CIRCULAR

Reference:	Guidance on contribution increases and benefits changes for 2024
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Date:	31 July 2023

Circular 27 of 2023: Guidance on contribution increases and benefits changes for 2024

One of the primary statutory mandates of the Council for Medical Schemes (CMS), as enshrined in Section 7 of the Medical Schemes Act (131 of 1998), is to protect the interests of beneficiaries at all times and to coordinate the functioning of medical schemes. To this end, CMS' primary objective is to ensure that annual medical schemes contribution rate increases remain affordable in order to promote equitable access to quality healthcare and the industry's overall sustainability.

1. MACRO-ECONOMIC OUTLOOK FOR 2024

This section provides a concise summary of key macroeconomic indicators such as the consumer price index (CPI), interest rates, exchange rate, household income and expenditures, corporate earnings, and Gross Domestic Product (GDP) that have an impact on the medical schemes industry. Overall, these factors have direct and indirect effects on the affordability of medical scheme contribution rates, the financial performance of schemes, the growth of membership, and the industry's long-term sustainability.

1.1. Global economic outlook

Global economic growth prospects remain muted as central banks' restrictive monetary policy rate to fight inflation continues to weigh on economic activity. Overall, according to the July World Economic Outlook of the International Monetary Fund (IMF), global economic growth is expected to fall from an estimated 3.5% recorded in 2022 to 3.0% in 2023 and 2024 (IMF, 2023). The near-term economic outlook for the global economy remains tilted to the downside, mainly due to uncertainty about the inflation trajectory and the heightened geopolitical tensions (Russia-Ukraine conflict). Furthermore, the uncertainty over whether the United States economy will continue on a path to a soft landing or enter into a technical recession will continue to weigh negatively over global growth sentiments.

1.2. South African economic outlook

The South African economic growth outlook mirrors the uncertainty of the global environment. However, the energy supply constraint that has resulted in unprecedented levels of load-shedding will continue to hamper Gross Domestic Product (GDP) and further constrain job creation. According to the South African Reserve Bank (SARB), GDP is projected to grow by a meagre 1.0% in 2024, while according to the slightly more optimistic forecast of the IMF, South Africa's GDP is forecast to grow by 1.7% for the same period. The economic environment is likely to remain volatile and susceptible to further global economic shocks.

1.2.1. Interest rates

The South African Reserve Bank (SARB) maintained the repo rate at 8.25% per annum during its July Monetary Policy Committee (MPC) meeting. This decision, which comes after a sequence of substantial interest rate increases, has brought considerable relief to indebted consumers. However, the bank has cautioned that there is still a significant upside risk to inflation, indicating that additional interest rate hikes may be on the horizon as a result of elevated inflation expectations. The prevailing high-interest rate conditions have imposed significant financial burdens on consumers at large, including individuals who are part of medical schemes. However, it is anticipated that medical schemes will experience advantageous outcomes due to increased returns derived from investment income in money markets.

1.2.2. The exchange rates

The South African rand has weakened against the US dollar depreciating by 5% over the past year (SARB, 2023). The domestic currency is expected to remain extremely volatile with further weaknesses more likely due to tighter global financial conditions and possibly spillover effects stemming from the heightened geopolitical tensions. A weak domestic currency is likely to add to the high input cost in the pharmaceutical sector, where most of the active ingredients and new medical technologies are imported.

1.2.3. Employment statistics

Medical schemes' membership growth rate is highly correlated with the unemployment rate. According to Statistics South Africa's Quarterly Labour Force Survey, the unemployment rate in the first quarter of 2023 edged up to 32.9%, a tad higher than the 32.7% recorded in the fourth quarter of 2022 (Stats SA, 2023). With a lacklustre GDP forecast for 2024 unlikely to make any serious dent in the high jobless rate, it is evident that membership growth in medical schemes is likely to remain subdued. As the average age of the current risk pool continues to increase, coupled with little or no prospects of new members joining the schemes, the long-term sustainability of the industry remains a concern.

2. GUIDANCE NOTES ON ANNUAL MEDICAL SCHEMES COST INCREASE ASSUMPTIONS

Outlined below are key industry-specific considerations that the CMS will consider when assessing the appropriateness of benefit changes, contribution rate increases, and overall cost increase assumptions for the 2024 benefit year:

2.1. Headline inflationary expectations

The CMS uses the consumer price index (CPI) to estimate price increases in the healthcare sector. Furthermore, the CMS uses CPI, as a proxy measure for the affordability of annual contribution increases. Figure 1 depicts historical CPI data, as published by Statistics South Africa, for the twelve months up to June 2023. In addition, the graph depicts the inflation target range of the South African Reserve Bank (SARB) and the CPI forecast for 2024. The year-on-year headline consumer inflation rate, as measured by the consumer price index (CPI), eased sharply to a 12-month low of 5.4% in June 2023, down from 6.3% in May 2023, moving back to the Reserve Bank's monetary policy target range of 3 – 6%. Overall, inflation is expected to average 6.0% in 2023 (SARB, 2023).

According to the latest inflation forecast of the SARB, as outlined in the July Monetary Policy Statement (MPC), headline inflation is expected to average **5.0%** in 2024, before moderating further to **4.5%** in 2025.

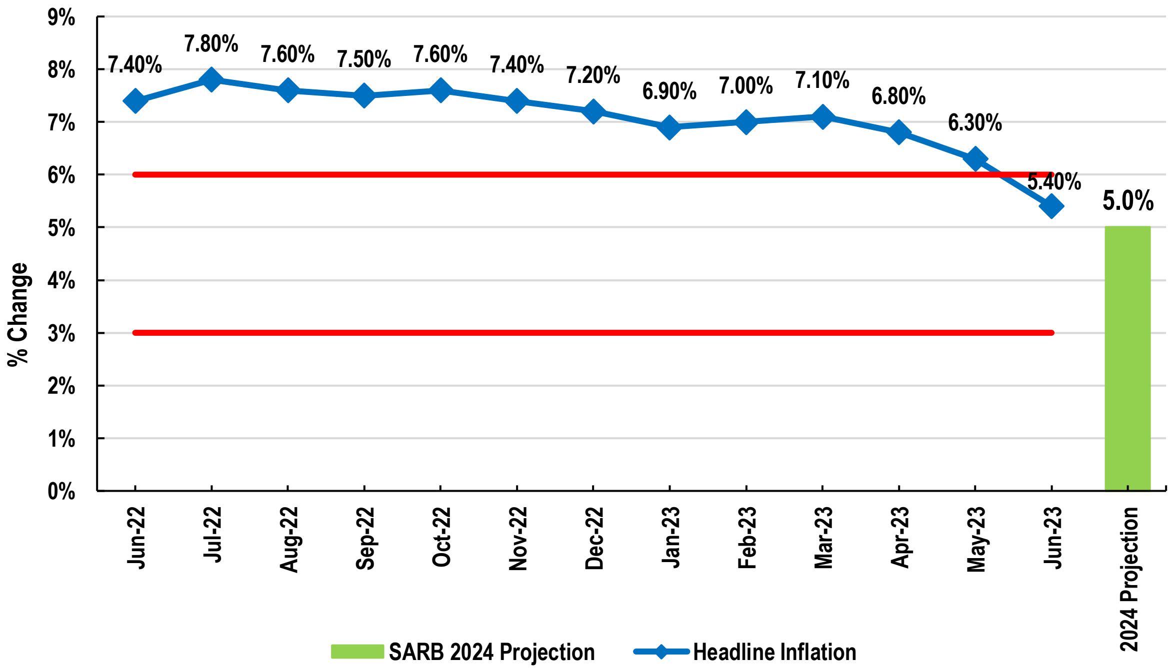

Figure 1: Headline inflation 2022–2023
Data source: Stats SA and SARB

2.2. Medical schemes contribution increase rate relative to consumer inflation

The graph below (Figure 2) illustrates trends of the contribution increase rates as reported in the CMS 2021/22 Annual Report relative to CPI.

It is evident from Figure 2 below, in the past decade, medical schemes contribution increases rates have consistently surpassed the CPI, except in 2021 and 2022. As indicated in the CMS 2021/2022 Annual Report, the lower-than-CPI contribution increases implemented in the past two years were mainly due to a collaborative effort between the CMS and the industry aimed at insulating members of medical schemes against the adverse economic climate in the aftermath of the COVID-19 pandemic.

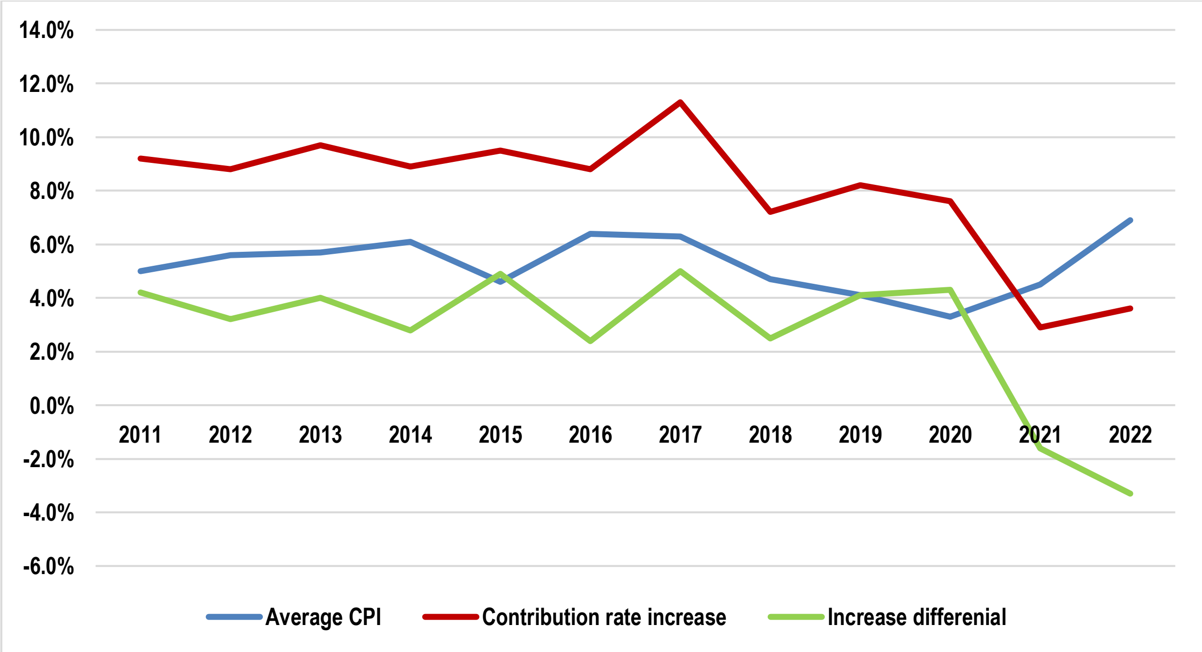

Figure 2: Medical schemes contributions and headline inflation (2011-2022)
Source: CMS Annual Report 2021/2022

2.3. Headline inflation and Stas SA Medical and health insurance

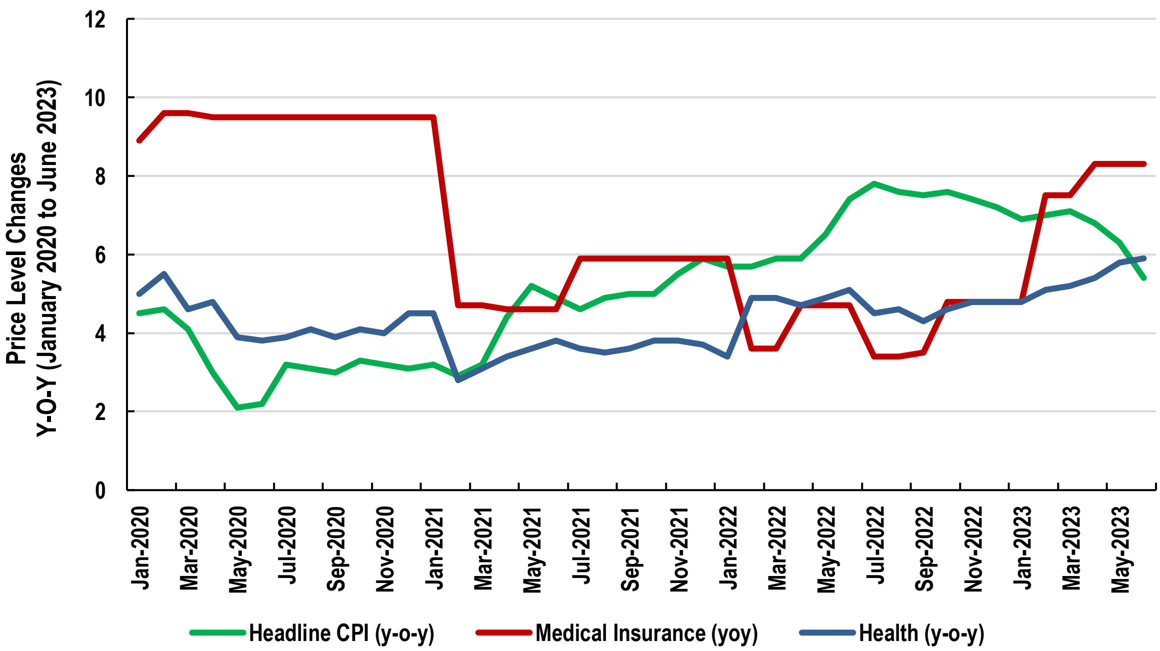

Figure 3: Year-on-year changes in price levels (January 2020 to June 2023)
Data Source: Stats SA, Headline Inflation Archive

Figure 3 depicts medical and health insurance data relative to headline inflation as reported by Stats SA, from January 2020 to June 2023. It is evident that in 2020 medical and health insurance consistently outpaced headline CPI inflation before falling sharping below headline CPI inflation during the peak of the pandemic.

The two rates remained below CPI for the rest of 2022, before starting to normalise and accelerating again in the first six months of 2023.

The composite supply chain pressure index (CSCPI) in Figure 4 is a leading economic indicator that measures supply chain pressure. Supply chain issues increase the costs of goods due to supply-side cost shocks created by scarcity in inputs in the manufacturing supply chain, i.e., scarcity in the supply of production inputs. The index reached a peak in the first quarter of 2022. Since then, the index has been making a sharp decline.

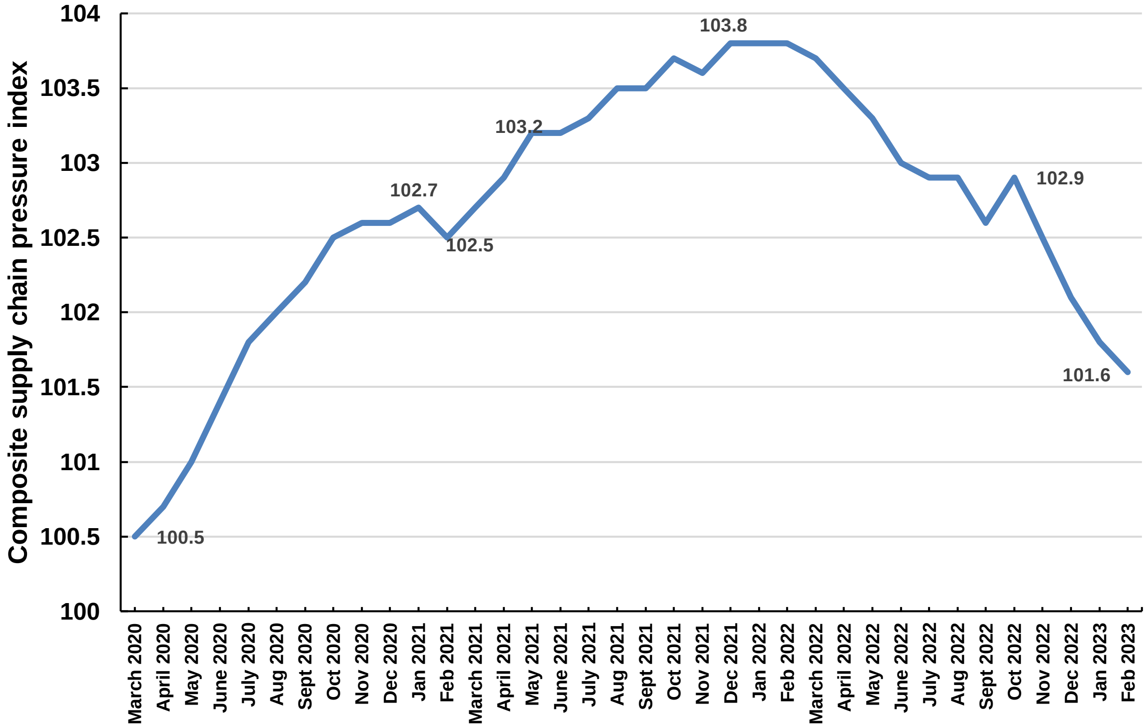

Figure 4: Composite Supply Chain Index for South Africa
Data Source: South African Reserve Bank

Figure 5 shows that the standard deviations from the average value of the global supply chain pressure index have reduced in the first quarter of 2022, and then become negative in the second quarter of 2023. This complements the information shown in the trend of the supply index for South Africa (Figure 4).

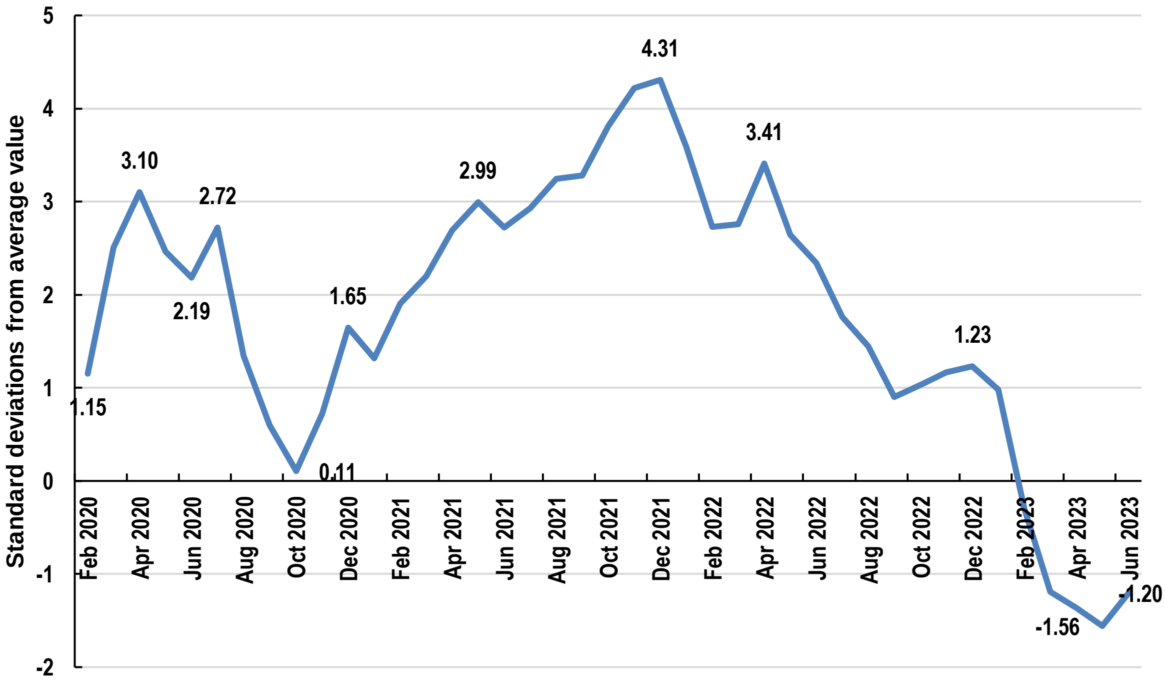

Figure 5: Global Supply Chain Pressure Index (standard deviations from average value)
Data Source: Federal Reserve Bank of New York

Figures 4 and 5 corroborate the pattern in price level displayed in Figure 3. Health insurance and the health component of CPI are now growing faster than headline CPI. Meaning that costs emanating from supply chain pressures are now priced into health sector price levels.

2.4. Healthcare utilisation assumptions

The utilisation of healthcare services trajectory was impacted severely in the past two years with a significant decrease in actual utilisation in the aftermath of the COVID-19 pandemic. While emerging trends points towards a normalisation path and return to the pre-pandemic health-seeking behaviour, there is still a high degree of uncertainty about a clear post-COVID-19 utilisation trends. Medical schemes must therefore assume reasonable utilisation estimates for 2024 based on historical utilisation data pre-pandemic, the scheme's current demographic profile as well as more recent available actual claims data.

Cost increase assumptions analysis for 2023 showed that the combination of demographic and utilisation factors are projected to add about 3.2 percentage points to the total cost increases for medical schemes. This projection is lower than the 3.8 percentage points estimate for the 2022 benefit year. As was the case in the previous year, the CMS remains concerned that the utilisation estimates submitted by the schemes do not always correlate with the changes in the demographic and risk profile of a scheme. Medical schemes are requested to submit a comprehensive analysis of these factors when motivating for their respective cost-increase assumptions (Appendix D).

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Table 1: Utilisation trends vs headline inflation

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actual Contribution Increase rate	9.7	8.9	8.9	9.5	8.8	11.3	7.2	8.2	6.2	2.9	3.6	*
CPI	5.6	5.7	6.1	4.6	6,4	5.3	4.6	4.6	3.3	3.8	6.9	6.0
Assumed utilisation increase	2.0	2.8	2.3	2.9	3.1	3.9	3.3	3.9	3.7	4.4	3.8	3.2
Tariff	6.3	6.8	6.9	6.3	5.6	7.4	5.5	5.4	5.1	4.2	4.4	6.2
Total assumed increase	8.3	9.6	9.2	9.2	8.6	11.3	8.2	8.6	8.8	8.5	8.2	9.4

Note: **to be published in the 2022 CMS Industry Report*

2.5. Single Exit Price (SEP) for medicines

The actual (and approved) adjustment to the Single Exit Price (SEP) is published by the Minister of Health towards the end of each year. The SEP for 2024 will be published later in the year. Medical schemes are advised to assume reasonable estimates for 2024.

Table 2: Consumer Price Index vs Single Exit Price

Year	Average CPI	Approved SEP Increase
2011	5.00%	0.00%
2012	5.60%	2.10%
2013	5.70%	5.80%
2014	6.10%	5.82%
2015	4.60%	7.50%
2016	6.40%	4.80%
2017	5.30%	7.50%
2018	4.70%	1.26%
2019	4.10%	3.78%
2020	3.30%	4.53%
2021	4.50%	3.68%
2022	6.90%	3.50%
2023	6.00%	3.28%

Note: *SEP formula is published by the Pricing Committee*

3. MANDATORY STATUTORY REQUIREMENTS FOR SUBMISSION OF RULE AMENDMENTS

The following process must be adhered to when submitting amendments in terms of section 31(3), section 33 (1) (2) (5), regulation 2(d) and regulation 4(b) & (d) of the Medical Schemes Act:

3.1. Schemes must submit a dated and certified resolution of their respective Board of Trustees (BoTs) with the wording "*Certified as having been adopted in terms of the rules*" **together with** a summary of the changes and a copy of the rules with tracked changes of the proposed amendments to the respective benefits and/or contributions to expedite the review process. The format for tracked changes can either be shown in the margin in balloons or as underlined/strikethrough of the text to ensure that the submission is apparent.

3.2. Any rule amendments that the CMS requested in previous submissions must be incorporated into the current amendments, if not effected already.

3.3. No text should be underlined in the original documents or copies of the rules of each medical scheme.

3.4. **Appendix 1A or 1A (2)** must only be completed for each benefit option that was registered in 2023, and again for all benefit options which the scheme intends to register in 2024. Schemes are required to include the scheme registration number (Scheme Ref No) and benefit option identifier (Benefit Option Id) in the respective cells of the Appendix.

3.5. **Appendix C or C (2)** must be completed for each benefit option that was registered in 2023, with different contribution rates based on income band or **efficiency-discounted** (EDO) sub-options, in an instance where the benefit option is to be registered for 2024. Schemes are required to include the scheme registration number (Scheme Ref No) and benefit option identifier (Benefit Option Id) in the respective cells of the Appendix.

3.6. **Appendix 1B** must be completed for the entire medical scheme for both 2023 and 2024. Please note that schemes under close monitoring by the CMS need to provide input on the approved solvency ratio (row y) for 2023 and 2024 in Appendix B as per the approved business plan. The projected solvency ratio for 2023 and 2024 in Appendix 1B will be assessed in terms of the solvency ratio outlined in the business plan approved by the CMS, and any deviation must be explained in the scheme's submission. Schemes are required to include the scheme reference number (Scheme Ref No) in the provided cell.

3.7. **Appendix D** requires information about the assumptions on cost increases and utilisation that medical schemes used in determining their respective contribution increase for the 2024 benefit year. Each medical scheme must complete the spreadsheet **one time only**, and deviation(s) from the guideline assumptions must be explained in the motivation for increases. Schemes are required to include the scheme reference number (Scheme Ref No) in the provided cell.

3.8. All the Appendices must be submitted by the deadline date. **Only the spreadsheet template provided should be used for the submission.** The spreadsheet is available on the CMS website.

3.9. Schemes seeking to register **efficiency-discounted sub-options** must have obtained an exemption from Section 29(1)(n) of the Medical Schemes Act. Section 8(h) stipulates that only the Council has the power to grant exemptions from any provision of the Act. It should be noted that an exemption must be granted by the

CMS for each efficiency-discounted sub-option. An exemption is not granted at scheme level. All exemptions must follow the process outlined in Circular 33 of 2021.

3.10. Applications for all **new benefit options** including **efficiency-discounted sub-options** taking effect from 1 January 2024 must reach the CMS by **1 September 2023** in terms of section 33(1) of the Medical Schemes Act. Applications received after 1 September 2023 will not be attended to until the CMS has considered all the benefit and contribution amendments of those medical schemes that submitted their amendments by the stipulated deadline.

3.11. Schemes are further required to indicate percentage changes on any benefits that are being amended in a tabular form (submitted in **word/excel format electronically**), as follows:

Name of benefit option			
Benefits/services	**2023**	**2024**	**% Change**
e.g., day-to-day limit	e.g., R10 000 per beneficiary	e.g., R11 000 per beneficiary	10% increase

3.12. In instances where registered rules or rule amendments impose monetary limits on benefits, an explicit condition must be included indicating that the limit does not apply to the Prescribed Minimum Benefits (PMBs), and further stating that PMBs are paid in full when making use of a designated service provider (DSP). The submission of rule amendments with limits on PMB conditions will be amended to highlight the fact that the PMBs are provided at no cost to beneficiaries. This is to ensure that rule amendments are compliant with the Medical Schemes Act and are fair to beneficiaries.

3.13. To expedite the rule registration process, schemes are required to submit amendments to rules relating to the **changes to the contributions, and benefit changes only**. Changes to the main rules will not be prioritised unless they have a material impact on the benefit and contributions, for example, an amendment relating to scheme tariffs. The rest of the changes to the main rules must only be submitted or attended to once the amendments to contribution and benefits changes have been approved by the Registrar.

3.14. All the 2024 rule submissions must be done electronically here. New users must first complete this authorisation form to be granted access.

4. KEY CMS RECOMMENDATIONS

4.1. Guideline for the 2024 contribution increases

Against the backdrop of the current adverse macroeconomic conditions characterised by multi-year higher interest rates due to stubbornly higher inflation rate, volatile domestic currency and surging energy prices and overall lacklustre economic growth, it is evident that most household budgets will remain constrained for a foreseeable future, leaving most consumers under a precarious financial position. To protect medical scheme members from further financial distress and the likely risk of losing health insurance coverage due to affordability constraints, medical schemes are advised to limit their cost assumptions for tariff increases to **5%** plus reasonable utilisation estimates for the 2024 benefit year. Contribution increases higher than CPI plus a reasonably assumed utilisation factor will be evaluated and approved on the strength of the motivation submitted. Only contribution increases that have been approved by the Registrar may be implemented by medical schemes. Moreover, it is advised against communicating any benefit changes or contribution increases before obtaining the necessary approval from the regulator.

This in line with the CPI forecast by the South African Reserve Bank, as outlined in the July MPC Statement. The CMS uses CPI, as a proxy measure for the affordability of annual contribution increases in the industry. It is CMS' position that the annual industry price inflation assumptions must be anchored firmly in line with the CPI forecast of the SARB. Persistently and stubbornly above inflationary annual contribution increases are simply above the budget line for most members of medical schemes. High medical schemes contribution rates create a barrier to entry for potential new entrants to the private healthcare industry.

While recognising the importance of pricing models that prioritise the interests of members, the CMS acknowledges that some medical schemes may find it necessary to implement contribution increases that exceed the CMS' recommended increments linked to the Consumer Price Index (CPI). The aforementioned circumstances can be attributed to industry-specific cost-push factors, encompassing various elements such as the burden of diseases, unfavourable demographic profile, and the repercussions of a depreciated rand exchange rate.

In such cases, BoTs are required to provide the Registrar with a comprehensive actuarial business plan justifying the proposed contribution increases that above inflation. The business plan must fully comply with the stringent requirements of the Advisory Practice Note (APN303), on the adequacy of contribution increases, as prescribed by the Actuarial Society of South Africa (ASSA). Similarly, to avoid isolated incidents of deliberate under-pricing by some medical schemes, to gain an unfair competitive edge in the market, which may pose an insolvency risk to a medical scheme, BoTs that intend to implement contribution increases below CPI, must also submit an independent actuarial evaluation in line with APN 303 to justify their pricing assumptions.

4.2. Increase in managed care and administration fees.

To further continue to contain contribution increases and keep the risk pool sustainable, the CMS would like to impress on Principal Officers and BoTs to continue to negotiate favourable terms with service providers. Those schemes that have sufficient economies of scale are expected to continue using their strategic purchasing when contracting with all providers to ensure value-based contracting and pass some of the efficiency gains to their members. As such, in the best interest of the long-term sustainability of the industry, the CMS recommends, increases in non-healthcare expenditure for 2024 must also be adjusted in line with CPI.

4.3. Medium-term cost increase assumptions for contribution increases

To assist the industry with future planning, the CMS, therefore, offers the industry a two-year forward-looking cost increase assumption for contribution increases. To this end, cost increase assumptions for contribution increase for the 2024 benefit year are projected to increase by 5.0%, before moderating significantly to 4.5% in 2025, in line with the projected CPI. These projections are, however, subject to revision in line with the inflation forecast of the South African Reserve Bank.

4.4. Application for registration of new benefit options

As evidenced by Health Market Inquiry findings (2019), the current high number of benefit options and complex benefit design have an adverse effect on consumers and competition in the market. Consequently, the industry must continue to review its benefit options and consolidate or terminate those options that are not sustainable in terms of both membership and financial performance. The CMS is aware of the severe market disruptions caused by the onset of the COVID-19 pandemic and the need for the industry to innovate and evolve to adjust to the new normal and economic realities.

As such, the CMS will only consider the application for registration of new benefits options under exceptional circumstances. At the core of the medical scheme's business plan must be the need to improve risk pooling, cross-subsidisation, and affordability, while simultaneously offering members quality healthcare services, including investing in preventative care initiatives, provider networks, and virtual care benefits. The delivery model must be premised on the principles of strategic purchasing of healthcare through value-based contracting with cost-efficient providers.

4.5. Independent actuarial review of 2024 pricing models

A detailed motivation for the required changes to benefits and contributions must accompany **all** submissions. The guidance provided above regarding the limit on the cost increase assumptions should be taken into consideration when determining the adequacy of contribution increases. As indicated in Circular 29 of 2012, a report that is sent together with the proposed amendments must take into account the requirements of the Advisory Practice Note (APN303) published by the Actuarial Society of South Africa (ASSA) called: "Advice to South African Medical Schemes on Adequacy of Contributions."

The report must be prepared by a person with the appropriate actuarial and/or statistical skills, and should include the following detailed information:

- benefit changes
- contribution increases
- non-healthcare expense
- assumptions
- financial projections

4.6. Conflict of interest

BoTs and Principal Officers are expected to promote the interests of members during the determination of contribution increases for 2024. The BoTs should always ensure that their fiduciary duties are intact, and not convoluted by a conflict of interests. This expectation is consistent with the Medical Schemes Act and HMI findings which expect that BoTs shall take reasonable steps to ensure that the interest of beneficiaries are always protected.

4.7. Deadline for submission

The deadline for medical schemes to submit applications for new benefit options and EDOs proposed to be implemented from 1 January 2024 is **1 September 2023,** and **1 October 2023** for contribution and benefit changes. Medical schemes that may require additional time to finalise their 2024 pricing decision must submit a request for an extension to the Registrar citing their unique individual circumstances. Nonetheless, the CMS still welcomes early submissions.

Queries may be directed to the Benefits Management Analyst responsible for your scheme at the CMS.

The CMS looks forward to your cooperation.

Yours sincerely,

Mr Mfana Maswanganyi
Executive: Regulation
Council for Medical Schemes