

Actuarial Society of South Africa

EXAMINATION

28 October 2015

Subject F201 – Health and Care

Fellowship Applications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

- 1. Candidates will be issued with instructions to log-in using a password (which you will be provided with at the exam centre).*
- 2. Candidates are required to submit their answers in Word format only using the template provided. You MAY NOT use any other computer program (e.g. Excel) during the examination.*
- 3. Save your work continuously throughout the exam, on your computer's hard drive that you have been provided.*
- 4. 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.*
- 5. You must not start typing your answers until instructed to do so by the invigilator/supervisor.*
- 6. Mark allocations are shown in brackets on exam papers.*
- 7. Attempt all questions, beginning your answer to each question on a new page.*
- 8. Candidates should show calculations where this is appropriate.*

Note: The Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

AT THE END OF THE EXAMINATION

Save your answers on the hard drive.

Hand in your question paper with any additional sheets firmly attached.

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.
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QUESTION 1

A consultative investigation into Low Income Medical Scheme (LIMS) benefit options was initiated by the Ministerial Task Team on Social Health Insurance in 2005.

- (i) Briefly summarise the recommendations of the LIMS task team.

[2]

The target market for such options is individuals who are formally employed but who have never belonged to a medical scheme before. The target contribution level is between R200 and R400 per member per month.

- (ii) Explain the problems which make it difficult for medical schemes to offer benefit options in this target market.

[6]

A few months ago the Council for Medical Schemes started a new initiative to introduce Low Cost Benefit Option (LCBO) products to the industry and expand cover to the market targeted by LIMS as described above.

Section 8(h) of the Medical Schemes Act gives the Registrar the power to exempt a medical scheme from certain provisions of the Act and its Regulations. Schemes that wish to introduce LCBO products have been invited to submit business plans to the office of the Registrar and apply for exemption where this is required in order to ensure that the product is viable. With the exception of the solvency requirements schemes have been told to assume “no regulatory barriers” when developing LCBO products.

- (iii) List the provisions of the Medical Schemes Act and its Regulations that an open medical scheme is likely to apply to be exempted from and explain why these exemptions may be necessary.

[14]

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- (iv) Explain the impact that the regulatory solvency requirements may have on LCBO products.

[7]

The Council for Medical Schemes is accepting submissions from medical schemes that wish to introduce LCBO products. To date no LCBO products have been launched.

You are an actuary designing an LCBO product. Currently you are preparing a business plan and application document which will be submitted to the CMS.

- (v) Summarise all the factors that you need to consider in your benefit design and the preparation of the submission documentation described above.

[22]

[Total 51]

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QUESTION 2

You are an actuary consulting to Serenity medical scheme. Serenity is a small restricted medical scheme for current and former employees of the Intrepid Corporation.

The following is known to you:

- The scheme has only one income rated option offering medium level cover.
- There are currently 3 483 members on the scheme.
- Over the past five years the scheme has been losing members at a rate of approximately 4% per annum.
- The scheme's average beneficiary age is 41.1 and its pensioner ratio is 33.3%.
- Your projected financial results for the year ending 31 December 2015 show:
 - A projected net healthcare deficit of R4.0 million
 - A net surplus for the year of R4.9 million.
 - A solvency ratio of 88.9% at the end of the year.

The Board of Trustees has for some time been aware that, if Serenity continues to lose members, it will inevitably be forced to seek an amalgamation partner. The Board does however feel that, given the current level of reserves, it would not be in the best interests of members to amalgamate at this time as this would dilute the members' reserves.

At a recent meeting of the Board of Trustees a strategy was adopted to reduce the reserving level of the scheme by using the reserves for the benefit of the members until the reserves have reached an "appropriate" level, at which time Serenity will approach open medical schemes with a proposal to amalgamate.

- (i) List all the factors which should be considered in order to determine when it would be an appropriate time to seek an amalgamation.

[10]

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One of the Trustees has suggested that the scheme should reduce the reserving level by passing zero contribution increases until it has reached the appropriate level of reserves.

(ii) Discuss the appropriateness of the Trustee's proposal.

[8]

(iii) Discuss all the factors that should be considered in the development and implementation of the Board's strategy.

[6]

[Total 24]

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QUESTION 3

ShelterMed is a medium-sized South African medical scheme, established in 2002. It has three benefit options. The most affordable option is aimed at lower income individuals and is the only one that is income rated.

Sheltermed contracts with Haven, which is an accredited medical scheme administrator and managed care provider. There are two contracts in place between Sheltermed and Haven:

A. Administration agreement for all options

In terms of the administration agreement Haven is responsible for new business management, claims processing and payment, interaction with stakeholders (including employers), collection and reconciliation of contributions, data and IT management, and financial services.

ShelterMed pays Haven a fixed fee per principal member per month for administration services, with a different fee applying to each benefit option.

B. Primary care agreement for the most affordable option

Haven is responsible for the provision of defined, basic primary health care services, including those related to the Chronic Disease List published by the Council for Medical Schemes, to members on Sheltermed's most affordable option.

Haven negotiates fees for fee-for-service arrangements with a network of general practitioners, pharmacies, radiologists, pathologists, dentists and optometrists in respect of these members. It sub-contracts the management of the dentistry and optometry networks to a third party in return for a management fee, but remains responsible for the claims under these networks.

Haven is remunerated for the primary care services on a capitation basis, which entails a fixed fee per principal member per month for the most affordable option.

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- (i) Describe the statutory capital regimes to which each of Sheltermed and Haven are subject under the Medical Schemes Act.

[3]

- (ii) List the advantages and disadvantages of subjecting Sheltermed and Haven to risk-based capital requirements compared to the current statutory solvency requirements under the Medical Schemes Act.

[2]

- (iii) Discuss all the risks Haven is exposed to as a result of the terms of these agreements, indicating to which agreement each risk relates.

[20]

[Total 25]

[Grand Total 100]

END OF EXAMINATION

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