February 2019

HFA Matters

HEALTH FUNDERS ASSOCIATION

Working with our members for their members

THE YEAR AHEAD

The past year was marked by massive legislative development seeking to support the much desired health reforms our country requires. This has necessitated greater engagement and collaboration amongst key industry players, to find a common place of agreement that caters for all needs.

The new year is destined to further reforms to the extent that is practically possible given the challenging political climate we are facing. Despite the political uncertainty gripping the country, it is critical that business remains focused on driving a robust agenda of setting the appropriate regulatory environment in which the industry players will operate and function. More than ever before, it has become imperative to have an industry representative body such as the Health Funders Association (HFA) that is well positioned to work with all stakeholders to unlock value and drive a sustainable private healthcare funding industry. HFA has over the past two years proven itself as the capable and credible voice of its members. HFA will uphold and reinforce its role as the dynamic and relevant industry representative body in the current year. Anchored by a cohesive strategy, we will diligently continue with our efforts to support a conducive environment.

The HFA mission and milestones will not be possible without the support of our membership.

I would like to take this opportunity to welcome Naspers Medical Scheme into our fold and to thank all our members for their continued commitment to the growth of HFA.

Together we will work towards achieving our objectives in making 2019 another successful year.

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HFA'S SUBMISSION ON CONSOLIDATION

Following CMS Circular 42 of 2018 wherein the CMS called for commentary on its medical scheme consolidation proposals, HFA drafted a submission highlighting the potential unintended consequences and risks of the CMS proposed framework. The HFA submission also provides alternative market remedies to address the structural shortcomings of the industry, identified in the Circular.

On the assertion by the Circular that consolidation in the medical scheme industry will reduce fragmentation, resulting in improved risk cross-subsidies and reduced claims volatility, the HFA submission argues that there are alternative, less invasive, mechanisms to address risk pool fragmentation and enhance social solidarity which should be considered. These include, risk equalisation, catastrophe pooling, reinsurance, mandatory membership and the low cost benefit option framework.

HFA's submission suggests that there is no legal basis for the CMS to compel consolidation of medical schemes and that some of the proposals set out in the Circular are in conflict with the recommendations made by the Health Market Inquiry ("HMI") in their provisional report of findings.

Some of these recommendations are also relevant in addressing the stated problems of risk pool fragmentation and enhancing cross subsidies.

The HFA submission goes on to list key concerns of forced consolidation which include,

• There is currently no legal basis for such forced consolidation.

• Members may resist amalgamations leading to protracted legal battles.

• There will be implications on pre and post retirement employer subsidy liabilities should members move to other schemes.

• The long term financial sustainability of GEMS does not appear to have been considered in projections (which are presented only for one year). There may be a risk that the contributions of GEMS would have to be increased considerably to accommodate schemes in poorer financial or demographic health.

• Consolidation of medical schemes and/or benefit options will come at a cost of reduced competition and innovation, hindering the ability of medical schemes to best meet the needs of their members.

• There is a significant viability risk that consolidation of this scale will introduce inefficiencies in the system, increasing costs across the sector.

• Members' freedom of choice will be seriously constrained.

• The proposals contained in the Circular do not appear to be consistent with regulatory reform currently under consideration, e.g. PMB Review, Low-Cost Benefit Options ("LCBOs") and the development of a Risk Based Capital ("RBC") framework.

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HFA'S SUBMISSION ON CONSOLIDATION, cntd.

'…the CMS has no legal mandate to force scheme consolidation. This is the ambit of the Trustees who must act in the best interest of the members.'

Under the heading 'Role of the CMS', the HFA submission states that the interventionist nature of the Circular is also highly inconsistent with international precedent of the role of a regulator.

The submission further points out that the CMS does not provide any evidence that scheme beneficiaries will be better off after the proposed consolidation. This is particularly relevant since the industry has been undergoing a natural and voluntary consolidation process. Despite these levels of consolidation and improved risk pools, medical scheme contribution rates have continued to rise at levels above CPI, threatening the affordability of membership. This, it suggests, is because the drivers of healthcare inflation are not only linked to prices, but are driven by increasing utilisation and changing member demographics. Scheme consolidation alone will not mitigate rising health expenditure in the private sector.

On the assertion by CMS that the implementation of a risk adjustment mechanism is 'outside the ambit of CMS', the HFA submission points out that the CMS was a key role-player in the Risk Equalisation Fund (REF) shadow process.

The HFA submission also calls into question statements in the Circular which state that consolidation is a pre-requisite for NHI, given that the NHI policies have not yet been defined, the framework has not yet been finalised, and in fact are still being deliberated through consultative processes.

The submission further points to the report of the High-Level Panel on the Assessment of Legislation and the Acceleration of Fundamental Change wherein several alternatives to the single fund approach to achieve universal healthcare coverage ("UHC") are cited that may be more appropriate given the existing South African healthcare infrastructure in both the public and private sectors. These examples include multi-payer models, where virtual pooling enables social solidarity while preserving choice and innovative efficiency.

The HFA submission also stresses that the CMS has no legal mandate to force scheme consolidation. This, it states, is the ambit of the Trustees who must act in the best interest of the members. It goes on to suggest that the role of Trustees has been disregarded.

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Should you wish to submit an item for submission to HFA Matters, please send it to:

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HFA'S SUBMISSION ON CONSOLIDATION, cntd.

On the matter of the HMI findings and recommendations, the HFA submission states that many of the propositions made in the Circular are in direct conflict with these and points out that there is no mention in the HMI report of benefit option consolidation as a mechanism to improve competition in the industry.

Further, the HFA submission states that the HMI recommendations are in line with the regulatory review processes underway, such as the PMB Review process to include primary care and necessary tertiary care; the development of a Risk-Based Capital model; the development of a LCBO framework; and, the review of the tax credit mechanism. It adds that the execution of forced consolidation of medical schemes as proposed in the Circular would hamper the finalisation and implementation of these processes at significant cost to medical schemes and their members.

On the way forward, the HFA submission suggests more practical and prudent measures to improve social solidarity and fragmentation within the industry, including the implementation of a risk adjustment measure. It stresses, however that a standardised benefit package must accompany any risk adjustment measure to provide a basis to equalise risk. It adds that there are other risk pooling mechanisms, such as catastrophic risk pooling, to protect against claims volatility that could also assist with promoting competition. The HFA submission suggests that the employment of effective reinsurance models could provide protection to smaller schemes from claims volatility, enabling their longer term sustainability in the industry. It also states that the introduction of low cost benefit options, together with income rating of standardised benefits, and a more progressive medical tax rebate system will allow medical schemes to better reach populations in the low income market and improve income cross-subsidies across the system.

The submission suggests that the amendment of the requirement imposed by the Medical Schemes Act for benefit options to be self-supporting will also allow for immediate consolidation and improved cross-subsidies. Combining requirements for financial stability at scheme level with risk adjustment between schemes will promote social solidarity with much lower risk of unintended adverse consequences. It adds that the implementation of mandatory medical scheme membership for those earning above a certain income threshold will not only have the effect of strengthening risk pools across the sector, but will enhance access to private health care for millions of South Africans, enabling the State to focus resources on those most vulnerable.

HFA's submission concludes with the suggestion that the mechanisms proposed in the submission are explored through an industry process such as the Industry Technical Advisory Panel ("ITAP") underpinned by rigorous technical analysis that is necessary and key to ensuring that members' interests are protected, and risk pools are sustainable.

HFA ATTENDS THE BUSA BUSINESS ECONOMIC INDABA

As proud members of Business Unity South Africa (BUSA), HFA was invited to attend its inaugural Business Economic Indaba, "Strategic Dialogue for a Transformed and Inclusive Economy", on 29th Jan 2019 at Gallagher Estate.

The objective of the Indaba was to set the tone and narrative of how business can come to the party and play its part in ensuring that South Africa stays on the correct economic course and addresses the country's low growth towards an innovative, prosperous and sustainable future. The event provided an opportunity for HFA to participate in identifying innovative, collaborative solutions to activate and enable inclusive growth.

A highlight of the event was the attendance of President Cyril Ramaphosa who, together with members of the economic cluster, shared their insights on the economic outlook for the country.

Other attendees of the Indaba included fellow BUSA members made up of captains of industry, key social partners, thought leaders and an array of business experts who put their heads together to come up with innovative and tangible solutions.

The programme included valuable and informative panel discussions, including one on sector outlooks and future scenarios; and a discussion by leading experts on the macro-economic environment.

The event also saw the launch of the CCMS BUSA Labour Advice Web Tool for SMEs

On the health front - following the Health Summit in October 2018 - BUSA announced the finalisation of the Health Working Group's input to the Health Summit compact.

UPCOMING EVENT…

CMS FRAUD WASTE AND ABUSE SUMMIT

The CMS will be convening a 'Fraud, Waste and Abuse Summit' on the 28 February – 1 March 2019 at the Sandton Convention Centre

The deliverables of the summit are to deal with fraud, waste and abuse in the interest of industry sustainability by:

- Establishing standards or SOPs for the industry to effectively deal with fraudulent activities. This includes fair sanctions for convicted fraudsters.
- The signing of an industry agreement or charter where all stakeholders pledge to contribute to combating fraud, waste and abuse.
- The establishment of a structure to continuously deal with fraud, waste and abuse post the summit.

Please click here for further information.

HFA'S INPUT TO THE CMS PMB COSTING METHODOLOGY

In November 2018, the Costing Committee, responsible for the costing of a revised PMB package, invited relevant stakeholders to a meeting to obtain input from them on the proposed revised PMB costing methodology.

Lerato Mosiah, CEO of HFA and Professor Roseanne Harris, member of the PMB Technical Advisory Committee presented to the committee on behalf of HFA.

INTRODUCTION:

Ms Mosiah introduced the presentation by stressing that the overarching principle should be one of quality, i.e. that the PMBs are safe, effective, patient centered, timely, efficient and equitable.

In commenting further on the principles, Mosiah said that affordability was a key consideration and that the revised PMB should address essential healthcare and financial risk protection, adding that the extent and cost of the package will affect accessibility of care.

Mosiah went on to talk on the aspect of sustainability, saying that a robust costing mechanism would ensure realistic pricing and sustainable delivery and that the mechanism should incorporate flexibility and adaptability.

On the issue of efficiency, Mosiah stressed that the delivery of care should be at an appropriate level and should be within available resources.

COSTING METHODOLOGY:

Roseanne Harris explained the need for transparency and suggested that the approach should be evidence based and take into account a clear set of assumptions. She suggested that the process should accommodate various scenarios; be able to evolve with the changing environment and that outputs should be realistic to ensure stability of the medical scheme environment.

Harris added that the process should be incremental in that it should facilitate identification of key priorities and it should expand as efficiency in delivery is attained. She also explained the need for an iterative process which contains scenario testing and where affordability and access are balanced.

HIGH LEVEL APPROACH:

Harris explained that from a high level point of view the inputs should include definitions and budget and that the deliverables should include aspects such as determining the unit costs; delivery in terms of level of care; utilization levels; population differentiated costs; and, dynamic iterations.

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HFA'S INPUT TO THE CMS PMB COSTING METHODOLOGY, cntd.

'...the view of the HFA is that the costing framework for each element should be broken down into the *who, what, how much and from whom.'*

PRIORITIZATION FORMULA:

She added that the revised package should be based on a formula of prioritization. In order to identify priority services, each service should be weighted and analysed in terms of its impact on health and social security on aspects such as the impact on healthy life years; impact on suffering, effects on the population, etc.

She suggested that the costing formula should be: *Utilisation per beneficiary x Cost per service = Cost per beneficiary*

COSTING FRAMEWORK:

In discussing the details, Harris went on to explain that, the view of the HFA was that the costing framework for each element should then be broken down into the who, what, how much and from whom as follows:

- Who, i.e. the eligible population and the characteristics of that population;
- What, i.e. the services to be included and those to be excluded;
- How much, i.e. the pricing for services to be delivered and the impact of the reimbursement frameworks; and,
- From whom, i.e. ensuring the appropriate level of delivery, the availability/ accessibility and the sensitivities.

COSTING RISKS:

Harris went on to caution that cognisance should be taken of the risks associated with costing. Risks associated with data include, the adequacy and relevance of available data; the level of detail contained in the data; and, impacts of changes. Other risks include, changes to pricing frameworks; changes in treatment protocols; changes in utilisation due to e.g. ageing, disease burden and incentives; and, cost inflation.

APPROACHES TO CALCULATING COSTS:

She said that the HFA's view as far as the calculation of costs is concerned included a combination of a top-down and bottom up approach. The top -down approach was a disaggregation of total expenditure while the bottom-up approach preserved inter-patient variability and included the aggregation of inputs used.

Harris demonstrated the model by unpacking the calculations to arrive at the plpm cost of various wellness benefits.

THE WAY FORWARD:

Harris outlined HFA's view on the way forward which included that:

- Definitions of services should be clear and should take into account CHAI inputs and documented protocols;
- There should be detailed data specification which has a focus on utilization and prevalence.

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HFA'S INPUT TO THE CMS PMB COSTING METHODOLOGY, cntd.

- The utilization model should take into account independent variables such as age, gender, chronic status, region, employment, etc.
- The cost per service should take into consideration the package/protocol, the level of delivery and the reimbursement framework.
- Adjustment factors such as management interventions, supply side re-engineering, access to the essential drug list and policy effects, should be taken into account.

OUTPUTS:

Harris explained that the key outputs of HFA's costing methodology would include:

- Ranked services – including treatment algorithms; and, associated costs (diagnostics, medication, rehab).
- Cost per life.
- Variations (sensitivity analysis) – including those relating to access/delivery; and, changes in disease burdens.
- Transitional framework – taking into account treatment continuity vs. equity of access.

Harris concluded the presentation by emphasising that the proposed costing methodology should also take into consideration other developments, such as risk adjustment and the proposed low-cost benefit option.

Prof Roseanne Harris will be addressing this topic at an IHRM Seminar on the 29th March in Johannesburg. For more information, please log on to www.IHRM.co.za

NOTICE REGARDING POSTPONEMENT OF HMI WORK

The HMI has published a notice to stakeholders indicating an interruption to its work. The notice states that the seminars planned for February 2019 have been postponed and will be held when the Panel resumes work in Quarter 1 of the 2019/20 financial year. The notice further request that those stakeholders whose presentations are already prepared are welcome to submit now, and those who wish to submit later must do so by end of March 2019.

The new date for publication of the Final Report and Recommendations will be published in the government gazette, and the Panel will provide an updated revised administrative timetable on or before 28 February 2019.

CMS LEVY INCREASES

Following concerns raised by HFA membership around the CMS proposal for a medical scheme levy increase of 16%, HFA wrote to the Registrar requesting that the increase be reviewed and be kept within the inflation rate of 5.5% projected for 2019.

The reasons cited by members for this request were:

- *The South African Reserve Bank, in its Monetary Policy Committee statement reported that headline inflation is expected to average 4.7% in 2018 before increasing to 5.5% in 2019.*
- *Through Circular 33 of 2018 ("Guidance on benefit changes and contribution increases for 2019") medical schemes were advised to limit their cost increase assumptions to 5.4%, which is in line with 2019 CPI projections.*

In a letter to HFA, dated the 21st December, the Acting Registrar stated that what the CMS requires as a levy increase to regulate the industry and what the medical schemes may increase contributions by are totally unrelated matters and that general restraints and guidelines applicable to the regulated entities are not applied to the regulator.

The letter stated that the policy environment as well as the provisional recommendations made by the Health Market Inquiry (HMI) requires that the CMS improve its regulatory approach. Furthermore, that the function performed by the Registrar has become more complex and challenging which requires that his office be better placed to meet these challenges.

The letter also stated that changes in the provision of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) ("FSR Act"), which came into effect on 1 April 2018, mean that the CMS is no longer being able to recover inspection costs from inspected entities.

IN THE NEWS...

A changing birth: What's behind SA's skyrocketing c-section rates?
Bhekisisa Centre for Health Journalism, 9 January 2019
By Laura Grant, Laura Lopez Gonzalez
Click here to read the article

Private hospitals warn draft NHI laws threaten 132,000 jobs
Business Live, 04 February 2019
By Tamar Kahn
Click here to read the article

Post-surgical death stats higher than TB, malaria & HiV combined
Bizcommunity, 07 February 2019
Click here to read the article