

Gratuities' Real Competition Comes From Quality

Funds Due to economic policy's focus on short-term fiscal criteria, the health fund market has also become less predictable. "Membership is growing at a moderate pace, but with an increasing number of non-paying members," says Marianna Lukács, managing director of Patika Health Fund.

- *The fund market, including the health fund market, is facing many challenges this year. Early in the year, for example, there was intense media coverage of how many people were unable to identify themselves and access their accounts. How did your company deal with this issue?*
- "We were not suddenly confronted with this task, as many believed, but this has been a long standing issue. For years, we have been regularly screening members according to the money laundering act. If someone joins the fund, we have to personally confirm his or her identity. Since our fund replaces cards every four years, we meet the fund members on this occasion, and we also carried out the identification of those who had joined earlier, so we practically identified 100% of active fund members by the deadline. Each of our members can also check whether identification is needed through online administration, or whether no further action is required. If someone was still not identified, he or she could come to our office, but we also visited employer offices and performed identification, if necessary."
- *This must have been a major task.*
- "Yes. Moreover, I think that the whole affair was caused by a misinterpretation of legal regulation. The money laundering act stipulates that a customer is not permitted to make a transaction order, or transfer, from a current account if she has not identified herself. In relation to funds, however, the customer is not the fund member, but the fund itself, which issues the order for the transfer, or the transaction, to the service provider. Clearly we do not get involved in disputes in relation to such issues, considering that the identification of members is everyday routine." *To what extent did the collapse of the Buda-Cash brokerage house and its serious effect on two health funds affect confidence in the sector?*
- "As a clear sign of confidence in Patika, not a single related question was received by our customer service. Obviously, we tried to take early action and provide appropriate information on our website and in additional newsletters. Funds that manage assets are required by law to manage deposits. Both of our health funds, Patika and Új Pillér, keep their assets in the custodianship of UniCredit Bank. Our asset manager, Concorde Fund Manager, holds no securities whatsoever, it can only give orders for transactions with securities deposited to the bank account of the custodian. In other words, the members' money is safe at funds that have asset management. The two health funds concerned are in a difficult situation because they had kept money in the accounts of the credit institutions of the DRB Group, which went bankrupt. Our account managing bank is a long-established credit institution, CIB Bank."
- *What is your view of the market? Central bank figures suggest that the growth of recent years has come to a halt.*

- These figures require in-depth analysis. According to the central bank, the growth in membership peaked at around one million, but this figure includes a very high number of non-paying members, who are reported as active. In the case of Patika and Új Pillér, we see a different picture: the rise in membership continued. But we are also observing a growing number of members who are not regularly paying membership fees. We have 100,000 active members at the two health funds, with approximately 15-20% of members not making regular payments.”
- *To what extent is this attributable to the tightening of cafeteria rules this year, and that funds are competing with the Erzsébet Voucher within a 200,000 forint limit?*
- “Although most of the year is still ahead, I am confident because by April our monthly revenue recovered to earlier levels. I think that the decline is related to other factors. The rise in membership suggests that it is still cheaper for employers to provide health fund, pension fund services and the Erzsébet Voucher under the cafeteria scheme than to pay wages, so they encourage employees to join. In our case, too, most of membership fees, roughly 80%, are paid by employers. So if someone loses his or her job, membership fee payments generally cease. And those who don't have income, don't pay tax, and it's not worth it to individually make payments to a fund. In the past, employers were more generous and paid larger amounts to these accounts. Today these payments tend to be stable, regular amounts.”
- *Even with a lower 20% tax refund is the financing of health expenditures through health funds still worth it?*
- “It is a mistake to assess health funds as a formula of tax credit minus operating deductions. Obviously, one can select among the funds on the basis of operating deductions, but other factors should also be taken into consideration. Members are offered up to 10-20% discounts on services and medical devices in many places. We should also bear in mind that interest is accrued on the money we manage, which is exempt from interest tax. Our two health funds currently manage assets worth 5 billion forints, realising real yields above the rate of inflation. For years I've been trying to convince health funds to publish their yields offered to members each year, similarly to the pension funds, but I haven't succeeded yet. In terms of operating costs, we are also very competitive. At the Új Pillér fund, for example, where the minimum monthly fee is 10,000 forints, the deduction is only 4.5%, and with a payment of 300,000 forints, the full amount increases the immediately disposable balance.”
- *What or who is preventing the publication of health fund yields?*
- “This has been an ongoing issue for almost two decades. We've been lobbying in this regard for ten years. I don't know the reasons for this, but it wouldn't be too complicated to perform these calculations, similarly to the pension funds.”
- *What do fund members spend their money on?*
- “The government's tightening measures have an effect here as well. Basically only curative services have remained as services financed tax free. So generally, members spend money on medication and medical devices. Of course, the scope was expanded last year with gluten-free food for people with a flour allergy, for example, or with health insurance products that cover services, but not a single member of ours showed interest in the latter. Unfortunately, members are required to pay additional personal income tax on so-called lifestyle improving services, which could also be financed through the health funds, so these are minimally used by them. Many people were confronted with the fact

that they are unable to pay for preventive services, or to even buy a bottle of vitamins with their health cards, which implies the short-term thinking of the government.”

- *What could be the reason for this?*
- “What we see is that fiscal considerations shape the thinking and employees’ health is a secondary issue. The government looks for ways to curtail benefits so as to minimise the immediate expenditures of the budget. Employer’s payments, for example, are levied with a 37.5% tax, and this is also why annual fee revenue is peaking at around 50-55 billion forints. It would be a good thing if at least the cafeteria tax would not end up in the general public budget, but rechannelled into health care, since these amounts are withdrawn from people’s health care budget.”
- *To what extent are you affected by the institution of gratuity?*
- “This is the purest form of purchasing state health services. It flows from pocket to pocket, without a tax obligation or operating costs. Until this remains part of the system, the spread of sickness insurance on a wider scale will not be possible, and health funds will continue to produce stable results by providing quality private services.”

DR. MARIANNA LUKÁCS

1992 degree in foreign trade and sociology from the Budapest University of Economic Sciences

1995 PhD in finance

1994 head of the Department of Economics at the Fund Supervisory Authority

1995-1998 head of the retail property/accident/sickness insurance branches at Hungária Insurance Company

1999 she launches the Patika Health Fund, where she has been managing director ever since. Other members of the Patika Group:

Új Pillér Health Fund,

Tradíció and Tempó Pension Fund