



CIRCULAR

Reference: Scheme Reserves
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Circular 33 of 2020: Understanding medical scheme reserves

The Council for Medical Schemes (CMS) has noted the recent discourse around granting medical schemes the green light to tap into their reserves to fund coronavirus (COVID-19) claims, allowing their solvency to be below the legislated 25% level. To this extent, the CMS would like to unpack the purpose of reserves, what they are composed of, and CMS' role in their governing.

1. What are reserves?

Reserves are minimum accumulated funds that must be kept by a medical scheme. The Medical Schemes Act (131 of 1998) prescribes that reserves must at all times be maintained at a minimum level of 25% of annualised gross contributions, except for new medical schemes where case phase-in solvency ratios apply.

2. What is the purpose of reserves in a medical scheme?

- Reserves are to protect members' interests by guaranteeing the continued operation of a scheme. They ensure that the scheme is able to meet members' claims as they arise.
- Reserves also act as a buffer against unforeseen and adverse developments, whether from claims, expenses or adverse market conditions. When reserves fall below the prescribed solvency ratio, this serves as a warning of a medical scheme's potential inability to meet its obligations in the long term.

3. What are the sources of scheme reserves?

The sources of these reserves are:

- Retained surplus between contributions and claims
- Investment Income
- Over-payment recoveries
- Other sources

The current level of reserves across all schemes are approximately R60bn.

4. Who are the custodians of the reserves?

The Board of Trustees (BoT) of which at least 50% must be elected from amongst members, are responsible for the stewardship of the scheme's reserves. The BoT's role is to ensure good governance, effective management and functioning of the scheme in order to safeguard the interest of members.

5. What is CMS role in reserves?

The mandate of the CMS is to oversee the medical schemes industry. This includes the monitoring of the financial performance of medical schemes, in the quest for an industry that is financially sound.

Reserves are funded from members' contributions, and their primary purpose of a medical scheme are to cover members' healthcare expenses, therefore the interest of members are the absolute priority when managing cash flows from reserves.

6. Medical scheme regulation and COVID-19

The CMS is committed to protecting medical scheme members and improving the effectiveness of medical scheme regulation through the coronavirus pandemic, and has already implemented the following interventions:

- Declaration of COVID-19 as a clinical emergency and as a [Prescribed Minimum Benefit \(PMB\)](#) meaning that coronavirus infection is funded in full irrespective of medical scheme benefit option;
- Publication of [Clinical guidelines](#) to support implementation and funding decisions;
- Extension of annual [statutory reports submissions](#) by schemes to end May 2020;
- Extension of the convening of [Annual General Meetings](#) by schemes until 90 calendar days post the lock-down;
- Initiation of a process to develop a framework for tariff and price negotiations on key goods and services

To conclude, any consideration to utilise scheme reserves to address the negative financial impacts of coronavirus on the medical schemes industry will only be justified if it benefits medical scheme members.

Yours truly,



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