Press release 10 of 2015: CMS releases annual report with detailed state of the medical schemes industry report

The Council for Medical Schemes (CMS), regulator of the medical schemes industry, released its Annual Report for 2014-2015 today (1 September), which includes the most comprehensive report on the private medical schemes industry in South Africa.

Mr Daniel Lehutjo, Acting Chief Executive Officer and Registrar of the CMS, said, “We are especially proud of the CMS having reached the milestone of 15 years of being on the pulse in serving the medical schemes industry. The Auditor-General of South Africa (AGSA) provided the CMS with its 15th unqualified audit report in a row for the manner in which the CMS managed its financial affairs and complied with the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and other applicable legislation.”

“In our efforts to advance access to quality and affordable healthcare, the CMS developed a proposal to introduce low cost benefit options to people who can otherwise not afford current medical scheme coverage,” explained Lehutjo.

The proposal received widespread support from government and industry. It provided for a framework and detailed guidelines on low cost benefit options (LCBOs) and for exemptions to be granted from compliance with certain sections of the Medical Schemes Act. The proposal was also prompted by several appeals by the Minister of Health, for medical schemes to find innovative ways of providing affordable benefits and to focus on primary and preventive healthcare.

“The Council has approved the LCBOs framework, allowing medical schemes to apply for registration of such options upon publication of the framework,” stated Lehutjo.
In order to enhance scheme governance, the CMS was able for the first time to offer a trustee skills programme accredited by the South African Qualifications Authority (SAQA). The trustee skills programme was enthusiastically welcomed by the industry and the first cohort of 27 trustees underwent training during the year under review. However, the low take up of training by trustees remains of grave concern to the CMS – of the total 1038 board of trustee members, only 7% of trustees have been trained by the CMS while 23% have attended other training programmes and the majority of trustees (70%) have not received any training. This lack of training could be a factor contributing to governance issues that some medical schemes experience.

Industry Overview

Number of medical schemes and beneficiaries

1. The downward trend in the total number of medical schemes that has been noted for several years continued in 2014. Such developments are an expected response to market forces and are not necessarily a negative development or an indication of instability in the South African medical schemes environment.

2. On 31 December 2014, there were 83 registered medical schemes, of which 23 were open and 60 restricted. These medical schemes had a combined total of 8.81 million members in December 2014, comprising of 3,921,232 main members and 4,893,226 dependants. There was a year-on-year increase of 0.4% in the total number of medical scheme beneficiaries, from 8.78 million in December 2013.

Age of beneficiaries

3. The average age of medical scheme beneficiaries in 2014 was 32.1 years, slightly older than the 31.9 years reported in 2013. Female beneficiaries were generally older than male beneficiaries. The average age of female medical scheme beneficiaries was 32.9 years in 2014 and that of males 31.1 years.

4. The pensioner ratio increased slightly to 7.3% for the industry, with pensioner ratios for both male and female beneficiaries rising.

Contribution income and healthcare expenditure

5. Scheme contributions increased by 8.0% to R140.2 billion as at December 2014 from R129.8 billion in December 2013.

6. The total gross relevant healthcare expenditure incurred by medical schemes in 2014 increased by 10.0% to R124.3 billion from R113 billion in 2013 (incurred but not reported (IBNR)) and the results of risk transfer arrangements included).

Expenditure on hospitals and specialists

7. Medical schemes spent 11.1% more on healthcare benefits in 2014 than in 2013. This expenditure increased (in nominal terms) to R124.1 billion in 2014 from R111.7 billion in 2013. Total hospital expenditure consumed R46.6 billion or 37.6% of the R124.1 billion in 2014. Expenditure on private hospitals increased by 11.6% to R46.4 billion from R41.6 billion in 2013.

8. It is worth noting that the category comprising all specialists (previously reported as medical specialists) has been disaggregated into five categories (anaesthetists, medical specialists, pathologists, radiologists and surgical specialists). Payments to all specialists amounted to R29.1 billion or 23.5% of total healthcare benefits paid in 2014. This amount increased by 12.0% from R26 billion paid in 2013. Payments to medical specialists amounted to R8.2 billion or 6.6% of total healthcare benefits paid in 2014. About 54% of the R8.2 billion paid to medical specialists in 2014 was paid to those operating in hospitals.
Other healthcare expenditure

9. Expenditure on general practitioners (GPs) amounted to R8.2 billion or 6.6% of healthcare benefits paid, representing an increase of 7.6% on the 2013 figure of R7.6 billion. Only 10.9% of the R8.2 billion paid to GPs in 2014 was paid to those operating in hospitals.

There is a strong negative correlation between the proportion of benefits paid to GPs and the proportion of benefits paid to hospitals. Medical schemes that have a high proportion of benefits paid to GPs tend to have a lower proportion of benefits paid to hospitals, while schemes that have a low proportion of benefits paid to GPs tend to have a higher proportion of benefits paid to hospitals. This negative correlation may be caused by medical schemes’ benefit option designs.

10. The most significant increase in benefits paid in 2014 was in respect of supplementary and allied health professionals. The amount increased by 14.5% from R8.2 billion in 2013 to R9.4 billion in 2014. This category accounted for 7.6% of all benefits paid by schemes in 2014.

11. Medical scheme payments for medicines dispensed by pharmacists and providers other than hospitals amounted to R20.5 billion or 16.6% of total healthcare benefits paid. This was an increase of 8.9% compared to the R18.9 billion spent in 2013.

Prescribed minimum benefits

12. The total cost of prescribed minimum benefits (PMBs) for the schemes included in this analysis amounted to R53.688 billion. For these same schemes, R102.249 billion was paid from the risk pool for all benefits including PMBs. This means PMBs constituted 52.5% of the total risk benefits, opposed to the 47.5% paid to non-PMB related conditions. The cost of the PMBs for 2014 was R567 per beneficiary per month.

The cost of PMBs is mainly driven by:

• The beneficiary profile, which speaks to the level of cross-subsidisation between young and old beneficiaries, the sick and the healthy. The absence of mandatory membership by the employed population: This limits the cross-subsidisation between the young and old, the healthy and sick.
• The cost of treatment, which is strongly linked to contracting between schemes and providers. There is currently no price regulation mechanism in place. Collective bargaining within the industry is critically important to address supply-side price issues.
• The increased prevalence of chronic conditions and disease burden.
• Healthcare technology assessment: Uncontrolled introduction of new healthcare technology may result in cost increases without an improvement in the quality of care.
• The absence of a risk adjustment mechanism: Such a mechanism is required to assist in the redistribution of risk among medical schemes. Its continued absence results in a skewed market structure where some schemes continue to benefit from their risk profiles while others continue to experience worsening demographic profiles.

Non-healthcare expenditure

13. Administration expenditure, being the largest component of non-healthcare expenditure in all medical schemes, grew by 7.1% to R10.1 billion between December 2013 (when it was reported at R9.4 billion) and December 2014.

14. Expenditure on managed healthcare management fees increased by 8.1% to R3.4 billion in 2014 from R3.2 billion in 2013.
15. Broker costs, which include all commissions, service fees and other distribution costs, increased by 8.1% from R1.6 billion in 2013 to R1.7 billion in 2014.

16. Total non-healthcare expenditure (i.e. administration fees, fees paid for managed care, broker fees, impairments, and reinsurance) rose by 7.1% from R14.4 billion in 2013 to R15.4 billion in 2014. Adjusted for inflation and membership, non-healthcare expenditure increased from R 1362.6 per average beneficiary per month in 2000 to R 1758.5 in 2014.

Given the substantially high increases in non-healthcare expenditure observed in the earlier years (higher than the rate of increase in contributions), this has consistently been a key focus area for the CMS. Whilst these costs have reduced in real terms overall, there are still individual schemes and components, such as advertising and marketing, consulting and legal fees and trustee remuneration of non-healthcare expenditure that are displaying increasing trends and thus require attention. In the interest of member protection, it is important that such expenditure has a demonstrable value proposition. The CMS will continue working with trustees and management of medical schemes towards managing these costs to acceptable levels.

Net healthcare results and impact on reserves

17. The net healthcare result for all medical schemes combined reflected a deficit of R464.5 million in 2014 (2013: R1 552.8 million surplus). Open schemes incurred a total surplus of R40.1 million (2013: R630.7 million surplus), and restricted schemes generated a combined deficit of R504.6 million (2013: R922.2 million surplus). This deterioration is mainly due to the worsening claims ratios of all schemes from 86.5% to 88.2%.

18. The net surplus of all schemes combined, after investment income and consolidation adjustments, was R3.4 billion (2013: R5.3 billion).

19. Net assets or members’ funds (total assets minus total liabilities) rose by 7.8% to end 2014 at R50.0 billion.

20. Accumulated funds grew by 7.7% to R47.7 billion from the R44.3 billion recorded in 2013.

21. The industry average solvency ratio remained stable at 33.3% between 2013 and 2014. The solvency ratio of open schemes increased by 1.0% to 30.0% in 2014 (2013: 29.7%). Restricted schemes experienced a decrease of 0.8% in their solvency ratio, 37.9% from 38.2% in 2013.

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