

Low Cost Options

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Government Employees Medical Scheme (GEMS)



- ❁ The existing regulatory framework
- ❁ Regulatory challenges
- ❁ A complete regulatory framework
- ❁ Low cost benefit options
- ❁ Conclusion

The existing regulatory framework

The existing regulatory framework

The current regulatory framework was designed to encourage social solidarity and to safeguard the sustainability of private healthcare funding



The intended regulatory framework has only been partially implemented – this gap weakens the sustainability of private healthcare funding



Open enrolment

- Membership is independent of health status

Community rating

- Contributions are independent of health status

Prescribed minimum benefits

- A basic benefit package to ensure equitable access to care

Compulsory membership

- There is no obligation for uninsured lives to join medical schemes leading to anti-selection

Income cross subsidisation

- There is no obligation for schemes to enforce income cross subsidies which inhibits affordability

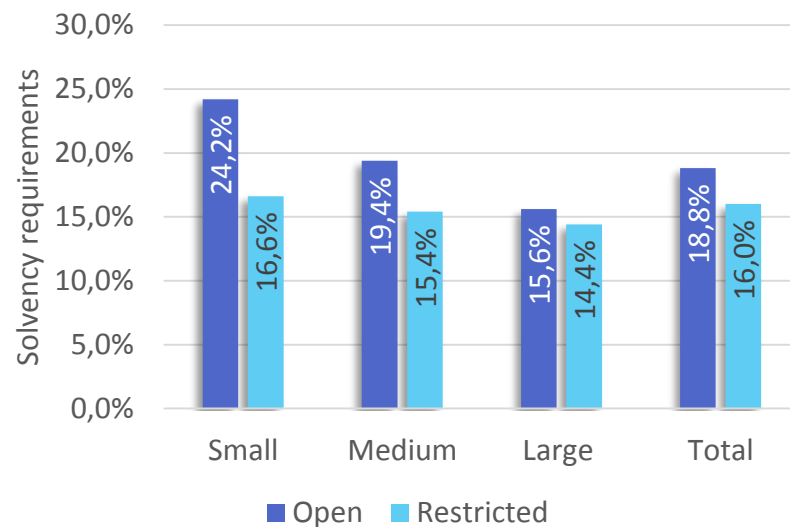
Regulatory challenges

- There is limited basis on financial, insurance or actuarial grounds for the current 25% reserve requirements.
- Risk based reserve requirements would be in a range closer to 15-20% depending on the size and risk profile of the Scheme.

Schemes would be able to offer more competitive contributions

Schemes would more easily be able to offer low cost products

Risk based solvency requirements



Source: Insight Actuaries and Consultants

Prescribed minimum benefits

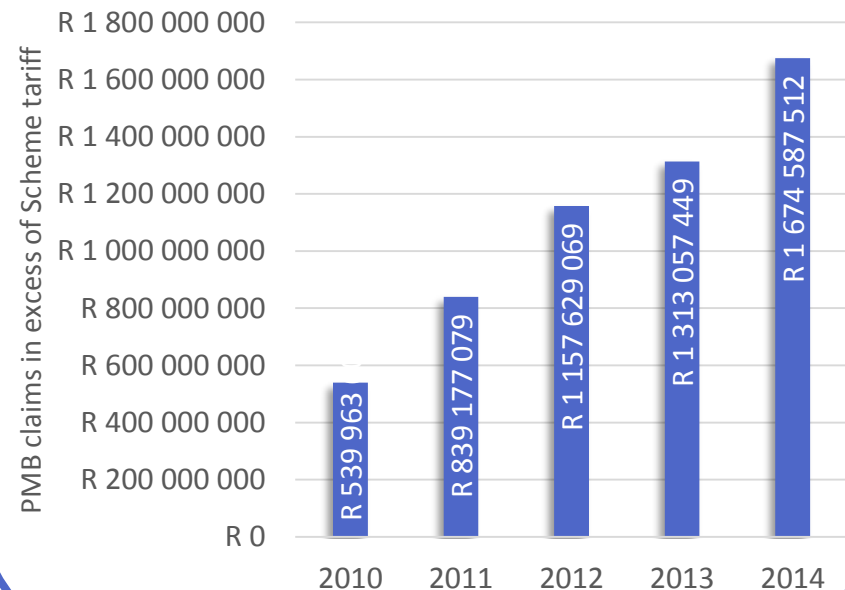
The application of prescribed minimum benefits has a number of **unintended consequences**

Regulation 8 of the MSA – payment of PMBs in full

There has been a dramatic shift and rapid increase over the past 5 years in PMB claims from specialists and hospitals (to roughly 50% of all claims)

Regulation 8 of the MSA should be revised

PMB claims in excess of scheme rate (GEMS)



A complete regulatory environment

A complete regulatory framework

- ❁ Open enrolment
- ❁ Community rating
- ❁ Prescribed minimum benefits
- ❁ Risk equalisation
- ❁ Income cross subsidies
- ❁ Mandatory cover
- ❁ Reserving requirements
- ❁ Demarcation framework

Low cost benefit options

Affordability, wants and needs

What do uninsured lives
need and want?



What can uninsured
lives **afford?**



Low cost options need to cater to the needs and wants of uninsured lives while remaining affordable, otherwise low cost options are doomed to fail.

Affordability, wants and needs

Willingness to pay

Uninsured are willing to pay between R300 and R400 per month (2015 terms)



2,000,000

Ability to pay

Uninsured can afford to pay up to R380 per month (2015 terms), at this rate an additional 2 million lives can be covered

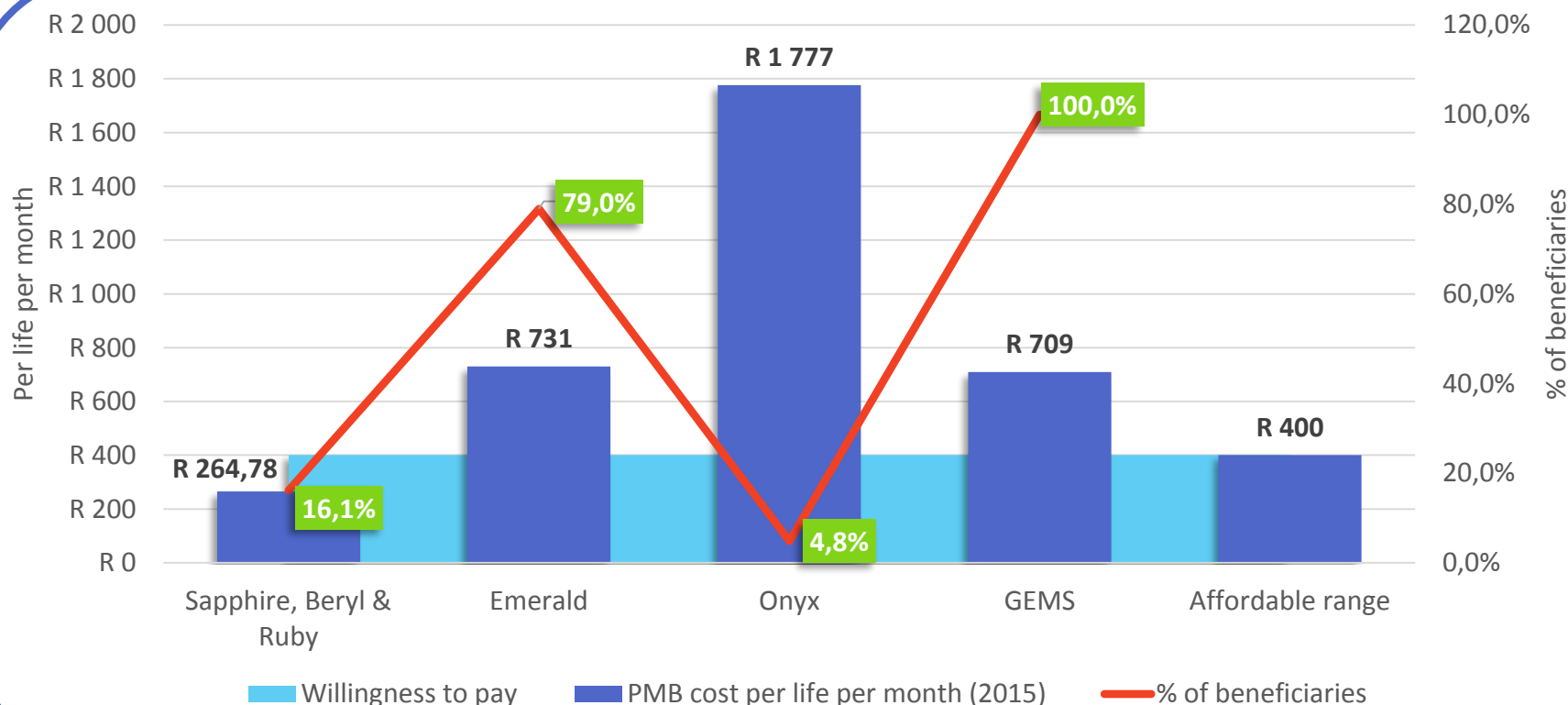
Wants and needs

Uninsured have a preference towards primary cover over tertiary cover, whether this want coincides with their needs is up for debate



These conclusions are adapted from the Income and Expenditure Study (2011) and the Low Income Medical Schemes Study (2006) – the extent to which these studies remain relevant and up to date should be debated

Affordability and PMBs



The cost of PMBs exceeds the willingness to pay – R709 per life per month

PMBs are unaffordable in the context of a low cost benefit option with broad appeal

GEMS and low cost options



GEMS has established a viable low cost option within the confines of the Medical Schemes Act

Comprehensive
primary care benefits

Hospital care in state
facilities

Income cross
subsidies

Underwriting is not
applied

Low contributions

Significant employee
subsidies

GEMS has contributed significantly to the increase in the number of insured lives

GEMS covers over 1.8 million beneficiaries (roughly 1 in 5 medical scheme beneficiaries)

Opportunities and risks



The creation of a low cost benefit option represents both **a risk and an opportunity**. There is an opportunity to expand access to private healthcare but there is also a risk that existing medical scheme offerings will be undermined through anti-selection. Such risks can be mitigated through benefit differentiation and income limits.

Conclusion

- ❁ There is a need to develop a complete regulatory framework which is consistent with the principals of social solidarity. Low cost benefit options are one part of that framework.
- ❁ There is a need to develop the benefit design structures that will underpin low cost benefit options, which cater to the needs and wants of uninsured lives at an affordable cost.
- ❁ Regulation by exemption is fraught with potential complexities and challenges – it would be preferable to formally establish regulations.

Thank You!