



CIRCULAR

Reference: Classification and disclosure of administration costs included in administration fees
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Date: 21 October 2014

CIRCULAR 48 OF 2014: CLASSIFICATION AND DISCLOSURE OF ADMINISTRATION COSTS INCLUDED IN THE CONTRACTED THIRD PARTY ADMINISTRATION FEES

Over the past few years the Council for Medical Schemes (CMS) has strived to gain a better understanding of the various components of non-healthcare expenditure and its drivers, including the cost of *bona fide* administration fees (related to the core administration services as specified in the administration agreements with third party medical scheme administrators) relative to the total cost of administration of medical schemes.

Regulation 18 of the Medical Schemes Act 131 of 1998 (the Act), as well as the Administrator Accreditation Standards require that the scope and duties of the administrator and its remuneration (as well as the basis on which it is determined) be clearly specified in the administration agreement between a scheme and the third party administrator.

Medical schemes are required to report on an annual and quarterly basis, details of the administration costs paid by schemes to both third party administrators and any other third party (ies) – refer to annual return part 4.16.1 and quarterly return part 3.6.

The individual components of administration costs are currently not comparable across all schemes due to these services often being included in the administration agreement and consolidated in a composite administration fee.

Examples of such administration cost type services / expenditure included in the administration fees are:

- Actuarial services;
- Fidelity and indemnity insurance provided/secured on behalf of medical schemes;
- Marketing and advertising; and
- Printing and stationery.

To enable CMS to adequately analyse and understand all the components of administration costs with regards to the abovementioned statutory submissions in future, administrators and medical schemes are required to allocate and disclose all other administration cost type services as indicated above separately from the administration fees. This would require these kinds of services/costs to be either specified in separate contracts with administrators or to be specified separately in the administration agreement to enable transparent disclosure thereof.

This requirement is effective from 1 January 2015. Amendments to current administration agreements should be effected, or new agreements negotiated between administrators and medical schemes, to accommodate the above requirements.



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