



HealthMan

REPORT TO THE DEPARTMENT OF HEALTH
SUBMISSION IN TERMS OF NATIONAL HEALTH ACT 61
of 2003, REGULATION 681 of 23 JULY 2007 and
GENERAL NOTICE 72 of 22 JANUARY 2009

PSYCHOLOGY

17 APRIL 2009

SUBMISSION IN TERMS OF NATIONAL HEALTH ACT (ACT 61 OF 2003)

Psychological Society of South Africa

1. INTRODUCTION

1.1 Background

The Psychological Society of South Africa (PsySSA) has appointed Health Management and Networking Services (HealthMan) to conduct practice cost surveys that will determine appropriate benchmark tariffs for recommended inclusion in the Reference Price List 2010.

This follows the publication of regulations relating to the obtainment of information and the processes of determination and publication of reference price list in terms of the National Health Act 2003¹.

1.2 Database of Psychology

The Psychological Society of South Africa (PsySSA) represents the psychology profession. Its database, as provided to HealthMan, includes the email addresses of 542 full-time practitioners. It is not specified whether these are in private practice or not. A subsequent database obtained from Discovery Health lists 2913 psychologists. E-mail contact details of approximately 2273 of these practitioners were obtained and were contacted for the purpose of the RPL 2010 cost studies. The DoH Notice 4 lists 4270 registered Psychologists and 2992 active practices.

An analysis of the Discovery Health Claims Database indicates that 1751 Psychologists claim 95% of the total claims. We have assumed this number to be the full time practitioners in terms of our submission and have used it for our sample calculation.

1.3 Psychology defined – academic training

The minimum requirements for registration as a psychologist are –

- an accredited Masters degree in one the of the following registration categories:
 - clinical psychology
 - counselling psychology
 - educational psychology
 - industrial psychology
 - research psychology

¹ See Government Gazette 30110 of 23 July 2007 and General Notice 72 of 22 January 2009

- successful completion of an approved internship of 12 month's duration;
- successful completion of the National Examination of the Board. (Candidates are required to obtain a minimum of 70% in the examination.)

Many psychologists further their education by completing a PhD in a specific area of specialisation.

The following professions are registered under the auspices of the Professional Board for Psychology, namely:

- Psychologists
- Intern Psychologists
- Student Psychologists
- Registered Counsellors
- Psychometrists
- Psychotechnicians

There are five categories of registration in psychology, i.e. Clinical, Counselling, Educational, Industrial and Research Psychology. A total of 8 779 professionals are currently registered with the Board.

1.4 Scope of Practice

Clinical psychologists assess, diagnose, and intervene in order to alleviate or contain relatively serious forms of psychological distress and psychopathology, or what is commonly referred to as "abnormal" behaviour.

Counselling psychologists assist relatively well-adjusted people in dealing with normal problems of life concerning all stages and aspects of a person's existence in order to facilitate desirable psychological adjustment, growth, and maturity.

Educational psychologists assess, diagnose and intervene in order to facilitate the psychological adjustment and development of children and adolescents within the contexts of family, school, social or peer groups and communities.

Industrial psychologists apply the principles of psychology to issues related to the work situation of relatively well-adjusted adults in order to optimise individual, group and organisational well-being and effectiveness.

Research psychologists address any of the above professional categories, not to render services to the public in that field, but to apply research methods and techniques in order to contribute to the knowledge base of that particular field.

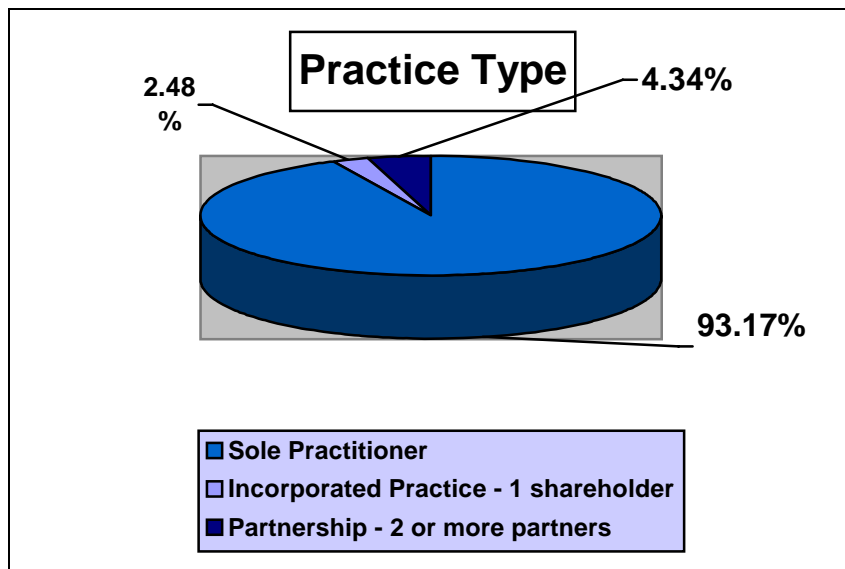
1.5 Type of Practice

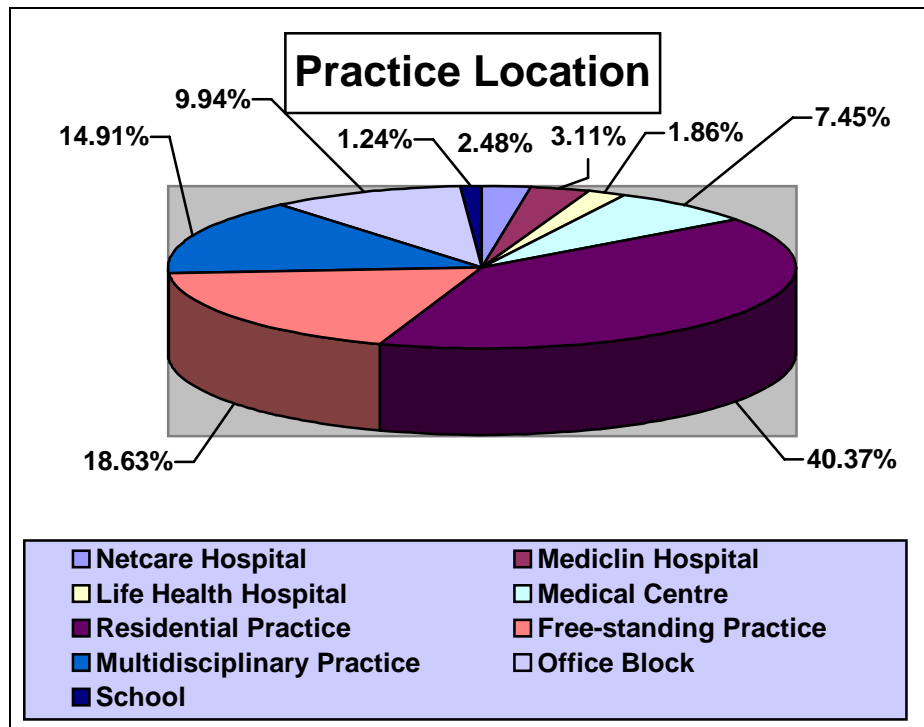
In general psychologists practice as sole practitioners for their own account (93.17%). A further 2.48% describe their practices as “incorporated with one shareholder” while only 4.34% of psychologists practice in partnership.

In addition, only 16.46% of respondents reported sharing overhead expenses with another practitioner while 10.83% admit to employing other psychologists.

More than half of the sampled practitioners (60.24%) do not practice from hospital premises or a multi-disciplinary medical environment (working instead from residential, free-standing or commercial park-based practices).

This data was obtained from a high-level survey that HealthMan conducted, as set out in Section 2 of this report and included as an Appendix.





2. REVIEW METHODOLOGY

In carrying out our mandate, we followed the following methodology:

2.1 Scope of Private Practice Review

Obtained high level practice data from 163 independent practices across the country. The objective thereof was to understand the various business models and to identify some key areas on which to carry out further reviews. The responses were as follows:

Gauteng	78
Western Cape	36
KwaZulu-Natal	16
Free State	8
Eastern Cape	14
North West	3
Other	8
Total	163

2.2 Financial Data Review

Circulated requests for detailed financial information and received the following responses:

Gauteng	83
Western Cape	29
KwaZulu-Natal	17
Free State	7

North West	2
Eastern Cape	12
Other	10
Total	160

* Reviewed the detailed financial information of these 160 practices. The average details from these practices were used to establish the average costs as recorded in the overhead schedules and to determine the confidence interval level.

- 2.3 Analysed the data received and compiled a pro-forma costing model for a standard psychology practice. The pertinent data was then transcribed into the prescribed format outlined in Regulation 681 of 23 July 2007 (Regulations Relating to the Obtainment of Information and the Process of Determination and Publication of Reference Price Lists) and further elaborated in General Notice 72 of 22 January 2009. Our approach to the RPL methodology has been set out in paragraph 3 below.
- 2.4 The formula included in the worksheets in DoH Notice 3 indicates that the required sample size for Psychology is 162. Our submission includes a sample of 160 practices resulting in a tolerance level of 10.07%. We believe the sample size to be adequate and in compliance with the regulations.

3. APPLICATION OF REGULATION 681 of 23 JULY 2007 and GENERAL NOTICE 190 of 04 FEBRUARY 2008

3.1 Parameters

Standard Volume for Overheads

We have not applied the standard volume at 90 090 minutes. We believe that the overhead allocation should be based on the adjusted standard volume for labour as this is the labour volume that generates revenue. We believe that the assumption that practitioners employ locums during sick-leave and holiday periods is not correct. In our experience and given the inconsistency in reported payment to locums we suspect that referrals are the preferred method of dealing with patients during these downtimes.

This approach was confirmed at a meeting held between DoH, PsySSA and HealthMan on 22 September 2008. The DoH attendees included dr Anban Pillay and Mr Siyabonga Jikwana. PsySSA was represented by dr Ian Opperman and dr Satch Cooper.

This of course means that overhead expenses cannot be recouped at the prescribed standard volume rate. We have interrogated all reported locum payments and the

circumstances under which these were made with a view to reducing them ultimately to zero.

We have not recorded any expenditure for locum services and therefore calculate the overhead RCF over 79290 minutes.

Income Tax Rates

We have utilised a Marginal Tax Rate of 28.86% based on an annual income of R472 758.

Prime Overdraft Rate

Taken at 13%.

Risk Provision

Since the cost to set up a practice is not prohibitive, we retained the risk free bankers' acceptance rate at 8.64%. We do however feel that a risk provision is required but will address this aspect in future submissions as well as in a separate HealthMan submission dealing with various aspects pertaining to the RPL process.

CPIX adjustment to Overheads

The results obtained from respondents generally pertain to the financial years ending February 2007 and February 2008. The model, however, does not allow for a mix of costs between two years. We have, therefore, followed a conservative approach and assumed all 2007 data to be at 2008 values, without making a CPIX adjustment for 2007.

Most financial data is based on February year ends, it therefore is not correct to use 8.71% as the CPIX to bring 2008 data to a 2009 value. CPIX for 2008 was 11.3%. The 8.71% relates to the period 1 July 2007 to 30 June 2008, and not January 2009 to June 2009 as indicated in the parameters.

3.2 Labour

Direct Labour

We have utilised a direct labour remuneration for a Psychologist at a level of R472 758 per annum cost to practice. This amount is based on a level 12 DPSA salary level (top notch). We believe this level of remuneration to be fair and market related after considering the following facts:

- Risk assumed by the proprietor in setting up a private practice
- Minimum of 7 to 12 years academic training (7 years for an accredited Masters degree, including completion of 1 year internship, a further 3 to 5 years for a PhD)
- Equivalence to a DPSA level 12 position for Department of Health. We have used the topnotch.
- Resource scarcity in South Africa.

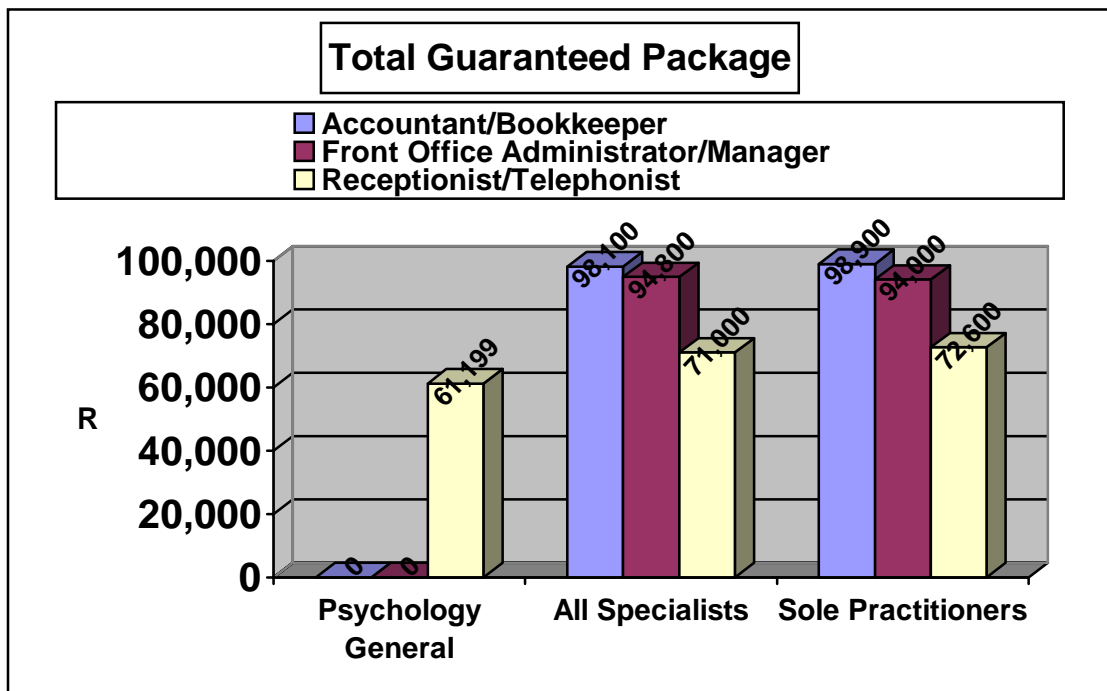
- Discipline maturity (38% of psychologist as per our Scope of Private Practice review have been in private practice for more than 11 years).
- Remuneration should at least be on par with that of a General Practitioner.

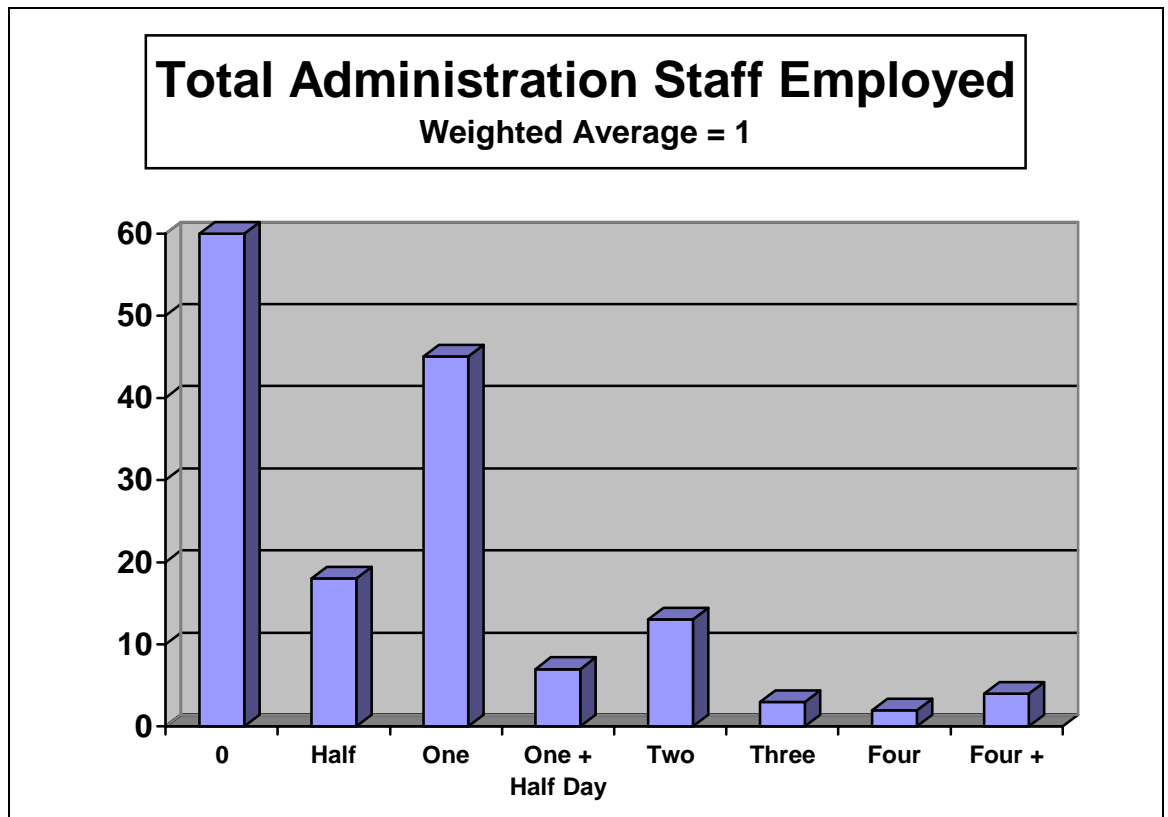
Direct Labour Productivity

For purposes of our submission we have retained a productivity percentage of 75%. However we believe a productivity factor of 62.5% is more realistic. This lower productivity factor ratio follows on the results of our survey, discussions with practitioners and with the PsySSA executive. Non-billable time is spent on discussing patient care with nursing staff and referring doctors, commuting between practice and psychiatric hospitals, and time spent on writing reports and additional motivations dealing with patient care. Excluding practice administration, at least three hours a day are taken up on non-billable time.

Indirect Labour

Indirect labour refers to ancillary employees, which in psychology practices is generally limited to 1 administration staff member. In the overheads model we have used an expected average cost to the practice of R61 199 per annum based on the detailed financial survey results.





3.3 Responsibility Values

For purposes of our submission we have retained the responsibility value for consultations at 1 and will address variations in future submissions.

3.4 Specialist Equipment

In general psychologists have no items of specialist equipment.

3.5 Standard Equipment

This equipment comprises:

Furniture	R 62 404
Computers and software	R 21 000
Total Standard Equipment	R 83 404

Quotes have been obtained for all above items where required during 2008. Useful lifespan is generally 3 to 6 years and, depending on the specific item. Maintenance and insurance have been set at 0% and 1% of cost respectively. The standard equipment cost that results from this is R26 521 per annum.

3.6 Overhead Expenditure

Overhead expenses as per our detailed review amount to R315 243 comprising:

Staff Salaries & Related Costs	R 75 233
Equipment Costs	R 26 521
Rent and Utilities	R 60 251
Practice Management & Admin	R 81 230
Bad Debts	R19 021
Standard Equipment	R26 521
Finance & Insurance	R 19 038
Other Costs	R7 428
Total	R315 243

Overhead expenses are based on the results of the surveys done, practice visits and general information on specific cost items. The adjusted predetermined overhead rate for 2010 is calculated at R4.408 per minute, excluding VAT.

3.7 Motor Vehicle Expenses

The range of costs indicated under this item varies extensively and it was evident in certain surveys responses that finance costs (including capital repayments) could have been included. In other instances it is possible that more than one vehicle was included.

Motor vehicle expenses are therefore based on Automobile Association (AA) rates, which assume a 2-2.5L vehicle valued at R 250 000 – R 300 000 (cost price). It is deemed fair to assume the following in calculating transport costs:

- Value of vehicle: R 250 000 – R 300 000
- Engine capacity: 2000 to 2500 cm³
- Business km per year: 12 000 km
- Petrol price: R7.24/L (93 Octane April 2009)

AA tariffs (per Schedule): R7.28 (Running costs)

- Total transport costs: R87 360 (12 000km X R7.28)
(Less VAT): R10 728
R 77 632

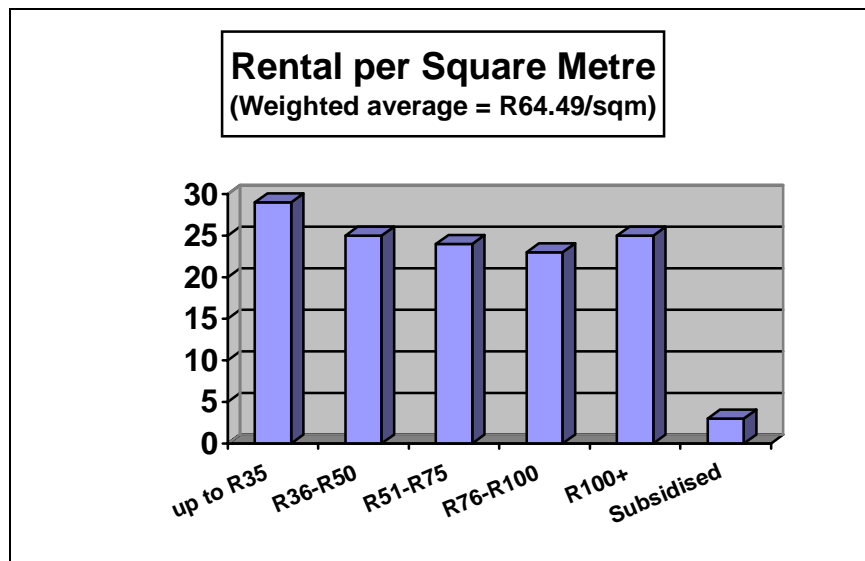
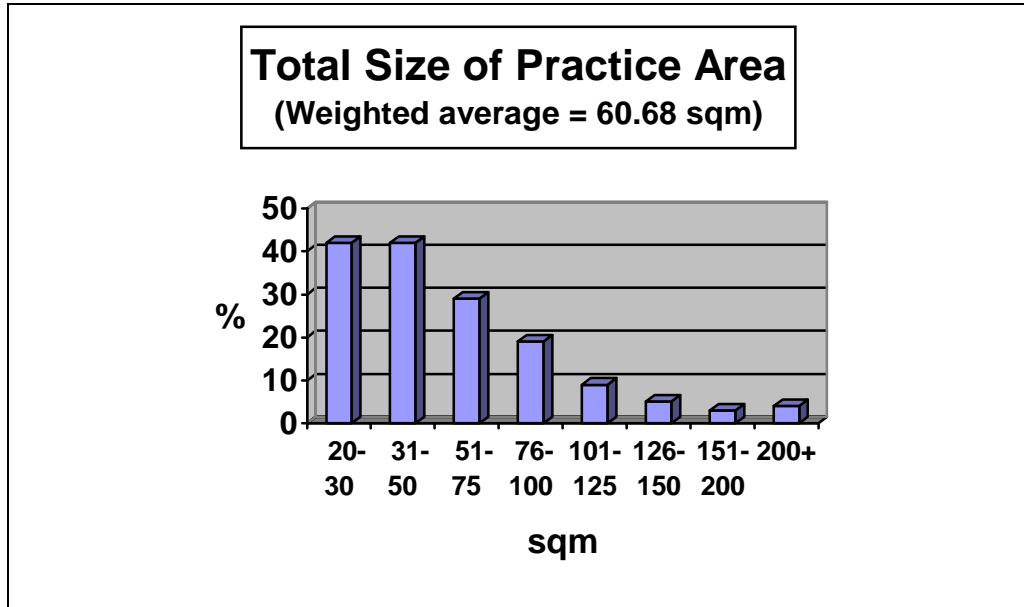
The maximum total motor vehicle expenses for a healthcare practitioner should therefore be limited to R77 632 per annum. The survey average of R24 909 was used in the overheads summary.

3.8 Rental

Separate data relating to the areas occupied and rental per m² were also requested. The weighted averages across the 153 practices that provided data are as follows:

Area	60.68 sqm
Rental per square metre	R64.49

This amounts to an average annual rental of R46 959. The detailed financial survey average of R35 880 was used in the overhead cost summary.



3.9 Malpractice Insurance and Practice Risk Insurance

Malpractice insurance is compulsory for all practitioners. Of our respondents, 37.58% list MPS as their insurer of choice. The MPS malpractice premium for psychologists is established at R1 640 per annum.

3.10 Confidence Interval Adjustment

The confidence interval adjustment applied to overheads is 10.5%. This confidence interval is calculated on the normalised costs of the 160 detailed financial returns. The returns were adjusted for calculated costs, which are invariable.

The confidence interval adjustment is subject to further commentary in the supplementary HealthMan report.

3.11 Application of Direct Labour and Overhead Rates

The labour and overhead rates were calculated in terms of the Regulations. They have in addition been allocated to the fee schedule of Professional Services tariff codes. The tariff codes used are those published 2008 RPL.

The total Rand Conversion Factor (RCF) amounts to R10.37, excluding VAT. It thus equates to an amount of R570.40 for a 51 to 60 minute consultation (code 0205).

3.12 Commentary on Codes

No changes are proposed on the current RPL codes for psychology. We have amended the units as published in the RPL so as to be compliant with the Regulations. All codes are now time based utilising mid-point time intervals. For the series 300 codes we effectively only allow for five patients to be charged.

The relevant tariff schedule is attached as Appendix A.

4. HEALTHMAN PROPOSAL FOR PSYCHOLOGY TARIFFS

We attach the results of our survey and the application of the principles set out in the appropriate tariff-determination regulations as appendix A. All professional fee codes have been included and are set out therein.

The RCF for Psychology has been calculated at R10.37 excluding VAT, and R11.82 including VAT.

5. CONCLUSION

Based on our research and application of the regulatory and legislated principles governing the determination of a national reference price list we propose a set of RPL tariffs that is well researched.

Please feel free to contact us should you have any queries about issues on which you wish to obtain clarification.

Yours faithfully

Casper Venter
Director: HealthMan
19 May 2008