



Health Savings

IAI conference
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Agenda

Need for health savings

International examples

Indian market status

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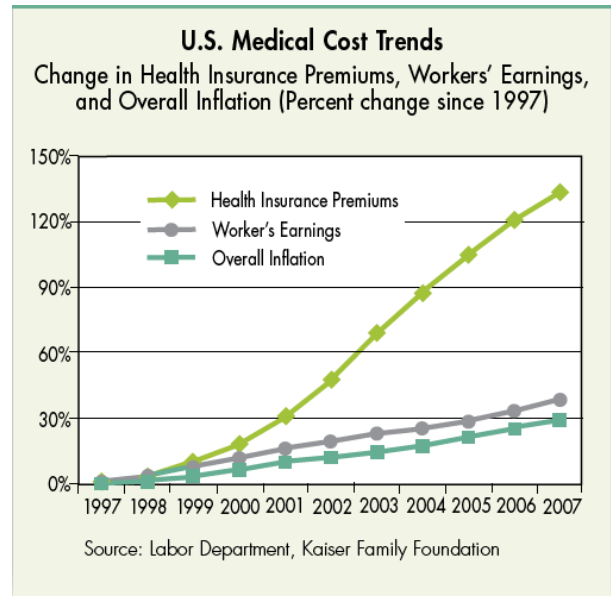
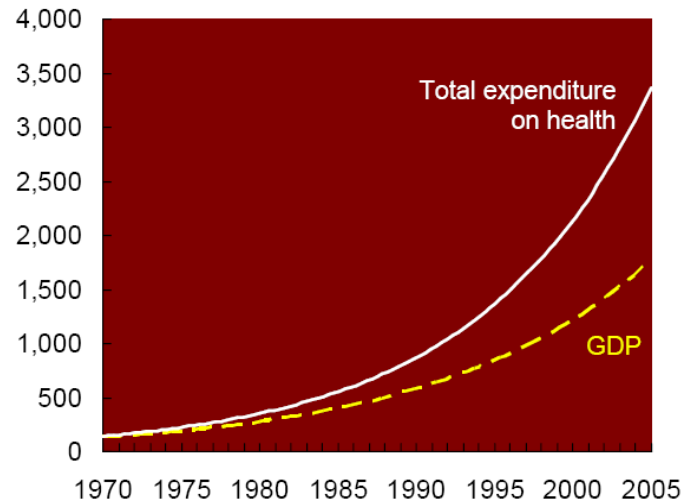
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Experience of developed markets

OECD countries, indexed (1970=100)



- **Developed markets facing escalating costs**
- **Health expenditure increasing at faster rate than GDP and workers' earnings**
- **Higher spends not correlated to outcomes**

Factors for the rising trend

Issue	Cause
Extensive coverage & over-utilization	<ul style="list-style-type: none">● Belief that more care is better● Consumer isolated from cost of healthcare as either insurance or govt. pays● Provider payouts not designed to incentivize efficient utilization
Lack of focus on preventive care	<ul style="list-style-type: none">● Inadequate consumer awareness about impact of lifestyle diseases● No incentive for consumers to manage health

Sustainable financing

Mechanisms

Wealth Transfer

Insurance

Savings

Appropriate Coverage

- For those without sufficient savings or insurance
- Needed to finance minimum basic healthcare benefits
- **Medicaid in USA, Medifund in Singapore**
- Coverage for Unpredictable illness & injury
- Premiums - based on factors affecting the risk
- **High Deductible Plans, Defined Benefit Plans**

- Care items not covered and out of pocket expenses
- Chronic care as treatments, medicines are repetitive
- End-of-life and terminal illness care
- **Medisave account in Singapore, Health Savings Account in USA and South Africa**



L I F E I N S U R A N C E

Role of savings in healthcare financing

- **Motivates judicious use of health care without sacrificing care**
- **Reduces moral hazard as consumer is spending “his” money**
- **Ideal vehicle for funding non-catastrophic, discretionary and high frequency medical needs**
- **Ideal for managing chronic diseases as treatments are repetitive, requiring the same procedures, visits and/or medicines allowing consumers to make rational choices**
- **Builds a kitty to cope with the regular and high health expenses during old age**

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Singapore's healthcare financing

- Financing philosophy is based on individual responsibility and community support
- Patients are expected to co-pay part of their medical expenses and to pay more when they demand a higher level of service.
- Government subsidies help to keep basic healthcare affordable
- Financing framework consists of Medisave, MediShield, Medisave-Approved Integrated Shield Plans and Medifund

Singapore 3 M Model

Scheme	Characteristics
Medisave	<ul style="list-style-type: none"> ● Tax exempt compulsory savings scheme to primarily fund hospitalization ● Balance in account earns interest
Medishield	<ul style="list-style-type: none"> ● Voluntary low cost catastrophic medical insurance ● Can be used for B2/C wards ● Has deductible & co-insurance features
Integrated Shield plans	<ul style="list-style-type: none"> ● Voluntary cover for higher insurance coverage in A/B1 wards or private hospitals
Medifund	<ul style="list-style-type: none"> ● Government funded endowment as safety net for needy Singaporeans

Singapore: Medisave

- 7-9.5% of their income credited to the Medisave fund out of their CPF savings
- Contribution is tax-free and earns tax-free interest
- Medisave funds can be used for your own or your immediate family's
 - In-patient hospitalization & treatment
 - Specified out-patient treatment
 - Pay premium of high deductible insurance
- Limits on withdrawal from Medisave



USA: Health Savings Account

- HSAs was signed into law on December 8, 2003.
- HSA is a tax-advantaged savings account for those enrolled in a high-deductible health plan
- No income tax at the time of deposit
 - Limits are \$3,100 for individual & \$6,250 for a family.
- Investment earnings are sheltered from taxation
- Funds roll over and accumulate, if not spent
- Employee and employer contributions possible
- Portability of savings account
- Can be withdrawn for qualified medical expenses without tax liability
 - OTC medications only with a doctor's prescription

S Africa: Medical Savings Account

- **First launched by Discovery Health in 1994**
- **Plan design left to market**
- **MSA comes bundled with an insurance plan with flexible deductibles**
- **Flexibility of deductible a key feature**
 - **No deductible for most hospital procedures as patients exercise less discretion**
 - **Drugs for diabetes, asthma and other chronic diseases have no deductible as skipping these drugs might cause more expensive complications**
 - **Outpatient expenses and most drugs have high deductible due to high patient discretion**

Criticism

- **Effect of putting more onus on the consumer is to reduce the social redistributive element of insurance**
- **Adults in high-deductible health plans are far more likely to delay or avoid getting needed care, or to skip medications, because of the cost.**
 - **Problems are particularly pronounced among those with poorer health or lower incomes.**

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- **Growing health premiums, ~ Rs 11,400 cr***
- **3 main segments of the private insurance market**
 - **Cover provided by large employers**
 - **RSBY (26mn cards) & other government schemes**
 - **Voluntary cover ~13.8 mn policies**
- **Most Indians are self employed or work in SMEs**
- **More than 2/3 of health spends are out of pocket**
- **Increasing number of elderly with no kind of health cover post retirement**
- **Increasing lifestyle diseases, need to encourage some kind of financing mechanism for preventive care**

How can HSAs help improve access

- **Indian customers prefer savings plus insurance solutions**
- **Attractive option for the young and the healthy, as they have low healthcare expenses, and can fully utilise 80D limit and accumulate funds in HSA**
- **Can be use as a pre-funding mechanism to meet future healthcare needs or fund insurance premium post retirement**
- **“Wider reimbursement” usually more attractive to customers**
- **May provide more incentive to distribution due to higher ticket size**

Developments in the market

- Bhavisya Arogya
- Hospitalization plus OPD benefit offered by GI COS
 - Few plans allow carry forward of the un-utilized OPD benefit
- ULIP based health plans
 - 4 products in the market, 2 of which have an in-built indemnity cover
 - Allow monies after netting of morbidity and other charges to be accumulated to meet future health expenses/ expenses not covered by risk cover

Issues

- **Tax**
 - Limited tax breaks
 - For 80D, the fund needs to be used only for health claims, however surrender value is mandated for most products of life companies as per regulations
- **Flexibility**
 - ULIP health plan can allow withdrawals only after 5 years
 - Need for increasing cover with medical inflation
 - Portability to surviving family members
- **Sustainability**
 - Review of terms & conditions with evolving market conditions

What can different stakeholders do ?

- **Government**
 - Tax breaks could be increased to allow people to accumulate more monies during earning years
 - May warrant a special tax exemption
 - Allow PF money to be allocated for HSAs
- **Industry**
 - Create more products to cater to
 - Different customer segments
 - Evolving customer needs
 - More awareness campaigns
- **Regulator**
 - Encourage innovation in product design to improve coverage

Thank You



Singapore CPF contributions

Employee Age (Years)	Contribution Rate (for monthly wages exceeding \$1,500)			Credited into		
	Contribution by Employer	Contribution by Employee	Total Contribution	Ordinary Account	Special Account	Medisave Account
35 & below	16	20	36	23	6	7
Above 35-45	16	20	36	21	7	8
Above 45-50	16	20	36	19	8	9
Above 50-55	12	18	30	13	8	9
Above 55-60	9	12.5	21.5	11.5	1	9
Above 60-65	6.5	7.5	14	3.5	1	9.5
Above 65	6.5	5	11.5	1	1	9.5



Bhavishya Arogya

- **Objective:** To take care of medical expenses needs of persons in their old age
- **Age at Entry:** 25 to 55 Yrs
- **PPT:** From age at entry to retirement age
- **Health savings plan for post retiral benefits**
- **Coverage:**
 - Hospitalization and domiciliary hospitalization
 - Commencing from the Policy Retirement Age
- **Cover :** Lifetime limit of Rs 50,000 – Rs 5,00,000
 - Per claim sub limit of Rs 20,000
- **Refund of premium:** Upon death or Voluntary withdrawal

