
# Low Cost Benefit Options

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# Agenda

- The view of DHMS on introducing affordable LCBOs (Milton)
- Technical aspects (Emile):
  - What drives costs
  - How to make LCBOs affordable

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# DHMS view

- LCBOs represent a significant opportunity for the medical schemes industry – if we don't do it, other insurers will;
- An important objective for Medical Schemes and CMS is to actively collaborate, and to facilitate innovation and industry growth;
- Regulatory barriers and risks must be recognized.
  - Requires active work with CMS to minimize these if we want to make cover more affordable;
  - The current regulatory framework prohibits innovative approaches such as LCBOs;
  - Although we recognize that members must be protected through legislation;
- The industry and CMS should not allow the current regulatory barriers to be the "deal breakers" in developing LCBOs;

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# DHMS view

- DHMS would definitely support and invest in the introduction of LCBOs:
  - Provided it is in the best interest of the Scheme and its members and
  - Provided it does not create unmanageable risks;

- DHMS requests CMS to actively collaborate with the medical schemes industry in finalizing the framework and principles of LCBOs.

- Our suggestion:
  - CMS to establish a LCBO industry-wide working group for medical schemes and administrators
  - The finalization of the framework within the next three months (which would allow necessary governance requirements to be met before potential launch in September).

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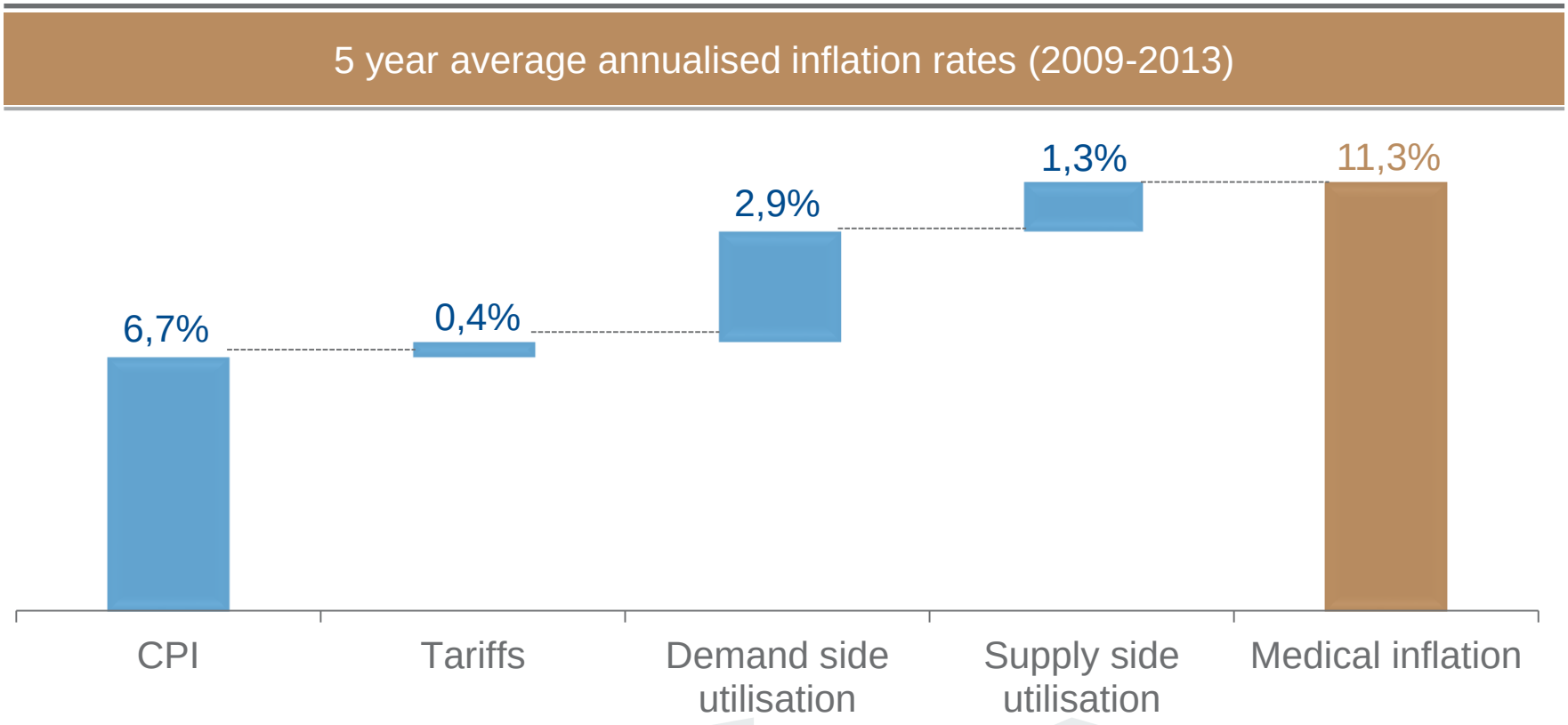
# SA medical inflation is not all about tariffs - volume of services is a critical cost driver




**Demand-side drivers :**

- Adverse selection
- Increased disease burden
- Ageing

**Supply-side drivers:**

- Fee for service system
- Fragmentation of care
- New technology & procedures

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# Medical inflation drivers

Key assumptions: LCBO benefits restricted to **primary care benefits**, & Full PMB package **not enforced**

| | Drivers of volume / utilisation | Implied solution for LCBO context |
|---|---|---|
| Claims inflation | 1 Demographics (main driver) | **Mandatory** risk pools |
| | 2 Supply side (Secondary driver) | **Tight** networks |
| Premium inflation | 3 Solvency requirements | **No need** for 25% solvency requirement |

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# LCBO benefits

- Package of **minimum primary care benefits** is possible to construct

- Including **GP visits** and **medication**

- With **very low** administration fees

- For between **R250 and R300** per member per month

- Important caveats:
  - Can only be done if the rest of the **regulatory framework** is in place
  - **Cannot** provide cover at cost
  - But only within **tight network & formulary**
  - With **no rights to out-of-network visits** at **cost**

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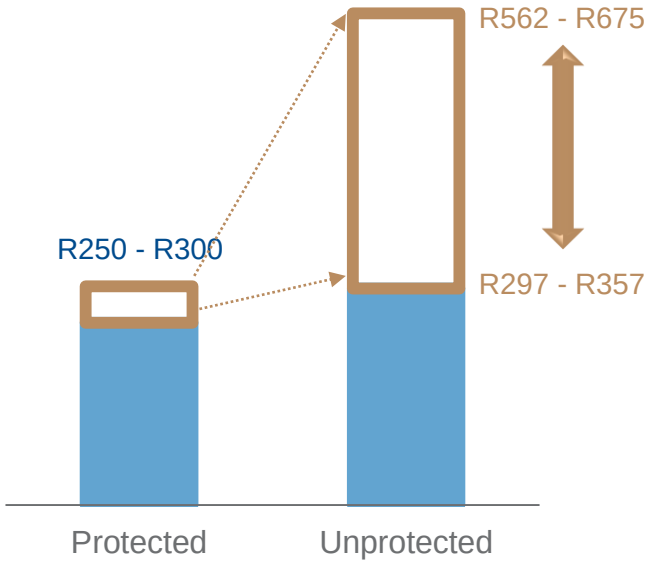
# To avoid anti-selection & demographically driven inflation

- Open enrolment / guaranteed acceptance **cannot** be offered at the outset
- Critically important to **restrict cover to groups** in formal employment
  - Individuals are 38% more expensive than groups
- Groups must be **reasonably sized** at the outset (say 35+) and only accepted if compulsory for everyone in an income bracket
- And **access to payroll** also needed to avoid selective downgrading and income declaration fraud

- Without this protection:
  R250 – R300 becomes anything from R297 - R357 up to R562 – R675

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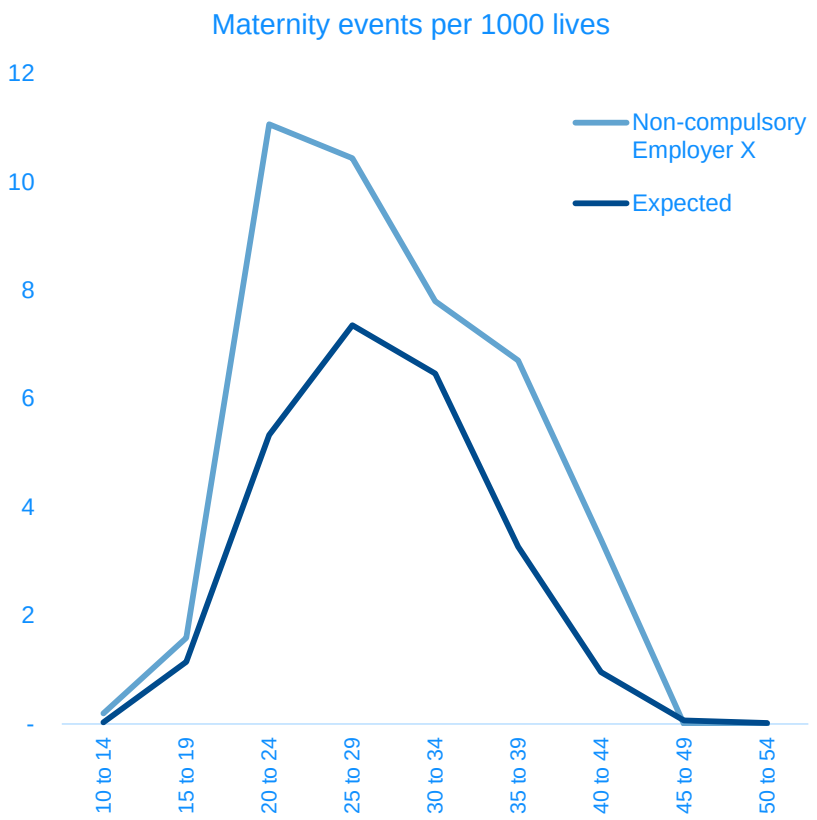
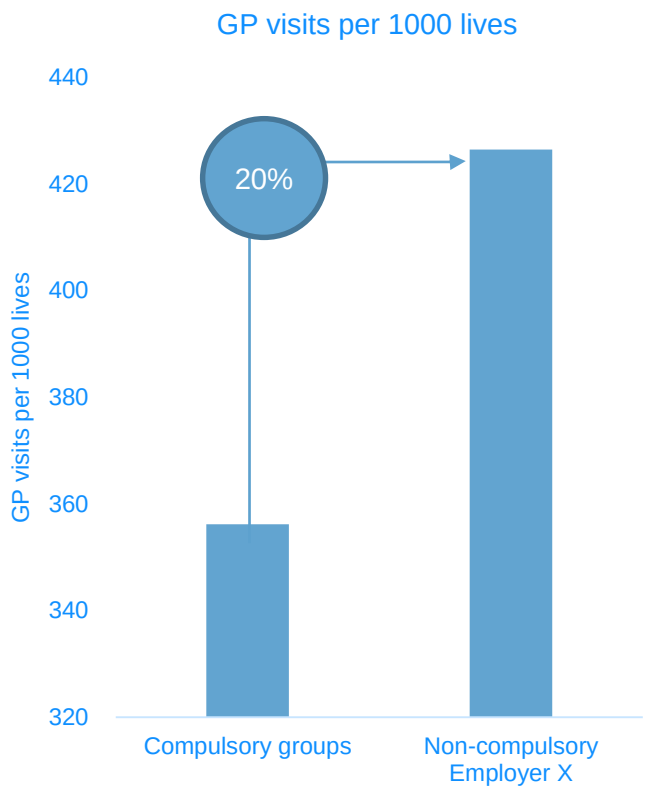
# Impact of selection within a large non-compulsory group

The maternity rate on Employer X is 60% higher than average, translating into 55% higher cost per life




GP utilization and cost is 20% higher on Employer X than that on compulsory groups

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# To avoid supply side inflation


- **Benefits** can be offered *inside* the network / formulary only
- **Low tariffs / prices** can only be negotiated *inside* the network if members don't have rights to cover at cost *out* of network
- Innovative supply side solutions can only work with **guaranteed volumes**

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# To avoid other unnecessary costs

- If a scheme has 25% solvency level
- And provided membership of LCBO does not exceed 20% of total membership base
- There should be no reason for additional solvency requirement
- Until such time as risk based capital is implemented, at which time overall risk based requirements can be evaluated
- Imposition of the 25% requirement means:
  - Required contribution must be divided by 0.75 or multiplied by 1.33 to meet the requirement
  - R250 – R300 becomes R333 – R400

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# Conclusion

- An LCBO is within reach for **R250 – R300**

- DHMS and DH is **willing to invest** in this market


- But LCBO requires a **special regulatory dispensation** to keep it affordable


- **Without protection** against anti-selection, and **with a 25% solvency requirement**, the absolute ***minimum*** contribution becomes **at least R396**, and may have to increase **up to R800** if there is a high degree of individual anti-selection

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