

WHILE there has been a growing trend for South Africans to take up insurance cover to deal with medical expenses, confusion still reigns in terms of the most appropriate benefits required. Many insurers offer Hospital Cash Plans which provide a policyholder with a specified Rand amount for each day the policyholder is hospitalised.

These insurance products are often confused with hospital plans or benefit options offered by medical schemes, a misconception that often leads to the policyholder unexpectedly being left with large uncovered medical bills.

According to Andrew Edwards, executive principal officer of Liberty Medical Scheme, the main difference between Hospital Cash Plans offered by insurance companies and hospital cover that comes with Medical Aid is the level of benefit paid when an individual is hospitalised.

He says a Medical Scheme Hospital Plan will generally pay the hospital account in full and will always provide some level of cover for specialist consultations, procedures performed in hospital and medication dispensed while the member is hospitalised.

"However, Hospital Cash Plans offered by insurance companies will only provide a Rand amount usually ranging from R200 to R2 500 for each day the policyholder is hospitalised. Given the high cost of medical services, this Rand amount will in almost all instances not be sufficient to cover the hospital account, let alone the specialist consultations, procedures and

Confusion reigns about benefits



Andrew Edwards

operations performed in hospital and bills for medication dispensed in hospital.

"For example, a typical hospital bill for a child birth without complications can cost in the region of R10 000 – R25 000 at a private hospital. And in most cases, there are additional costs to be considered such as a gynaecologist, paediatrician, anaesthetist and pathologist's bills.

"Hospital plans that are not offered by medical schemes will typically pay a benefit of approximately R800 per day for each day a patient is hospitalised. Therefore, the total benefit paid will be approximately R2 400, often substantially less than the cost of an average hospital stay. Some plans may even exclude cover for certain hospital procedures, leaving members to pay for these out of their own pocket," explains Edwards.

In addition to the lower levels of cover, Edwards says there are a number of other considerations that should be taken into account when looking at Hospital Cash Plans and Medical Scheme Hospital Plans:

- Policyholders must be hospitalised overnight in order to receive any benefit from these plans. This means that the pol-

icy holder will be responsible for the total cost of any treatment or procedure that does not require the patient to stay in hospital overnight, such as a burst appendix. However, a medical scheme will in most instances pay the full hospital account and will provide a certain level of cover for the specialists' accounts;

- All medical schemes are required to provide full cover for the specified list of chronic conditions. A Hospital plan will cover medication and treatment received in hospital for these conditions. Hospital Cash Plans will not provide any cover for out of hospital treatment or medicines dispensed out of hospital;

- Some may exclude cover for in-hospital treatment of conditions such as epilepsy and diabetes while medical schemes are required by law to provide cover these conditions;

- In some cases, cash plans are not an accepted guarantee of payment by private hospitals. Policyholders will therefore have to make an upfront payment before being admitted to hospital. However, most private hospitals will admit a medical scheme member without any upfront payment required from

the member;

- As a limitation, coverage will either be restricted to 180 or 365 days of hospitalisation during the life of the policy. A Hospital Plan will continue to provide cover irrespective of the number of days the member spends in hospital, subject to pre-authorization;

- Depending on the agreed terms, some plans only provide cover from the second day hospitalisation while a Hospital Plan will provide cover from day one, subject to pre-authorization;

- An insurance company can terminate a Hospital Cash Plan product while a medical scheme may not terminate a membership unless the member fails to pay his medical scheme contributions or member gives notice; and,

- Members of medical schemes are entitled to a tax deduction on their contributions up to a certain monetary amount. Namely R720 for the first two beneficiaries and R440 for beneficiaries thereafter. Based on a marginal tax rate of 40 percent this implies that the medical scheme contributions for a family with one child is effectively R752 cheaper [40 percent of (R720+R720+R440)]. An individual who takes out a Hospital Cash Plan is not entitled to a tax deduction.

Edwards says it is important to note that a Cash Plan should never be considered as an alternative for medical cover through a medical scheme and most Plans of this nature state in their marketing material. Insurance companies usually position Hospital Cash Plan products as ancillary products in addition to medical scheme cover.