortunately, some of those who leave employment at age 60 find it difficult to cope financially.

SOURCES OF RETIREMENT INCOME (CONT'D)

- × **Part Time Employment**

- ★ Consultancy
- ★ Research
- ★ Teaching

- × **Business Ventures**

- ★ Private Practice

KEEP BUSY AND HEALTHY



"What fits your busy schedule better, exercising one hour a day or being dead 24 hours a day?"

- * Seek a part time vocation.
- * Active religious and social work usually attracting no monetary reward.
- * Research study, Consultancy on retirement – up to 50% of income generated by retirees can come from part-time employment and over half of the percentage is from those that are self employed.
- * Keep healthy. This affects the quality of life you wish to live.