***'Key changes could slash costs' for medical scheme members***

MEDICAL scheme members could pay 23 percent less to belong to a medical scheme if scheme membership were mandatory. And contributions could be lowered still further if schemes did not have to hold hefty reserves, if they could negotiate prices and if prices were regulated - in particular, those for prescribed minimum benefits (PMBs). This is according to experts in healthcare financing who spoke at the annual conference of the Board of Healthcare Funders (BHF) last week. The BHF is advocating all of these changes. When asked what stance government would have towards the proposals, Dr Anban Pillay, deputy director-general of health regulation and compliance management at the Department of Health, said they were all in the offing. With National Health Insurance (NHI) 14 years from being implemented, schemes said these changes needed to be made as soon as possible to bring down the cost of medical cover. Barry Childs, actuary and chief executive of Lighthouse Actuarial Consulting and CareGauge, said the opportunity costs of waiting for NHI were enormous. The medical schemes industry is losing R13.5 billion a year (in 2010 terms) due to the anti-selection pressures on the industry, because healthcare cover is not mandatory, Childs said. He said if membership of a medical scheme were mandatory, contributions would be on average 14 percent lower across the board for members of restricted schemes, and as much as 23 percent less for members of open schemes. Dr Humphrey Zokufa, managing director of the BHF, told the conference that mandatory cover should be introduced as a precursor to NHI, but "the PMB issue" was more pressing. The BHF has engaged with 43 of its 73 members since January, and all have raised concerns about regulation eight and the PMB issue, he said. Zokufa said they all agree that it was the biggest threat to the viability of medical schemes in this country. The aim of the regulation was to protect medical scheme members, but the inadvertent consequence had been its abuse by service providers who charged exorbitant fees, according to Neil Nair, principal officer of Samwumed. In November last year, the North Gauteng High Court ruled that schemes had to pay "in full" at whatever was invoiced for the treatment of PMBs. At the conference, Minister of Health Dr Aaron Motsoaledi described the judgment as "a terrible ruling" that doctors had interpreted to mean "anything I charge", which would result in increased health inflation forcing schemes to raise contributions. The BHF is appealing the ruling, but Motsoaledi told conference delegates that parliament needed to amend the Act. He also said the Competition Commission's ruling of 2004 has made private healthcare "unaffordable" and that medical schemes could not carry the cost. In 2004, the Competition Commission ruled that it was uncompetitive for industry bodies to negotiate tariffs and hence schemes may not enter into collective bargaining arrangements with healthcare providers. Pricing was now governed by the "law of the jungle", the Minister said. Another "impediment" to the growth of medical schemes was the solvency ratio of 25 percent. Christoff Raath, an actuary and chief executive officer of The Health Monitor Company, said the magnitude of the catastrophe that would have to occur in order to deplete the reserves of large schemes was "akin to the Black Death - unimaginable". He said the origin of the figure was a mystery. The general consensus was that there was no scientific basis for it, adding that it would not be unfair to call it a thumbsuck. Raath said "a simplified, risk-based capital approach" would be preferable, because it would release significant funds and still ensure sufficient reserves. He said the current solvency model rewarded loss-making schemes and penalised surplus-making schemes. Raath said it was effectively a tax on the members, as contributions were invariably increased to maintain the solvency level. South Africa's two biggest schemes are each obliged to hold close to R11 billion in reserve to meet the solvency requirement of 25 percent.

*Angelique Ardé: Personal Finance, 5 August 2012*