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Circular 47 of 2011: Update on Implementation of the Risk Equalisation Fund Shadow Process

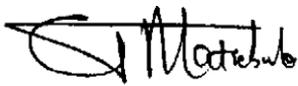
In 2005, the Department of Health proposed implementation of a Risk Equalisation Fund (REF) to enhance medical scheme fairness and stability. The general aim of implementing risk equalisation systems globally is to prevent health insurers engaging in risk selection.

In piloting the system in South Africa, the Department of Health delegated responsibility of implementing a shadow phase of the REF to the Council for Medical Schemes (CMS). As part of the REF shadow period CMS started collecting and analysing consolidated monthly risk factor returns from medical schemes on a quarterly basis. The main purpose of the shadow period was to give schemes and the Department of Health an opportunity to prepare for a system of risk equalisation and to test the risk equalisation formula. This entailed the development of specific skills and development of systems to administer the REF.

Further developments in the health policy direction of the country have resulted in the recent announcement of plans to implement a National Health Insurance (NHI) system and publication of the green paper in this regard. While the draft policy paper is emphatic in envisaging the continued existence of medical schemes even in an NHI dispensation, it is highly unlikely that a risk equalisation system will be implemented in the near future.

The recent developments highlighted above have resulted in CMS having to reorganise some of the functions as they relate to implementation of a risk equalisation mechanism. The CMS has over time developed expertise in the measurement of the risk profiles of medical schemes using the risk factor returns. This knowledge of medical schemes' risk profile has allowed the office to take a more informed and measured approach in the regulation of medical schemes. It is on this basis that the Council has resolved to continue collecting the consolidated risk factor returns.

The CMS will invite all affected stakeholders to a meeting in January 2012 to report on the REF work done so far and discuss the recent developments around the REF project in more detail. The meeting is currently scheduled to take place tentatively on 24 January 2012 but a specific invitation will be sent out in this regard.

A handwritten signature in black ink, appearing to read 'Thulani Matsebula', with a stylized flourish at the end.

THULANI MATSEBULA

HEAD: RESEARCH AND MONITORING