

# FINANCIAL PULSE CHECK: WHEN MEDICAL CONTRACTS PAY—AND WHEN THEY DON'T

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## 1 THE DOCTOR'S DILEMMA – MEDICAL SCHEME CONTRACTS OR NOT?

Medical practitioners frequently find themselves at a crossroads, faced with the challenging decision of whether to enter into contracts with medical schemes or remain independent. While the allure of guaranteed income through contracts is tempting, the prospect of higher earnings from independence can be equally compelling. In this detailed analysis, we examine two distinct practice scenarios to help practitioners make informed decisions based on actual financial performance data.

## 2 UNDERSTANDING THE OPTIONS

Medical practitioners generally have two paths:

**Contract with Medical Schemes:** This route typically guarantees payment, but at a lower tariff rate. For instance, a contracted practitioner might receive guaranteed payments at 1.3 to 2 times the standard medical tariff as well as higher patient volumes due to being a Designated service provider (DSP).

2.1 **Operate Independently:** Practitioners who choose independence can bill at significantly higher rates, such as three times the medical tariff, but risk uncertain collections and more variable cash flows.

We analyzed real-world data and graphed scenarios to illustrate these financial implications clearly.

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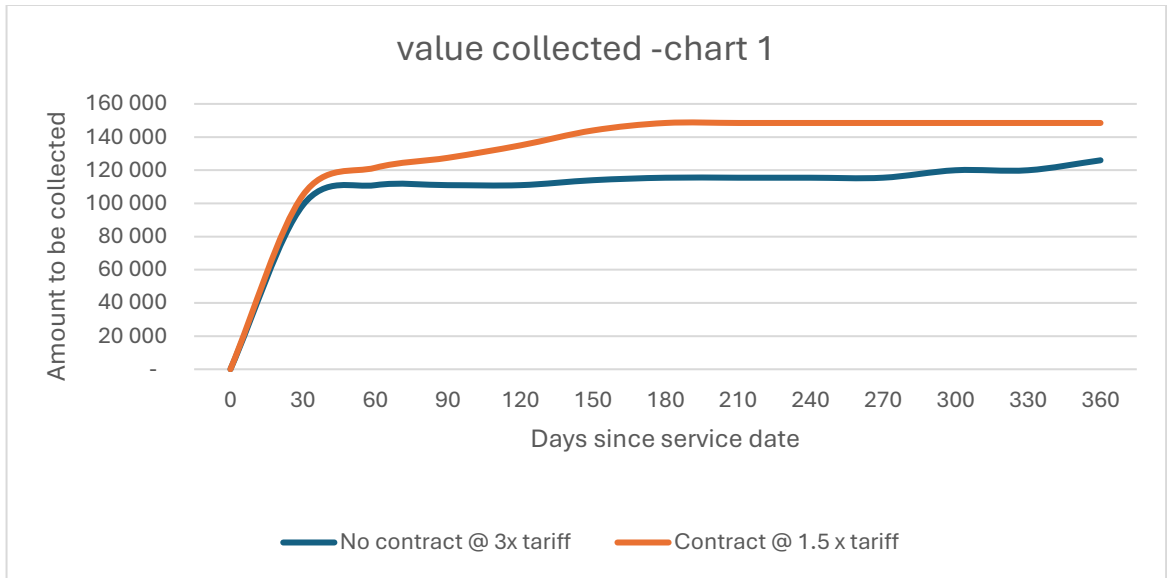
## 3 SCENARIO 1: RURAL SPECIALIST PRACTICE

### 3.1 Practice Profile:

- Specialist practitioner located in a rural area.
- Minimal Prescribed Minimum Benefits (PMBs).
- Limited or no GAP cover among patients.
- Predominantly lower socio-economic groups (LSM 5–8).
- Staff members are inadequately trained in medical account management.

### 3.2 Financial Analysis:

In Scenario 1, our data clearly indicates that contracting with a medical scheme at 1.5 x the medical tariff significantly outperforms the independent model at 3x tariff, primarily due to low collection rates in independent operations.



### 3.3 Key Observations from Graphs:

- Collection Rates:**  
 When billing at 3x tariff independently, the practice struggled to maintain a collection rate above 40%. Contrastingly, the contracted model consistently secured collection rates approaching 99%.
- Cash Flow Implications:**  
 Initially, the "no contract" scenario showed promising cash inflow at early stages (30-60 days), providing immediate liquidity. However, by day 90 onwards, the contracted scenario surpassed independent collections significantly, ultimately delivering more consistent and substantial income.
- Break-even Analysis:**  
 For the independent practice to match the contract scenario's earnings, the collection rate must consistently surpass 49%. Given the practice's socio-economic patient base and poor administrative management, maintaining this collection level proved difficult, confirming that contracting is the safer and more profitable choice.

### 3.4 Insight: Time Value of Money

Our graphs clearly illustrate the long-term superiority of the contract option in overall cash accumulation. Thus, in a rural setting with limited resources and less sophisticated account management, the stability provided by medical scheme contracts generally outweighs the potential high margin cash flow benefits of independence.

## 4 SCENARIO 2: URBAN SPECIALIST PRACTICE

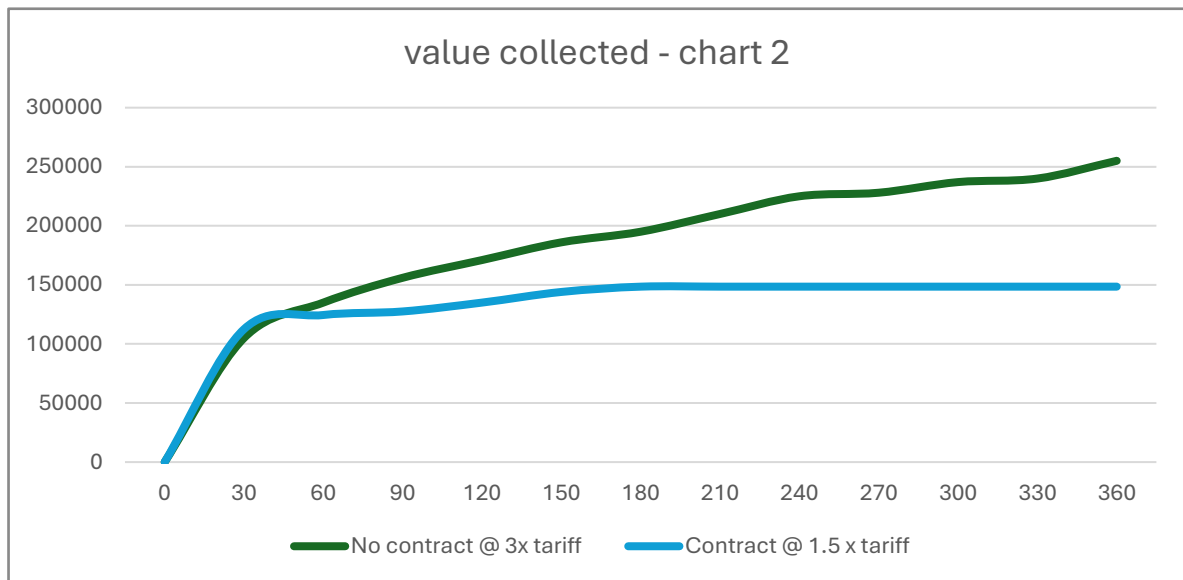
### 4.1 Practice Profile:

- Specialist practice in an urban area

- High frequency of Prescribed Minimum Benefits (PMBs).
- Predominantly affluent patients (LSM 9 and 10).
- Majority of patients possess GAP cover insurance.
- Practice benefits from sophisticated administrative systems.

#### 4.2 Financial Analysis:

Unlike Scenario 1, the urban specialist practice demonstrated vastly improved collections efficiency when operating independently, drastically shifting the financial balance.



#### 4.3 Key Observations from Graphs:

- **High Collection Efficiency:**  
The independent scenario achieved collection rates consistently between 70-85%, far surpassing the rural practice scenario. This superior collection rate directly translates into significantly higher total earnings compared to contracted rates.
- **Cash Flow Advantage:**  
Not only were the total collections higher, but cash also flowed in faster. The independent practice achieved superior cash accumulation as early as 60 days, maintaining and widening the gap thereafter, providing both immediate liquidity and superior long-term revenue.
- **Administrative Efficiency:**  
Higher socio-economic patient profiles, coupled with GAP cover and sophisticated billing systems, significantly improved payment recovery, reducing the financial uncertainty inherent in independent practice.

#### 4.4 Key Trend:

The crucial factor influencing the success of an independent strategy is the practice's administrative efficiency and patient demographics. Higher socio-economic patient bases and effective administrative management directly correlate with successful, higher tariff collections.

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## 5 TRENDS OBSERVED ACROSS SCENARIOS:

- **Patient Demographics and Collection Rates:**  
Clearly, higher-income patient demographics (LSM 9–10) correlate strongly with better collection outcomes, making independence highly profitable.
  - **Administrative Efficiency:**  
Practices with robust, professional administrative support benefit more from the independent billing model. Conversely, practices with poorly trained personnel or limited administrative resources tend toward better outcomes with medical scheme contracts.
  - **Cash Flow Timing:**  
In both scenarios, independence provides quicker initial liquidity. However, this advantage quickly diminishes if collection rates are not consistently high.
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## 6 RECOMMENDATIONS FOR PRACTITIONERS:

Practitioners should thoroughly evaluate the following before deciding on a contracting strategy:

- **Socio-economic Status of Patient Base:**  
Lower LSM groups typically require a contracted arrangement for stable revenue. In contrast, higher-income demographics open opportunities for independence.
- **Administrative Capabilities:**  
Independent billing requires strong account management systems and well-trained staff. Practices lacking these capabilities should strongly consider contracting.
- **Higher Volumes**  
The upside of contracting with a medical scheme is that specialist practitioners may experience an increase in patient numbers due to being on the DSP list of the scheme. However, this benefit should be carefully considered, as increased patient volume will only add value to the practice if the practitioner has excess capacity.
- **PMB Matters**  
The proportion of PMB patients in a practice is an important consideration. Because medical schemes limit the amounts paid for PMB cases, a practitioner with a high proportion of PMB patients is likely to be better off without a contract, as this allows charging up until 3x the tariff. Conversely, for practices with a lower proportion of PMB cases, entering into a contract is probably advantageous, as it provides greater security for non-PMB services.

## **7 CONCLUSION: NAVIGATING YOUR CHOICE**

Our analysis underscores the importance of practice-specific evaluation. The optimal choice between medical scheme contracts and independence is highly context-dependent. Rural practices with less affluent patient bases and weaker administrative frameworks typically benefit significantly from contracting. Conversely, urban practices with affluent patients, strong GAP cover prevalence, and sophisticated administrative infrastructures can realize substantial financial benefits from independence. Practitioners should also give careful consideration to the balance between higher volumes and excess capacity. On top of this there should be a sober assessment of the value of contracts when PMB cases are on the higher end.

The ultimate key is honest self-assessment: practitioners must carefully consider their administrative capacity, patient demographics, and cash flow priorities. Only then can they confidently navigate the complex financial landscape, securing the best possible outcomes for their practice.

## **8 NEED HELP?**

If you need a better understanding or deeper analysis of your practice give us a call by contacting any of our numbers on this site