

# **LOW COST OPTION FRAMEWORK**

## **providing affordable cover to more people**

12 March 2015  
CMS Indaba – Cape Town



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# Introduction

- The Council introduces a framework as to how it may consider introducing Low Cost Benefits Options into the industry
- The broad outline of the Framework was provided in Circular 9 of 2015
- CMS has embarked on a consultative process based on the framework to develop guidelines for the industry



# Introduction

- The guidelines will provide interested parties with the minimum requirements from Council in order to introduce LCBOs into the market
- The aim of LCBOs is to increase the participation of individuals into the risk pool that would have not had the opportunity to previously
- This can be achieved by addressing:
  - Affordability challenges to this sector
  - Provide benefits that cater for need of the market
  - Ensuring that quality of cover is provided



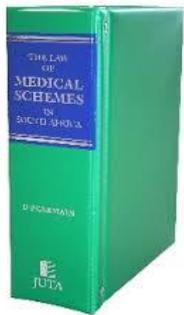
# Question for consideration

Whether a Low Cost Benefit Option (LCBO) can exist within the current Regulatory Framework of the Medical Schemes Act (MSA)



# Does the Council dispose of the powers to intervene?

- Section 8(h) confers a power on Council to exempt medical schemes from complying with any provision of the MSA.



**“8. Powers of Council.** – The functions of the Council shall be to-

- (h) exempt, **in exceptional cases** and subject to such terms and conditions and for such period as the Council may determine, a medical scheme or other person upon written application from complying with **any provision** of this Act”

(own emphasis added)



# Section 8 exemptions



- Onus is on the applicants to present facts which make their case markedly different from ordinary medical schemes to make them exceptional.
- Protection of member interest must be ensured.
- Exemption must be rationally connected to the information presented.
- Adequate and defensible reasons must support the decision.
- Council is at liberty to impose conditions and to only partially exempt where indicated.



# Framework outline

- Protecting risk-pool:
  - If exemptions are obtained from particular provision of the MSA, we need to ensure that the existing medical scheme risk pool is not undermined or fragmented
  - Risk of buy-down of existing members to be minimised
  - Clear definition of eligibility to entry e.g. Income verification, employer groups only, etc.
  - On the upside, there are Natural barriers to buy-downs e.g. no cover for hospitalization

# Framework outline

- Underwriting:
  - Late joiner penalties should not be allowed esp. considering previously uncovered lives due to affordability
  - Waiting periods may be allowed but will be determined as part of the exemption request in the application

# Framework outline

- Protecting risk-pool/Underwriting comments:
  - Options provided within schemes
  - Initial enrolment period after which underwriting will apply
  - Exempt from community rating and introduce risk rating
  - Upgrade to higher plan to require underwriting – except in cases where salary increases
  - Restrict membership based on (exemption from open enrolment):
    - Income
    - Geographical areas
    - Uncovered lives
    - Employer groups
    - Mandatory membership



# Framework outline

- Geographical coverage (comments):
  - Options are developed on basis of contracted networks of primary healthcare providers
  - Restricted enrolment to network coverage areas due to benefit design and pricing
  - Out-of-network coverage be condition of exemption to ensure continuity of care

# Framework outline

- Solvency considerations:
  - Products only be allowed in a “financially secure” scheme
  - Business case to demonstrate the maintenance of solvency
  - The Act deals with schemes being unable to comply with solvency requirements – ICU schemes

# Framework outline

- Solvency considerations comments:
  - Exclude from solvency calculation in the beginning or ring fencing
  - Review solvency to include an Risk Based Capital approach
  - Include in Solvency only once a RBC approach is implemented

# Framework outline

- Non-Healthcare expenditure (comments):
  - Demonstration of value for money in business case
  - Cost of options assume a low NHE
- Marketing (comments):
  - Need to ensure that the right message gets out
  - Conditional exemptions if misleading marketing
  - Need to ensure members are educated about the product

# Framework outline – Product design

- Benefit Design – type of benefits covered:
  - GP consultations
  - Specialist consultations with referral
  - Acute medication
  - Chronic medication
  - Dentistry
  - Optometry
  - Pathology
  - Radiology
  - Emergency services (road/air transport)
  - Emergency casualty services
  - Hospitalisation (Public/Private)

# Product design Guidelines

- Benefit Design:
  - A predetermined set of benefits that the product must comply with to ensure that appropriate healthcare is provided
    - Work will commence to investigate design considerations and effectiveness of interventions
    - Analysis of cost effectiveness of predetermined set of benefits
    - Continuation of care – out-of-network benefits
    - Alignment with S27 and NHA
  - Flexibility in benefit design was considered:
    - Concerns are that objective of providing cost effective and quality care not being maintained
    - Uncertainty created in the target market due to information asymmetry

# Product design Guidelines

- Benefit Design comments:
  - Exemption partially or fully from the PMB requirements
  - Standardised benefit package to be included
    - Primary care
    - Capitated arrangements to provide benefits
    - Out-of-network cover
    - Hospitalisation depending on cost and affordability
  - Affordability of benefit package as key consideration incl. subsidy considerations
  - Simply and clear design – reduces NHE
  - Cross-subsidy not allowed except for NHE and Solvency



**THANK YOU**

