



## PRESS RELEASE

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### **Press Release 12 of 2014: Council for Medical Schemes says industry healthy but needs to grow**

The Council for Medical Schemes (CMS), regulator of the medical schemes industry, reports that the South African medical schemes environment remains stable, but the growth of the industry is worrying, with a year-on-year increase of only 1.1% in the total number of medical scheme beneficiaries between 2012 and 2013. The CMS released its annual report for 2013-2014, at its office in Centurion, Pretoria, (on 2 September) including a comprehensive report on South Africa's medical schemes industry.

Mr Daniel Lehutjo, Acting Chief Executive Officer and Registrar of the CMS, said, "I am proud of the fact that the Auditor-General of South Africa provided the CMS with its 14th 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."

The CMS's activities in key regulatory areas as stated in the Medical Schemes Act 131 of 1998 are – to protect the interests of beneficiaries, register medical schemes, accreditation of administrators, brokers and managed care organisations, enforcing compliance with statutory provisions and investigation and adjudication of complaints. The CMS engages with the development of national health policy and measures to improve the quality and impact of healthcare.

#### **The South African medical schemes industry**

"During the 2013 financial year medical schemes continued to merge. 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," said Lehutjo.

On 31 December 2013 there were 87 registered medical schemes, of which 24 were open and 63 restricted. These schemes had a total of 8 776 279 beneficiaries, comprising 3 878 267 principal members and 4 898 012 dependents. Over the past decade the number of medical schemes decreased from 133 to 87. There was a lot of consolidation of small-sized restricted schemes over this period.

“We expect moderate growth due to the medical schemes industry’s decreasing growth rate since 2010. It is also the first time since 2006 that open schemes growth, at 1.8%, is more than that of restricted schemes, at 0.2%,” explained Lehutjo.

### **Contribution income and healthcare expenditure**

Scheme contributions increased by 10.4% over the course of 2013, recorded at R129.8 billion as at December 2013. Contributions for 2012 amounted to R117.6 billion. The total relevant healthcare expenditure by medical schemes increased by 8.9% to R112.9 billion from R103.7 billion in 2012.

Of the R112.5 billion total benefits paid to healthcare providers, medical schemes spent R39.7 billion or 35.3% on hospital services (state hospitals included). Expenditure on private hospitals decreased slightly in real terms by -0.8% to R39.4 billion in 2013 compared to R39.7 billion in 2012. This (2013) was the first year since 2005 in which there was no significant increase in expenditure paid to hospitals.

“While we are investigating reasons for this unexpected trend initial indications are that private hospital admissions for expensive treatment such as renal dialysis, PET scans, angiograms, outpatient visits, bone density scans and MRI scans as well as births per 1 000 females declined,” stated Lehutjo.

However, payments to medical specialists increased yet again with payments of R27.5 billion, an increase of 8.4% in real terms when compared to the R25.4 billion spent on this item in 2012.

General practitioners received R7.8 billion or 7% of healthcare benefits paid, representing an increase of 4.8% on the 2012 figure of R7.4 billion. The most significant increase in benefits paid in 2013 was in respect of support and allied health professionals – such as laboratory technologists, physiotherapists and psychologists. The amount increased by 19% from R7.9 billion in 2012 to R9.4 billion in 2013. This category accounted for 8.4% of all benefits paid by schemes in 2013.

Expenditure on medicines dispensed by pharmacists and providers other than hospitals amounted to R18 billion or 16% of total healthcare benefits paid. This was an increase of 10.4% compared to the R16.3 billion spent in 2012. The use of medical savings accounts in the benefit designs of medical schemes from 2000 - 2013 shows a marked increase. When adjusted for inflation, risk contributions and claims per average beneficiary per month (pabpm) have increased by 57.1% and 52.1% respectively. Medical savings accounts contributions and claims have risen by 10.2% and 14.3% respectively on a pabpm basis.

“These expenditure increases continued to be very high in 2013 and further substantiate the urgent need to regulate the fees of private hospitals, medical specialists and support and allied health professionals in particular. It is clear from these figures that the vacuum left after the National Health Reference Price List (NHRPL) was set aside still needs to be filled,” Lehutjo stated further.

The provision that entitles all members and beneficiaries of medical schemes to a set of Prescribed Minimum Benefits (PMB's) remains the most striking feature of the Medical Schemes Act. This guarantee protects members against health events which could otherwise result in financial ruin.

The actual cost of PMB's per beneficiary per month is R512,80. Proportionally 53% of all risk benefits paid out are for the PMB's. The CMS analysis for 2013 showed that the most prevalent PMB chronic condition among medical scheme beneficiaries was hypertension at 118.24 cases per 1 000 beneficiaries (117.17 in 2012), followed by hyperlipidaemia at 53.62 (53.44 in 2012), diabetes mellitus type 2 at 34.55 (34.42 in 2012), and asthma at 28.12 (28.04 in 2012).

### **Non-healthcare expenditure**

The total non-healthcare expenditure by medical schemes was R14.4 billion, an increase of 9.8% compared to the 2012 expenditure of R13.1 billion. Non-healthcare expenditure comprises of administration expenses, managed care: management services, broker costs, impaired receivables and commercial reinsurance results.

- Administration expenditure, being the largest component of non-healthcare expenditure, for all medical schemes grew by 7.1% to R9.4 billion at the end of December 2013 from R8.8 billion in 2012.
- Expenditure on benefits management (managed healthcare management fees) increased significantly by 19.9% to R3.2 billion in 2013 from R2.7 billion in 2012.
- Brokers were paid an additional 9.3% in 2013 from R1 449.1 million in 2012 to R1 583.2 million. Broker costs represented 11.0% of total non-healthcare expenditure in 2013 as in 2012.
- Impaired receivables (previously known as bad debts) decreased by 0.7% to R188.3 million for the year under review from R189.7 million in 2012.

### **Financial performance and solvency**

The consolidated net healthcare result for all medical schemes in 2013 was R1.6 billion, a stark improvement from the reported R29.0 million in 2012. After the inclusion of investment income and consolidation adjustments, a net surplus of R5.3 billion was incurred (2012: R3.7 billion), representing a 42.3% increase.

This performance by medical schemes translated into an overall solvency of 33.3% for 2013 compared to 32.6% at the end of 2012.

The full [annual report](#) of the CMS, along with [Excel](#) and [Pdf](#) Annexures which contains detailed information on medical schemes can be accessed on [www.medicalschemes.com](http://www.medicalschemes.com).

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