Towards Addressing Policy Gaps in South Africa's Healthcare System: A Sustainable Approach to PMBs and Medical Schemes Reform

Research

Profile

Working Paper

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The health policy framework for South Africa's healthcare system after the establishment of democracy included the creation of medical schemes alongside a tax-funded public sector, focusing on the ideals of solidarity and equity. However, significant shortcomings and inconsistencies have developed over the years have hindered the effective implementation of these policies and their translation into practical benefit design. The authors argue that incomplete coverage under PMBs has created gaps in healthcare access.

This, combined with adverse selection by beneficiaries and schemes, has led to market failures and inefficiencies. CMS reports and analysis suggest that incomplete coverage and anti-selection have a compounding effect, weakening the risk pool and escalating costs.

The design of benefit options that include both Prescribed Minimum Benefits (PMBs) and supplementary benefits adds complexity to the system. This integration undermines the principles of equitable access to essential healthcare and increases cost pressures, as each option must be self-sustaining. As a result, the PMBs are not financed through the most significant risk pool.

Policy Formulation and Implementation Gaps

A more effective approach to risk pooling is to review the current PMBs, restructuring it as a base benefit package of essential healthcare services, including primary care, preventative care, chronic disease management, mental health, hospital admissions, trauma and emergency as a delinked standard benefit package financed through fixed contributions, and separate supplementary options (for improved access and choice of providers above minimum benefits, based on beneficiary preference and ability to pay).

This approach allows for customisation, enabling beneficiaries to be covered for a regulated defined package of essential healthcare services based on equity, solidarity and a transparent supplementary package based on the ability to pay and preferences. The current legislative framework mandates medical schemes to provide, as a minimum, the PMB. In addition, medical schemes may provide supplementary and complementary healthcare benefit options, provided that the benefit options for complementary and supplementary benefits are self-sustainable.

While the current Medical Schemes Act was implemented to integrate complementary, supplementary coverage and PMB benefits as single-benefit options or plans, it imposes significant financial burdens on both schemes and members due to full-cost coverage requirements. In contrast, a standalone PMB package could reduce baseline costs, increase transparency, and provide greater flexibility for members. Table 1 below compares mandatory essential healthcare benefit packages offered as standalone options across all medical schemes. Additionally, it includes choices for complementary and supplementary options financed through their risk pool based on individuals' ability to pay and preferences. Implementing this approach would require changes to the MSA regulations and establishing a new compliance framework.

Furthermore, there must be a dispensation and a clear framework detailing how the current PMB package will evolve in a manner that safeguards access and upholds constitutional rights. Distinguishing revised PMBs from complementary and supplementary benefit options could alleviate financial pressure on medical schemes. While ensuring a balance between access, affordability, and sustainability, this approach would better align essential healthcare benefits with members' needs and enhance cost management. This approach could be a viable alternative if supported by strong regulatory oversight and necessary regulation updates.

Table 1: Hospi-centric PMB Package vs. Essential Healthcare Benefit (EHBP) Package Model

Aspect	Current PMB Model	EHBP Model
Coverage Scope	Limited to chronic conditions, hospitalisation, and trauma/ emergency.	Includes primary care, preventative care, chronic disease management, and hospitalisation, trauma, and emergency.
Cost Implications	Hosp-centric, accounts for 80% of current expenditure.	More ambulatory-focused, reduced hospitalisation benefit, lower costs, more affordable.
Flexibility	Limited flexibility: all plans must include PMBs as part of an integrated package.	Greater flexibility: EHBP at lower cost, members choose supplementary benefits based on ability to pay and preferences.
Equity	Inequitable; richer benefits on higher options.	Improved equity: all members have equal access to EHBP.
Administrative Complexity	More complex administration with high number of options and integrated benefits.	Reduced complexity standardised EHBP, supplementary benefits managed independently as fewer options.
Transparency	Less transparent; PMBs embedded within broader benefit options.	Improved transparency: EHBP is standardised across schemes, and supplementary benefits are clearly outlined.
Risk of Underinsurance	Evidence of underinsurance with GAP cover.	Coverage based on need, ensuring essential healthcare is covered throughout care continuum.
Cost Management for Schemes	Hospi-centric, mandatory full-cost PMB coverage leads to higher costs.	EHBP includes essential services that are less hospital-centric, reducing healthcare and administration costs.

Financial Impact on Members and Acceptability	Integrated PMB cover with supplementary benefits leads to higher contributions and lower acceptability.	Lower contributions for EHBP, members buy supplementary cover based on ability to pay and choice, improving acceptability.
Financial Impact on Schemes	Significant financial pressure due to mandatory PMB coverage.	Reduced pressure and better resource allocation towards essential healthcare based on needs.
Social Impact on Access	Ensures universal access to essential health services under PMBs.	It may limit access to supplementary care for lower-income groups but improve access to universal essential healthcare.
Social Impact on Equity	Inequitable benefit design.	EHBP is more equitable; supplementary benefits are based on the ability to pay and choose.
Stakeholder Resistance	Possibly preferred by medical schemes.	Possibly acceptable to the majority of beneficiaries, benefits aligned with needs.
Alignment with Member Needs	Not aligned with the majority of health needs (hospital-centric).	Better alignment to beneficiary needs; supplementary benefits tailored to individual preferences.
Legal and Legislative Impact	Regulatory inconsistencies that need correction.	Requires revision of Regulations to the Medical Schemes Act to separate EHBP from supplementary benefits as benefit options.
Regulatory Compliance	Poor compliance due to regulatory inconsistencies.	Easier compliance with standardised EHBP; supplementary cover allows more flexibility for medical schemes
Medical Schemes Act Implications	Regulations conflict with solidarity principles.	It aligns with the principle of solidarity as the Medical Schemes Act initially intended.

The Role of Mandatory Membership and Risk Equalisation

Mandatory membership can only be effectively supported in a system that offers a benefit design acceptable to the majority of the population. This benefit design must include essential primary care, preventive care, chronic care, trauma, emergency services, and hospitalisation. Risk equalisation based on solidarity principles requires a standardised minimum benefit package across all medical schemes to ensure fairness.

Contrary to common belief, increases in contributions are not primarily caused by regulatory shortcomings but are instead linked to incomplete benefit designs and inefficiencies. Unlike traditional insurance models, the MSA does not directly address increases in contributions. Therefore, medical schemes should prioritise setting priorities and allocating resources, treating contribution increases as a last resort. Additionally, voluntary enrolment must be paired with consistent quality improvements to enhance acceptability and ensure universal access to essential healthcare services towards mandatory medical scheme coverage policy.

Administrative Costs and Cost Containment

Administrative costs and inefficiencies in the current system stem largely from the variability in benefit options. The proliferation of options and restrictive network models has increased administrative and healthcare costs. The dilution of risk pools further magnifies this problem due to the fragmentation of benefits across multiple schemes and options. Restricted schemes, despite typically offering fewer benefit options, are also affected by these challenges, as they operate within the same misaligned benefit design framework that links PMBs with supplementary benefits. Standardisation of PMBs across all schemes is critical for addressing these inefficiencies. Offering a well-defined, transparent, and standalone base benefit package can reduce administrative costs and restore the principle of equitable access.

Underwriting, Mutuality and Solidarity

The current application of underwriting for PMBs is partially at odds with the principles of solidarity. Underwriting evaluates and quantifies financial risk for an individual, group or institution and falls within the ambit of Mutuality. Although mutuality and solidarity are similar concepts, only mutuality involves risk assessment.

The core issue is that underwriting typically involves assessing individual or group risks and tailoring premiums accordingly.

In contrast, solidarity emphasises collective responsibility for healthcare costs, where all participants contribute to a shared pool, and losses are distributed equitably, regardless of individual risk profiles. Hence, the reasoning is that underwriting is at odds with solidarity, which is purely about pooling risks without discrimination. However, a more pragmatic approach is restructuring benefit designs to apply solidarity and mutuality in medical schemes correctly. The integration of PMBs with supplementary benefits creates conflicts that necessitate underwriting. Restructuring PMBs to offer EHBP as a standardised benefit package across all medical schemes, financed through fixed contributions, complies with solidarity, providing medical schemes with more flexibility to apply mutuality to supplementary benefit options.

Urgent Reforms for Sustainable Healthcare

The most urgent reform required is establishing a base benefit package that meets the essential healthcare needs of most of the population. This package should include universally accepted primary care, preventative care, chronic disease management, and hospitalisation services for chronic care, trauma, and emergencies. Medical schemes should focus solely on cost-effectiveness, quality of care and affordability rather than on the complexity of their benefit designs and distinct product offerings. Supplementary benefits should be offered as separate options within its risk pool, allowing for greater flexibility based on individual preferences, financial capabilities, community and individual risk. A transparent and simplified benefit design for an essential healthcare benefits package will promote equity, reduce administrative complexity, and enhance the sustainability of the South African healthcare system. These reforms will establish the foundational principles for mandatory coverage and risk equalisation, as the industry advocates. Addressing these structural inefficiencies allows medical schemes to progress toward the ideals of solidarity while ensuring cost-effectiveness and universality. Moreover, transitioning national health policy toward a social or National Health Insurance (NHI) system, as initially envisioned, is essential for achieving Universal Health Coverage.