

ACTUARIAL  
 SOCIETY  
OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY

# Low Cost Benefit Option Framework

providing affordable cover to more people

ASSA Healthcare CPD day  
7 May 2015  
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# Agenda

- Introduction
- Section 8(h) recap
- Powers of Council
- Framework Review
- Comments from Circular 9
- Benefit Design consideration
- Way forward

# Introduction

- The Council introduces a framework as to how it may consider introducing Low Cost Benefits Options into the industry
- The Council has approved the principles provided in the framework in January 2015
- The broad outline of the Framework was provided in Circular 9 of 2015
- CMS has embarked on a consultative process based on the framework to develop guidelines for the industry

# Introduction

- The guidelines will provide interested parties with the minimum requirements from Council in order to introduce LCBOs into the market
- The aim of LCBOs is to increase the participation of individuals into the risk pool that would have not had the opportunity to previously
- This can be achieved by addressing:
  - Affordability challenges to this sector
  - Provide benefits that cater for need of the market
  - Ensuring that quality of cover is provided

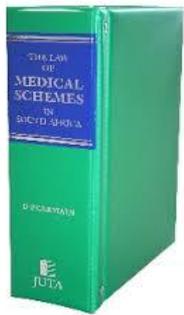
# Question for consideration

Whether a Low Cost Benefit Option (LCBO) can exist within the current Regulatory Framework of the Medical Schemes Act (MSA)



# Does the Council dispose of the powers to intervene?

- Section 8(h) confers a power on Council to exempt medical schemes from complying with any provision of the MSA.



**“8. Powers of Council.** – The functions of the Council shall be to-

(h) exempt, **in exceptional cases** and subject to such terms and conditions and for such period as the Council may determine, a medical scheme or other person upon written application from complying with **any provision** of this Act”

(own emphasis added)

# What is meant with the power to exempt?

Exceptional

- Jurisdiction for power to exempt is the fact that the case must be exceptional.

Unusual/  
out of the  
ordinary

- Our courts have interpreted “exceptional” to mean **unusual** or **out of the ordinary**.

Fact

- The existence of exceptional circumstances or otherwise must be determined as a matter of fact and is not a discretion.

Strict  
view

- A strict rather than a liberal view of such applications is to be taken.

# Regulation 8 exemptions



- Onus is on the applicants to present facts which make their case markedly different from ordinary medical schemes to make them exceptional.
- Protection of member interest must be ensured.
- Exemption must be rationally connected to the information presented.
- Adequate and defensible reasons must support the decision.
- Council is at liberty to impose conditions and to only partially exempt where indicated.

# Framework outline

- Protecting risk-pool:
  - If exemptions are obtained from particular provision of the MSA, we need to ensure that the existing medical scheme risk pool is not undermined or fragmented
  - Risk of buy-down of existing members to be minimised
  - Clear definition of eligibility to entry e.g. Income verification, employer groups only, etc.
  - On the upside, there are Natural barriers to buy-downs e.g. no/limited cover for hospitalisation

# Framework outline

- Underwriting:
  - Late joiner penalties should not be allowed esp. considering previously uncovered lives due to affordability
  - Waiting periods may be allowed but will be determined as part of the exemption request in the application

# Framework outline

- Protecting risk-pool/Underwriting comments:
  - Options provided within schemes
  - Initial enrolment period after which underwriting will apply
  - Exempt from community rating and introduce risk rating
  - Upgrade to higher plan to require underwriting – except in cases where salary increases
  - Restrict membership based on (exemption from open enrolment):
    - Income
    - Geographical areas
    - Uncovered lives
    - Employer groups
    - Mandatory membership

# Framework outline

- Geographical coverage (comments):
  - Options are developed on basis of contracted networks of primary healthcare providers
  - Restricted enrolment to network coverage areas due to benefit design and pricing
  - Out-of-network coverage be condition of exemption to ensure continuity of care

# Framework outline

- Solvency considerations:
  - Products only be allowed in a “financially secure” scheme
  - Business case to demonstrate the maintenance of solvency
  - The Act deals with schemes being unable to comply with solvency requirements – ICU schemes

# Framework outline

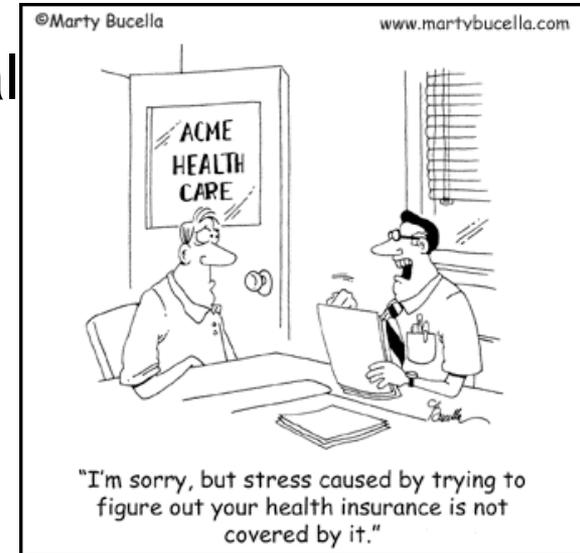
- Solvency considerations comments:
  - Exclude from solvency calculation in the beginning or ring fencing
  - Review solvency to include an Risk Based Capital approach
  - Include in Solvency only once a RBC approach is implemented

# Framework outline

- Non-Healthcare expenditure (comments):
    - Demonstration of value for money in business case
    - Cost of options assume a low NHE
  - Marketing (comments):
    - Need to ensure that the right message gets out
    - Conditional exemptions if misleading marketing
    - Need to ensure members are educated about the product
-

# Framework outline – Product design

- Benefit Design – type of benefits covered:
  - GP consultations
  - Specialist consultations with referral
  - Acute medication
  - Chronic medication
  - Dentistry
  - Optometry
  - Pathology
  - Radiology
  - Emergency services (road/air transport)
  - Emergency casualty services
  - Hospitalisation (Public/Private)



# Product design Guidelines

- Benefit Design:
  - A predetermined set of benefits that the product must comply with to ensure that appropriate healthcare is provided
    - Work will commence to investigate design considerations and effectiveness of interventions
    - Analysis of cost effectiveness of predetermined set of benefits
    - Continuation of care – out-of-network benefits
    - Alignment with S27 and NHA
  - Flexibility in benefit design was considered:
    - Concerns are that objective of providing cost effective and quality care not being maintained
    - Uncertainty created in the target market due to information asymmetry

# Product design Guidelines

- Benefit Design comments:
  - Exemption partially or fully from the PMB requirements
  - Standardised benefit package to be included
    - Primary care
    - Capitated arrangements to provide benefits
    - Out-of-network cover
    - Hospitalisation depending on cost and affordability

# Product design Guidelines

- Affordability of benefit package as key consideration incl. subsidy considerations
- Simply and clear design – reduces NHE



# Product Design: Technical work

- Design of benefits taking into account affordability and health need will be provided in guidelines:
  - Access to benefits and level of care (GP or entry level)
  - Formulary at primary level
  - Requirements as to:
    - Radiology
    - Pathology
    - Level of cover: Optical and Dentistry
    - Level of cover for Hospitalisation



# Benefits of LCBOs

- Framework ensures that low cost options fall under MSA
- Possible exemption from open enrolment
- Introducing cross-subsidies to the LCBO market
- Defined and limited underwriting restrictions
- Guaranteed renewal of cover
- Opportunity for buy-up for members participating in LCBO
- Employer participation – expanding Complaints can be handled into MSA
- Benefits targeted to need and affordability

# Way forward

- Broad outline provided to industry for comment
- Further consultation with the industry to aid in the development of guidelines
  - Circulars requesting information and proposals as to benefit composition and terms of exemptions
  - If needed - workshops with industry and stakeholders
  - Review of comments and refining the approach by CMS to benefit design, etc
- Preparation of guidelines for Council adoption
- Publication of guidelines and applications process begins

**THANK YOU**