



Reference: LCBO Exemption Framework Approved
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Circular 54 of 2015: Low cost benefit options (LCBOs) framework and principles approved as well as guidelines for preparation of a business plan pursuant to an application for exemption to register a LCBO

1. Introduction

The Council (equivalent of a Board) of the Council for Medical Schemes (CMS) at its August 2015 sitting approved the exemption framework and principles allowing for the introduction and registration of Low cost benefit options (LCBOs) within the medical schemes industry effective from 01 January 2016. In terms of the approved framework, medical schemes seeking to register a LCBO must apply to Council for exemption in terms of section 8(h) of the Medical Schemes Act, 131 of 1998. Furthermore, medical schemes must also apply to be exempted from complying with certain provisions of the MSA.

Council has also imposed certain principles that must be adhered to by any medical scheme seeking an exemption to register a LCBO. As part of the LCBO product offering, Council has further prescribed a minimum set of predefined mandatory benefits geared towards preventative and primary healthcare, management of acute conditions and a limited set of chronic conditions. Furthermore, a defined list of mandatory LCBO essential drugs, pathology tests, radiology tests, dental procedures and a limited chronic condition list must be included as part of the benefit offering.

The requirements for the application for exemption and detail of the minimum set of predetermined benefits are set out in the *"Guideline for preparation of a business plan pursuant to an application for exemption as per section 8(h) and for the registration of a low cost benefit option (LCBO) in terms of Section 33 of the Medical Schemes Act 131 of 1998, as amended"* which can be found on the CMS [website](#) or by clicking [here](#).

1.1 Purpose

The purpose of this Circular is to provide medical schemes with the exemption framework and the principles of LCBOs as approved by Council as presented in the guidelines. Furthermore, the Circular provides an outline of the [guideline](#) mentioned above.

1.2 Background

The CMS introduced the concept of Low cost benefit options (LCBOs) in Circular 9 of 2015 with the principles of the framework that Council has adopted. As part of the stakeholder engagement, CMS hosted an Indaba on the 12 of March 2015 in Cape Town on the proposed LCBO framework. Furthermore, Circular 37 of 2015 was published in terms of which interested parties were requested to submit proposals on the benefit design package and pricing of a LCBO.

Based on the different submissions on the benefit design and pricing model from the industry, CMS has concluded that subject to certain regulatory interventions, including the need for exemption from certain provisions of the MSA, it is feasible for medical schemes to provide an affordable LCBO package.

1.3 Low cost benefit option (LCBO) exemptions required

A medical scheme intending to register a LCBO must submit an application to Council in terms of section 8(h) to register the option.

Furthermore, medical schemes may also apply for exemption from complying with some of the following provisions of the MSA:

- 1.3.1 Open enrolment (Section 29(3)(a) & Section 29(1)(n));
- 1.3.2 Prescribed Minimum Benefits (Section 33(2)(a); Section 29(1)(o) & Section 29(1)(p)); or
- 1.3.3 Broker remuneration (Section 65 & Regulation 28(2)).

2. Benefit Design

2.1 LCBO mandatory minimum package

Any LCBO granted exemption must provide the following minimum mandatory benefits:

LCBO mandatory minimum package and conditions

Benefit Category Description	Minimum mandatory Package	Condition/Remark
Consultations and services	5 Network Consultations pbpa	Benefit available at DSP network and must be delivered within network GP, Nurses, pharmacies and Clinics.

	Pre- and Post-natal programme 1 out-of-network Visit pbpa	Registration on the programme to access services/benefits.
Preventative healthcare	Cholesterol, blood glucose and Blood pressure tests in high risk groups HIV counselling and testing (VCT) Tuberculosis (TB) screening Pap smear Clinical breast examination via ultrasound Prostate Specific Antigen Pneumococcal vaccine Influenza vaccine	Subject to referral from network consultation to DSP.
Acute prescribed medicine	Limited to prescribed/dispensed medicine during an acute care visit	Benefit available at DSP network and must be delivered within network GP, Nurses, pharmacies and/or Clinics. Subject to formulary (Annexure A)
Chronic medicine	Subject to LCBO approved formulary and services as per defined chronic diseases in Annexure E	Benefit available at DSP network and must be delivered within network GP, Nurses, pharmacies and/or Clinics. Subject to formulary (Annexure A)
Pathology	Basic pathology required to deliver acute care and defined chronic benefits (Annexures B)	Subject to referral from network consultation and provided in DSP.

Radiology	White & black X-Rays and ultrasound (refer to annexure C)	Subject to referral from network consultation and provided in DSP.
Optometry	1 eye test per beneficiary every 24 months 1 pair of single vision spectacles every 24 months	Subject to DSP and clinical entry criteria. Standard frames.
Dentistry	2 consultations for basic dentistry pbpa (refer to annexure D)	Subject to DSP.
Emergency Road Transportation	Yes	Subject to DSP.

2.2 Product differentiation

While Council has prescribed the minimum benefit package for LCBO, medical schemes can still subject to budgetary constraints, include additional benefits. However, no LCBO shall be granted exemption without the mandatory minimum benefits.

3. PRINCIPLES OF LCBOs

The following principles shall apply to any LCBO:

3.1 Benefits delivery model

The LCBO must be delivered via a network arrangement for cost effectiveness. Medical schemes are required to submit their contractual agreements with the providers to the Registrar. The State **cannot** be the default network provider for the provision of a LCBO package.

3.2 Clinical management of patients

3.2.1 Consultations and services in network includes the provision of the following:

- Preventative health services;
- Diagnosis and management of acute conditions;
- Diagnosis and limited chronic disease management; and

- Pre- and post-natal care.
- 3.2.2 Radiology benefits are designed to diagnose conditions such as:

- Fracture and/or dislocation;
- Localised infections;
- Bowel obstruction;
- Pregnancy; and
- Tumours/possible malignancies.

3.2.3 Emergency road transport benefit.

Emergency road transport benefit is only a transport benefit to assist members in emergency situations. Purpose is to provide a reliable service at the appropriate level but avoid exposure to the cost of stabilisation in a private facility and subsequent transportation to a public facility.

3.3 Provider remuneration and contracting

Healthcare providers shall be remunerated at 100% of the negotiated tariff or agreed tariff for services rendered.

In addition schemes are required to provide the following on application for a LCBO:

- The Contracts and/or agreements with providers/MCOs,
- The formulary of medicines provided;
- The list of radiology and pathology tests provided;
- The dental and optical benefits provided; and
- The list of network providers at GP, pharmacy and clinic level.

3.4 Out-of-pocket payment and penalties to members

No medical scheme shall impose any co-payment deductible for any LCBO claims. Claims must be paid at 100% of the negotiated tariff. In addition the 1 out-of-network emergency visit must be paid at the actual claimed amount of the visit.

3.5 Membership eligibility criterion

Membership to the LCBO shall be restricted to the following:

- 3.5.1 Members whose income is below the tax threshold as published by the SARS in the benefit year.
- 3.5.2 Schemes intending to limit the membership of the LCBO to employer groups or any other categorisation of membership will be required to demonstrate exceptional circumstances.
- 3.5.3 The exemption may be granted to restrict the membership of an LCBO to geographical areas where a medical scheme has contracted designated service providers. The scheme will have to demonstrate

exceptional circumstances for the request for an exemption. This exemption will be conditional upon the scheme providing a strategy as to how it will extend the geographical coverage network.

3.6 Underwriting conditions (waiting period and late joiner penalties)

No late joiner penalty may be imposed for any new member joining a LCBO. However, normal underwriting conditions as provided for in the MSA (waiting periods), may be imposed should a member on a LCBO select to upgrade to the other benefit options offered by a medical scheme, except where the upgrade is as a result of:

- Circumstances contemplated in section 29A(6)(a) and (b); or
- A change in members circumstances resulting in increased affordability or ability to access higher options.

3.7 Provision for non-health expenditure (NHE)

While Council shall not prescribe the level of NHE for LCBO from inception, Council may decline any application for exemption where the pricing model is premised on an unreasonably high level of NHE. Furthermore, the level of the industry's NHE shall be reviewed annually in the subsequent years and Council may in future impose a cap on the level of NHE.

3.8 Broker remuneration model

The current limitation imposed in terms of section 65 read with regulation 28(2) (a) for the remuneration of brokers shall also apply for LCBOs. Remuneration for services in respect of a LCBO for applications received from employer groups will remain consistent with the current regulatory stipulation of 3% of the GCI. Schemes may apply for an exemption from section 65 to amend to level of remuneration to brokers for applications by individual members only. The remuneration for these applications must be limited to the levels shown in the table below.

Contribution for individual member (pm)	Brokerage as a percentage of contribution (%)	Rand (pm)
R0 – R200	10%	Up to R20
R201 – R300	7%	R14.01 to R21.00
R301 +	5%	R15.05 up to maximum R25*

*commission rates for contribution levels greater than R301 pm is capped at R25 per month (pm)

3.9 Statutory solvency requirement

Medical schemes offering LCBO are still required to maintain the solvency ratio as per the requirement of regulation 29(2). For schemes that apply for LCBO options that are in breach of this provision, allowance will be made to incorporate the impact that the LCBO options may have on the targeted solvency of the scheme in terms of its approved business plan as per the requirements of regulation 29(4).

Schemes that are compliant with Regulation 29(2) that may fail to comply with the requirement of Regulation 29(2) after the registration of a LCBO, will still need to comply with the requirements of Regulation 29(4). The normal regulatory process of supplying the CMS with the course of action being adopted to ensure compliance, will acknowledge the impact of the LCBO on maintaining adherence to Regulation 29(2).

3.10 Renewal of exemptions

Any exemption granted under section 8(h) for registration of a LCBO shall be valid for a period of up to 24 months. A medical scheme must apply for renewal of the exemption prior to its expiry. Council may revoke the exemption if the Registrar/Council has a reason to believe that any conditions imposed or the principles of the LCBOs are not complied with.

4. Guidelines for preparation of a business plan

A medical scheme seeking exemptions to register a LCBO must submit a detailed business plan relating to its intention to register a LCBO. This must include, amongst other things, the following minimum information:

- A brief description of the existing benefit options;
- A brief description of the LCBO; indicating what the preferred outcome (main objective/purpose) is of the LCBO (i.e. the gap it is intending to fill in the scheme's current options structure);
- A comparison of the LCBO with the current option(s) available in the market; the scheme should also indicate why the LCBO will be attractive to the market/members (i.e. market comparison)

In introducing a LCBO, there may be changes within existing options that may alter the current solvency and even liquidity state of the scheme. Such factors or changes will need to be taken into account in the design, marketing and implementation of the benefit option.

The scheme will therefore have to outline where possible, all those factors and its overall effect on the reserves of the scheme. Furthermore, the resultant changes may negatively impact on the existing options. In that case, a synopsis of how the scheme will address the issue in evaluating the entire business plan/ application for registration of LCBO must be included.

4.1 Financial plan

The scheme should provide financial projections and the impact on the scheme's financial position based on the introduction of a LCBO. The projections should cover a period of at least two full calendar years.

4.2 Independent review

The application for exemption must be accompanied by an independent report from an expert evaluating the adequacy of the proposed benefit offering and the pricing model. This report must be prepared by a person with the appropriate actuarial and/or statistical skills, and should include the following detailed information:

- Contributions, taking into account the level of benefits offered by the scheme;
- The level of contribution to be utilised towards reserve building;
- The level of non-healthcare expenditure;
- The effect on existing options (i.e. buy down/up to other options).
- Overall risks faced by the scheme with the introduction of the LCBO and the risk mitigating strategies.
- Sensitivity analysis
- Financial projections

4.3 Annexures to the business plan

The following annexures must be submitted as part of the exemption application and must include the minimum mandatory essential drugs list, pathology tests, radiology tests, dental procedures and a limited chronic condition list as prescribed by Council.

- 4.3.1 Annexure A - LCBO Mandatory Essential Drug List
- 4.3.2 Annexure B- LCBO Mandatory Pathology Tests
- 4.3.3 Annexure C- LCBO Mandatory Radiology Tests
- 4.3.4 Annexure D- LCBO Mandatory Dental Procedures
- 4.3.5 Annexure E- LCBO Mandatory Chronic Conditions List

Medical schemes intending to register LCBOs from the 01 January 2016 are now invited to submit their application for exemption and registration as per the guidelines provided.

The normal administration procedure for submission of the benefits schedules, contribution tables and scheme rules as per Regulation 2(d) and Regulation 4(b) & (d) applies. Kindly refer to section 1 of Circular 48 of 2015 for the detailed administration requirements. The annexures to the business plan must be submitted electronically.

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

Your cooperation is always appreciated.

A handwritten signature in black ink, appearing to be 'D. Lehutjo', enclosed within a circular scribble.

Daniel Lehutjo

Acting Chief Executive and Registrar

Council for Medical Schemes