

# Council for Medical Schemes recommends capping 2023 medical aid increases

By [Paresh Prema](#)

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The Council for Medical Schemes (CMS) has recommended that medical-aid scheme contribution increases for 2023 are capped at 5.7% for 2023.



Source: FreePik

In a recent circular, CMS advised medical aids that schemes in a strong financial position can consider increases below the recommendation. The proposed increase is based on the forecasted level of CPI for 2023 provided by the SA Reserve Bank.

## How inflation affects benefits

Medical schemes provide prescribed minimum benefits (PMBs) and non-PMBs in terms of their registered rules. They have to pay the PMBs in full and reimburse the non-PMB portion at the scheme rate.

The scheme rate is set by the trustees of a medical scheme. They consider both the rate at which the scheme can afford to increase benefits by and the level at which medical-service providers are going to increase their fees by in 2023.

In most instances, the scheme and the providers negotiate the tariff level.

The medical scheme considers the level of increases that are affordable for its members while providers consider increases in the cost of providing their services which includes items such as the cost of staffing, equipment and rental.

In many negotiations, they use CPI inflation as a guide for these increases as this impacts on the costs facing providers and schemes. The actual increase in the tariff that a scheme applies affects the contribution increase required and the level that a provider is paid.

## Considering inflation and utilisation

The current trend in the level of CPI inflation for 2022 has been increasing with the year-on-year increase in June 2022 at 7.4%, being the highest increase since May 2009 when the rate was 8%. As the level of CPI is outside the target range set by the Reserve Bank, adjustments to the repo rate have been made.

In its July 2022 statement, the MPC of the Reserve Bank provided its forecast for CPI for 2022 to 2024. Its forecast for the rest of the year shows CPI levelling out at 7% with the forecast revised for 2022 to 6.5% for the year from 5.9% previously.

Alexforbes believes that when looking at the final contribution increase of a scheme for 2023, trustees should consider the effect of CPI inflation – whether that be that which is expected for 2023 or that which will be experienced for the remainder of 2022.

They would have to consider the impact of CPI as well as the:

- impact of growing demand for healthcare services
- ageing and the changing disease burden on the scheme and
- cost increases in equipment and medicines.

Coupled with these considerations, at all times, is the level that the scheme's members can afford.



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The CMS circular refers to the trend in utilisation that schemes considered when determining contribution increases for 2021. In its *Circular 60 of 2021*, schemes expected utilisation to be 4.36% over inflation in determining contribution increases for 2021.

Schemes will need to determine this assumption for all scheme pricing reviews for 2023 after which they will affect the final contribution increase.

## To increase contributions or to delay increases?

Most medical schemes have traditionally increased contributions in January each year as this coincides with the cycle of benefit changes each year. However, due to the impact that Covid-19 has had on the industry, many schemes were able to accumulate reserves beyond the regulatory requirement.

This, coupled with the low inflationary environment, gave schemes the opportunity to delay contribution increases. The

reason schemes would defer increases instead of not implementing an increase at all is that an increase would allow contributions to be up to date with the cost of paying for healthcare that is still increasing every year with inflation.

The decision to defer increases is based on considerations made by the board of trustees and the financial situation in which a scheme finds itself. One of the challenges that will be faced by schemes applying these increases at a later date is how to maintain the relevance of contributions to inflation in the following year without passing increases to members shortly after implementing increases of the current year.

## **It's a balancing act**

The recent past has changed the way medical schemes have considered contribution increases, when balancing inflation and affordability. It is fortunate that the lower inflationary environment and lower claims experience has allowed schemes to pass increases that are marginally higher than inflation in contrast to the double-digit increases experienced in the past.

The effects of the pandemic resulting in lower claims experienced than expected by medical schemes have provided some breathing room for members with the benefit of lower or deferred increases.

Alexforbes believes the challenge for boards of trustees going into 2023 is to ensure that its contribution increases are sufficient to cover the increase in the cost of providing healthcare benefits to its members, which may also in part be due to the pent-up demand for services resulting from the pandemic.

This would have to be balanced with setting contribution rates at a level that would still be affordable for members.

## **ABOUT THE AUTHOR**

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