CIRCULAR

Reference:	Guidance on benefit changes & contribution increases for 2016
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Circular 48 of 2015: Guidance on benefit changes & contribution increases for 2016

The Council for Medical Schemes (CMS) hereby prescribe to medical schemes the requirements for the assessment of the benefits and contributions for the 2016 benefit year.

The submission process remains relatively unaltered when compared with the requirements for the 2015 submission.

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 summary of, or tracked changed version 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 2016** 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 original and copied rules of each medical scheme. The tracked changed/summarised version is for purposes of reviewing the amendments being made to the currently registered rules.

    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 2015, and **once only** for those intending to be registered for 2016.

1.7. **Appendix C or C(2)** must be completed for each benefit option which was registered in 2015 - with different contribution rates based on income band or EDO sub-options - if the benefit option is to be registered for 2016.

1.8. **Appendix 1B** must be completed for the entire medical scheme for both 2015 and 2016. Please note that schemes under close monitoring by the CMS need to input the approved solvency ratio (row u) for 2015 and 2016 in Appendix B as per the approved business plan. The projected solvency ratio for 2015 and 2016 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 2016 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. As part of the 2016 submission process, medical schemes are now required to classify their benefit options based on the benefit design and level. **Appendix E** must be completed for all the options in the scheme using the drop down boxes provided. The Appendix must be completed once for each benefit option which was registered in 2015, and for those intending to be registered for 2016. The spreadsheet is available here and on the CMS website.

1.11. 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 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 (submitted in **word/excel format electronically**) and hardcopy, as follows:

Name of benefit option			
Benefits / services	**2015**	**2016**	**% change**
E.g. day-to-day limit	E.g. R5 000 per beneficiary	E.g. R5 500 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 PMB's 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 compliant with the Medical Schemes Act.

4. Applications for all **new benefit options** taking effect from 1 January 2016 must reach the CMS by 1 September 2015 in terms of Section 33(1) of the Medical Schemes Act. Applications received after 1 September 2015 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.

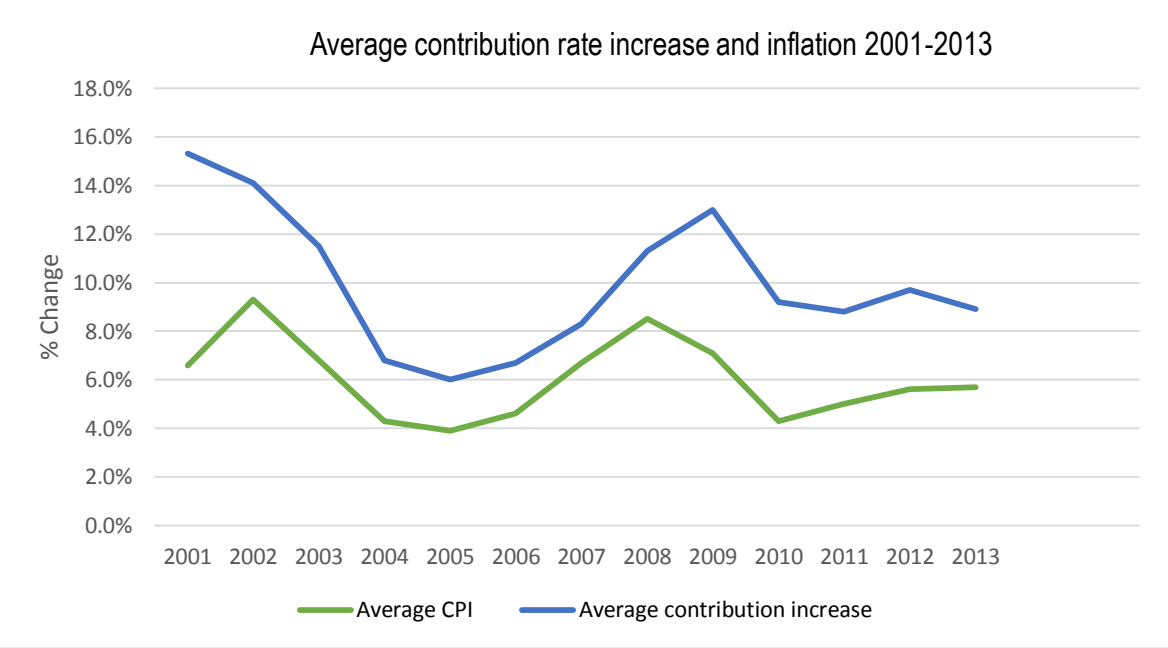
6. In order to expedite the 2016 registration process, schemes are requested to submit amendments to rules relating to the **changes to the contributions and benefit changes only**. Any changes to the scheme's main rules will not be given priority except for changes that have an impact on the changes to benefit and contributions for 2016, for example the amendment of scheme tariffs for 2016.

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 2016 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. **Historical contribution rate increase relative to consumer inflation**

Figure 1



7.1.1. The graph above shows historical average consumer inflation as measured by the Consumer Price Inflation (CPI) y-on-y relative to average medical scheme contribution rate increases. Consumer Price Index is used as a proxy for affordability since most sectors within the economy experience CPI-linked salary increases, if any.

7.1.2. It is evident that since 2001 medical scheme contribution rate increases have consistently outpaced consumer inflation. As a consequence, membership growth has been decreasing from 3.1% 2009 to just about 1.8% in 2013. Whilst CMS is cognisant of the impact of utilization, reserve loading requirements and other industry specific cost-push factors, it is clear that contribution increases in

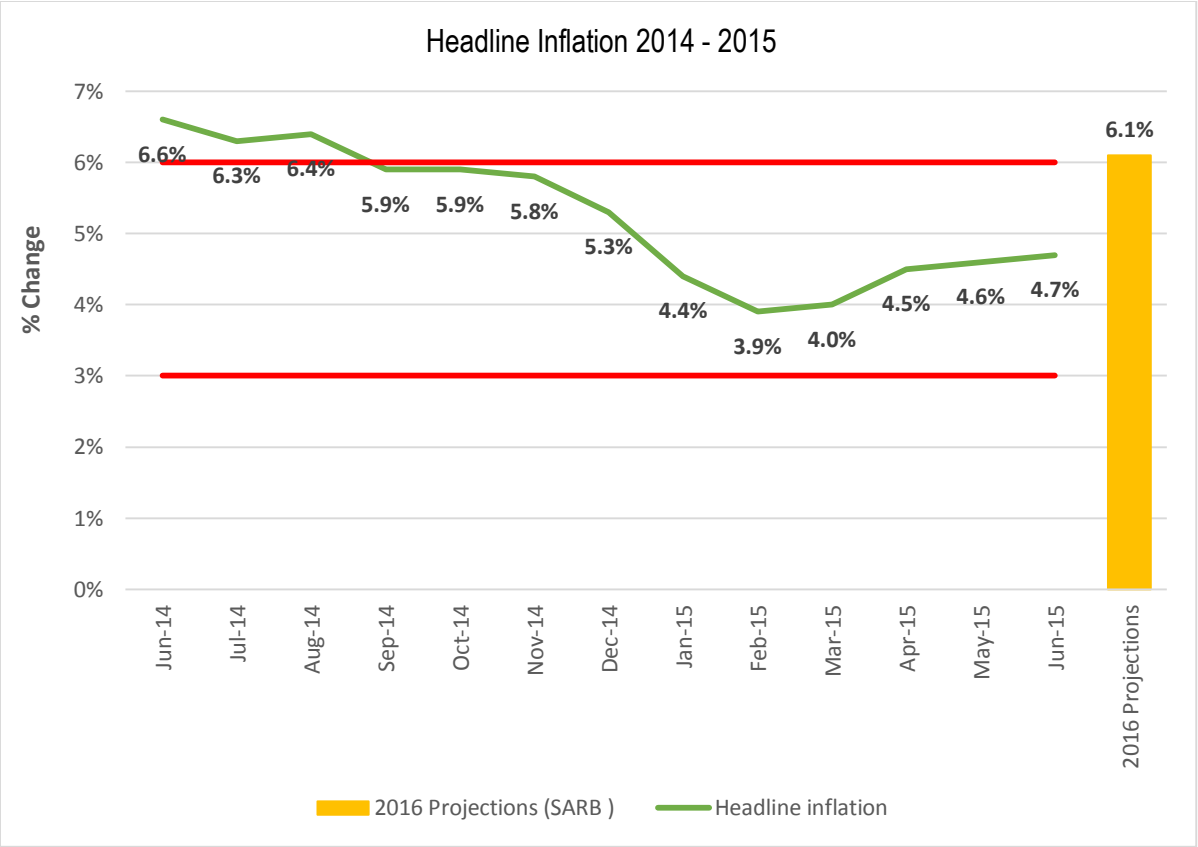
excess of CPI place an undue financial burden on members within the industry. Furthermore, a higher contribution rate also serves as a barrier to entry for potential members limiting the extent of risk pooling, cross subsidisation and affordability.

7.1.3. The contribution rate price stickiness remains a concern for the office of the Registrar of Medical Schemes as it threatens the long term sustainability of the medical scheme industry due to affordability constraints. Accordingly, any medical scheme pricing philosophy should take into account affordability constraints, particularly in the context of the current domestic weak economic environment.

7.2. Headline Inflationary Expectations

The graph below shows historical Consumer Price Index data as published by Statistics South Africa providing information to June 2015.

Figure 2



7.2.1. Consumer price inflation, as measured by Consumer Price Index was 4.7% in June 2015. This rate was a tad higher than the corresponding annual rate of 4.6% and 4.5% in May and April 2015 but much higher than the 4.0% recorded in March 2015.

7.2.2. In its July policy statement, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) has noted that near-term inflation outlook has deteriorated with inflation risk now tilted towards the upside. Headline inflation is expected to breach the upper end of the target range during the first two quarters of 2016. The bank has cited the depreciation in the exchange value of the rand as the main risk to inflation overshooting.

7.2.3. According to the inflation forecast of the SARB, headline inflation is projected to average 6.1% and 5.7% in 2016 and 2017 respectively. Almost similar to the SARB forecast, inflation expectation as reflected in the survey conducted in the second quarter of 2015 by the Bureau for Economic Research (BER), headline inflation is expected to average 6.1% in 2016 and 5.8% in 2017. Whilst according to the National Treasury, headline CPI is projected to be 5.9% and 5.7% for the same period.

7.2.4. Having considered the year-on-year changes in the CPI and other key economic indicators, the CMS hereby advises that the cost increase assumptions of medical schemes for the 2016 benefit year should range between 5% and 6% for each individual cost driver.

7.2.5. Notwithstanding further volatility in the exchange rate, mainly due to the impending monetary policy normalisation in the US and other unique industry specific challenges, it remains the position of the CMS that the increase in hospital fees, pharmaceutical products and therapeutic appliances should also range between 5% and 6%.

7.2.6. 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 2016 should **not** be greater than the CPI projections for 2016.

7.3. 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 from 2009-2015, with SEP for 2016 still to be published.

Table 1: *SEP Publications (2009-2015)*

Year	CPI	SEP Increase
2009	7,10%	13,20%
2010	4,30%	7,40%
2011	5,00%	0,00%
2012	5,60%	2,10%
2013	5,73%	5,80%
2014	5,82%	5,82%
2015	4,60%	7,50%

Note: *SEP formula is published by the Pricing Committee*

Medical schemes are accordingly advised to apply a reasonable estimate in their 2016 assumptions for medicine costs.

7.4. Healthcare utilisation indicators

The analysis that was performed on the changes to benefits and contributions for the 2015 benefit year showed that demographics and utilisation together added an average of 2.94% to the cost increases in medical schemes (see Circular 23 of 2015). 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.

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. 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 2016 is **1 October 2015**, 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