



Reference: Guidance on benefit changes & contribution increases for 2023  
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## **Circular 44 of 2022: Guidance on benefit changes and contribution increases for 2023**

This Circular sets the requirements that must be adhered to by medical schemes when determining annual medical scheme contribution increases and benefit changes for the 2023 benefit year.

### **1. Statutory requirements for submission of rule amendments**

The following process must be adhered to when submitting amendments in terms of section 31(3), section 33 (1) (2) (5), regulation 2(d) and regulation 4(b) & (d) of the Medical Schemes Act:

- 1.1. All schemes must submit a dated and certified resolution of their respective Board of Trustees (BoTs) with the wording “*Certified as having been adopted in terms of the rules*” **together with** a summary of the changes and a copy of the rules with tracked changes of the proposed amendments to the respective benefits and/or contributions to fast track the review process. The format for tracked changes can either be shown in the margin in balloons or as underlined/strikethrough of the text to ensure that the submission is apparent.
- 1.2. Any rule amendments that the CMS requested in previous submissions must be incorporated into the current amendments, if not effected already.
- 1.3. No text should be underlined in the original documents or copies of the rules of each medical scheme.
- 1.4. **Appendix 1A or 1A (2)** must only be completed for each benefit option that was registered in 2022, and again for all benefit options which the scheme intends to register in 2023.
- 1.5. **Appendix C or C (2)** must be completed for each benefit option that was registered in 2022, with different contribution rates based on income band or **efficiency-discounted (EDO)** sub-options, in an instance where the benefit option is to be registered for 2023.
- 1.6. **Appendix 1B** must be completed for the entire medical scheme for both 2022 and 2023. Please note that schemes under close monitoring by the CMS need to provide input on the approved solvency ratio (row y) for 2022 and 2023 in Appendix B as per the approved business plan. The projected solvency ratio for 2022

and 2023 in Appendix 1B will be assessed in terms of the solvency ratio outlined in the business plan approved by the CMS, and any deviation must be explained in the scheme's submission.

- 1.7. **Appendix D** requires information about the assumptions on cost increases and utilisation that medical schemes used in determining their respective contribution increase for the 2023 benefit year. Each medical scheme must complete the spreadsheet **one time only**, and deviation(s) from the guideline assumptions must be explained in the motivation for increases.
- 1.8. All the Appendices must be submitted by the deadline date. Only the spreadsheet template provided should be used for the submission. The spreadsheet is available on the CMS [website](#).
- 1.9. Schemes seeking to register **efficiency-discounted sub-options** must have obtained an exemption from Section 29(1)(n) of the Medical Schemes Act. Section 8(h) stipulates that only the Council (the Board of the CMS) has the power to grant exemptions from any provision of the Act. It should be noted that an exemption must be granted by the CMS for each efficiency-discounted sub-option. An exemption is not granted at scheme level. All exemptions must follow the process outlined in [Circular 33 of 2021](#).
- 1.10. Applications for all **new benefit options** including **efficiency-discounted sub-options** taking effect from 1 January 2023 must reach the CMS by **1 September 2022** in terms of section 33(1) of the Medical Schemes Act. Applications received after 1 September 2022 will not be attended to until the CMS has considered all the benefit and contribution amendments of those medical schemes that submitted their amendments by the stipulated deadline.
- 1.11. Schemes are further required to indicate percentage changes on any benefits that are being amended in a tabular form (submitted in **word/excel format electronically**), as follows:

<b>Name of benefit option</b>			
<b>Benefits/services</b>	<b>2022</b>	<b>2023</b>	<b>% Change</b>
e.g. day-to-day limit	e.g. R10 000 per beneficiary	e.g. R11 000 per beneficiary	10% increase

- 1.12. In instances where registered rules or rule amendments impose monetary limits on benefits, an explicit condition must be included indicating that the limit does not apply to the Prescribed Minimum Benefit (PMB) conditions, and further stating that PMBs are paid in full when making use of a designated service provider (DSP). The submission of rule amendments with limits on PMB conditions will be amended to highlight the fact that the PMBs are provided at no cost to beneficiaries. This is to ensure that rule amendments are compliant with the Medical Schemes Act and are fair to beneficiaries.
- 1.13. To expedite the rule registration process, schemes are required to submit amendments to rules relating to the **changes to the contributions, and benefit changes only**. Changes to the main rules will not be prioritised unless they have a material impact on the benefit and contributions, for example, an amendment relating to scheme tariffs. The rest of the changes to the main rules must only be submitted once the amendments to contribution and benefits changes have been approved by the Registrar.

1.14. All the 2023 rule submissions must be done electronically [here](#). New users must first complete this [authorisation form](#) to be granted access.

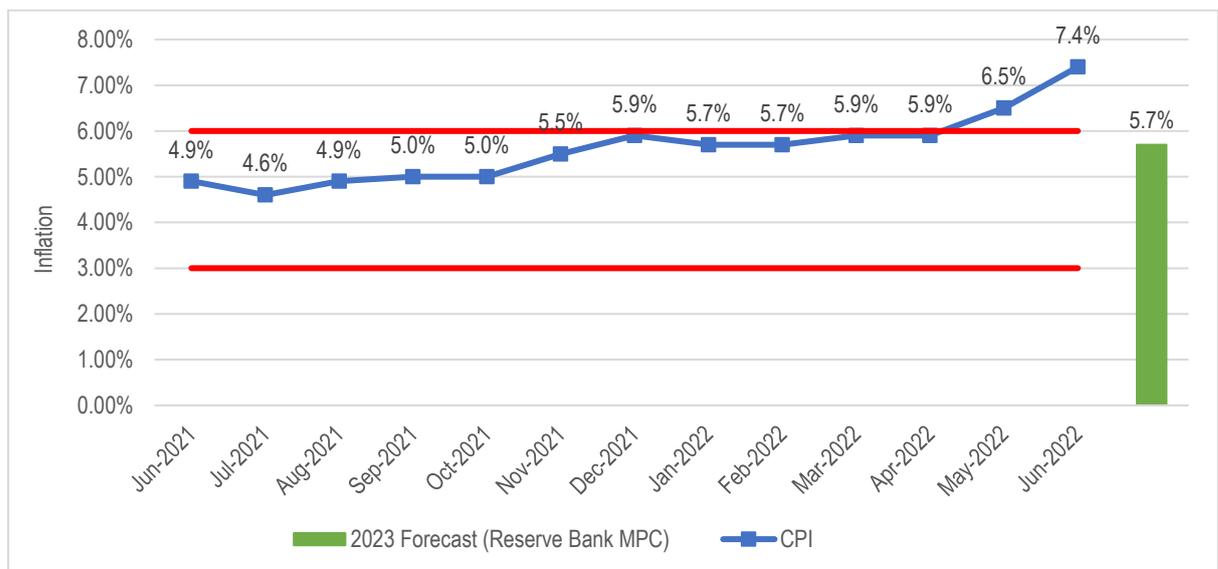
## 2. Guidance notes on annual medical schemes cost increase assumptions

Outlined below are important industry-specific considerations that the CMS will consider when assessing the appropriateness of benefit changes, contribution rate increases, and overall cost increase assumptions for 2023 benefit year:

### 2.1. Headline inflationary expectations

South Africa does have an official medical price index. The CMS, therefore, uses the consumer price index (CPI) to estimate price increases in the healthcare sector. Furthermore, the CMS uses CPI, as a proxy measure for the affordability of contribution increases. The graph below depicts historical CPI data as published by Statistics South Africa, for the twelve months up to June 2022 against the inflation targeting framework of the South African Reserve Bank (SARB) and the CPI forecast for 2023.

**Figure 1: Headline inflation 2021– 2022**



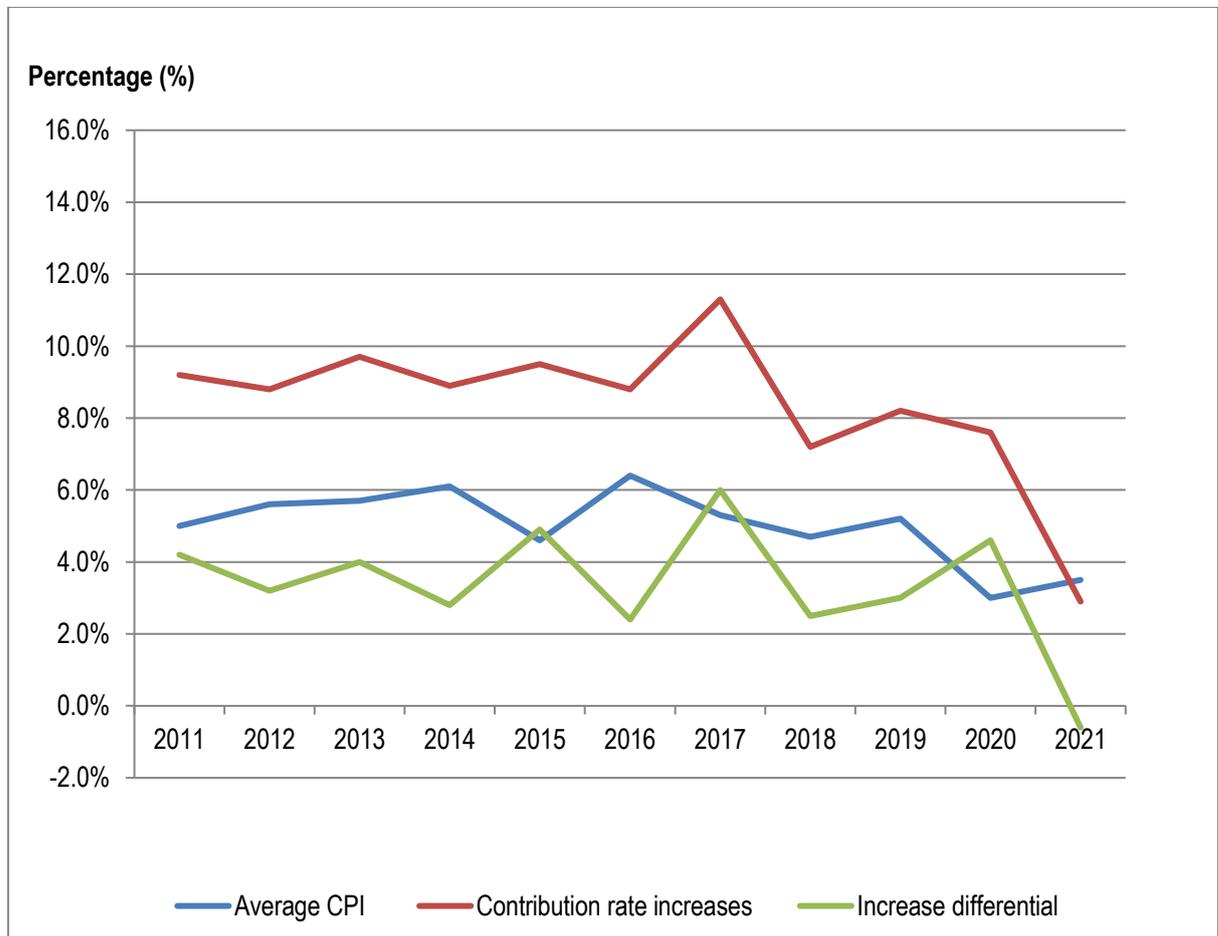
The year-on-year headline consumer inflation rate as measured by the consumer price index (CPI) was 5.9% in April 2022, before accelerating sharply to 6.5% in May 2022, before hitting a high of 7.4% in June 2022. Overall inflation is expected to average 6.5% in 2022 (SARB, 2022)

According to the latest inflation forecast of the SARB, as outlined in the July Monetary Policy Statement (MPC), headline inflation is expected to average 5.7% in 2023, before moderating to 4.7% in 2024.

## 2.2. Medical scheme contribution increase rate relative to consumer inflation

The graph below (figure 2) provides an illustration of trends of the contribution increase rate as reported in the [CMS 2020/21 Annual Report](#), relative to CPI.

**Figure 2: Medical schemes contributions and headline inflation (2011-2021)**



It is evident from figure 2 above, that medical scheme contribution increases rates have consistently surpassed the CPI, except in 2021. As indicated in the [CMS 2020/2021 Annual report](#), the 2021 benefit year was the first time in over a decade that the industry implemented contributions increase below CPI. This was mainly a collaborative effort between the CMS and the industry aimed at providing financial relief to members grappling with the adverse economic climate induced by the COVID-19 pandemic.

## 2.3. Utilisation increase

As per [Circular 60 of 2021](#), the overall Cost increase assumption associated with utilisation was 4.36%, while the assumed tariff increase was 4.18%, resulting in a total cost increase assumption of 8.5% for the 2021 benefit year. The Cost increase assumptions analysis for 2022 will be published later by CMS. Medical schemes must assume reasonable utilization estimates for 2023 based on the schemes demographic profile.

## **2.4. Single Exist Price (SEP) for medicines**

The actual (and approved) adjustment to the Single Exist Price (SEP) is published by the Minister of Health towards the end of each year. The SEP for 2023 will be published later in the year. Medical schemes are advised to assume reasonable estimates for 2023.

## **3. Key CMS recommendations**

### **3.1. 2023 Contribution increases**

The CMS recommends that all other things being equal, contribution increases for the 2023 benefit year, should be limited to **5.7%** in line with the 2023 CPI forecast of the South African Reserve Bank, as per the July MPC Statement. To further provide financial relief to members, in instances where a medical scheme is in a strong financial position, Trustees may implement contribution increases lower than the recommended CPI-linked increase. However, such pricing models must comply fully with the requirements of the Advisory Practice Note (APN303), on the adequacy of contribution increases, published by the Actuarial Society of South Africa (ASSA). The CMS uses CPI, as a proxy measure for the affordability of contribution increases. In the context of the current economic climate characterised by surging inflation and rising interest rate, it is the CMS' view that above inflationary contribution increases are simply unaffordable for most members of medical schemes.

While the CMS encourages the industry to implement contribution increases that are affordable to members, CMS is also cognisant that due to unique industry-specific cost-push factors such as the impact of the weaker rand exchange rate, the burden of diseases, etc., some schemes may require contribution increases above inflation. Accordingly, all pricing models for the 2023 benefit year must be data dependent and subject to independent actuarial evaluation.

### **3.2. Increase in managed care and administration fees**

To further cushion medical schemes members, the CMS would like to impress on Principal Officers and Trustees to continue to negotiate favourable terms with service providers. Those schemes that have sufficient economies of scale are expected to continue using their strategic purchasing when contracting with all providers to ensure value-based contracting for the benefit of their members. As such, in the best interest of the long-term sustainability of the industry, the CMS recommends that where possible, increases in non-healthcare expenditure for 2023 must be kept constant at the current 2022 prices, or in the worst-case scenario, an increase in NHE must be adjusted in line with CPI.

### **3.3. Conflict of interest**

BoTs and Principal Officers are expected to promote the interests of members during the determination on contribution increases for 2023. The BoTs should always ensure that their fiduciary duties are intact, and not convoluted by a conflict of interests. This expectation is consistent with the Medical Schemes Act and HMI findings which expects that Trustees shall take reasonable steps to ensure that the interest of beneficiaries are always protected.

### 3.4. Application for registration of new benefit options

As evidenced by Health Market Inquiry findings, (2019), the current high number of benefit options and complex benefit design have an adverse effect on consumers and competition in the market. Consequently, the industry must continue to review its benefit options and consolidate or terminate those options that are not sustainable in terms of both membership and financial performance. The CMS is aware of the severe market disruptions caused by the onset of the COVID-19 pandemic and the need for the industry to innovate and evolve to adjust to the new normal and economic realities.

As such, the CMS will only consider the application for registration of new benefits options under exceptional circumstances. At the core of the medical scheme's business plan must be the need to improve risk pooling, cross-subsidisation, and affordability, while simultaneously offering members quality healthcare services, including **virtual care benefits**. The delivery model must be premised on the principles of strategic purchasing of healthcare through value-based contracting with cost-efficient providers.

### 3.5. Medium term cost increase assumptions for contribution increases

To assist the industry with future planning, the CMS, therefore, offers the industry a two-year forward looking cost increase assumption for contribution increases. To this end, cost increase assumptions for contribution increase for the 2023 benefit year are projected to increase by 5.7%, before moderating significantly to 4.7% in 2024, in line with the projected CPI. These projections are, however, subject to revision in line with the inflation forecast of the South African Reserve Bank.

### 3.6. Independent actuarial review of 2023 pricing models

A detailed motivation for the required changes to benefits and contributions must accompany all submissions. The guidance provided above regarding the limit on the cost increase assumptions should be taken into consideration when determining the adequacy of contribution increases. As indicated in [Circular 29 of 2012](#), a report that is sent together with the proposed amendments must take into account the requirements of the Advisory Practice Note (APN303) published by the Actuarial Society of South Africa (ASSA) called: "[Advice to South African Medical Schemes on Adequacy of Contributions.](#)"

The report must be prepared by a person with the appropriate actuarial and/or statistical skills, and should include the following detailed information:

- benefit changes
- contribution increases
- non-healthcare expense
- assumptions
- financial projections

### 3.7. Deadline for submission and possible review and resubmission

The deadline for medical schemes to submit applications for new benefit options and EDOs scheduled to take effect from 1 January 2023, is **1 September 2022** and **1 October 2022** for contribution and benefit changes. Medical schemes that may require additional time to finalise their 2023 pricing decision, must submit a request for an extension to the Registrar citing their unique individual circumstances. Nonetheless, the CMS still welcomes early submissions.

Queries may be directed to the Benefits Management Analyst responsible for your scheme at the CMS.

The CMS looks forward to your cooperation.

Yours sincerely,



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