



PRESS RELEASE

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The Council for Medical Schemes (CMS), regulator of the medical schemes industry, released its Annual Report for 2016-2017 today (5th October), providing a comprehensive report on the status of the private medical schemes industry in South Africa.

“For the 17th time in a row, the CMS has received an unqualified audit report from the Auditor-General of South Africa (AGSA) for the manner in which the organisation has managed its financial affairs and complied with the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and other applicable legislation”, said acting Chief Executive & Registrar, Dr Siphokabane.

Against the backdrop of a constantly changing health policy environment, the CMS continued to provide regulatory supervision to the 82 medical schemes registered in the country during the period under review, enforcing compliance with statutory provisions; accrediting administrators, brokers and managed care organisations; as well as investigating and adjudicating complaints, with the key objective of protecting the interest of members and beneficiaries of medical schemes. Ongoing support was also provided to the Minister of Health and the National Department of Health in carrying out health reforms in the country, including the work on the National Health Insurance (NHI), in line with the provisions of the Medical Schemes Act, No. 31 of 1998 (the Act).

Industry Overview

Number of medical schemes and beneficiaries

The total number of medical schemes registered as at 31 December 2016 was 82, down from 83, as a result of the amalgamation of LMS Medical Fund and Bonitas Medical Scheme on 1 October 2016. This figure included a total of 22 open schemes and 60 restricted schemes.

Altogether the 82 schemes had a total subscription of 8.879 million members as at 31 December 2016. The industry experienced a year-on-year increase of 0.78 % in the total number of medical scheme beneficiaries, up from 8.809 million in December 2015. The total number of beneficiaries of restricted schemes increased by 1.39% compared to a 0.30% increase in the beneficiaries of open schemes.

Age of beneficiaries

The average age of medical scheme beneficiaries in 2016 was 32.5 years compared to 32.3 years reported in 2015. Female beneficiaries were generally older than male beneficiaries. The average age of female medical scheme beneficiaries was 33.4 years in 2016 and that of males 31.5 years.

The pensioner ratio increased slightly to 7.9%, with a general rise in the ratio for both males and females.

Contribution income and healthcare expenditure

Gross contributions increased by 8.1% to R163.9 billion as at December 2016 from R151.6 billion in December 2015. Risk contributions (excluding medical savings accounts contributions) increased by 8.1% to R147.8 billion from R136.7 billion in 2015. The equivalent increase from 2014 to 2015 was 7.7%. Gross contributions pabpm rose by 7.2% to R1 543.2 from R1 439.8 in 2015. After adjusting for inflation, this growth was 0.8%.

The total gross relevant healthcare expenditure incurred by medical schemes increased by 8.9% to R151.2 billion from R138.9 billion in 2015. The total gross relevant healthcare expenditure incurred pabpm increased by 7.9% to R1 423.6 from R1 319.1 in 2015.

Expenditure on hospitals and specialists

Expenditure on healthcare benefits increased (in nominal terms) by 8.87% from R138.89 billion in 2015 to R151.21 billion in 2016. Total hospital expenditure by medical schemes comprised R56.61 billion or 37.44% of the R151.21 billion that medical schemes paid to all healthcare providers in 2016. Total medical scheme expenditure on private hospitals increased by 9.80% to R56.32 billion, up from R51.29 billion in 2015.

The amount paid to supplementary and allied health professionals in 2016 increased by 8.01% from R10.15 billion in 2015 to R10.97 billion in 2016. This category accounted for 7.25% of all benefits paid by schemes in 2016. Payments to all specialists (anaesthetists, medical specialists, pathology services, radiology services and surgical specialists) amounted to R36.32 billion or 24.02% of total healthcare benefits paid in 2016. This amount increased by 9.92% from R33.04 billion paid in 2015. Payments to medical specialists amounted to R10.24 billion or 6.78% of total healthcare benefits paid in 2016. About 51.33% of the R10.16 billion paid to medical specialists in 2016 was paid to those operating in hospitals. Expenditure on pathology services amounted to R8.16 billion or 5.40% of healthcare benefits paid while expenditure on surgical specialists and radiology services amounted to R8.04 billion and R6.69 billion respectively.

Other healthcare expenditure

Expenditure on general practitioners (GPs) amounted to R8.96 billion or 5.93% of healthcare benefits paid, representing an increase of 3.25% on the 2015 figure of R8.68 billion. Only 9.92% of the R8.96 billion paid to GPs in 2016 was paid to those operating in hospitals.

Medicines (and consumables) dispensed by pharmacists and providers other than hospitals amounted to R23.95 billion or 15.84% of total healthcare benefits paid. This represents an increase of 4.65% compared to R22.89 billion spent in 2015.

Healthcare benefits paid from risk pool

Healthcare benefits which medical schemes covered from their risk pools amounted to R135.98 billion in 2016 compared to R124.54 billion in 2015, an increase of 9.18%. The average risk amount per member increased by 8.87% to R15 429.36 in 2016 compared to R14 172.56 in 2015.

Hospital expenditure accounted for 41.46% of risk benefits paid in 2016. Expenditure on medicines accounted for 13.52% of total risk pool benefits. Medical specialists consumed 6.86% of the pie, while risk pool expenditure on GPs was R6.81 billion or 5.01% of total risk pool benefits.

Prescribed minimum benefits

The total cost on prescribed minimum benefits (PMBs) for medical schemes amounted to R73.1 billion in 2016. The total risk benefits paid in 2016 was R136 billion. The expenditure on PMB-related healthcare benefits therefore constituted 54% of total risk benefits paid. In 2015 PMBs constituted 51% of total risk benefits paid.

The cost of PMBs is mainly driven by a combination of the factors outlined below:

- Beneficiary profile which is based on the level of cross subsidisation between the young and the old; the sick and the healthy.
- Prevalence of chronic conditions and disease burden.
- Expenditure on treatment, which is strongly linked to contracting between schemes and providers.

Non-healthcare expenditure

The total gross non-healthcare expenditure for all medical schemes at the end of 2016 was reported at R14.1 billion. This constitutes an increase of 8.5%, up from R13.0 billion in 2015.

Administration expenditure, which is the largest component of non-healthcare expenditure in all medical schemes, grew by 8.1% to R11.9 billion between December 2015 (when it was reported at R11.0 billion) and December 2016.

Broker costs, which include all commissions, service fees and other distribution costs, increased by 10.0% from R1.8 billion in 2015 to R2.0 billion in 2016, compared to 5.8% in 2015. Broker costs represented 14.1% of total non-healthcare expenditure in 2016, a slight increase from 13.9% in 2015.

Administration expenditure was the main component of non-healthcare expenditure in 2016, at 84.2%, down from 84.6% in 2015. It accounted for 7.3% of GCI in 2016 (unchanged from 2015).

Non-healthcare expenditure increased marginally by 1.2% to R1 594.7 in 2016 from R1 575.6 in 2015. The non-healthcare ration (as % of RCI), also increased to 9.6% in 2016 from 9.5% in 2015.

Net healthcare results and impact on reserves

The net healthcare result for all medical schemes combined reflected a deficit of R2 390.8 million in 2016 (2015: R1 208.5 million deficit). Open schemes incurred a total deficit of R955.7 million (2015: R539.6 million deficit), and restricted schemes generated a combined deficit of R1 435.1 million (2015: R668.9 million deficit). This deterioration is mainly due to the worsening claims ratios of all schemes from 91.4% in 2015 to 92.1% in 2016.

A total of 78.3% (or 18 of 23) of open schemes and 61.7% (37 of 60) of restricted schemes showed net healthcare deficits during the year under review.

The net surplus of all schemes combined, after investment income and consolidation adjustments, was R2.1 billion (2015: R2.5 billion).

Net assets or members' funds (total assets minus total liabilities) rose by 3.8% to end 2016 at R54.1 billion.

Accumulated funds grew by 4.5% to R52.6 billion, from the R50.3 billion recorded in 2015.

The industry average solvency ratio decreased to 31.6% in 2016 from 32.6% in 2015. The solvency ratio of open schemes decreased by 2.1% to 28.6% in 2016 (2015: 29.2%). Restricted schemes experienced a decrease of 4.5% in their solvency ratio, 35.8% from 37.5% in 2015.

The full Annual Report of the CMS, along with Excel and Pdf Annexures which contains detailed information on medical schemes can be accessed on <http://www.medicalschemes.com>.

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