CIRCULAR

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Reference	:	Contributions Increases & Benefits Changes for 2012
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CIRCULAR 29 OF 2011: CONTRIBUTION INCREASES AND BENEFIT CHANGES FOR 2012

The Office of the Registrar of Medical Schemes would like to provide schemes with the requirements for the assessment of benefits and contributions of schemes for 2012. The process of submission remains largely unchanged from the requirements during 2010 with the exception of a new Appendix D and minor changes to Appendices 1A, 1B and C, and other requirements in fulfilling our statutory mandate.

1. The following process must be adhered to when submitting amendments in terms of Section 31(3), Regulation 2(d) and Regulation 4(b) & (d) of the Medical Schemes Act (Act 131 of 1998):
   - a certified and dated Board of Trustees resolution indicating the following words: "certified as having been adopted in terms of the rules" **together with** summarised particulars of the proposed changes;
   - the **original plus one copy** of the amendments for registration. Also note that any changes that were requested by the Office of the Registrar in previous rule amendment submissions should be incorporated into the current amendments if not done so already;
   - all schemes with amendments taking effect from 1 January 2012 are advised to adhere to the submission deadline which applies to the receipt of signed hard copies of the amendments and NOT the electronic copy;
   - no underlining must be made in the documents containing the rules;

- all submissions must be printed on **one** side of A4 paper only;
- Appendix 1A or 1A (2), C or C (2) (for options with different contribution rates based on the sub-option within the option, i.e. income bands or provider choice) for each registered option for 2011 and 2012 fully completed. Appendix 1B must be completed for the entire scheme for 2011 and 2012 and 2012 for **Appendix D**. Hard copies and the electronic versions of all the Appendices must be submitted on or before the deadline. Only the spreadsheet provided can be used for the submission. For further information on these Appendices please refer to paragraph 5 of Circular 35 of 2010. The spreadsheet can be found on the CMS website or by clicking here(http://www.medicalschemes.com/files/Application%20Forms/Circular29of2011ContributionsAndBenefits_2012.xls); and
- schemes with reserve levels above 25% and who have experienced a drop in solvency from 2010 to 2011 or those that provided a reserving plan during the 2009 or 2010 rule amendment process are required to provide this Office with a reserving plan or an update of the reserving plan (if already submitted during 2009 or 2010).

Any submission without all of these requirements will be deemed non-compliant and will not be attended to.

2. Schemes are further required to indicate percentage changes on any benefits being amended in a tabular form as follows:

Option name			
Benefits/services	**2011**	**2012**	**% change**
E.g. Day-to-day limit	R5 000 per beneficiary	R5 500 per beneficiary	10% increase

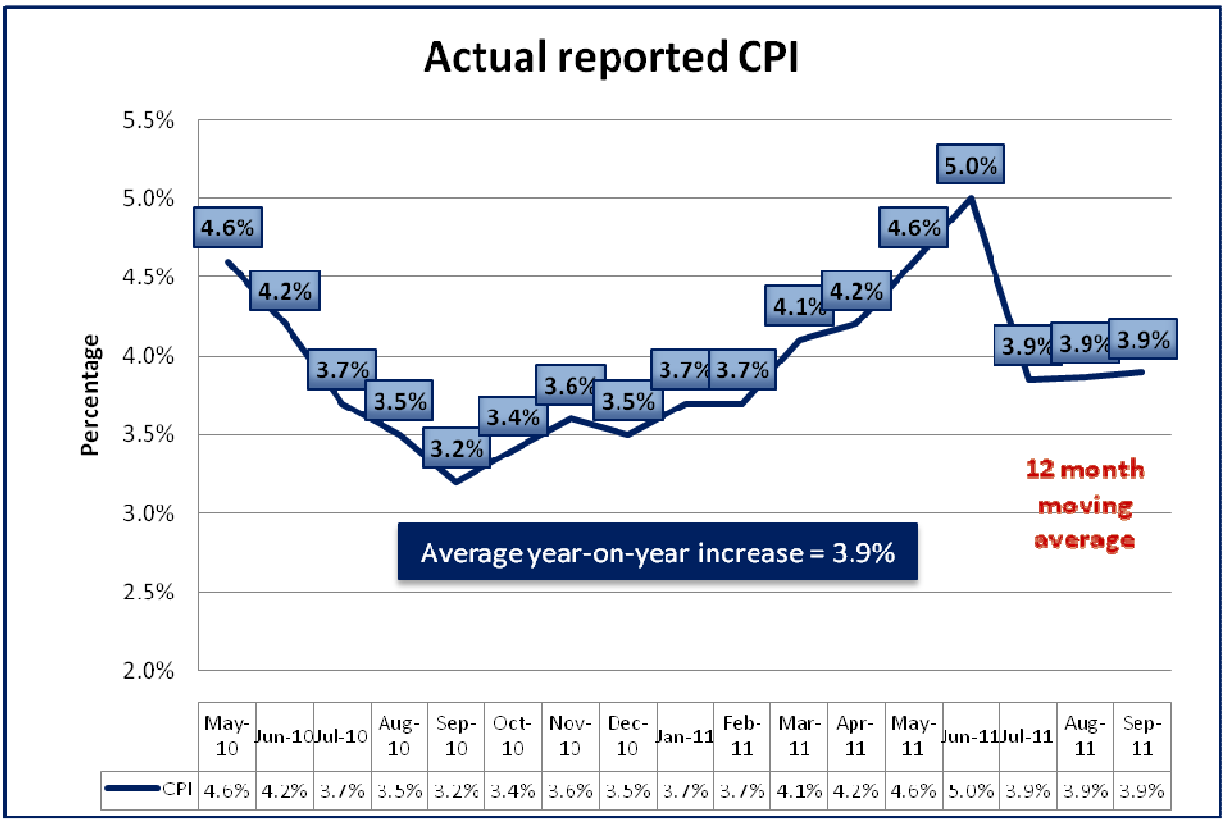
3. Please ensure that in instances where registered rules and rule amendments impose limits on benefits, the distinction should clearly be made that the limit does not apply to prescribed minimum benefit (PMB) conditions as stipulated in the Act. The submission of rule amendments with limits on PMB conditions where these benefits are not covered at 100% of the cost, or at 100% of the cost at a Designated Service Provider (DSP), will be amended to reflect that these benefits are in fact provided at no cost to the member to ensure that the amendments are not unfair to members and are compliant with the Act.

4. Applications for all **new options** taking effect from 1 January 2012 must reach the Office of the Registrar of Medical Schemes by 1 September 2011 in terms of Section 33(1) of the Act. Any applications received after 1 September 2011 will not be given any priority until all 2012 benefit and contribution amendments for schemes who submitted on or before the deadline have been considered. Also note that schemes requesting approval of efficiency discount options that have not obtained exemption from section 29(1)(n) in terms of section 8(h) will not be considered. Furthermore it is required that exemptions be obtained for **each** option separately that the scheme intends registering as an efficiency discount option for 2012 as exemptions are not granted for the scheme as a whole.

5. A new Appendix D has been added to the submission process for 2012 contribution and benefits. Appendix D contains information as to the recommended contribution increases for schemes in 2012. It achieves this by requiring schemes to provide the Office of the Registrar of Medical Schemes with the assumptions used by schemes in determining the contribution increase for 2012. The spreadsheet needs to be completed only once by each scheme and deviations from the guideline assumptions are to be explained in the motivation for increases.

6. Further guidance is given with respect to the level of Consumer Price Index (CPI) to be assumed in the determination of contribution increases. The graph below shows latest CPI release from Statistics South Africa providing

information to June 2011. Taking this latest information into account and a projection based on 12 month moving averages, the overall CPI is expected to average an annual change of 3.9% in 2011.



Source: Actual data is based on the routine CPI publications of Statistics South Africa

7. The top range inflationary guideline for increases in contributions for 2012 is set at the National Treasury projected Headline Inflation of 4.9% for 2011 as provided in the 2011 Budget Review. The following table incorporates the projected CPI (paragraph 5) and provides the top and bottom range of reasonable contribution increases for 2012. The range recommended by this model assumes that contribution increases should range between 4.3% and 5.3% for 2012.

Cost item	Weight (% of total)	Price change (bottom end)	Price change (top end)	Weighted price change (bottom end)	Weighted price change (top end)
Private hospitals	**35.0%**			**1.4%**	**1.7%**
Ward/Theatre fees	22.0%	3.9%	4.9%	0.9%	1.1%
Medicines/Consumables	6.6%	3.9%	4.9%	0.3%	0.3%
Capitation arrangements/Other	6.4%	3.9%	4.9%	0.2%	0.3%
Public hospitals	**0.4%**	**3.9%**	**4.9%**	**0.0%**	**0.0%**
Professional services	**36.0%**	**4.9%**	**5.9%**	**1.8%**	**2.1%**
Medicines (Out-of-hospital)	**13.4%**	**3.9%**	**4.9%**	**0.5%**	**0.7%**
Ex gratia payments	**0.1%**	**3.9%**	**4.9%**	**0.0%**	**0.0%**
Managed Care (Out-of-hospital arrangements)	**1.5%**	**3.9%**	**4.9%**	**0.1%**	**0.1%**
Non-healthcare expenditure	**13.6%**	**3.9%**	**4.9%**	**0.5%**	**0.7%**
Utilisation/Ageing	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Overall	**100.0%**			**4.3%**	**5.3%**

Table: Appropriate contribution increases for 2012 based on reasonable cost assumptions. Weighting based on "*Annexure I: Benefits paid from the risk pool for the year ended 31 December 2009*" of the Annual report for 2009-10. Non-healthcare expenditure was incorporated to ensure that all expenditure is taken into account.

8. A motivation for the required contributions and benefits must accompany **all** submissions. Also note that increases outside the recommended guidelines of between 4.3% and 5.3% will only be evaluated in exceptional circumstances and if a thorough motivation is provided. Particular reference is made to the guidelines given in Circulars 46 and 67 of 2010 as to the methodology behind the contribution increase recommendations. The recommendations provided are further motivated by the following factors during the period under review:
   - Changes in the demographic profile as well as diagnostic technologies are likely going to be minimal or negligible, especially if medical schemes continue to manage utilisation of healthcare services by beneficiaries cost-effectively;
   - The Minister of Health awarded a zero % increase in single exit price for 2011 and it is highly unlikely that the 2012 increase will be above inflation;
   - The relatively stable exchange rate for the period under review should contribute to input cost reductions for the local manufacturers of medicines and importing of technological equipment.
   - Administration expenditure should increase within the inflation range (3.9% and 4.9%) as the section of the population covered has remained relatively stable.
   - Non-healthcare costs are escalated at the inflation range specified above, as no rationale exists for their increase beyond this.
   - Ward fees and theatre fees are escalated at the inflation range as changes in the demographic profile is expected to be minimal resulting in minimal changes in utilisation. Staff and running costs should keep pace with inflation.
   - Professional services should not escalate more than 1% above the inflation range and the assumption for 2012 should be a maximum increase of 5.9% (this would be at the upper range of the Council for Medical Schemes' guidance assumed to be the projected headline inflation for 2011 provided by National Treasury).
   - Ex gratia payments should not escalate beyond other healthcare costs.
   - Capitation arrangements should escalate below fee-for-service cost increases on the assumption that they contain costs better. For this reason the increases should be restricted to general inflation (which in any case should reflect their changes in underlying costs).

9. As indicated in the previous Circular in this regard, a report sent with amendments must take into account the requirements of the Professional Guidance Notice (PGN) published by the Actuarial Society of South Africa, i.e. PGN303 – *Advice to South African Medical Schemes on Adequacy of Contributions* (effective date 1 March 2007). This report must be prepared by a person with the appropriate actuarial or statistical skills and should include the following detailed information:

   - contributions
   - benefit changes
   - non-healthcare expenses
   - assumptions
   - financial projections

   This Professional Guidance Note is published by the Actuarial Society of South Africa and can be found on their website (http://www.actuarialsociety.org.za).

10. No amendments will be valid unless they have been approved and registered by the Office of the Registrar for Medical Schemes in terms of Section 31(2) of the Act. The marketing of such amendments before approval is also prohibited and would be tantamount to a transgression in terms of Section 66.

11. The deadline for submission of all amendments taking effect from 1 January 2012 is **1 October 2011** but the Office of the Registrar of Medical schemes welcomes any submissions made before this date.

12. Kindly refer all your queries to the respective Benefits Management Analyst responsible for your scheme.

Your cooperation is always appreciated.

Yours faithfully

MR PARESH PREMA
HEAD: BENFITS MANAGEMENT
COUNCIL FOR MEDICAL SCHEMES