



CIRCULAR

Reference: CMS to discuss low cost option
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Circular 9 of 2015: CMS Discussion on the Introduction of a Low Cost benefit Option (LCBO) Framework

The Council for Medical Schemes (CMS) is currently considering the introduction of a guideline which will allow medical schemes to introduce low cost benefit options (“LCBO’s”) in the near future. The guideline aims to provide schemes with the requirements of a proposed framework to be adopted by the CMS and Council to allow the introduction of LCBO’s in the medical schemes environment. Based on the Stats SA Labour Force Survey for Quarter 1, 2012, there are approximately 6 million people who are in formal employment but who do not have medical scheme coverage. Accounting for spouses and dependent children this can be extrapolated to about 15 million people. The LCBO’s will aim to attract these people to the risk pool by addressing affordability issues and catering for the specific needs of the market.

The purpose of this Circular is to invite early comments from industry stakeholders on what detailed aspects to consider in developing such a guideline based on the proposed framework. Furthermore, this Circular wishes to highlight that the 5th CMS Indaba taking place in Cape Town on 12 March 2015, will provide an opportunity for at least four industry stakeholders to make presentations as well as a panel discussion on the framework.

It is the intention of the CMS to approve low cost options in registered medical schemes by means of exemptions as contemplated in section 8 (h) of the Medical Schemes Act, 131 of 1998 (Act), which states: “Council may exempt, in exceptional cases and subject to such terms and conditions and for such period as the Council may determine, a medical scheme or other person upon written application from complying with any provision of this Act.” It will however be necessary to develop a set of comprehensive guidelines underpinning the framework in order for the CMS and Council, to consider such exemptions.

Some of the broader principles for consideration in the comments from the industry, to contribute to the development of the guidelines based on the proposed exemption framework, are as follows:

- Protecting risk-pooling – The principle of risk-pooling and its maintenance is a cornerstone of the Act. The framework aims to ensure that the existing medical scheme risk pool is not undermined or fragmented and a view as to its maintenance under the LCBO framework is welcomed.
- Benefit Design – The MSA currently requires that all registered options includes prescribed minimum benefits (PMBs). The proposed framework envisages a partial departure from the current requirement to the extent that an exceptional circumstance is demonstrated and that the proposed benefits in LCBO are based on affordability of the intended target market, cost-effective and evidence based healthcare provision and responsiveness to market preferences. The framework intends maintaining the content and objective behind PMBs to the extent to which affordability is not compromised. Suggestions to the deviation from the current dispensation is welcomed.
- Continuation of care – The intention of the framework is to ensure continuation of care in a setting that may be out-of-network based on the proposed coverage of the LCBO's as these products are typically developed on the basis of contracted networks of primary healthcare providers.
- Solvency Protection – The Statutory solvency requirement in terms of the MSA is a principle that the framework intends maintaining as the requirement is intended to protect financial integrity of a scheme. An application for a LCBO that requires an exemption from the statutory requirement may not be under the proposed framework.
- Non-Health Expenditure (NHE) – In evaluating the value proposition of any suggested product, the affordability of the proposed contribution must also ensure that the level of NHE is brought to a proportionate level to ensure that the benefits provided are optimised.
- Marketing – The framework envisages the granting of exemptions subject to certain conditions and a defined terms for the operation of the LCBO's. The purpose of the framework is to expand coverage to the persons that have not been members of a medical scheme previously (referred to as previously uncovered market). It is important to ensure that in marketing of the LCBO's it should be targeted at the previously uncovered market and that they are not misled into believing they are purchasing a more comprehensive product than is actually the case.
- Underwriting - Late joiner penalties – Should not be applied: The very rationale for exemptions is that these people have been excluded from risk-pooling opportunities not by virtue of voluntary risk selection, but instead by virtue of economic disadvantage.
- The framework provides for the opportunity to be responsive to the needs of the environment while at the same time wishes to ensure that the policy objectives of open enrolment, community rating, consumer protection, non-discrimination and expanding risk-pooling objectives are demonstrably furthered with each exemption.

Interested stakeholders are invited to either submit written submissions and/or indicate their willingness to do a short presentation and/or to participate in the panel discussion at the 5th Indaba to be held in Cape Town on 12 March 2015. **Please respond to LCB@medicalschemes.com by Friday 27 February 2015.**

The initial engagement with industry, at the 5th Indaba on 12 March 2015, will be followed up with another session in Gauteng later in the year, once the guidelines and framework has been drafted.



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