12 March 2015
For immediate release

Access to Medical Schemes under the Spotlight
Affordability not the only barrier needing to be addressed

Lara Wayburne, NMG Benefits: "We are pleased that the CMS has actively and publically revisited the possibility of extending accessibility of Medical Schemes to the low-income market, the first time since 2005."

[Johannesburg, 12 March 2015] The objective of bringing affordable medical scheme cover to those not covered is an important goal in the context of National Health Insurance and broader economic development needs.

There are four factors that influence medical scheme sustainability and these will have to be overcome to reach this goal and, according to Lara Wayburne, Head of NMG Benefits' Actuarial Division, this would need "game-changing innovation – to make this goal a reality". The four factors include:

- Risk Pool Protection and Financial Sustainability
- Underwriting and Late Joiner Penalties
- Lack of Data
- Legislative Environment Restricting Benefit Design

"The challenge is that these are complex, multi-layered, and inter-related factors; which if changed or tampered with too vigorously or in isolation; could result in the viability of the medical scheme industry being called into question."

The medical scheme industry is built on the principle of risk pooling, which means that the young, generally healthy, population pay the same contributions as the older and often less healthy, and therefore the system is cross-subsidizing. Even among same ages, the healthy subsidise the sick. By introducing more sick people into the "risk pool" - costs will rise; potentially threatening the financial stability of schemes.

Also, since Medical Schemes cannot deny applicants membership, they protect their risk pool by applying a contribution premium to those who have not been in a scheme for a long time (so-called "Late-Joiner Penalties") or underwriting principles such as checking on prior medical history. This results in waiting periods being enforced before a potential member is allowed to claim benefits from a medical scheme.

The Council of Medical Schemes, however, has mooted that no underwriting or late-joiner penalties should be applied to the proposed low-income market benefit options or schemes. Their reason is that this particular target market has been excluded from medical schemes due to affordability and not because of transactional behaviour which includes 'anti-selection'. This is when members opt out of a scheme when they are healthy and opt in when they are more likely to be sick – with no real penalty.

By not allowing schemes to use these risk management tools, Wayburne expects that medical schemes will be exposed to some residual risk in this target market.

On the problem of lack of data, Wayburne explains: "There is in fact very little data within the medical scheme environment about the health needs and costs to meet those requirements in this lower-income segment of the population."

This lack of data would make benefit design "the biggest area of consideration - a real challenge for medical schemes" she adds.

Adding to the data challenge is the structural and regulatory topic of Prescribed Minimum Benefits (PMBs). Medical schemes are legislated to provide a minimum level of benefits on every plan. The average costs of a PMB package of benefits costs an average of R508.20 per beneficiary monthly, excluding administration costs. In theory, medical schemes would not be able to price benefit options below this level.

"For an average family of four (4) members, a contribution level of over R2000 monthly will still put medical scheme membership beyond many people's price range. This is especially the case when taking into consideration the primary objective of the medical scheme industry, which is to provide clinically appropriate, affordable and accessible healthcare".

"Should the industry fail to provide a practical and innovative solution, this will continue to leave a significant proportion of the population without the cover they need. However, in extending coverage, the industry must also ensure it does not introduce unsustainable risk to its own financial sustainability."

"We are pleased that the Council for Medical Schemes (CMS) has for the first time since 2005 actively and publically revisited the possibility of extending the accessibility of Medical Schemes to the low-income market. If all the role-players take a long-term view, this could be a step towards changing the health outcomes for many South Africans. However, this would have to be a considered, incremental approach," concludes Wayburne.

- *Ends* -

Additional Information:

- The CMS are holding an Indaba on 12 March 2015 to discuss a framework that will enable Medical Schemes to provide comprehensive medical cover to a section of the low-income, previously uninsured population.
- The principles that the CMS has tabled as the basis of the Indaba are as follows:
  - Protecting risk pooling: Medical Schemes are built on this principle
  - Continuation of care
  - Solvency protection
  - Non-health care expenditure
  - A sufficiently flexible and responsive framework
  - Benefit design
  - Marketing
  - Underwriting and late joiner penalties.
- According to the Q1 2012 Stats SA Labour force survey, approximately six (6) million formally employed people were without medical scheme coverage.
- Towards the end of 2014, the National Treasury published proposed demarcation regulations with the intention of clarifying the difference between health insurance and medical scheme coverage.
- An unintended consequence of the demarcation guidelines is that although it protects medical schemes, it leaves a significant proportion of the population that cannot afford medical scheme membership uncovered in the intermediate period leading up to the rollout of NHI.

For further information or media queries, please contact:

Miranda Lusiba
Strangé Consulting
Contact: +27 (0) 11 759 4016/+27 (0) 78 675 1297
Email: Miranda@kingmaker.co.za

Mark Lotter
Marketing Manager: NMG Benefits
Contact: +27 (0) 11 509 3000/+27 (0) 84 674 3690
Email: mlotter@nmg.co.za

About MNG Benefits

NMG Benefits, the South African subsidiary of the NMG Group - a multi-national financial advisory and intermediary services organisation – is a leading provider of employee benefits advice and services in Southern Africa. NMG Benefits has 400 employees across Southern Africa. NMG Benefits' focus is to provide retirement funds, medical schemes, life insurance companies, employers and employees with professional and unbiased advice.