

Understanding how legislative provisions impact on Medical Schemes, their plan design, benefits to members and financial stability

Introduction

- Provision of medical benefit funding has become the most highly legislated area of financial services in the last 10 years
- With the exception of retirement funds, probably most highly available employee benefit
- For many, medical scheme premiums are single most expensive household expense after mortgage bond
- What are the practical implications on Schemes of legislative and regulatory initiatives?

Agenda

- GEMS
- Scheme Reserve Levels
- Risk vs Savings Account Benefits
- Open Enrolment
- Community Rating
- PMB's
- NHRPL
- NHI

GEMS

- Government Employee Medical Scheme
- Subsidy strategy to encourage government employees to migrate from open scheme environment to GEMS
- Impact on open medical schemes
 - Many funds currently at risk as they have government employees who will be moving to GEMS
 - Loss of membership, generally with age profile lower than the scheme average and lower claims profile

GEMS

- Factors to assess when selecting a scheme
 - Historical rate (last 3 years) of GEMS members leaving the Scheme
 - Percentage of current membership made up by GEMS Members
 - Specific strategies to retain GEMS members
 - Average age of GEMS members remaining on scheme
 - Average profitability of GEMS members remaining on scheme

Scheme Reserve levels

- Statutory requirement for all Schemes to hold reserves equivalent to 25% annual premium income (API)
- Purpose is to ensure “claims paying ability” of Schemes
- Arbitrary reserve level, not specifically based on a particular Schemes risk demographics
- Allows schemes to generate investment income through investment of reserves
- Other than premium income, it is the only other material source of income for Schemes

Scheme Reserve levels

- Factors to assess when selecting a scheme
 - 25% may be insufficient for small scheme with high average age or poor risk profile, but more than sufficient for large scheme with average risk profile
 - Does Scheme incur operating loss before investment income, but profit after investment income is added?
 - May be positive as it means premiums are set at the right level. The investment income from the reserves should be put to work to lower premiums.
 - Schemes running an operating profit before investment income is charging its members too much money or not paying out enough claims.

Scheme Reserve levels

- Factors to assess when selecting a scheme
 - Understand why a Scheme's reserves are growing or declining
 - A Scheme that is gaining members will initially experience a **decline** in reserves
 - A Scheme that is losing members will initially experience an **increase** in reserves
 - What strategy does a Scheme with reserves below 25% have in place to achieve requirement? In the absence of innovative strategy, only alternative may be to increase premiums higher than necessary to provide for reserve building

Risk vs Savings Account benefits

- 25% of premium may be allocated to “medical current or savings accounts”
- Savings money normally allocated to day to day expenditure
- Advantage – offers member flexibility
- Disadvantage – risk passed to member
- Claims against savings are paid rand for rand. So for every rand that is paid out you have put in a rand

Risk vs Savings Account benefits

- Factors to assess when selecting a scheme
 - A Scheme that pays more benefits from risk could potentially be offering better value for money.
 - Tax benefits on medical schemes have been reduced, may be prudent to save your day-to-day medical expenses in a money-market account that offers better interest rates.
 - Is the scheme paying a portion of PMB claims (co-payments) from savings?
 - Does Scheme provide a facility to earn interest on savings?

Open Enrolment

- Legislation requires medical schemes to take on any new members irrespective of health.
- As a result people tend to anti-select; in other words take out medical benefits only when already ill
- Only protection afforded medical schemes are waiting periods and condition specific exclusions
- To manage risk, Schemes want to attract young healthy members to reduce the claims level.
- To attract healthy people, schemes offer lifestyle benefits
- Schemes may also design and pay for “younger” benefits such as cosmetic dental surgery or laser eye operations

Open Enrolment

- Factors to assess when selecting a scheme
 - Lifestyle programs come at a cost, do benefits justify cost and are they successful in attracting younger healthier members to the Scheme
 - Does the lifestyle program offer benefits that are relevant and available to your staff and contribute to the wellbeing of your employees
 - Are “young” benefits designed to retain members who have joined a Scheme to take advantage of such benefits? A good “young benefit is maternity concessions, although costly initially, members tend to remain on Scheme.

Community Rating

- All members pay the same contribution irrespective of age
- Advantage – easy, affordable access for everybody
- Disadvantage – anti-selection, members join only when older with a higher claims ratio
- Only protection schemes have are Late Joiner Penalties
- Waiting periods, exclusions and LJP's can normally be avoided by larger employers with a compulsory medical scheme offering

Community Rating

- Factors to assess when selecting a scheme
 - What underwriting concessions are the scheme prepared to give?
 - Buying of new business normally a recipe for disaster
 - Age profile of members and Pensioner ratio vital

Prescribed Minimum Benefits

- Benefits that a Scheme must include as part of its benefit package
- Study commissioned by FinMark Trust and managed by the Centre for Financial Regulation and Inclusion (Cenfri) concluded that growing awareness of Prescribed Minimum Benefits (PMB's) resulted in a significant increase in claims, contributing to recent exorbitant increases in contributions

Prescribed Minimum Benefits

- Minimum benefits, which are the backbone of a medical scheme face serious threats of being undermined by legal uncertainties, unsustainable billing practices and non-compliance with the law
- Schemes face a fundamental contradiction in being forced to provide the PMB's regardless of cost and simultaneously to keep contribution increases to within inflation plus three percent

Prescribed Minimum Benefits

- Rulings from the Appeal Board of the Council for Medical Schemes confirmed that PMB regulations should be interpreted to mean that schemes must pay PMB claims at whatever rate doctors and other healthcare providers charge.
- Schemes believe this gives providers a blank cheque for billing for PMB's and leaves schemes facing open-ended claims

Prescribed Minimum Benefits

- The Council for Medical Schemes, which regulates schemes, have set up a task team to look at problems surrounding prescribed minimum benefits (PMB's)
- The task team has drawn up a code of conduct for PMB's that will be binding on medical schemes, doctors and other healthcare providers, to ensure that you are protected

Prescribed Minimum Benefits

- The code provides that Schemes may insist on members utilising Designated Service Providers (DSP's) for provision of PMB's.
- If no DSP network is available then any provider treating a PMB condition is deemed a DSP and the fee charged is the fee payable
- Schemes have had difficulty setting up DSP's at affordable tariffs because of the scarcity of service providers (supply and demand) and the small scale of some schemes

Prescribed Minimum Benefits

- Factors to assess when selecting a Scheme
 - Has the Scheme succeeded in establishing DSP networks?
 - Do the DSP networks have a geographical footprint that match your employee distribution?
 - Are the low incidence/high cost service providers (specialists and hospitals) adequately contracted?
 - Is the DSP arrangement structured in such a way to encourage service providers to comply, i.e. is a carrot or a stick approach adopted?

Prescribed Minimum Benefits

- Factors to assess when selecting a Scheme
 - Savings stem from closer relationships between medical schemes and healthcare providers and were most notable where the provider took some responsibility for overall costs (capitation models).
 - Does the Scheme implement further strategies for reducing costs such as managing lifestyle diseases through wellness programs and providing adequate preventative benefits?
 - Does the Scheme partially fund payment of PMB's from savings rather than risk funds?

NHRPL

- National Health Reference Price List
- Implemented by the Department of Health in an attempt to control prices in the private healthcare sector.
- The North Gauteng High Court has scrapped the tariff guide for doctors' fees
- In practice the guide has been used by medical schemes to set limits on the rates they would pay service providers such as doctors and specialists

NHRPL

- Factors to assess when selecting a Scheme
 - Schemes must now implement a Scheme rate, how does your Scheme rate compare to market?
 - Has the Scheme established strong DSP and Preferred Provider (PP) networks that abide by Scheme rate, avoiding co-payments for members?
 - Does your scheme have contingency plans if service providers, the regulator and healthcare funders fail to reach agreement on alternative mechanisms to control costs?

NHI

- National Health Insurance is a reality we can not escape
- A system of national health insurance with income cross-subsidies, risk-adjusted payments and mandatory membership has been envisaged in policy papers since 1994
- It has more recently become a huge focus of our government becoming a greater priority than even retirement reform
- Financing of the NHI is still the biggest obstacle

Conclusion

- Intervention through legislation is inevitable in the Medical Scheme Environment
- It is a reality we have to accept and embrace
- It is usually done to protect the consumer – your employees
- Maybe the focus in future should be on how we can use legislation to enhance the value employees get out of their Medical Scheme through value added benefits that contribute to the overall wellbeing of the employee and ultimately the organization

Thank you

Questions