PRESS RELEASE

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Press release 6 of 2011: CMS launches Annual Report 2010-2011

The Council for Medical Schemes (CMS) launched its Annual Report for the 2010-2011 financial year earlier today.

The report is now available on our website (www.medicalschemes.com).

The CMS regulates medical schemes, medical scheme administrators, managed care organisations as well as healthcare brokers and broker organisations.

The report contains a review of medical schemes operations in the 2010 financial year as well as the activities of the CMS in the 2010-2011 financial year, and clearly shows the need for continued and strengthened regulation of medical schemes.

Some important findings in respect of medical schemes are presented below.

Number of schemes and beneficiaries

- There were 100 registered medical schemes at the end of 2010, down from 110 at the end of 2009. From 144 schemes in 2000, the consolidation trend is likely to continue. But the industry is far from being an oligopoly. Consolidation is the result of amalgamations and liquidations, both voluntary and involuntary, due to the prevailing economic circumstances in the medical schemes industry. The CMS does not drive the process.
- The number of principal members increased by 3.6% to 3 612 062 and that of dependants increased by 2.7% to 4 703 656, resulting in the total number of beneficiaries increasing by 3.1% to 8 315 718 at the end of December 2010.

Trend in age of beneficiaries

- The average age of beneficiaries in restricted schemes was 32.0 years in 2006; this reduced to 29.3 years in 2010. The average age of beneficiaries in open schemes increased from 31.9 years in 2006 to 32.9 years in 2010.

These changes in average age may appear insignificant, but they have huge financial implications for medical schemes. They are the result of the Government Employees Medical Scheme (GEMS) attracting large numbers of young and healthy members at the expense of other schemes.

Contribution income and healthcare expenditure

- Gross contribution income for medical schemes increased by 13.7% to R96.5 billion, of which R84.9 billion was paid out in benefits. This was an increase of 11.3% on the R76.3 billion paid out in the previous year.
- The total benefits paid per average beneficiary per month increased by 7% from R800 in 2009 to R856 in 2010.

Expenditure on hospitals and specialists

- Medical schemes spent R31.1 billion (or 37.0% of total benefits paid to healthcare providers) on hospital services. Their expenditure on private hospitals accounted for R30.8 billion, which is an increase of 10.0% from 2009. Public hospitals were paid R281.5 million.
- Payments to medical specialists accounted for R18.8 billion or 22.0% of benefits paid in 2010, reflecting a year-on-year increase of 12.0%.

These increases are very high and further point to the urgent need to regulate private hospital and specialist fees. The vacuum left after the National Health Reference Price List (NHRPL) was set aside, still needs to be filled.

Other healthcare expenditure

- General practitioners received R6.2 billion (7.0%) of total benefits paid to healthcare providers. This was an increase of 8.8% compared with 2009.
- Expenditure on medicines dispensed by pharmacists and providers other than hospitals increased by 5.3% to R14.0 billion. This accounted for 17.0% of scheme benefits in 2010.
- Expenditure on dental specialists accounted for 1.0% of benefits paid while benefits paid to dentists accounted for R2.5 billion. Supplementary and allied health professionals accounted for R6.7 billion of the total expenditure paid by medical schemes to providers.

Non-health expenditure

- Administration expenditure in all medical schemes rose by 4.4% to R7.8 billion at the end of December 2010, from R7.5 billion in 2009. Expenditure on managing benefits (managed healthcare management fees) grew by 16.2% to R2.3 billion. Brokers were paid an additional 8.9% or R1.3 billion in 2010. Impaired receivables (previously known as bad debts) decreased by 4.8% to R168.2 million compared to R176.6 million at the end of 2009.

- Total non-health expenditure (i.e. administration fees, fees paid for managed care, broker fees, impairments, and reinsurance) rose by approximately 6.9% to R11.6 billion in 2010 from R10.8 billion in 2009.

Since 2005, when the CMS started to put increasing pressure on schemes to reduce their non-health expenditure, there has been a gradual decline in real non-health costs (after adjusting for inflation). But this reduction comes off a very high base and the CMS will strengthen its efforts in this area. Key amendments to the Medical Schemes Act are also required to ensure that brokers are regulated more effectively.

Net results and impact on reserves

- The net operating deficit (or net healthcare result) of all medical schemes in 2010 was R459.6 million; this was a substantial improvement on 2009 when the deficit amounted to R2.6 billion. The improvement can be explained by the fact that medical schemes had a lower claims ratio of 87.3% in 2010 compared with 89.3% for 2009. There was also a significant improvement in the performance of five large schemes, all of which had an improvement of greater than 100% in their operating results. Together these five schemes made R1.8 billion in operating surpluses.
- Investment and other income amounted to R3.6 billion in 2010. These additional sources of income helped schemes to convert the operating deficit into a final surplus for the year of R2.9 billion, which is a substantial increase on the R964.0 million surplus recorded in 2009.
- Net assets or members' funds, defined as total assets less total liabilities, rose by 10.7% to R32.6 billion. Reserves (accumulated funds) grew by 10.4% to R30.9 billion from the R28.0 billion recorded in 2009. This translated into an industry average solvency of 31.6% as at December 2010 compared with 32.9% in 2009, a decrease of 4.0%. This level is still higher than the prescribed solvency level of 25.0% and is largely explained by the continued growth in GEMS membership.
- The solvency ratio of open schemes remained unchanged at 27.4% while that of restricted schemes was 38.4%.

Speaking of the operations of the CMS during 2010-2011, we wish to highlight the following few matters; they are discussed in detail in the Annual Report.

Promoting a medical schemes market that is efficient, orderly, and fair

In 2010-2011, the CMS continued to focus on legal and compliance-related issues. To enforce the governance provisions of the Medical Schemes Act, some schemes were put under curatorship and various directives were issued to schemes contravening provisions of the Act. The Medical Schemes Act does require some amendments to strengthen our regulatory activities.

Other enforcement activities sought to ensure that medical schemes and their administrators are in full compliance with the prescribed minimum benefit (PMB) provisions, failing which a formal declaration of non-compliance had to be made to the Office. Most schemes and administrators approached the Office to confirm that they were not compliant with the legislation. The convening of a task team comprising representatives from the CMS, the Health Professions Council of South Africa (HPCSA), the Department of Health, schemes and administrators, healthcare providers, beneficiaries and consumers to develop a code of conduct for industry to ensure full compliance with PMB provisions, was subsequently facilitated. This code of conduct became operational on 1 August 2010.

Schemes in contravention of the requirements of the PMB provisions face the risk of being deregistered, and the CMS continues to enforce the Medical Schemes Act 131 of 1998.

Ensuring that medical schemes treat their beneficiaries fairly

The CMS focused on several key areas in 2010-2011, which included the annual process of approving medical scheme contributions and benefits for 2011. We dealt with a number of amalgamations and liquidations of schemes and continued our work on containing scheme costs. We continue to monitor the financial soundness of medical schemes and ensure that schemes which fail to meet statutory solvency requirements submit business plans.

Improving the effectiveness of our operations

We are pleased to note that the Auditor-General has again provided the CMS with an unqualified audit report for the manner in which we have managed our financial affairs and for our compliance with the Public Finance Management Act 1 of 1999 (PFMA) and other applicable legislation.

For more information

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