CIRCULAR

Reference:	Guidance on contribution increases and benefits changes for 2025
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Date:	1 August 2024

Circular 35 of 2024: Guidance on contribution increases and benefits changes for 2025

This Circular outlines the requirements that medical schemes must adhere to when determining the annual contribution increases and benefit changes for the 2025 benefit year.

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' key objective is to ensure that annual medical scheme contribution rate increases remain affordable to enable equitable access to quality healthcare and the industry's long-term financial sustainability.

1. SIGNIFICANT DEVELOPMENTS

On 15 May 2024, President Cyril Ramaphosa signed the National Health Insurance (NHI) Bill into law. The legislation aims to transform the South African healthcare system to ensure all citizens have access to universal health coverage (UHC). Once fully implemented, the NHI will significantly affect the operations of the medical schemes. The Minister of Health has indicated that the National Department of Health (NDoH) will implement NHI in phases. To this end, the CMS will provide guidance to the industry as and when the Minister of Health promulgates the new regulations. The operations of the medical schemes will remain unchanged until further regulations are published by the Minister of Health and the National Department of Health.

2. MACRO-ECONOMIC OUTLOOK

This segment provides a brief overview of the key macroeconomic indicators that impact the medical schemes industry, such as the consumer price index (CPI), gross domestic product (GDP), unemployment rate, interest rates, exchange rate, and household income and expenditure. Overall, these economic indicators have a direct and indirect bearing on the affordability of medical scheme contribution rates, the financial performance of schemes, membership growth, and the industry's long-term financial sustainability.

2.1. Global economic outlook

According to the International Monetary Fund's (IMF) latest projections, global growth is forecast to increase marginally from 3.2% in 2024, to 3.3% in 2025 (IMF, 2024). The poor global economic prospect is mainly attributed to uncertainty about the inflation trajectory, ongoing geopolitical tension (Russia-Ukraine), and the heightened conflict in the Middle East. The upcoming elections in the United States of America (USA), the likelihood of potential swings in economic policy, and the probable negative spillover effects to the rest of the world have exacerbated uncertainty around the near-term economic outlook for global markets. While major central banks around the globe are expected to start easing monetary policy and cutting interest rates, upside risk to inflation implies that the pace of normalisation will diverge, reflecting varied country-specific inflation circumstances.

2.2. South African economic outlook

South Africa's economic prospects have improved in recent weeks, mainly due to optimism around the country's new broad coalition government. President Cyril Ramaphosa announced the formation of a Government of National Unity (GNU) following the pivotal 29 May elections, in which no political party secured an outright majority. Additionally, a surprise reprieve in energy supply has also boosted the domestic economic outlook, with Eskom reaching a significant milestone with the suspension of load-shedding for over 100 consecutive days. The lack of reliable energy and Transnet's logistic snarl-ups have been some of the most significant constraints to economic growth in recent years.

According to the IMF, South Africa's Gross Domestic Product (GDP) is projected to increase slightly from 0.9% in 2024 to 1.2% in 2025 (IMF, 2024). However, the South African Reserve Bank (SARB) is more optimistic, projecting that the increase could be marginally higher at 1.1% and 1.5% for the same period (SARB, 2024). Despite the positive economic outlook, simmering tension around the GNU policy trajectory and the ongoing geopolitical tension in Europe and the Middle East will continue to cast a dark spell on domestic growth prospects.

2.2.1. The exchange rates

The South African Rand strengthened to a 10-month high against the US dollar in the past week, mainly due to buoyant sentiments around the GNU in the capital markets. However, the Rand is also expected to remain highly volatile and susceptible to possible near-term depreciation due to possible GNU gridlocks and escalation in global geopolitical tensions. A weak domestic currency poses a financial risk to the local pharmaceutical industry, which imports most active ingredients and new medical technologies.

2.2.2. Interest rates

At its recent meeting in July, the Monetary Policy Committee (MPC) of the SARB voted to keep the repo rate unchanged at 8.25%, to the disappointment of indebted consumers. The prevailing high interest rates and overall high cost of living have imposed significant financial burdens on consumers, including members of medical schemes. Contrastingly, persistently high interest rates generally enhance investment income for medical schemes, with higher yields expected from investments in money market instruments. However, an overall positive inflation outlook has raised expectations that South Africa, like its global counterparts, may be on the cusp of a monetary policy easing cycle, with interest rate cuts on the horizon.

2.2.3. Household debt-service costs

Higher inflation and interest rates reduce disposable income as debt-service costs increase. According to the Reserve Bank, South Africans spend 9% of their total disposable income on servicing debts. The level of household indebtedness (i.e., household debt to disposal income ratio) averaged 62.3% in the fourth quarter of 2023, slightly decreasing from 62.4% in the third quarter (SARB, Q1 2024 Bulletin). Household budgets will continue to remain constrained as most consumers continue to battle the cost-of-living crisis.

2.2.4. Employment Statistics

The membership growth rate of medical schemes is highly correlated with the unemployment rate. South Africa's unemployment rate increased to 32.9% in the first quarter of 2024, up from 32.1% in the prior reporting period (Stats SA, 2023). With a subdued economic growth forecast for 2024 and 2025, membership growth in medical schemes is likely to remain stagnant. However, as the average age of the current risk pool continues to edge up and the corresponding worsening demographic profile, the industry's long-term sustainability remains a concern.

3. GUIDANCE NOTES ON ANNUAL MEDICAL SCHEMES COST INCREASE ASSUMPTIONS

Outlined below are key industry-specific factors that the CMS will consider when assessing the appropriateness of benefit changes, contribution rate increases, and overall cost increase assumptions for the 2025 benefit year:

3.1. Headline inflationary expectations

South Africa does not have an official medical price index. Therefore, the CMS uses the consumer price index to estimate the annual price increases in the private healthcare sector. The CMS also uses CPI as a proxy measure for the affordability of annual contribution rate increases. *Figure 1* below depicts historical CPI data published by Stats SA for the twelve months up to June 2024. In addition, the graph illustrates the South African Reserve Bank's inflation target range and the CPI forecast for 2025.

The year-on-year headline inflation, as measured by the Consumer Price Index (CPI), remained constant at 5.2% for April and May before decreasing slightly to 5.1% in June 2024. Overall, inflation is expected to average 4.9% in 2024 (SARB, 2024). According to the Reserve Bank's latest inflation forecast, as outlined in the July Monetary Policy statement, headline inflation is expected to average 4.4% and 4.5% in 2025 and 2026, respectively (SARB, 2024).

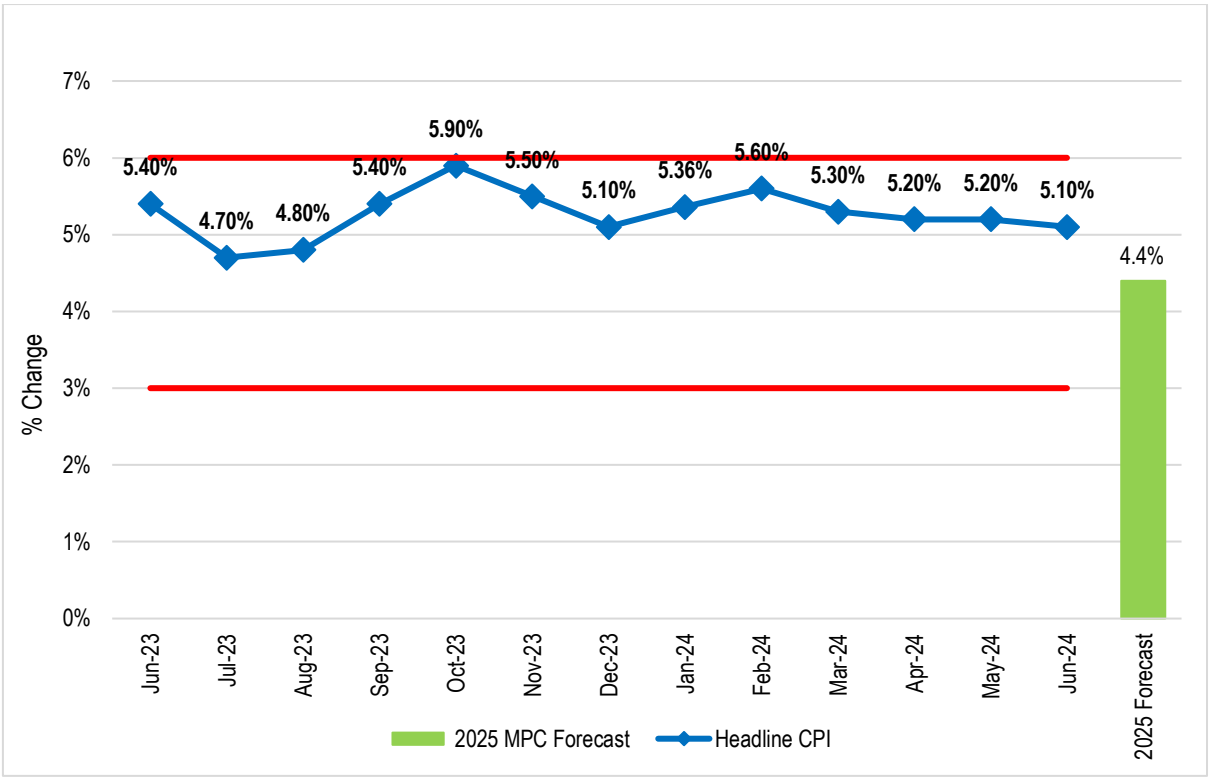


Figure 1: Headline inflation 2023–2024
Data source: Stats SA and SARB

3.2. Medical schemes contribution increase rate relative to consumer inflation

The graph that follows (Figure 2) illustrates trends of the contribution increase rates as reported in the CMS 2022 Industry Report relative to CPI. The average industry contribution increase rate of 6.8% for the 2023 benefit year was 0.7% higher than the average CPI of 6.1%. The figure below demonstrates the return to the patterns that existed prior to the COVID-19 pandemic when contribution increases consistently outpaced inflation. The CMS remains concerned about this trend, which has significant ramifications for the industry's long-term sustainability. The higher price differential between annual medical scheme contribution rate increases and average CPI poses a serious affordability challenge for cash-strapped consumers.

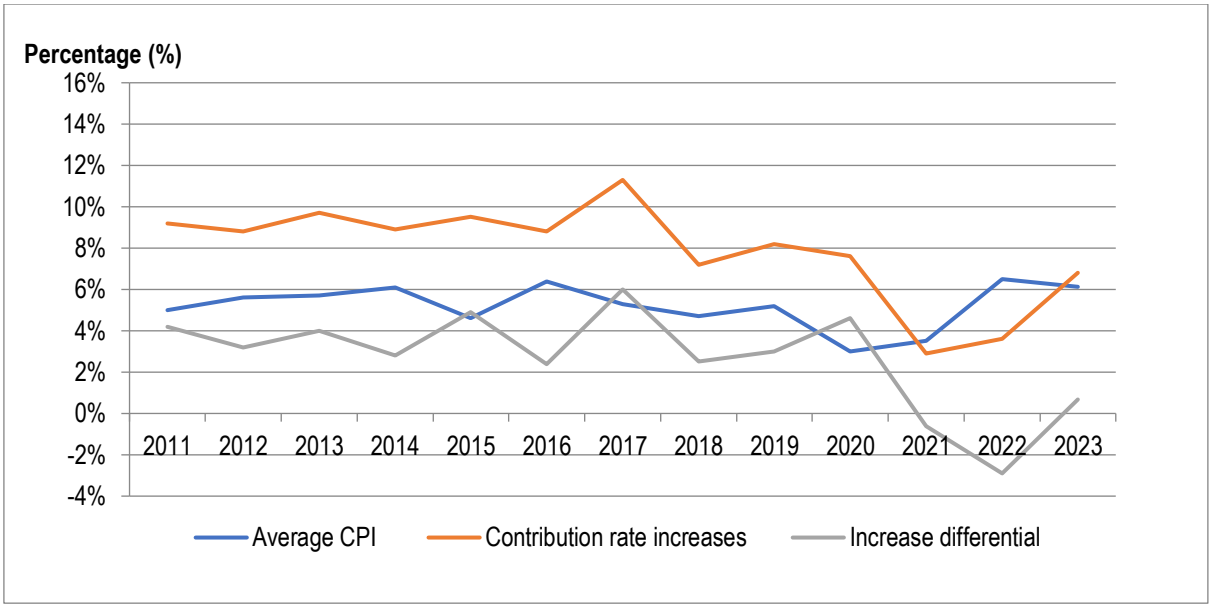


Figure 2: Medical schemes contributions and headline inflation (2011-2024)
Data source: CMS 2022 Industry Report

3.3. Single Exit Price (SEP) relative to consumer inflation.

Figure 3 below depicts the historical adjustment to the Single Exit Price (SEP) relative to inflation. The Minister of Health publishes the approved SEP towards the end of each year. The SEP for 2025 will be published later in the year. Medical schemes are advised to assume reasonable estimates for 2025.

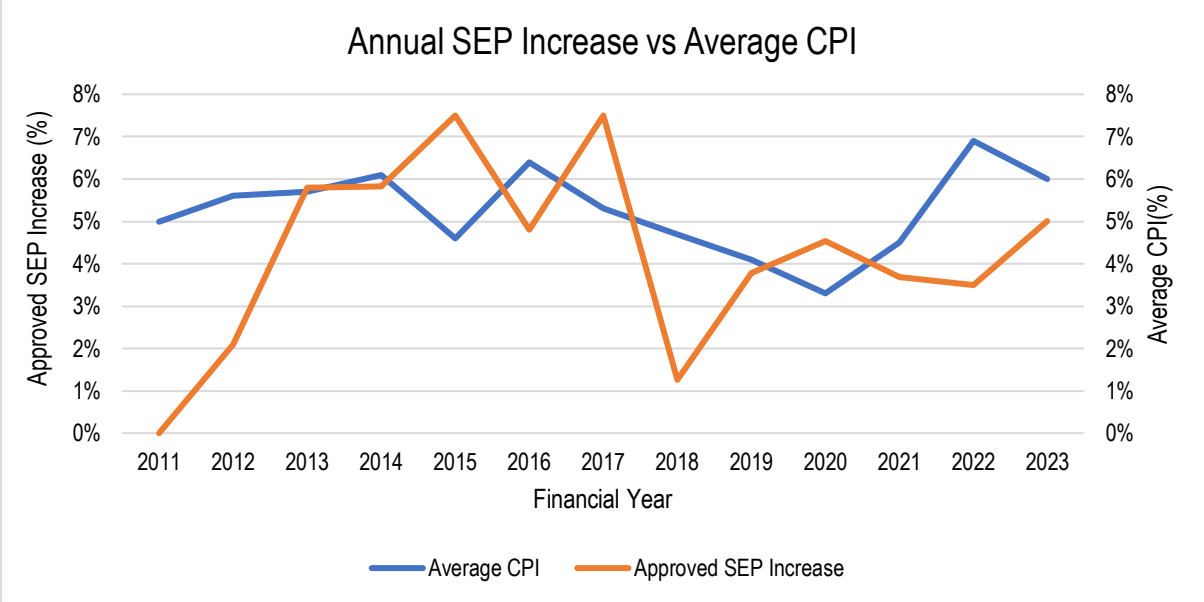


Figure 3: SEP and CPI (2011-2023)
Data source: Pricing Committee and Stats SA

3.4. Medical schemes expenditure trends

The increased utilisation of healthcare services directly correlates with higher expenditure within medical schemes. When beneficiaries use healthcare services more, medical scheme expenditure tends to escalate at a pace even more rapid than the increase in contributions. Conversely, a reduction in service utilisation is associated with a decrease in medical scheme expenditure. This emphasises the critical nature of effectively managing healthcare service usage to control costs and ensure the efficient allocation of resources. In essence, monitoring and optimising the utilisation of healthcare services is crucial in maintaining the financial sustainability of medical schemes and the overall healthcare system.

Figure 4 depicts a progressive rise in expenditure on different healthcare categories and administrative services between 2018 and 2022 benefit year. Notably, spending on specialist consultations and hospital admissions has seen the most substantial increases compared to GP visits and medication expenses, constituting the highest expenditure. Overall, the expenditure demonstrates relative stability, characterised by a significant decrease in 2020 during the peak of the COVID-19 pandemic, before starting to normalise and surging again in 2021.

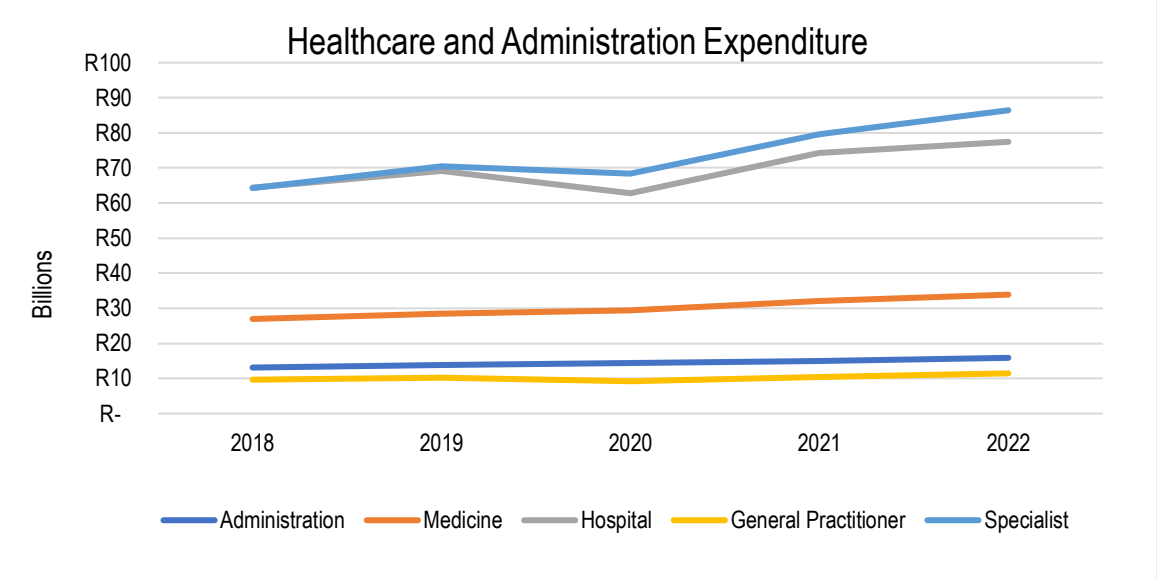


Figure 4: Healthcare and administration expenditure (2018 -2022)

Data source: CMS

Figure 5 depicts a year-on-year percentage increase in medical scheme expenditures across the different expenditure categories. Overall, the inflation rate fluctuates annually, ranging between 3.2% and 4.6%, thereby influencing the cost trends for medical schemes. The year-on-year variability in expenditure across different categories is influenced by multiple factors, including healthcare utilisation patterns and prevailing economic conditions. These inflationary pressures impact the overall expenditure dynamics within the medical schemes and, ultimately, the contribution rates payable by members. Medical schemes must, therefore, devise financial management strategies, robust cost containment measures, and effective resource allocation, given the unpredictable nature of expenditure trends.

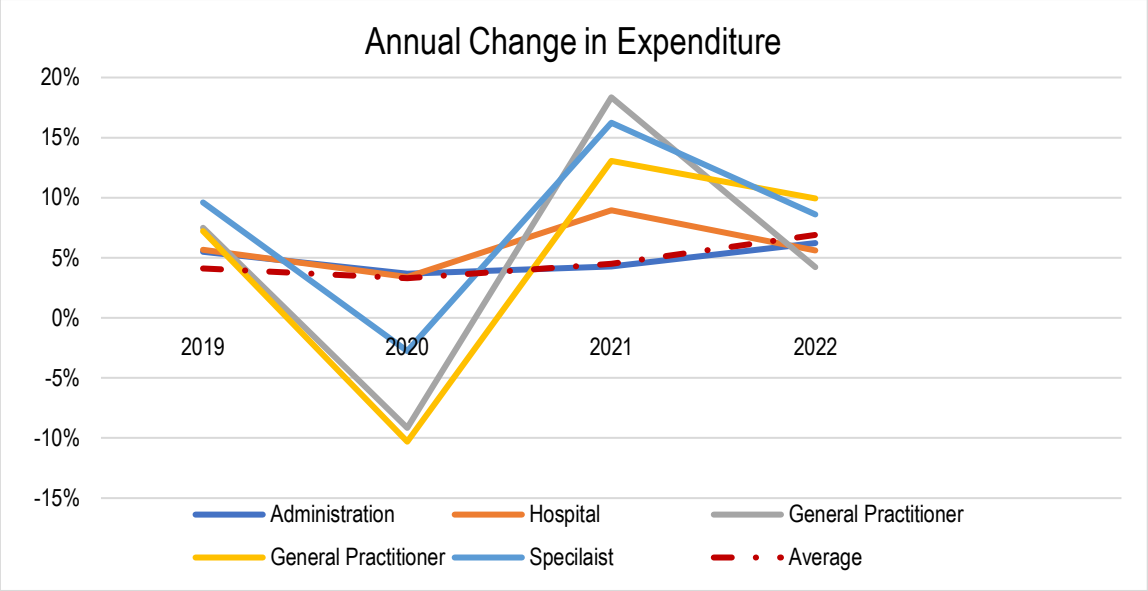


Figure 5: Percentage increase in expenditure year-on-year (2019-2022)
Data source: CMS

Figure 6 illustrates healthcare expenditure across different age bands between 2018 and 2022. It is evident that healthcare expenditure tends to increase with age, reflecting higher utilisation of healthcare services among older age groups peaking at the 55-59 years age groups and then decelerating gradually thereafter.

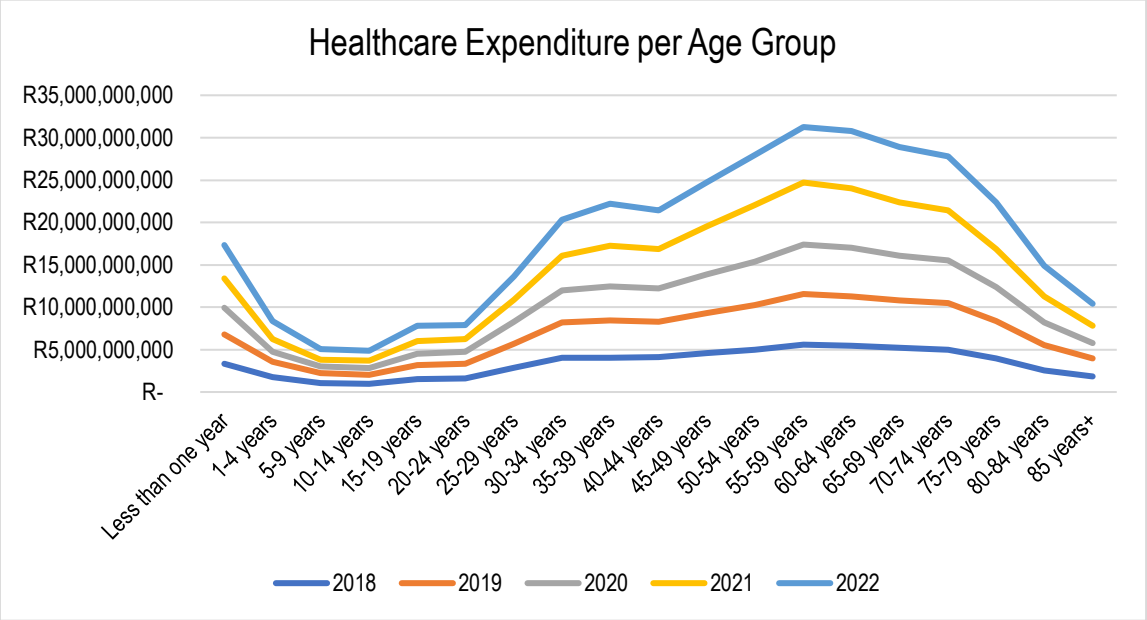


Figure 6: Healthcare expenditure per age group
Data source: CMS

Figure 7 shows a year-on-year increase in different healthcare disciplines for beneficiaries aged 60 years and older (60+). The overall proportion of total expenditure on specialists for the age band 60+ years increased from 33.18% in 2018 to 36.02% in 2022, indicating a rise in specialised medical services for this age group.

Similarly, expenditure on medicine for the same age band increased from 32.2% in 2018 to 35% in 2022. Hospital expenditure also shows a similar upward trend, increasing from 37.3% in 2018 to 40.04% in 2022. The proportion of total expenditure for the age band for general practitioners steadily increased from 15.5% to 17.7% for a similar period.

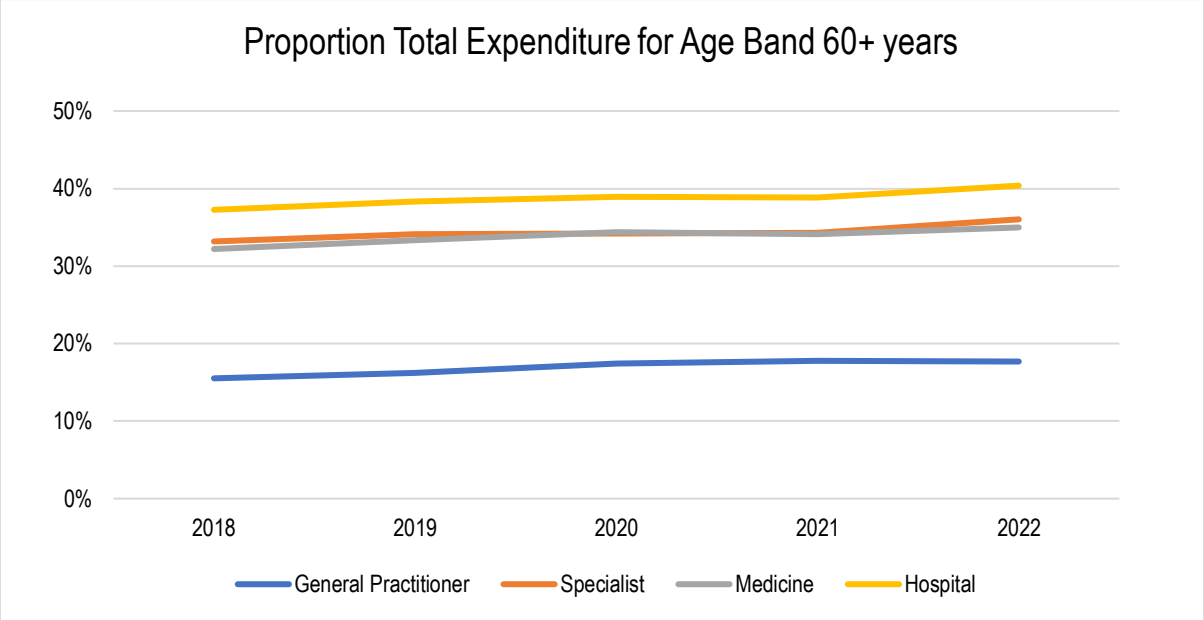


Figure 7: Proportion of expenditure for age band 60+ years expenditure year-on-year (2018-2022)
Data source: CMS

Overall, healthcare expenditure in the medical schemes industry continues to rise faster than inflation. This trend is mainly attributed to unique industry factors such as technological advancement, the ageing population, and the increasing prevalence of chronic diseases. Managing spiralling healthcare costs remains a key priority for medical schemes to ensure members' affordability and the sustainability of healthcare coverage.

Trustees must, therefore, continue to seek efficient strategies to curb costs without compromising quality health outcomes. These strategies include prioritising selective contracting with cost-efficient healthcare providers and pharmaceutical suppliers and the use of formularies.

3.5. Medical scheme reserves and investment income

Regulation 29 of the Medical Schemes Act prescribes that the minimum accumulated funds of medical schemes should be at least 25% of gross contributions. Reserves serve to protect member's interests and to guarantee the continued operations of medical schemes. They also serve as a buffer against unforeseen and adverse developments, whether from claims, assets, liabilities, or expenses. The reserves held by the medical schemes industry have consistently increased, growing by 7.92% from 2020 to 2021 and further increasing by 3.84% between 2021 and 2022 (CMS, 2022). These notable percentage increases show that despite substantial increases in healthcare expenditure, the industry remains in a sound financial position.

Trustees should continue with the current prudent financial risk management approach to ensure the industry's long-term sustainability. Similarly, they must use their schemes' favourable financial position to

mitigate members against higher medical inflation rates where appropriate without immediately passing all costs to members through unreasonable contribution increases.

4. 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:

4.1. Schemes must submit a pdf (**not scanned**), 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.

4.2. Any rule amendments that the CMS requested in previous submissions must be incorporated into the current amendments if they have not been effected already.

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

4.4. **Appendix 1A or 1A (2)** must only be completed for each benefit option that was registered in 2024, and again for all benefit options which the scheme intends to register in 2025. 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.

4.5. **Appendix C or C (2)** must be completed for each benefit option that was registered in 2024, 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 2025. 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.

4.6. **Appendix 1B** must be completed for the entire medical scheme for both 2024 and 2025. 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 2024 and 2025 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.

4.7. **Appendix D** requires information about the assumptions on cost increases and utilisation that medical schemes used in determining their respective contribution increases for the 2025 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.

4.8. 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.

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

4.10. Applications for all **new benefit options, including efficiency-discounted sub-options taking effect from 1 January 2025,** must reach the CMS by **2 September 2024** in terms of section 33(1) of the Medical Schemes Act. Applications received after 2 September 2024 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.

4.11. 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	**2024**	**2025**	**% Change**
e.g., day-to-day limit	e.g., R10 000 per beneficiary	e.g., R11 000 per beneficiary	10% increase

4.12. In instances where registered rules or rule amendments impose monetary limits on benefits, an explicit condition must be included indicating that the limits do 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.

4.13. 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.

4.14. All the 2025 rule submissions must be made electronically here. New users must first complete this authorisation form to be granted access.

5. KEY CMS RECOMMENDATIONS

5.1. Guideline for the 2025 contribution increases

South African consumers remain under serious financial pressure due to the high interest rates over the past years. The cost-of-living crisis due to the current stubborn inflation and the high level of household debt could impact members' ability to afford medical scheme premiums. Due to financial strain, individuals may choose to allocate their limited income towards other expenses rather than healthcare. In this scenario, health insurance could be perceived as a discretionary or low-priority expense, resulting in interruptions or lapses in medical scheme coverage. To insulate members of medical schemes against further financial hardship and the risk of losing health insurance, medical schemes are hereby advised to limit the contribution increase and cost assumptions for tariff increases for the 2025 benefit year to **4.4%** plus reasonable utilisation estimates.

The recommendation is in line with the South African Reserve Bank's 2025 CPI forecast, as outlined in the July Monetary Policy Committee (MPC) statement. The CMS uses salary inflation as a proxy measure for the affordability of annual contribution increases. Although private medical inflation generally exceeds CPI by 2 to 3 percent, CMS believes that the annual industry price increase assumptions should be closely tied to the CPI. In the current challenging economic climate, raising contributions above the inflation rate is simply above the budget line for most cash-strapped consumers. High medical scheme contribution rates also create a barrier for new entrants looking to join the private healthcare industry, posing a threat to the industry's long-term sustainability.

The Registrar is also cognisant that some medical schemes may require contribution increases higher than the CMS' recommended CPI-linked increments. In such instances, Trustees must provide the Registrar with a comprehensive actuarial business plan justifying the proposed contribution increases 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). The Registrar's decisions to approve any proposed contribution increases will continue to be data-dependent and sensitive to each medical scheme's financial and demographic risk profile. Accordingly, the Registrar will only approve contribution increases higher than CPI if there is a clear financial and actuarial justification.

5.2. Increase in managed care and administration fees

To further contain spiralling costs and keep the risk pool sustainable, the CMS recommends that non-healthcare expenditures for the 2025 benefit year be adjusted in line with CPI. In the current adverse macroeconomic climate, there is no economic rationale for increases in NHE above CPI, as this cost is ultimately passed down to members through higher monthly premiums.

Medical schemes with sufficient economies of scale are expected to use strategic purchasing when contracting with all providers to ensure value-based contracting. Trustees must also strive to incorporate efficiency and performance metrics into managed care contracts to improve operational efficiencies and the overall quality and efficiency of patient care delivery.

5.3. Governance and conflict of interest

Medical scheme trustees are reminded of their fiduciary duties, as required by Section 57 of the MSA. To this end, trustees and Principal Officers must take reasonable steps to avoid conflicts of interest and ensure that the interests of beneficiaries are protected when determining contribution increases. Instead of simply saddling members with higher contribution increases, trustees must also periodically evaluate the efficiency justifications of existing contracts with service providers and, where possible, renegotiate and pass some of the efficiency gains from such agreements to members through lower annual increases. Where contracted third-party entities have failed to demonstrate value for money, the BoT must review such agreements and take the necessary remedial action.

5.4. Application for registration of new benefit options

Based on the findings of the Health Market Inquiry in 2019, the current high number of benefit options and complicated benefit structures have negative impacts on consumers and competition in the market. As a result, the industry needs to regularly review its benefit offerings and eliminate options that are not financially viable or sustainable in terms of membership. However, the CMS will still consider applications for new benefit options. The main focus of the medical scheme's business plan should prioritise enhancing risk pooling, cross-subsidization, and affordability while providing members with high-quality healthcare services. This includes investing in preventative care programs, building strong provider networks, and offering virtual care benefits. The delivery model should be based on the principles of strategic healthcare purchasing through value-based contracts with cost-effective providers.

5.5. Medium-term cost increase assumptions.

The CMS further provides the industry with two-year forward-looking cost increase assumptions to assist the market with future planning. These assumptions aim to anchor cost increase assumptions in the private sector in line with consumer inflation to keep medical scheme contributions affordable. Persistent above-inflationary cost increases pose a significant risk to the industry's long-term financial sustainability, as consumers ultimately bear the financial burden. All things being equal, industry cost increase assumptions for the 2025 benefit year are projected to increase by 4.4% before increasing slightly to 4.5% for the 2026 benefit year. These projections are subject to revision in line with the SARB MPC quarterly CPI projections.

5.6. Independent actuarial review 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 expenses;
- Assumptions;
- Year-to-date financial performance; and
- Financial projections

5.7. Communication of the 2025 benefits and contributions changes

As per Section 31(2) of the Act, it is essential to note that any amendments, rescissions, or additions to the rules of the medical scheme are only deemed valid once they have been approved by the Registrar. Furthermore, in compliance with Section 29(1)(l), medical schemes are required to provide their members with advanced written notice of any impending alterations to their contributions and benefits. In their communication with members, medical schemes are required to incorporate a disclaimer, specifying **that the amendments will only be valid once approved by the Registrar.**

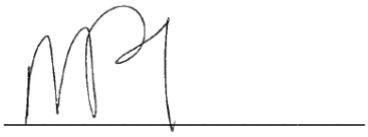
5.8. Deadline for submission

The deadline for submission of applications for new benefit options and EDOs to be implemented from 1 January 2025 is **2 September 2024**, and **1 October 2024** for contribution and benefit changes. Medical schemes that may require additional time to finalise their 2025 pricing decision must submit a request for an extension to the Registrar, citing their unique and individual circumstances. Nonetheless, the CMS still welcomes early submissions.

If you have any questions or concerns regarding the submission process and requirements, please feel free to contact the Benefits Management Analyst assigned to your scheme at the CMS.

Your cooperation is greatly appreciated, and we look forward to providing any assistance you may require.

Yours sincerely,



Mr Mfana Maswanganyi
Executive: Regulation
Council for Medical Schemes