



CIRCULAR

Reference: Guidance on benefit changes & contribution increases for 2015
Contact person: Lindiwe Twala
Tel: 012 431 0531
Fax: 012 431 0631
E-mail: l.twala@medicalschemes.com
Date: 23 July 2014

Circular 34 of 2014: Guidance on benefit changes & contribution increases for 2015

The Council for Medical Schemes (CMS) hereby prescribes to medical schemes the requirements for the assessment of the benefits and contributions for the 2015 benefit year.

The submission process remains relatively unaltered when compared with the requirements for the 2014 benefit year.

1. The following process must be adhered to when submitting amendments in terms of Section 31(3), Regulation 2(d) and Regulation 4(b) & (d) of the Medical Schemes Act 131 of 1998:
 - 1.1. All schemes must submit a dated and certified resolution of their respective Board of Trustees with the wording "Certified as having been adopted in terms of the rules" together with a summarised or tracked changes of the proposed changes to the respective benefits and/or contributions.
 - 1.2. All schemes must submit an original plus one copy of the amendments to their respective benefits and/or contributions. Any rule amendments that the CMS requested in previous submissions must be incorporated into the current amendments, if not done so already.
 - 1.3. All schemes with amendments taking effect from 1 January 2015 are advised to adhere to the submission deadline which applies to the receipt of signed hard copies of the amendments and NOT to the electronic copy.
 - 1.4. No text can be underlined in the rules of each medical scheme.
 - 1.5. All submissions must be printed in black and white and on one side of A4-sized paper only. The printed text must not be colour highlighted, punctured and/or bound in any form.

- 1.6. Appendix 1A or 1A (2) must be completed once only for each benefit option which was registered in 2014, and once only for those intending to be registered for 2015.
- 1.7. Appendix C or C(2) must be completed for each benefit option which was registered in 2014 - with different contribution rates based on income band or sub-options - if the benefit option is to be registered for 2015.
- 1.8. Appendix 1B must be completed for the entire medical scheme for both 2014 and 2015. Please note that schemes under close monitoring by the office need to input the approved solvency ratio (row u) for 2014 and 2015 in Appendix B as per the approved business plan. The projected solvency ratio for 2014 and 2015 in Appendix 1B will be assessed in terms of the solvency ratio in the business plan approved by CMS and any deviation must be explained in the schemes submission.
- 1.9. Appendix D requires information about the assumptions on cost increases and utilisation that medical schemes used in determining their respective contribution increases for the 2015 benefit year. Each medical scheme must complete the spreadsheet once only, and deviation(s) from the guideline assumptions must be explained in the motivation for increases.
- 1.10. Both hard and soft (electronic) versions of all the Appendices must be submitted by the deadline. Only the provided spreadsheet can be used for the submission. The spreadsheet is available here http://www.medicalschemes.com/files/Application%20Forms/Circular34Of2014C_B2015.xls and on the CMS website.

Any submission without all of the above requirements will be deemed non-compliant and will not be attended to.

2. Schemes are further required to indicate percentage changes on any benefits being amended in a tabular form, as follows:

Name of benefit option			
Benefits / services	2014	2015	% change
E.g. day-to-day limit	E.g. R8 000 per beneficiary	E.g. R8 800 per beneficiary	10% increase

3. In instances where registered rules or rule amendments impose monetary limits on benefits, an explicit condition must be added that the limit does not apply to the prescribed minimum benefit (PMB) conditions and that PMBs are paid in full at a designated service provider (DSP), as stipulated in the Medical Schemes Act. The submission of rule amendments with limits on PMB conditions will be amended to reflect that these benefits are in fact provided at no cost to beneficiaries; this is to ensure that rule amendments are always fair to beneficiaries and so compliant with the Medical Schemes Act.
4. Applications for all new benefit options taking effect from 1 January 2015 must reach the CMS by 1 September 2014 in terms of Section 33(1) of the Medical Schemes Act. Applications received after 1 September 2014 will not be given priority until the CMS has considered all the benefit and contribution amendments of those medical schemes who submitted their amendments by the stipulated deadline.
5. Schemes seeking to register efficiency-discounted sub-options must have obtained exemption from Section 29(1)(n) of the Medical Schemes Act. Section 8(h) stipulates that only Council (the Board of the CMS) has the power to grant exemptions from any provision of the Medical Schemes Act. Remember that an exemption must be obtained for each efficiency-discounted sub-option; exemption is not granted at scheme level.
6. In order to expedite the 2015 registration process, schemes are requested to submit amendments to rules relating to the changes to the contributions and benefit changes only. Any changes to the scheme's main rules will not be

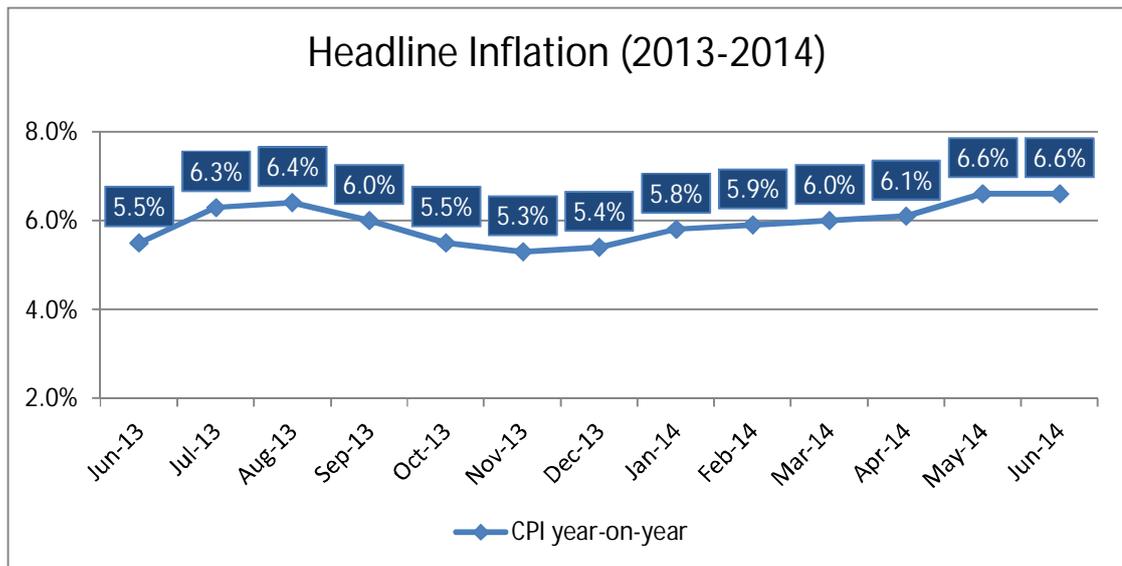
given priority except for changes that have an impact on the changes to benefit and contributions for 2015, for example the amendment of scheme tariffs for 2015.

7. Guidance note on annual medical schemes cost increase assumptions

The purpose of this section is to inform medical schemes of the key considerations which the CMS will take into account when assessing the industry cost increase assumptions for the 2015 benefit year. The CMS would therefore like to provide the following guidance on the assumptions to be used when determining the proposed contribution increases.

7.1. Headline Inflationary Expectations

The graph below shows historical Consumer Price Index (CPI) data as published by Statistics South Africa providing information to June 2014.



- 7.1.1. The year on year inflation rate as measured by consumer price index (CPI) was steady at 6.6% in June 2014. This rate was the same as the corresponding figure in May, but up from 6.1% in April 2014.
- 7.1.2. According to the inflation forecast of the South African reserve bank, as indicated in the July monetary policy statement, inflation is expected to average 6.3% in 2014, 5.9% in 2015 and 5.6% in 2016. Furthermore, inflation expectations as forecast in the quarterly BER (Bureau for Economic Research) is somewhat similar to that of the SARB where annual CPI is forecast at 6.1% and 5.7% for 2014 and 2015 respectively.
- 7.1.3. Having considered the year-on-year changes in the CPI and other key economic indicators, the Council for Medical Schemes hereby advises that the cost increase assumptions of medical schemes for the 2015 benefit year should be limited to a maximum of 6% for each individual cost driver.
- 7.1.4. Notwithstanding the risk posed by the volatility in the rand exchange rate and other industry specific challenges, it remains the position of CMS that the increase in hospital fees, pharmaceutical products and therapeutic appliances should also be limited to a maximum of 6.0% in line with the consumer inflation.
- 7.1.5. Historical data shows that the year-on-year increases in non-healthcare expenditure (i.e. administration and managed care fees) have been below CPI. Based on this trend, the assumed increase in non-healthcare expenditure for 2015 should not exceed the cost increase assumption limit in paragraph 7.1.3 above.

7.2. Single Exit Price (SEP)

The actual (and approved) adjustment to the Single Exit Price (SEP) is published by the Minister of Health towards the end of each year.

The table below provides historical increases in SEP between 2010 and 2013, with SEP for 2015 still to be published.

Year	SEP increase
2010	7.4%
2011	0%
2012	2.14%
2013	5.8%
2014	5.82%
2015	Not yet published

Medical schemes are advised to apply a reasonable estimate in their 2015 assumptions for medicine costs.

7.3. Healthcare utilisation indicators

The analysis that was performed on the changes to benefits and contributions for the 2014 benefit year showed that demographics and utilisation together added an average of 2.3% to the cost increases in medical schemes (see Circular 14 of 2014). The utilisation of healthcare services is driven mainly by demographic indicators, epidemiological changes, and diagnostic technology. This is why medical schemes are requested to submit a comprehensive analysis of these factors when motivating for their respective assumptions (Appendix D) used in determining contribution increases for 2015.

A motivation for the required changes to benefits and contributions must accompany all submissions. The guidance provided above regarding the limit on the cost increase assumptions should be taken into consideration when determining the adequacy of contribution increases, and any deviation(s) from the guideline should be motivated.

8. As indicated in Circular 29 of 2012, a report that is sent together with the proposed amendments must take into account the requirements of the Advisory Practice Note (APN) published by the Actuarial Society of South Africa (ASSA), and specifically APN303 – *Advice to South African Medical Schemes on Adequacy of Contributions* (replaces PGN303).

This report must be prepared by a person with the appropriate actuarial and/or statistical skills, and should include the following detailed information:

- benefit changes
- contribution increases
- non-healthcare expenses

- assumptions
- financial projections

This Advisory Practice Note can be found on the ASSA website (<http://www.actuarialsociety.org.za>).

9. Compliance with Circular 26 of 2014 (Open enrolment following termination for material non-disclosure)

Section 29(3)(a) of the Act states that a medical scheme may not provide in its rules for exclusion of any applicant or a dependent of an application, subject to the conditions as may be prescribed, from membership except for a restricted membership scheme as provided for in the Act.

As indicated in Circular 26 of 2014, it is an offence to deny membership to a member whose membership was previously terminated due to non-disclosure. Medical schemes are therefore required to amend their rules accordingly. Should a scheme fail to submit such amendments, Section 31(4) of the Medical Schemes Act will be applied to ensure that the rules comply with the Act.

10. Retrospective review of registered rules

The CMS may, from time to time, review the rules of a medical scheme and order a scheme to amend any rule that was previously registered but which is being applied inconsistently with the Medical Schemes Act. Should a scheme fail to submit such amendments, its rules will be amended unilaterally in terms of Section 31(4) and will consequently be binding in terms of Section 32 of the Medical Schemes Act.

11. No amendments to the rules of a medical scheme will be valid unless they have been approved and registered by the CMS in terms of Section 31(2) of the Medical Schemes Act. The marketing of amendments that have not been approved and registered is strictly prohibited, and would amount to a transgression in terms of Section 66 of the Medical Schemes Act.

The deadline for medical schemes to submit their rule amendments taking effect from 1 January 2015 is 1 October 2014, although the CMS welcomes early submissions.

Kindly refer any queries you may have to the Benefits Management Analyst responsible for your scheme.

Your cooperation is always appreciated.



Daniel Lehutjo
Acting Chief Executive & Registrar
Council for Medical Schemes