The strategic issue of dentists vs health insurance funds

By Graham Middleton, BA, MBA

"It is obvious by the... use of data gained from HICAPS and the incursion into practice ownership by BUPA... that it is a determination of the health funds to control the dental profession..."

There are two strategic issues facing dentists, one being the huge oversupply in the dental workforce and the other being the incursion of private health insurance funds into the profession.

The explosion in dental numbers is such that the surplus of dentists, therapists and hygienists will be with us for many years.

Health insurance funds

There can be no doubt that the health insurance funds seek to exert such a degree of influence over dentistry that they will be able to dictate dental conditions while making substantial profits for themselves out of ancillary insurance tables (also known as extras cover).

Will the ADA stay relevant?

The ADA used to enjoy the membership of over 90% of dentists, but its membership numbers have remained static while the dental population has ballooned. As a result, the ADA membership is now about 70% and it is probable that the trend will continue unless the ADA demonstrates effective leadership in respect of confronting the health fund issue. If it does so, it will be pleasing to dentists and re-emphasise the ADA's standing.

Many dentists complain of the unsavoury tactics of health funds and dentists which provide high standards of care know that the patients are frequently told by health funds that their dentist is very expensive; the implication being that the health fund would like to shift them to a less expensive dentist, albeit that the less expensive dentist may have lower clinical standards. The health insurers have little concern about the quality of dentistry; it's about cost and how much profit they can wring out of the ancillary insurance that they write.

If the percentage of ADA membership continues to fall, at a certain point it will become irrelevant. Its members need to see a lot more than what some members have described to me as a boring magazine. Dentists on ADA committees will resent what I have written, but the dental members need to see forceful strategic leadership on the big issues that matter to dentists.

Effective leadership

Effective leadership has to be more than, say, writing letters of complaint to the government after they have opened a new dental hospital. Unless dentistry is heard before the budget is being put together for the new hospital, any subsequent comment will be brushed aside.

One step forward and three backwards

So it is with health funds. Trying to negotiate with health funds on a series of minor issues won't get the ADA or its dental membership anywhere in respect of rectifying the balance between dentists and health fund influence. On this issue, the health funds have clearly had plans which they have implemented steadily over a long period to dominate and control dental outputs. Negotiation with them from a position of weakness can only bring about a situation of one step forward and three steps backward by the dental profession. The ADA must find a more effective way of exerting influence.

It is unlikely that dentists wish to belong to an association in order to access a preferred credit card provider or association recommended travel agent, or association recommended car dealer. They are looking for strategic leadership of their profession.

Health funds vs dentists - why?

It's simple really. Dental benefits are approximately 50% of total benefits paid from ancillary health insurance tables and health funds are able to ration the benefits in order to guarantee themselves a juicy profit margin. The non-dental 50% is made up by optometrists, physiotherapists, chiropractors, podiatrists and miscellaneous minor providers. In order to get the leverage that the health funds require, they need most of all to dominate the dentists.

If ancillary health insurance was not so profitable, why else would health funds purchase so much television advertising aimed at ancillary health insurance membership rather than hospital insurance?

The Medibank Private prospectus

The 200-page prospectus for the recent Medibank Private IPO avoided showing a separate breakdown for Medibank's extras premiums and total extras benefits paid vis-à-vis the premiums and benefits paid for their hospital cover tables. Nor do the annual financials of other health insurers provide this information, yet it is clearly in the interests of the consuming public to know how much benefit they get back compared to the payments put in to the health insurer.

It is obvious that the health funds do not wish this information to be made publicly available. It's not hard to see that if it were made publicly available and revealed that ancillary health insurance was a bad investment, the public would terminate membership of these tables in droves.

What do we know?

We know that a diagram reproduced on page 26 of the Medibank Private prospectus indicated that overall, hospital insurance pays 96% of hospital claims but that extras insurance only paid 52% of benefit claims, with the other 48% paid by patients.

That obscure diagrammatic representation falls a long way short of the full disclosure of ancillary/extras premiums paid versus extras benefits paid out.

Why have hospital fund membership?

People belong to hospital funds to ensure that if they need major elective surgery they can receive priority for the procedure and have more salubrious hospital bed space. For low to middle income earners, hospital cover is subsidised by a government rebate to the funds. For high income earners, the incentive is to avoid paying an additional Medicare surcharge with their income tax. The community rating principle ensures that the base premium is set according to age at joining a health fund. This encourages people to join early and to maintain continuity of membership.

Why ancillary health insurance?

Whereas hospital fund membership is directed to major expensive procedures, ancillary insurance is unusual as it is directed to contributing toward a series of much smaller events and for most people, this begs the question: why insure? If, for example, we were lucky enough to be certain that our cars were never going to be involved in a major smash but merely suffer the occasional scratch within parking areas, we would probably not bother to have comprehensive car insurance.

Insurance is for big events

We insure our homes against disasters, such as being destroyed by fire or suffering major storm damage. We don't buy ancillary home insurance to defray the cost of having our gutters cleaned or to meet routine maintenance costs. This analogy suggests that while there is a reasonably strong case for belonging to a hospital insurance fund, the case for belonging to ancillary health insurance tables is weak. Ancillary insurance is not necessary for high income earners to avoid a Medicare surcharge on their income tax, nor does it attract a health rebate from the government. Logically, it makes very little sense for most people.

Where to for dentists re health funds?

It is obvious by the ongoing debate about the sites like nib's Whitecoat, or the use of data gained from HICAPS and the incursion into practice ownership by BUPA or the branding of practices associated with Pacific Smiles by nib that it is a determination of the health funds to control the dental profession. As dentists have seen, health funds are driven by price not by quality of dental treatment.

Dealing with unsatisfactory health fund conduct

Attempts by state or local ADA organisations or by individual dentists to deal with unsatisfactory conduct by

Whitecoat have met the problem that Whitecoat has a strategy of "kissing off" dentists with frustrating replies written by nameless customer relations teams. This unsatisfactory situation has been the case for a number of years.

What can the ADA do?

It can instruct a definitive study by one of the consulting arms of the major international accounting practices to produce a report that demonstrates beyond doubt what the benefits received from paying ancillary insurance health cover are compared to the money paid for membership. With this evidence in hand, the ADA could ask every dentist to direct mail their patient lists, pointing out the relative value of health insurance to the patient. Dentists could also ensure that this information is prominently available in their waiting rooms.

To be effective, such a campaign would require a substantial amount of organisation of the dental profession, with the ADA using its state organisations and its regional study groups to obtain pledges from dentists to support the campaign physically by appropriate mail-outs to patients, displaying information in their waiting rooms and taking time out to speak to patients with private health insurance when they attend the practice.

Truth is the best weapon

Naturally, these actions will require resolute leadership from the ADA. However, providing that the information that is provided is well-researched and authoritative, all that dentists will be doing is putting valuable consumer information in the hands of patients who will then be informed as to whether they are getting value from their ancillary health fund policies or not. Providing that the advice is accurate, there is no reason why dentists should not be involved in providing information concerning the financing of dental treatment to their patients.

The history of health fund incursion into dentistry to date suggests that the only message which will have a significant impact on the health funds will be as a result of their ancillary fund members becoming well informed as to the relative value of the health services provided to them compared with the amount that they pay in premiums and resulting in a drop-off of ancillary fund membership.

If the ADA couple this with a campaign of ensuring that all financial writers in the press were well informed with respect to the cost and benefit of belonging to ancillary health funds such that when, periodically, they write tips for consumers, one of those tips would inevitably include advice to review their health fund ancillary membership to see whether they're getting value for money.

Probably too, the ADA could run a website displaying information on ancillary fund membership. We acknowledge the existence of various comparator websites at this moment, but these appear to be sales orientated and aimed at twisting health fund members to switch from one fund to another, with the twister receiving a commission. A genuine website not taking commissions but pointing out value issues would have far more credibility.

The alternative

The alternative to taking strong leadership is the continuing steady erosion of the ADA membership as a decreasing proportion of dentists choose to belong or to renew their membership.

Avoiding conflicts of interest

These days it is considered essential that politicians who step down from ministerial office in governments be precluded from working as lobbyists for a period, usually a couple of years or more, after they step down from office. Of course, if they get thrown out of office in an election their value as lobbyists is limited because their party is no longer in power.

If it doesn't already have such a policy, the ADA needs to institute a code whereby no ADA office bearer can take up an appointment with a health fund for, say, two years after they depart from ADA office.

All ADA office bearers should be required to make a declaration as to whether or not they are affiliated with a health fund.

A situation where lots of ADA members believe, rightly or wrongly, that some dentists seek office to cultivate links toward becoming directors of health funds can only weaken the ADA.

From the health funds' perspective, it is desirable that they exert as much influence over the health professions as possible. From the ADA's perspective it is desirable that it demonstrate to its full dental membership that there are no conflicts of interest.

Hospital insurance weaknesses

Despite health funds making regular pronouncements as to how they will rein in hospital costs, the fact is that the powerful private hospital owners' arrayed against them are unlikely to give in easily.

Medibank Private does not have the power to force a companies of the likes of Ramsay Healthcare to change its hospital charges, for example.

The power of surgeons

Nor can health insurers force surgeons to accept their dictates. It is the surgeons who arrange in which hospital they are going to operate on particular patients. It is common for surgeons to have operating spaces in more than one hospital.

When, some years ago, then Mayne Healthcare CEO Peter Smedley tried to force surgeons to accept his dictates, he found to his horror that the surgeons demonstrated their power by filling up their operating slots at non Mayne Health hospitals, thereby forcing Mayne Health to lurch into non-profitability and dispense with Mr Smedley's services.

Difficulty in controlling hospital costs

Health fund hospital cover tables have the fundamental weakness that they have very little influence over hospital charges. They have a further weakness that the health funds which have the lower payout ratios, probably because they have a different age profile in their memberships, have to cross subsidize those with high hospital cover payouts by making payments to them. This is consistent with the government's community rating principle, but makes the field of hospital insurance non-competitive when viewed by the health funds.

As a result, the health funds choose to spend their marketing budgets on advertising to win new membership for

ancillary insurance tables because this is the area in which they can exert significant influence and make significant profits.

If the public were to become significantly aware that they were not receiving value for money from ancillary insurance, the health funds would have a very serious problem.

Dentistry is 50% of ancillaries. It is the only allied health profession which has the strength of numbers to ensure that the public is informed about the economics of ancillary insurance. The health funds know that they are vulnerable, which is why they will never voluntarily divulge the breakup of ancillary insurance cost versus ancillary benefits paid.

In the long term, it is to the dental profession's best interest that the ADA bring these matters to a head and fully inform the public. That may mean that cancellation of health insurance temporarily leaves some dentists slightly worse off. However, in the long term, the dental profession as a whole will be better off.

The best practices

At Synstrat, we see a vast number of dental financials and overwhelmingly, the best practices remain those which have managed to develop and maintain good patient lists without third party involvement, be they government agencies or health fund preferred provider arrangements.

Individual dental practice weapons

Dentists must concentrate on good practice presentation, have staff with good interpersonal skills attuned to patient needs and develop pleasing chairside personalities. The best weapons against health fund predators begin with smiles and handshakes and tastefully decorated reception areas. These have always advantaged dentists in presenting their treatment plans to patients. They also enhance the probability that the advice of practice staff with respect to ancillary health fund membership will be followed.

The Medicare CDDS lesson

The sudden cessation of the Medicare Chronic Disease Dental Scheme had a dramatic impact on those practices which had heavily relied upon the payments from the scheme, including some practices which had made it the financial cornerstone of their practice. The sudden announcement of the cessation of that program had a dramatic effect on the profitability and indeed viability of some practices. Listed dental services company 1300SMILES Ltd suffered a major financial setback because of its heavy reliance on the government scheme.

Government agencies cannot be trusted long-term because inevitably, political trade-offs put some programs at risk in order to fund other government policy, or as budget-cutting measures. Nor can health funds be trusted. For many years, dentists in Perth had a trusting relationship with a health fund which suddenly turned on the profession and demanded that all dentists sign up to its new provider arrangements under threat of losing their patients. There were similar incidents elsewhere.

Dentists who sold their practices to Dental Corporation, who were non health fund aligned, found that in their new roles as lead dentists in their old practices, they had no choice when the business was on-sold to Fortis Global, then on-sold again to health fund BUPA.

The health bureaucracy

It has been long recognised that the federal health bureaucrats had a goal of achieving a national Denticare scheme as an adjunct to Medicare. Naturally they had a conflict of interest, because such a scheme, if instituted, would create a larger dental subdivision within the Department of Health and Ageing to oversee the scheme.

More public service jobs and promotions to senior positions would result from the new structure. With this end in view, the bureaucrats set out to flood the dental workforce by creating additional dental schools and via immigration. Fortunately or unfortunately, the bureaucrats wish for a Denticare scheme ran into the political realities of budget deficits and federal government debt.

It is likely that the bureaucrats view activities of health funds favourably as being likely to force dental incomes down at the expense of quality, while overlooking the inefficiencies of the health fund ancillary insurance model with its significant administrative cost and siphoning of profits.

About the author

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 27 years, the last 20 as a founding partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer, and later Director Human Resources Manager, Attorney General's Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. He is the author of Synstrat Dental Stories, the Synstrat Guide to Practice Management, 50 Rules for Success as a Dentist and Buying & Selling General & Specialist Dental Practices. He is a long-term contributor to the Australasian Dental Practice magazine. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed financial services company. Both Synstrat companies are owned by the same directors who work within the Synstrat Group. For more info, call (03) 9843-7777, Fax: (03) 9843-7799, email dental@synstrat.com.au or see www.synstrat.com.au.

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