Restricted Medical Schemes vs Open Medical Schemes

June 2021

Value propositions unpacked by Medi Call

Introduction….

Consolidation
Myth or Truth

We have all heard that the consolidation of Medical Schemes is the only solution to save the Private Healthcare Industry….

At Medi Call we struggle to find the evidence to back this up and our analysis rather point towards substantially more value to be derived for those Employers who can participate in a restricted- or employer-based Medical Scheme....

Explore the critical factors that drive value in Medical Schemes with us and see the evidence that support Medi Call's argument revealed….

Medi Call's aim….

It appears that Open Medical Schemes and Third-Party Administrators have a vested interest to push the Agenda for Consolidation, while restricted schemes have very little to no requirement to compete and therefore have very few voices representing their value propositions.

Medi Call aims to correct this imbalance and bring a sober, independent voice to represent the truth around the value proposition of the Restricted Medical Schemes in relation to Open Medical Schemes and to back up our findings in factual analysis.

Restricted vs Open Medical Schemes
At the core of value….

The three critical value drivers mentioned below are at the core of the value proposition of any Medical Scheme and Schemes that can consistently outperform other schemes in these three areas become more competitive and offer better value for money.

Failure in any one of these three critical value drivers require corrective actions that negatively impacts the value for money offered and inevitably make such schemes less competitive.

1. Maintaining a healthy demographic profile
2. Maintaining financial stability and sound solvency margins
3. The cost of delivering the benefits

Restricted vs Open Medical Schemes
Medi Call's Analyses Methodology….

Medi Call's analyses explore the three critical value drivers identified earlier by unpacking the theory of how each of these aspects impact Restricted Schemes and Open Schemes respectively and how they are positioned to compete in each of these areas.

There-after the Council for Medical Schemes' Annual report of 2019 is utilised to highlight the difference in performance of all the Restricted Schemes combined and all the Open Schemes combined in each of these aspects to support the theory unpacked above.

Then Medi Call compares the performance of three Restricted Medical Schemes and three Open Medical Schemes to further underline the theory unpacked above.

All three the Open Medical Schemes selected are in the top ten largest Medical Schemes and Medi Call deliberately selected a small-, medium- and larger Restricted Medical Scheme to illustrate that size is not the discerning factor.

Restricted vs Open Medical Schemes

High level comparison of selected schemes….

	Small size Restricted Scheme at 2019	Medium size Restricted Scheme at 2019	Large size Restricted Scheme at 2019	Open Scheme A at 2019	Open Scheme B at 2019	Open Scheme C at 2019
Principal members	3 295	7 460	29 390	338 751	1 351 720	156 723
Beneficiaries	8 087	17 097	78 151	772 943	2 808 106	298 852
Monetary value of Reserves	183 057 000	439 315 000	910 141 000	4 320 079 000	19 209 355 000	1 403 521 000
Solvency Ratio	98,33%	96,51%	44,56%	24,85%	27,50%	25,86%
Average Age of Beneficiaries	28,04	29,62	31,06	33,77	34,40	33,28
Cost of Delivery - NHE as % of Contributions	8,21%	7,93%	6,88%	11,87%	10,32%	16,28%

- *NHE : Non-healthcare Expenditure*
- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

Small Scheme: Less than 6 000 members
Medium Scheme: Between 6 000 & 30 000 members
Large Scheme: 30 0000 + members

It is often said that larger Schemes must be better because of the benefit of scale.

Medi Call's summary of the selected Open Schemes & Restricted Schemes above and our further analyses illustrate that size alone does not create the opportunities for value-add as is so often and easily attributed to it.

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Restricted vs Open Medical Schemes
1 Demographic Profile….

1
Maintaining a healthy demographic profile

- Size alone does not determine the best opportunity to create value.
- Both size & the quality of the demographic profile is critical.

It is well known that there is a direct correlation between age and utilisation or claims and for every year the average age of a scheme's profile is older, utilisation or claims increase by 2 – 3 % .

- Restricted Schemes are limited to a defined population which are normally linked to specific employers.
- Our analysis show that restricted schemes appear to maintain better quality demographic profiles.
- Within current legislation it is more difficult for Open medical Schemes to maintain good quality demographic profiles.

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The ability to influence and maintain quality demographic profiles trump size

Restricted vs Open Medical Schemes
1 Demographic Profile….

Table 41: Average age, pensioner ratio, and distribution

	Gender	Average age (years) and pensioner ratio (%)	2016	2017	2018	2019
Open schemes	Female	Average age	34.7	34.9	35.2	35.6
		Pensioner ratio	10.1	10.9	11.6	11.3
	Male	Average age	33.2	33.3	33.5	33.8
		Pensioner ratio	8.2	8.9	9.6	9.2
	Total	Average age	34.0	34.1	34.4	34.9
		Pensioner ratio	9.2	10.0	10.7	10.3
Restricted schemes	Female	Average age	31.9	31.8	32.1	32.2
		Pensioner ratio	7.1	7.4	7.9	7.4
	Male	Average age	29.1	28.9	29.3	29.3
		Pensioner ratio	5.2	5.4	5.8	5.3
	Total	Average age	30.6	30.5	30.8	31.1
		Pensioner ratio	6.3	6.5	6.9	6.5

- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

As illustrated above, the average age of beneficiaries for all Restricted Schemes combined is 3,8 years younger than the average age of beneficiaries for all Open Schemes combined.

It follows that all Open Schemes combined would inherently have increased utilisation or claims of between 7% and 11% in relation to all Restricted Schemes combined.

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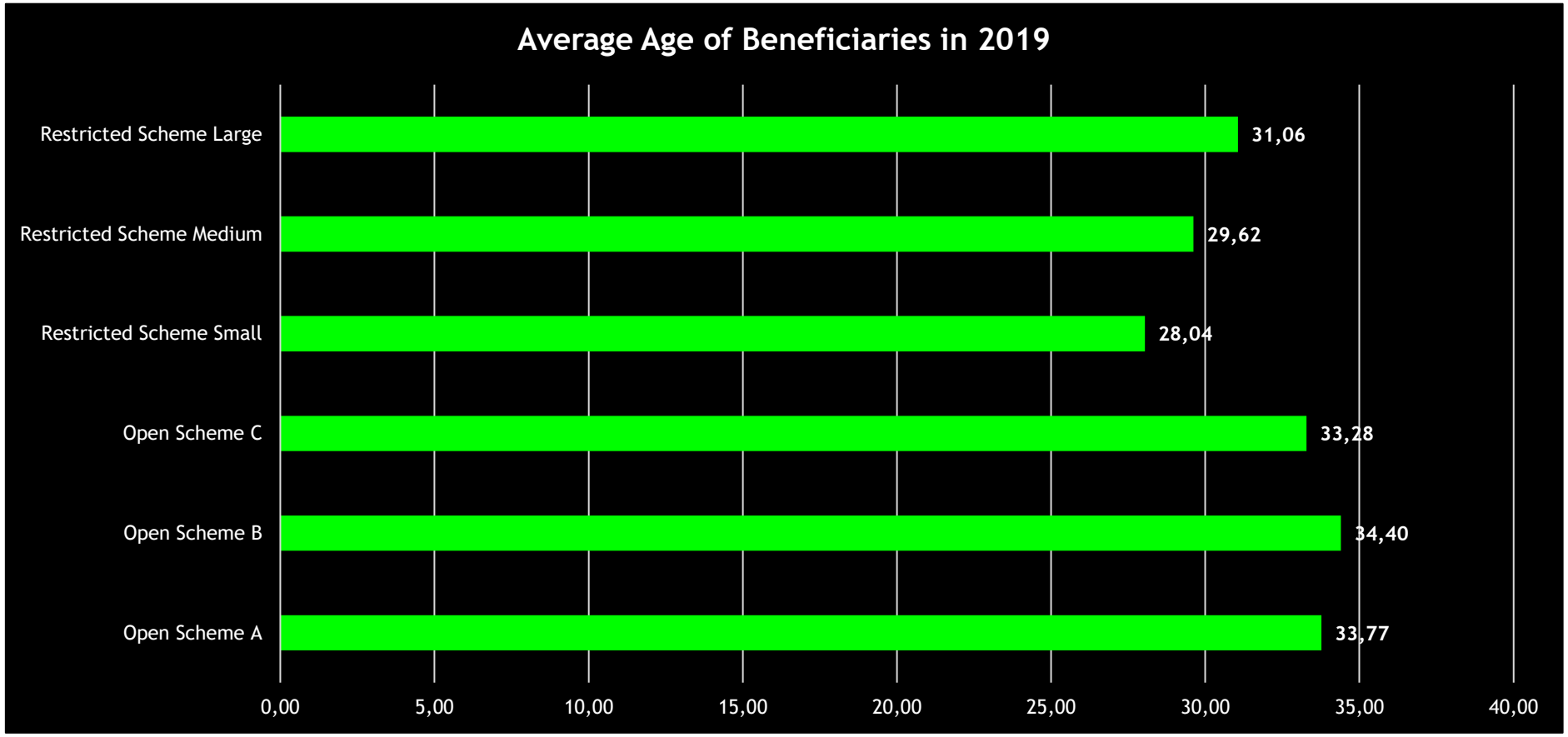
Restricted vs Open Medical Schemes
1 Demographic Profile….



- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

By nature, eligibility to restricted medical schemes are limited to employees of the participating employers and they appear to be in a better position to manage anti-selection against the scheme and therefore appear to be more successful in maintaining better quality demographic profiles, as illustrated above.

Restricted vs Open Medical Schemes
2 Financial Stability….

2
Maintaining financial stability and sound solvency margins

It is true that smaller schemes may experience more volatility in claims year-on-year and that larger schemes should experience less volatility in claims year-on-year.

However, prudent management and maintaining higher solvency levels mitigates the risk of higher volatility in annual claims and it appears that annual claims volatility have not limited Restricted Schemes to offer rich benefits at competitive prices. Probably because they are better able to maintain quality demographic profiles

- Due to size and direct competition Open Schemes tend to hold the minimum reserves allowed. This detracts from value for beneficiaries.
- Due to a constant drive for growth, Open Schemes must often cost for reserve growth in contribution increases.
- Restricted schemes appear to hold higher levels of solvency, creating value for beneficiaries and they are rarely required to cost for reserve growth in annual contribution increases.

Higher solvency margins create value for and safeguard beneficiaries

Restricted vs Open Medical Schemes
Solvency….

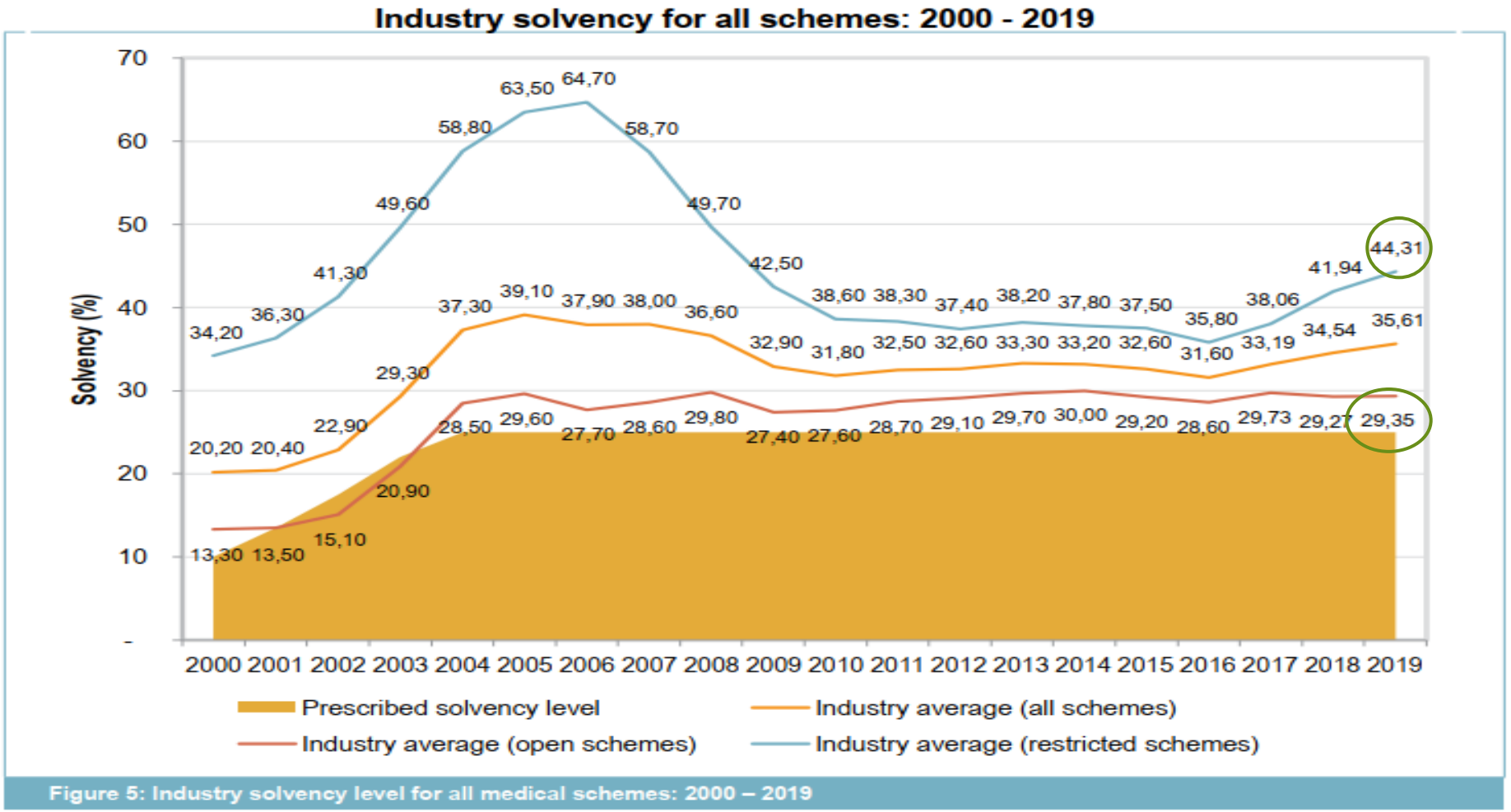


Figure 5: Industry solvency level for all medical schemes: 2000 – 2019

- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

The table above illustrate that all the Restricted Schemes combined hold higher levels of reserves (44,31%) than all the Open Schemes combined (29,35%).

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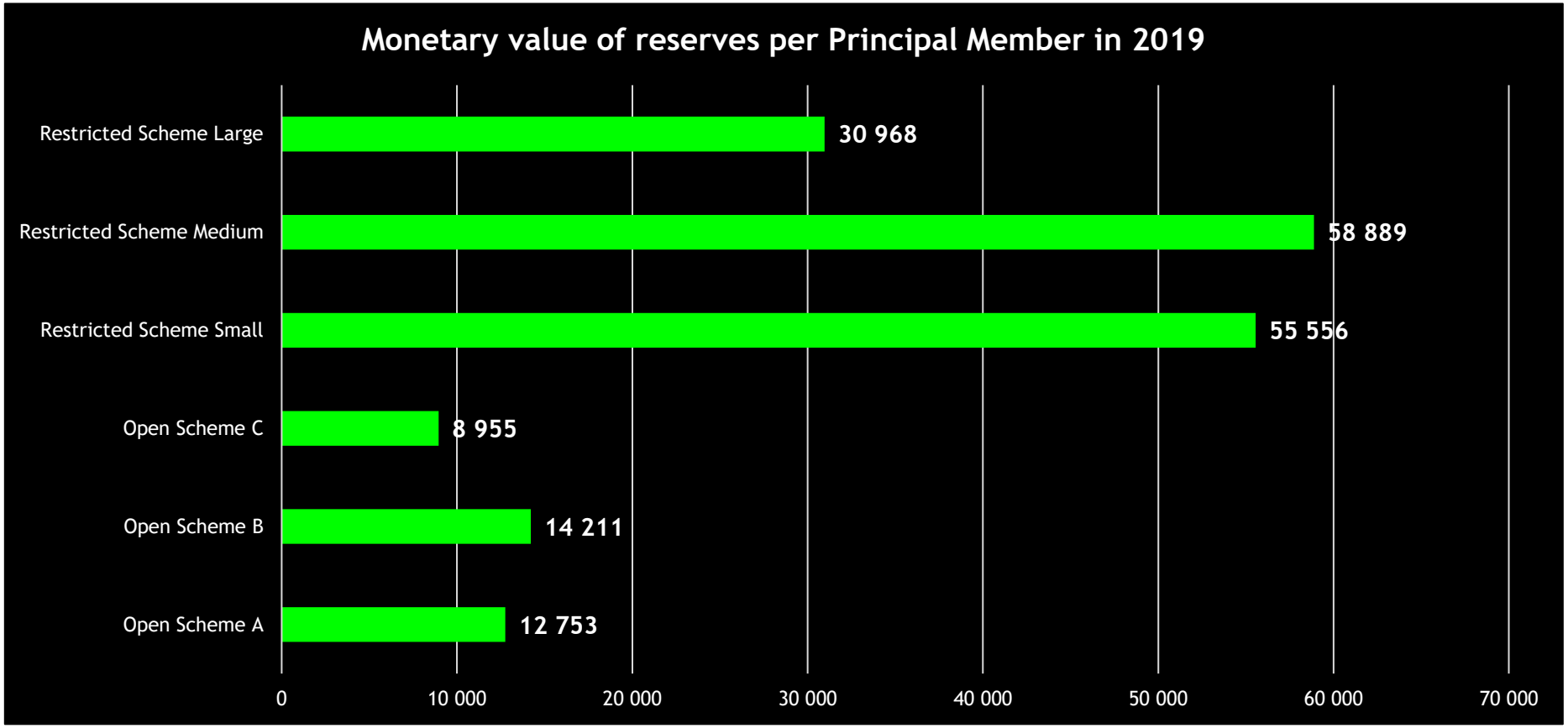
Restricted vs Open Medical Schemes
Solvency….



- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

Comparing the monetary value of reserves per principal member brings new perspective of the value of reserves in a scheme and clearly show the superior value and safeguarding created for members of restricted medical schemes.

Restricted vs Open Medical Schemes
Contribution increases….

A further indicator of financial stability and value added for members of any Medical Scheme is the ability of a Scheme to post consistent competitive contribution increases over a sustained period and Medi Call attempted to analyse the trends for contribution increases in Restricted Schemes with that of Open Schemes.

Medi Call identified the contributions for a family composition of 1 Principal + 1 Adult + 1 Child for selected plans, with more or less similar richness of benefits from each of the three Open Medical Schemes and one of the Restricted Medical Schemes used throughout this comparison, for the period since 1 January 2014.

- *To readily get access to reliable information of annual contributions of restricted schemes poses a challenge.*

This information was collated to equalise the 2014 contribution for the above-mentioned family category as the equal basis or 1 for all these benefit plans. Subsequent annual contribution increases are then plotted on a graph to illustrate the effect of contribution increases for each benefit plan over 7 years from1 January 2014 to 1 July 2021.

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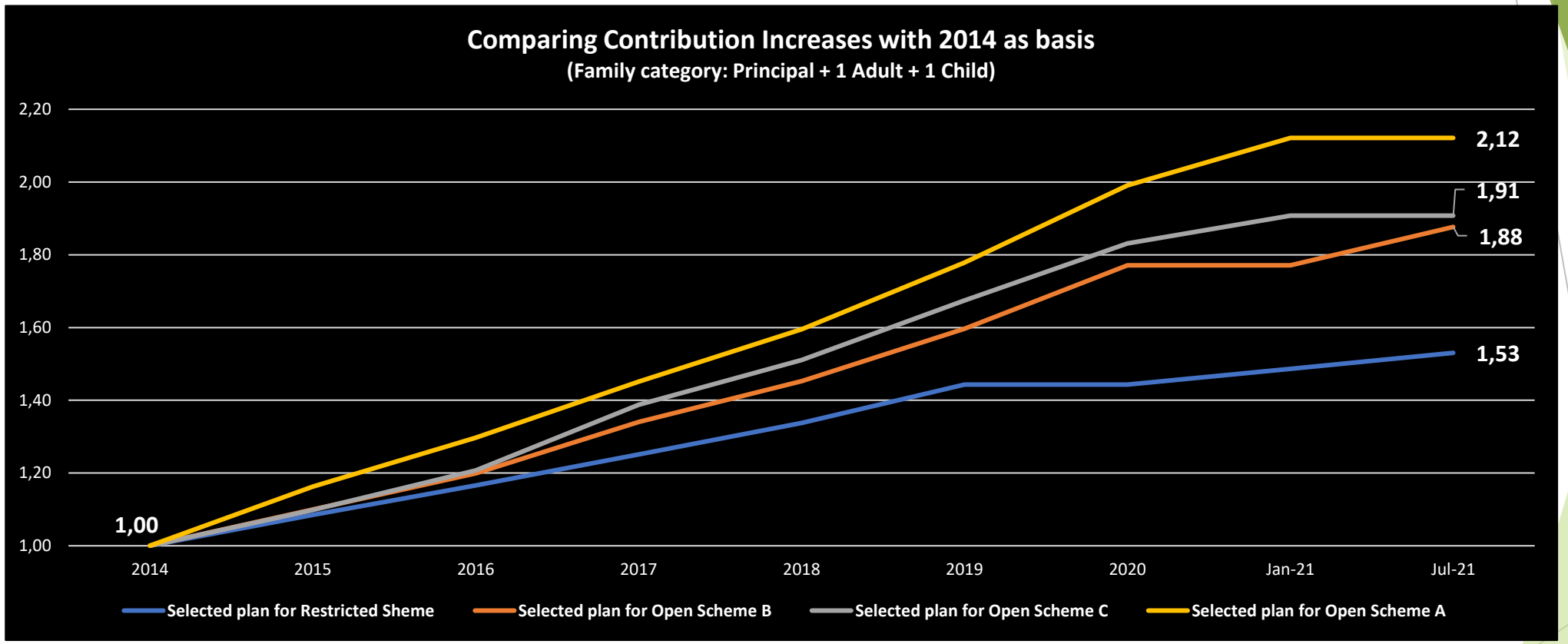
Stable, competitive annual contribution increases create value.

Restricted vs Open Medical Schemes
Contribution increases….



- *Source: Contribution tables from Benefit Brochures*

The comparison above illustrate that the restricted scheme were able to limit annual contribution increases in comparison with the open medical scheme plans, thus creating significantly more value for money for its members.

Also, keep in mind that this is illustrated over a 7-year period and was achieved together with significantly higher solvency levels as illustrated before.

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Restricted vs Open Medical Schemes
3 Cost of Delivery….

3
The cost of delivering the benefits

The standard measure for the cost of delivery is the total of all the non-healthcare expenses grouped together, especially as these are generated by several, sometimes non-related entities.

It appears that the non-competitive positioning of Restricted Medical Schemes require less expenses to deliver their benefits and this creates opportunities to offer superior value for money.

- Open Schemes live in a more competitive environment and must spend additional costs to market their product.
- Restricted Medical Schemes appear to deliver their product at significantly better cost ratios than Open Medical Schemes.

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More money towards benefits if the cost to deliver is less

Restricted vs Open Medical Schemes
Cost to deliver….

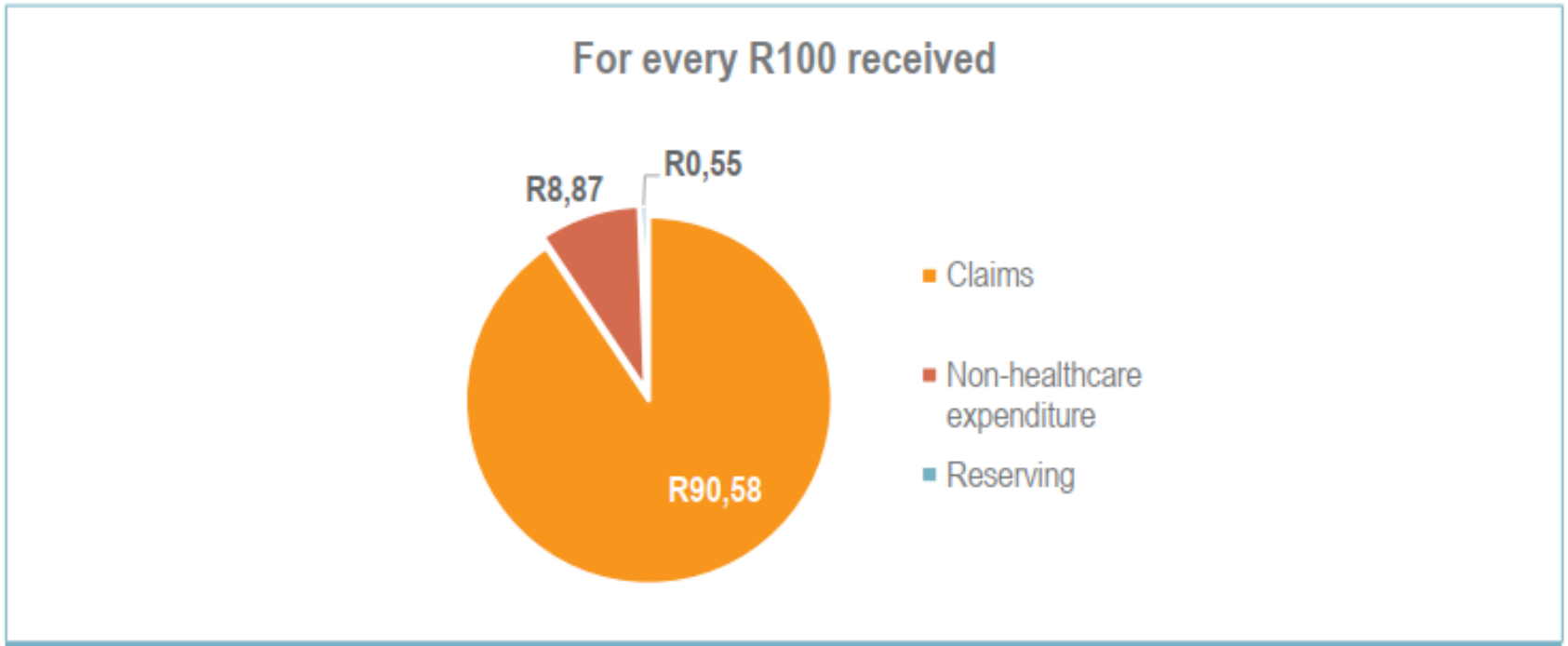

Figure 4: A snapshot of the industry – for every R100 received

Figure 4 illustrates that for every R100 received in 2019, R90.58 was spent on claims, R8.87 was spent on non-healthcare expenditure, and R0.55 was allocated towards reserving. Medical schemes generally price to break even on a net healthcare result level; this pricing objective was achieved in 2019.

- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

The figures above illustrate that the industry (all schemes) utilse approximately R90,58 out of every R100 received for benefits.

However, in the next two slides Medi Call will illustrate that it is very different for Restricted Schemes and Open Schemes, respectively.

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Restricted vs Open Medical Schemes
Cost to deliver….

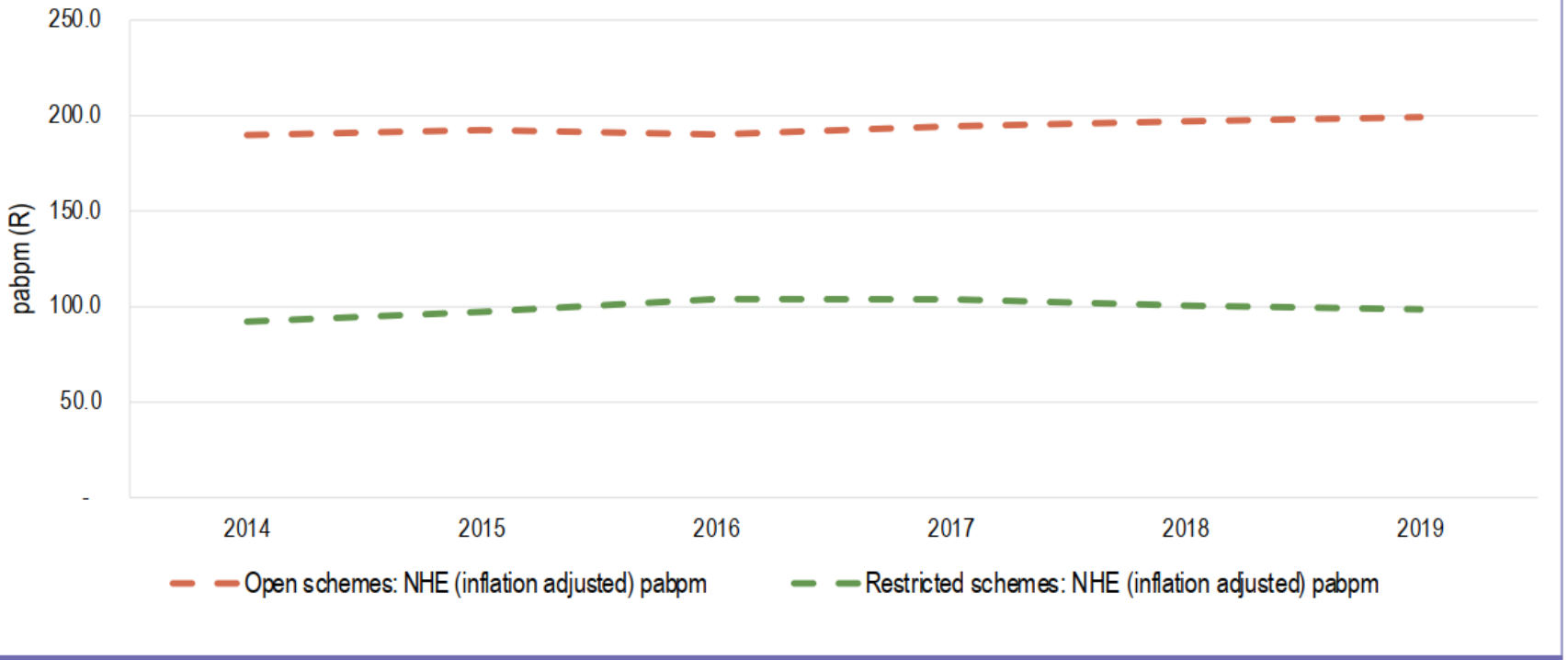

Figure 56: Non-healthcare expenditure in open and restricted schemes (2014-2019) in 2019 prices*

*The values were adjusted for CPI for 2000 – 2018

- *NHE : Non-healthcare Expenditure*
- *Pabpm : Per average Beneficiary Per Month*
- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

The figure above illustrate the significant cost difference per average beneficiary per month between Restricted Schemes and Open Schemes to deliver their product to beneficiaries.

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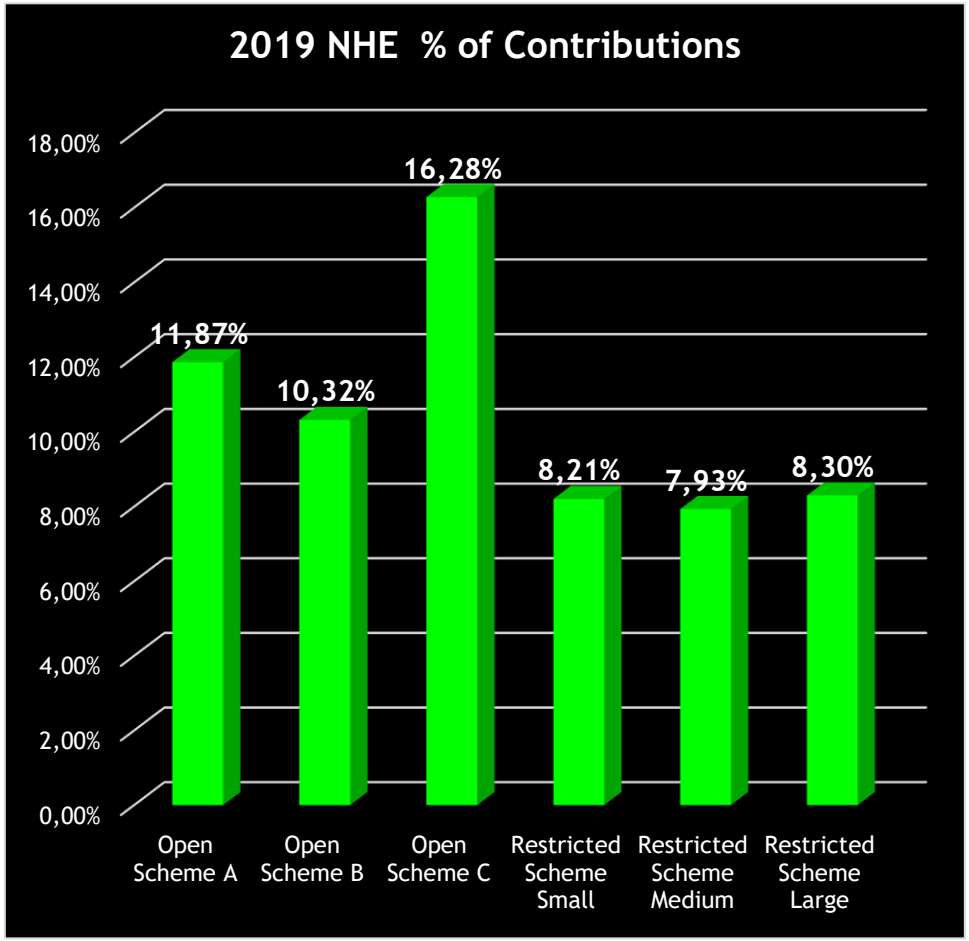
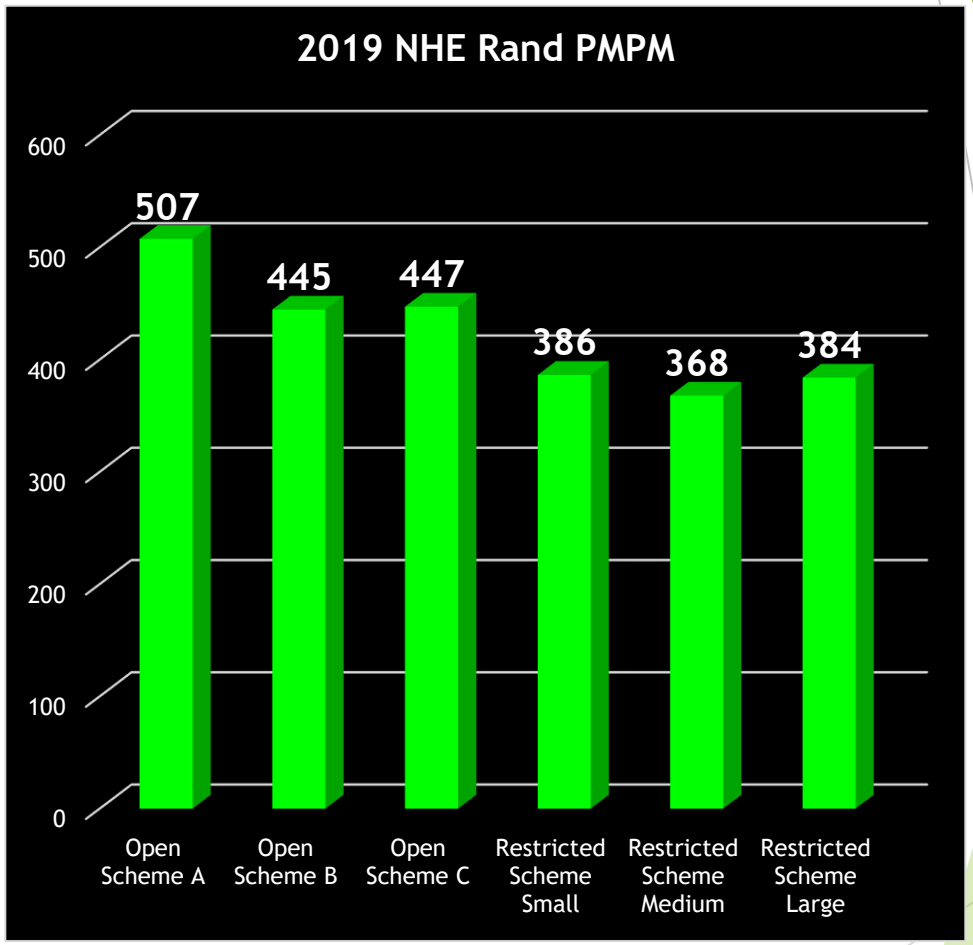
Restricted vs Open Medical Schemes
Cost to deliver….





- *NHE : Non-healthcare Expenditure*
- *Source: Council for Medical Schemes Annual Report 2019 released in 2020*

The figures above illustrate that Restricted Medical Schemes create significantly more value as a result of lower costs to deliver and have between R91 & R92 out of every R100 received available for benefits, while Open Medical Schemes have between R83 & R89 out of every R100 received available for benefits.

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In conclusion….

Restricted Medical Schemes can offer superior value for money by:

- **ringfencing the eligibility of the scheme to employees of the participating employers – As illustrated considerable value is derived from the quality of the scheme's demographic profile.**
- **the ability of Restricted Schemes to align its benefit structures with future developments around healthcare service delivery and NHI in South Africa.**
- **the ability of Restricted Schemes to align its benefit structures with associated products, i.e Gap Cover, personal savings accounts and any other employer healthcare initiatives.**
- **the bias of supplying cover when insurance is most needed through the ability to offer Ex-Gratia benefits.**
- **the value derived from delivering the product at considerable discounts relative to open medical schemes.**

To engage on any of the views held above,
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