

Alexforbes sustainability index shows SA medical schemes are robust with health reserves

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Membership of South African medical schemes was resilient during the Covid-19 pandemic despite rising unemployment and the slowdown in economic growth, according to the latest Alexforbes sustainability index.



Source: [Pexels](#)

Membership of the analysed medical schemes has remained fairly stable, falling by just 1% during 2020, while the schemes have experienced lower claims which resulted in them accumulating higher reserves.

The sustainability index gives a broad overview of the performance of medical schemes in the country and attempts to assess the combined impact of key performance statistics on the sustainability of a medical scheme.

The results of the sustainability index for the individual schemes analysed shows a noticeable increase for 2020 demonstrating the improved health of the medical schemes industry. Overall, for 2020, the pandemic resulted in a reduction in the level of claims experienced by medical schemes with a resultant increase in total reserving levels.

The number of members of medical schemes decreased marginally by 1% in 2020 indicating that the membership of medical schemes has been resilient during the pandemic with the rising level of unemployment and slowdown in economic growth over the period.

Steady increase in average age of beneficiaries

While the average age of beneficiaries in the medical-schemes industry remained fairly constant from 2005 to 2011, there have been significant increases experienced particularly between 2012 and 2017.

The average age of all beneficiaries as at 2020 was 33.6 years, up by almost 1% from 33.3 years in 2019.

The open-scheme average age increased from 34.9 years in 2019 to 35.3 years in 2020, and for restricted schemes it increased marginally from 31.3 years in 2019 to 31.5 years in 2020.

As the average beneficiary age continues to increase, it has become of utmost importance for schemes to attract young members. This is because young members claim less than older members, owing largely to the fact that acute medical conditions that require extensive, and often expensive, long-term treatment are more prevalent in the older population.

Because schemes cannot legally charge members based on age, they rely on having a mixture of older and younger members to ensure that the resulting average claims for the scheme are reasonable, leading to reasonable contribution levels and increases. This may result in schemes with an older population having a lower sustainability index score, but it is not the only measure that is taken into account in calculating the index.

Size matters

The index says size matters, with large schemes showing more stability than small schemes as they have a more predictable claims experience. The lower volatility in claims makes it possible to hold lower reserves in comparison to small schemes and allows them the option to use excess reserves to support lower contribution increases, further improving their competitive edge.



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Large schemes also benefit from negotiating power resulting in the cheaper procurement of medical services, which directly translates to lower contributions for members. This goes a long way in attracting young members. Thus, a large scheme would have a higher sustainability index score.

Moreover, a relatively high average beneficiary age has a lower impact on a large scheme compared to a small scheme because of the absolute number of young beneficiaries in the scheme and the lower volatility in claims. Hence, the size of the scheme has a bigger impact on its sustainability index score than the average beneficiary size.

This does not, however, mean that smaller schemes are doomed. On the contrary, small schemes can be a sustainable source of affordable and comprehensive benefits to their members, and Alexforbes Health offers a wide range of services, including benefit design and fixed costs reviews, that support them to do so.

The index outputs a value that represents the sustainability of a medical scheme based on the following metrics:

- The size of the scheme relative to other schemes in the industry;
- Membership growth in the scheme over time;
- The average age of beneficiaries of the scheme and how it changes over time;
- The operating result of the scheme relative to the industry each year;
- The amount by which the operating result per beneficiary changes each year;

- The change in the accumulated funds used in calculating the level of solvency per member beneficiary held at the end of each year;
- The scheme's actual solvency relative to the requirement in the regulations to the Medical Schemes Act; and
- The trend in the scheme's solvency over time.

Alexforbes Health has acquired vast experience since the development of the Sustainability Index, and has the expertise to advise schemes on benefit option design and richness, annual medical-scheme pricing reviews, advice and management of review of third-party services and amalgamation processes.

ABOUT THE AUTHOR

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