

EXAMINATION

30 May 2011 (am)

Subject F201 — Health and Care Specialist Applications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *You have 15 minutes at the start of the examination in which to read the questions.
You are strongly encouraged to use this time for reading only, but notes may be made.
You then have three hours to complete the paper.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
4. *Mark allocations are shown in brackets.*
5. *Attempt both questions, beginning your answer to each question on a separate sheet.*
6. *Candidates should show calculations where this is appropriate.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

<p><i>In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.</i></p>
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Question 1

You are a healthcare actuary recently employed by a newly established niche health insurer. You have been tasked with developing health insurance products that the insurer wishes to sell in the South African market.

- i) As per the demarcation guidelines, describe the criteria required for a health insurance product and the resulting implications for these insurance products. [5]
- ii) List and briefly describe the cover provided by the six different types of health insurance products in the South African market. [6]

The Marketing Director has identified the lack of affordable medical scheme cover for low income earners as a possible opportunity for the health insurer. She has suggested that a hospital cash plan is targeted at employers with only primary care occupational health facilities that have a significant number of low income employees not currently on a medical scheme. The intention is that this combination would provide comprehensive medical cover at an affordable price.

- iii) Comment on this suggestion and provide a recommendation. [7]

Given the recent court ruling regarding “gap cover” insurance products, the insurer decides to enter this market, in that they wish to offer an insurance product that covers the shortfall in doctors’ accounts not covered by medical schemes. You may assume that there are no questions regarding the legality of these products.

- iv) Discuss the likely features of the product and the other factors that you would consider in designing such an insurance policy. [16]

You decide to keep the product simple and to apply a flat premium to all individuals that qualify.

- v) Discuss how you would determine the premium for this product, and the issues you would consider in doing so. [12]
- iv) Briefly describe the supervision and capital requirements applicable for this product. [4]

[Total marks 50]

Question 2

RestoMed is a single-option restricted medical scheme for a group of medium-sized employers in the retail industry. Participation in RestoMed is a condition of employment for all employees. Employees' contributions (for both the principal member and all dependants) are 75% subsidised by the employer.

The scheme has lost a significant proportion of members in active employment over the past few years due to corporate restructuring. The scheme presently has 3 800 members, of which 1 600 are pensioner members.

The table below summarises the scheme's current and projected financial performance.

	2009	2010	2011 (projected)
Opening accumulated funds	235,000,000	236,100,000	233,300,000
Average members	4,800	4,300	3,800
Average beneficiaries	10,704	9,503	8,322
Gross contributions	134,300,000	134,100,000	131,600,000
Risk contributions	132,600,000	132,400,000	129,900,000
Claims incurred	141,200,000	139,800,000	132,200,000
Gross underwriting results	-8,600,000	-7,400,000	-2,300,000
Non-health expenditure	13,800,000	13,100,000	12,100,000
Net underwriting results	-22,400,000	-20,500,000	-14,400,000
Investment income	23,500,000	17,700,000	14,000,000
Surplus	1,100,000	-2,800,000	-400,000
Closing accumulated funds	236,100,000	233,300,000	232,900,000

Given RestoMed's current and projected loss-making results, the scheme's auditors recently raised the question as to whether the scheme can still be regarded as a going concern. The auditors have appointed you, in your capacity as an independent consulting actuary, to assess the scheme.

- (i) Discuss the trends in the scheme's current and projected performance based on the summary data provided above. [6]
- (ii) Discuss the factors that you will consider in your assessment as to whether the scheme can be regarded as a going concern. [12]

During your investigation, it emerges that the participating employers are under financial pressure. They have indicated that few, if any, new employees are expected to be appointed over the next five years. In addition, the employers are concerned about the high cost of subsidising RestoMed's increasing contributions. Some employers are considering removing the condition of employment that requires employees to join RestoMed, allowing employees to join any open scheme of their choice.

- (iii) Discuss the implications of these developments for both RestoMed and the participating employers. [15]

In the light of these developments, RestoMed's Board of Trustees has convened to reconsider the scheme's strategic imperatives. After extensive debate, the Board concluded that the scheme should pursue the following courses of action to ensure its sustainability:

- a) Re-evaluate the efficiencies of managed care. The scheme has recently been approached by a managed care organisation which claims that it can save the scheme between R10 million and R50 million per year through more efficient management of hospital expenditure. The Board strongly considers appointing this organisation to improve the scheme's financial performance.
 - b) Purchase reinsurance to protect the scheme from future increases in expenditure.
 - c) Rely on the introduction of the Risk Equalisation Fund (REF), which is presently projected to contribute to the scheme.
 - d) Rely on the scheme's reserves to partially fund future expenditure, as the membership (and hence the solvency requirements) of the scheme reduces over time.
- (iv) Briefly discuss each of the four initiatives and comment, in each case, whether you would recommend the course of action to be in the best interest of the scheme's members. [13]
- (v) Outline the regulatory process involved in voluntary dissolution of a medical scheme. [4]

[Total marks 50]