INVESTIGATING THE FINANCIAL LIVES OF THE POOR

FOCUS NOTE: Financing Life, or Financing Death? The Low Level of Health Spending in Poor Households

Key Findings:

- Medical spending on doctors, traditional healers and medication accounts, on average, for only about 1.6% of Financial Diaries household's gross income.[1]
- Rural households tend to spend a slightly higher proportion of their income on medical items, as do poorer households.
- Only 9% of households have medical insurance, as opposed to 84% of households with at least one form of funeral insurance.
- Those few households with higher than average medical expenses are often dealing with chronic illness. Several of these households comment that community services do not provide adequate care, forcing them to seek expensive private care.

Within the financial portfolios of the Financial Diaries households,[2] medical insurance is rare. This should come as no surprise to the Departments of Health and Social Development, who in fact, with the Council of Medical Schemes, have set up a Ministerial Task Team to understand barriers to access to medical schemes for low income households. What might be more surprising is out-of-pocket medical spending is also low within these same uninsured poor households.

The reasons for this are not immediately clear. Is it that these households don't want to "waste" money on medical expenses, preferring to spend on other goods? Is it that households find adequate health care in community clinics and don't need to spend money on doctors and medicines? Or is it that households may want and need to see a doctor, but don't feel they have the resources to do so? The answers to those questions may be important in determining how policy can intervene in the medical insurance market to ensure a higher standard of health care. This *Focus Note* intends to use the Financial Diaries data to contribute to the existing knowledge by reporting on medical spending and insurance within the context of other financial instruments and other spending items.

[1] The Financial Diaries consider all forms of income including (gross) regular wages, casual work, grants, remittances, business profits, agricultural income and pension income.

[2] The Financial Diaries tracked cash flows of 160 households from November 2003 to December 2004.

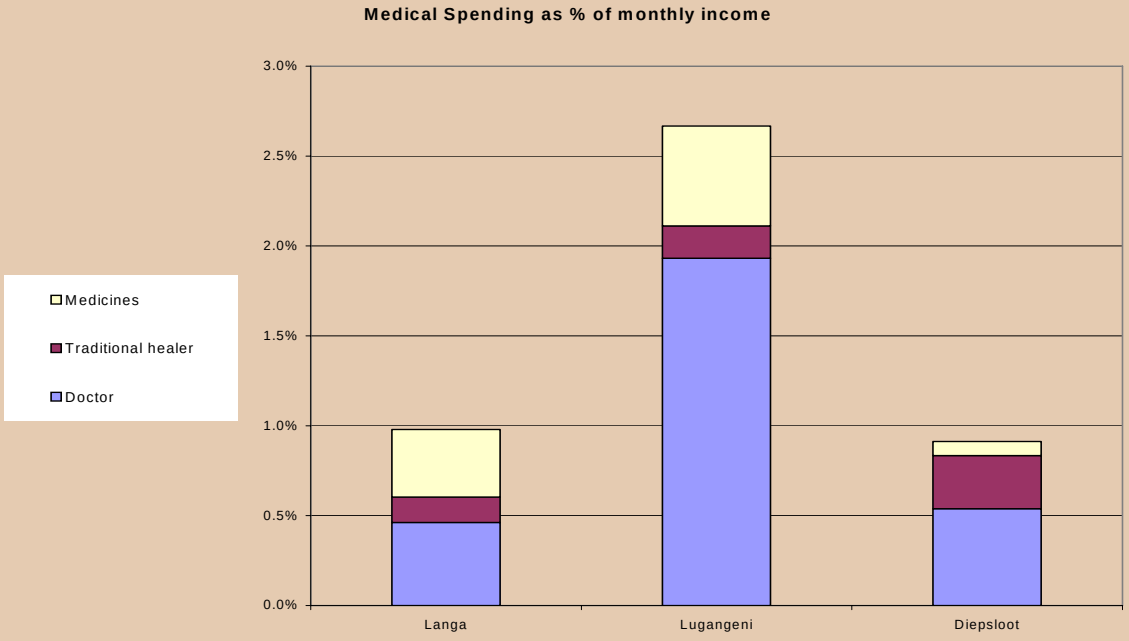
Medical expenditures are not a big feature in households' financial lives

Medical expenditures are not as high a portion of income, or expenditure as one might have thought. Doctors take up the largest portion of that expense, compared with traditional healers or medications. One must keep in mind that this is also a fairly generous definition as traditional healers are not always seen for purely medical reasons but also for spiritual needs or social conflicts.

Rural households spend more on medical items than urban households...

Within the Financial Diaries sample, rural households tend to spend more on medical needs than urban households. Health spending is the highest in Lugangeni, where people also tend to be the poorest.[3] Medical expenses, in Lugangeni, are about 2.7% of income on average compared to about 1% in the urban areas.

Chart 1: Medical spending per area



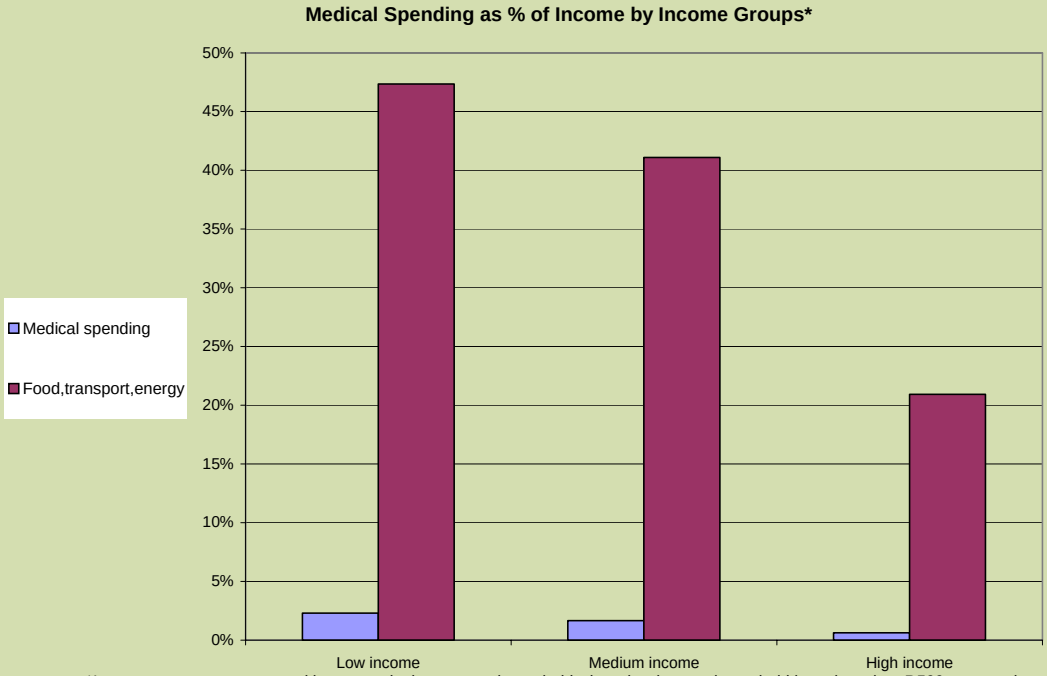
[3] See income comparisons between households in different areas in Sample Overview on www.financialdiaries.com.

. . .and poor households spend a larger proportion of their income on medical spending than wealthier ones

Broken down by per capita income, it also appears that the poor certainly spend a larger than average portion of their monthly income on medical expenditure. The lowest income group in the Financial Diaries sample (those with less than R500 per person per month) spend just over 2% of their income on average; while the highest income groups spend less than half of that.

It helps to put this into context. Chart 2 below shows the spending habits on both medical needs and on necessities like food, transport and energy (electricity and/or paraffin). Poor households tend to spend a higher percentage of income on both categories of expenditure than higher income households. But when a household is spending close to 50% of their income on necessities, little is left over for medical expenses.

Chart 2: Medical Spending as % of Income



**Income groups are measured by per capita income per household where low income household have less than R500 per month, medium income households have greater than R500 per month but less than R1000 per month and and high income households have more than R1000 per month.*

And households certainly don't tend to insure for medical spending

As Chart 3 below shows, the number of households with medical insurance is far outweighed by a larger consideration: funeral insurance. Whereas only 9% of households in the sample have a medical aid scheme, about 84% of the households have at least one funeral or burial plan, and many have two or more.

Moreover, all (with the exception of two) households that have a medical aid scheme pay for it via a payroll deduction, which suggests that this insurance could have been prompted by the employer rather than self-motivated. In contrast, over half the funeral insurances held by the sample are informal burial societies or plans with an undertaker, insurance policies that would have been undertaken independently by a private individual.

Chart 3: Percent of households with medical and funeral insurance

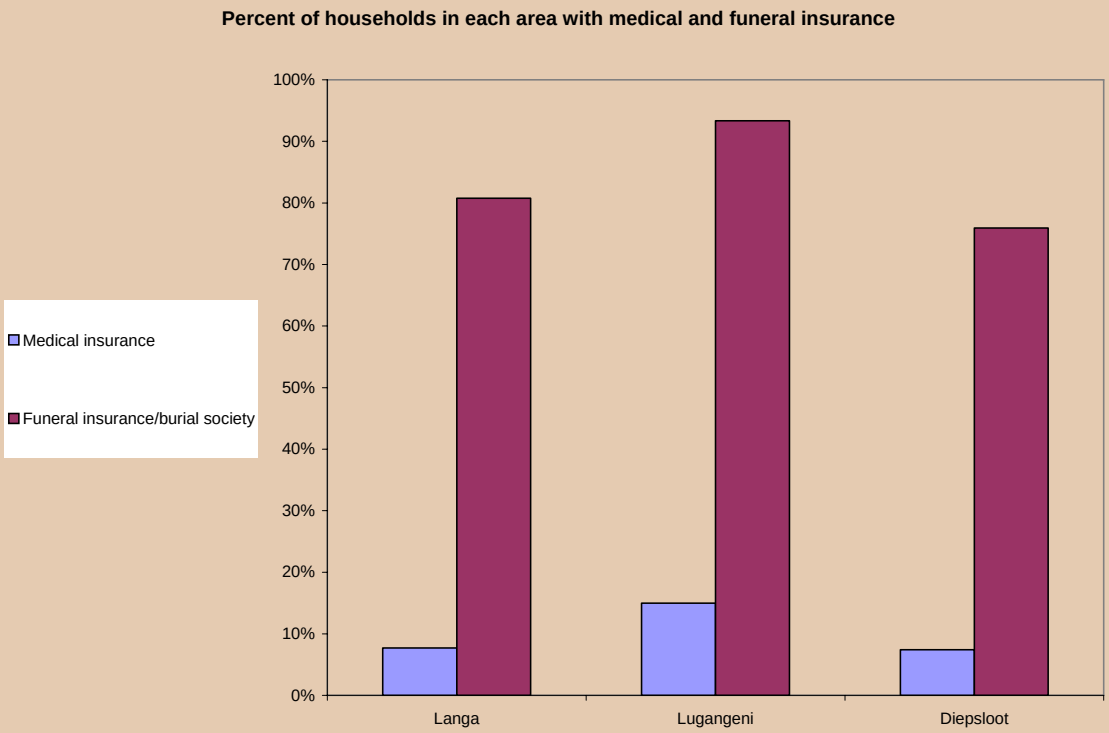


Table 1 shows the details of those who are members of a medical scheme. The table is divided between open plans, restricted plans (which are usually restricted by employers or unions) and those that we're not sure about. As the table shows, most of those that have medical aid schemes are covered by open plans. Note also that these households tend to have income well above average household income for each area, and that the income of these households appears to be primarily driven by the wages of these earners.

Table 1: Details of Medical Scheme Members

Financial Diaries Area	Name of medical aid scheme	Job description	Gross monthly wage income	Gross monthly household income	Number of household members
Open medical scheme					
Diepsloot	Medicover[1]	Stock person	R3.536	R3.536	4
Diepsloot	Discovery[1]	-	-	-	-
Diepsloot	Medihelp[1]	Passenger assistance	R10,409	R11,398	4
Lugangeni	Oxygen	Teacher	R7,162	R8,054	4
Lugangeni	Spectramed	Teacher	R7,162	R9,482	6
Lugangeni	Medicover	Teacher	R3,000	R11,983	3
Lugangeni	Bonitas	Teacher	R4,664	R5,400	4
Lugangeni	Medshield	Teacher	R4,000	R12,504	5
Lugangeni	Medicover	Teacher	R6,104	R8,726	6
Lugangeni	Medicover	Teacher	R5,693	R27,073	5
Lugangeni	Medshield	Nurse	R10,502	R27,073	5
Restricted medical scheme					
Langa	Anglo American Coropration Scheme	Crane driver	R3,476	R3,476	1
Langa	Hospital/Netcare	Caregiver	R2,695	R2,695	2
Langa	Remedi	Marketing representative	R9,793	R9,793	1
Unclear					
Deipsloot	Threeway[2]	Slot attendant	R7,000	R10,734	5
Lugangeni	African Life[4]	Retired teacher	R4,143	R7,902	2
Langa	Triple Trust[3]	Project manager	R12,000	R14,000	5
Note:			**Average monthly household income**		
Diepsloot				R2,785	
Lugangeni				R2,824	
Langa				R2,811	

[1] This is the same person, who somehow belonged to two medical aid schemes while keeping the same job. He started with Discovery in the middle of the study year.
[2] We don't recognise the Threeway medical scheme, but it is not connected with her job. She pays via a debit order from her bank account.
[3] This is a private medical scheme that was set up within the company at which this person works. It seems that they administer it themselves.
[4] Unsure whether this is the medical scheme administered by Ingwe Med or a health insurance policy from African Life.

The Exceptions: Who is paying a large share of their income for medical care?

Throughout the Financial Diaries sample, we can spot a few households that are exceptions to the story above. There are five households that spend more than 10% of their average monthly income on medical spending and it's worth looking into each one of them to better understand what is behind high medical spending and how it is managed within the household. Interestingly, they are all from the rural sample, but have otherwise very different circumstances for their medical expenses. They could be broken down into three different categories. Two of the households suffer from chronic problems, such as old age and HIV+ status. One of the households has had children that have returned to Lugangeni with illness. And the last two, we noticed, are dependent on disability grants.

Case studies 1 and 2: Chronic illness

MADUMA* is a 37 year old widow living with her three children and niece in Lugangeni. The thing that she worries about the most is finding money to go to the doctor. Her husband died in 1997. One of her daughters has epilepsy, which causes a lot of medical expenses. She herself is also ill. She initially reported to us that she has a heart condition, but we later learned that she is HIV+ and struggles with multiple health problems. She survives on a disability grant of R740 per month and money that her relatives send to her. From February to November during the study year, Maduma spent 13% per month of her small income on doctors, traditional healers and medicines. In February, she had to buy medications for her child worth R296. She borrowed from a local umgalelo (stokvel) to get the money and only paid back in October. In March and in April, she had to see a doctor, spending R150 each time. Her sister gave her money for these expenses.

In June, her daughter had an epileptic fit. She took her to the traditional healer, which cost her R450 in fees. This time she used money that she withdrew from savings in her Post Bank account. She has about R11,000 saved in the Post Bank account from selling her house. Many years ago when she found she was sick, she sold her house and put the money into the Post Bank. In September and then in October, she needed to see the doctor again. Each time it cost her R150 and she received the money from her sister. She still had a leftover doctor's bill at the study's conclusion. She's also concerned about keeping the money in the bank for her children's education. She doesn't want to spend any of it because she wants to make sure that they'll be able to go to school. In October, she withdrew R500 from the bank account to pay for a school trip for her son.

On average, from February 2004 to November 2004[4], Maduma spent 13% of her income on medical expenses, split between doctors' fees, medicine and traditional healers. She has commented that the doctor gives her better medication than the public clinic does, so when she has money, she prefers to go to the doctor. There also seems to be an unwritten rule that her sister helps her with the doctor's bills but not with her daughter.

MANGLANGISA* is a 72 year old woman who lives by herself down the road from Maduma. She receives an old age grant of R740 per month and sometimes receives money from her son, who is working in Johannesburg. In the beginning of the year, she lived with her daughter-in-law, but then she went to Johannesburg to visit her son so she was left alone. Her other son is a local spaza shop owner. He says that she should have someone to help her with the house, but she's too nervous to have anyone stay with her. She sees the doctor frequently, so she spends a substantial amount (about 16%) of her monthly income on the doctor's fees every month. She suffers from ulcers and arthritis.

Case study 3: Low and irregular income and several shocks

MANGWANE* struggles to feed and care for herself and a grandchild on one foster care grant (R540 per month). Out of the R540, she is required to save R230 per month in a bank account (she needs to show the savings book to the social workers). This leaves R310 for her monthly expenses. She spends half of this on her burial society and on her umgalelo (stokvel). The other R150 is for food and the needs of the grandchild. She works as a creche teacher but she never knows how much she'll get paid and when. She also can sometimes sell vegetables from her garden, but again this does not happen on a regular basis. But when an emergency happens, she does not always have money on hand.

This year, several emergencies happened and she ended up spending a lot on doctor's fees for her children. In September, Mangwane's son, who was sick, came from Johannesburg so she could take care of him. He started TB treatment while staying with her in Lugangeni. Then another son, who was in East London, fractured his arm and came back from East London to stay with her. She had to pay for his doctor's fees and give him money to return to East London. She managed all these expenses through saving some of her irregular wages in the house, borrowing from neighbours and receiving remittances from other relatives.

Case studies 4 and 5: Doctor's fees and disability grants – a link?

MAJILI* (55) and **SANDILE*** (57) are an older couple looking after six grandchildren at their house and supporting a daughter in university. When we first met them, we were surprised that they were able to do so much with so little income. From what we could tell they only received two disability grants of R740 each. However, we soon learned that they were earning monthly interest of about R1000 per month from a 32 day notice account. Sandile used to work for Telkom but was retrenched in 2001. He received a lumpsum payment of R200,000 as a retrenchment package. From this, he bought five cattle (which he still has) and one horse, and, on the advice of his former manager, he put the remainder (some R190,000) into a Standard Bank 32 day notice account. With relatively high interest rates in the early years of this instrument, he enjoyed an interest income of about R1000 each month, although with the decline in interest rates, he's receiving less (about which he is bitterly unhappy). Amazingly, he tends to reinvest the income each month. On only two of the 13 months we interviewed him, he withdrew the interest income. This was where he received the money to pay for his daughter's university fees.

We've also noticed that every other week they spent about R250 on doctors. On average, from February 2004-November 2004, they spent some 17% per month of their total income, during the study year on doctors. We found this curious. Majili says that she has "sore joints,"i.e. arthritis and Sandile has asthma. Majili says that she often goes to the doctor because of these sore joints and then she gets her money from her grant. However, she doesn't spend on medicine to help with the problem, so what does the doctor do for her?

MANGLANGISA* is a 55 year old woman who lives on the other side of Lugangeni. She stays with her 75 year old mother in law and her adult daughter, two school-going children, one grandchild and one niece. Four of the children attend the local school. Manglangisa is not working and receives a disability grant for arthritis. Her mother-in-law received an old age grant. She was not well all year and died in November 2004. So the family of seven lives off two grants worth R740 each.

At one time, however, they were doing well. They were considered fairly well off because of the home and livestock they have. In addition, they own a tractor and they used to use it to plough the neighbours' gardens, earning between R180-240 per garden, which can add up to R4500 in a season. However, the tractor broke in 2002. They sold a goat and used the grant money to fix it once, but it broke again and they haven't been able to put the money together to fix it.

We noticed that they spent on average about 11% of their monthly income on doctors' fees. This

may have been spending that the mother-in-law had before she died. We're not sure because she refused to take part in the study. If she was seeing a doctor, we wouldn't have heard about the expense from her. Moreover, it is worth noting that Manglangisa was very concerned about her disability grant being taken away, so perhaps she was also worried enough to see the doctor frequently.

Names have been changed to protect the identity of the respondent.

Disability grants and doctor's fees – a link?

Of the five households with high medical spending, we noticed that three of them receive a disability grant. Disability grants are given on the recommendation of a doctor, and can be taken away in the same way. We thought this combination of circumstances warranted further discussion with field researchers. Our investigation suggested that recipients of disability grants might be inclined to the doctor more often, to "prove" their disability by keeping a record of their illness. Field researchers reported that households were not always sick when they saw the doctor, but went to secure their grant in this way. One respondent worried about disability grants being "taken away". Given that one of her neighbours did indeed suffer such a fate, this worry is not unwarranted.[5] Is it possible that the disability grant system is perversely causing households to spend money on doctor's fees?