

FREQUENTLY ASKED QUESTIONS

DISCOVERY HEALTH MEDICAL SCHEME
CONTRIBUTION WEBINAR
2022





Technical questions relating to the contribution increase strategy

Why has Discovery Health Medical Scheme (DHMS) decided to further defer the contribution increase from May to October 2022?

The contribution deferment to October 2022 has been enabled through temporary deviations to the DHMS experience that was anticipated at the time of pricing. These deviations include:

- **Temporary reduction in non-COVID-19 healthcare experience** – Between the third and fourth COVID-19 waves in South Africa, healthcare demand showed clear signs of returning beyond pre-COVID-19 levels, albeit at a more graduated rate than anticipated. As healthcare demand exceeded existing levels, the highly infectious Omicron variant spread across South Africa creating a fourth wave of COVID-19 infections. Uncertainty around the severity of the variant, created a larger utilisation discontinuity than anticipated and temporarily reduced non-COVID-19 healthcare demand.
- **Lower than expected COVID-19 costs** – COVID-19 costs over the 2021 year-end period have been lower than initially expected. The lower severity of the Omicron variant, together with a high vaccination rate amongst at-risk Discovery Health Medical Scheme members, resulted in lower severity cases with fewer COVID-19 admissions.
- **Improved investment income** – Improved investment performance on Scheme assets has enabled additional realised gains of R600 million, supporting an extended deferral to the 2022 contribution increase.

Why can DHMS simply not defer the 7.9% increase for the entire year, commencing 1 January 2023?

While medical scheme claims have been depressed because of COVID-19, the trend is temporary and not reflective of underlying medical inflation. The DHMS claims experience for 2021, and into 2022, shows that healthcare utilisation returns during periods of low COVID-19 infection, with healthcare demand exceeding pre-pandemic levels by February 2022. Healthcare claims for 2022 are expected to increase in line with medical inflation, at 7.9% between 2021 and 2022.

Contribution increases must be priced correctly to allow for expected future healthcare claims. Setting contributions lower than expected future medical inflation will result in contributions falling behind claims and lead to ongoing medical scheme losses, ultimately resulting in future contribution 'shocks' to maintain sustainability.

Setting contributions at 0% for the whole of 2022 would create a gap between future healthcare claims, which are expected to increase by 7.9%. This gap would have to be corrected in the form of a future price shock, with contributions requiring an increase well in excess of CPI.

Instead, delaying the implementation of the contribution increase across 2021 and 2022 has ensured that contributions have remained in line with expected increases in medical inflation, while effectively reducing the impact of contributions increases by 50% in 2021 and by 75% in 2022. The deferral of the contribution increase will enable approximately R5 billion in lower contributions across 2022, an additional R2.6 billion more than the initial deferral. Discovery Health Medical Scheme members will therefore experience an effective increase of under 2% in 2022 when compared to their December 2021 rates.

Overall, the deferred implementation of the contribution increase effectively balances short-term member affordability with long-term scheme sustainability, while appropriately accounting for the expected medical inflation trends in 2022¹.

With the contribution increase delayed to 1 October 2022, can we still expect another contribution increase on 1 January 2023?

Given the late increase in the 2022 year, it is highly likely that the 2023 contribution increase will be deferred beyond January 2023. DHMS cannot commit to this delay until more experience on the 2022 utilisation levels becomes available.

Is the contribution increase of 7.9% still appropriate given the unexpected surplus that arose during the 2021 year-end period?

Yes, the level of the contribution increase is still appropriate.

While non-urgent healthcare has been deferred during periods of high COVID-19 infection, DHMS experience indicates clear trends of healthcare utilisation returning beyond existing levels between periods of low COVID-19 infection. By February 2022, healthcare demand has already exceeded pre-COVID-19 levels. Based on these trends, expected medical inflation seems to be correctly anticipated as 7.9% for 2022.

¹ Health System Tracker, Insurer filings suggest COVID-19 will not drive health spending in 2022, October 2021



Every year, contributions for medical schemes must increase in line with medical inflation to ensure that future contributions are sufficient to match future healthcare claims. Therefore, the contribution increase effective 1 October 2022 will remain at the 7.9% level.

Discovery Health Medical Scheme has accurately accounted for long-term healthcare demand trends, placing the Scheme in a strong position to meet future healthcare demand requirements without 'price shocks' beyond 2022.

Please refer to page 4 of the [Contribution Strategy Update Brochure](#) for more details on the healthcare claims experience of Discovery Health Medical Scheme.

What is the difference between a 7.9% contribution increase from October 2022 and the effective increase of under 2% in 2022 when compared to the December 2021 rates?

This is the second year that DHMS has adopted a contribution freeze. Last year, the Scheme was the first and only medical scheme in South Africa to implement a freeze on contribution increases effective from January to July 2021. Monthly contributions for all DHMS members will increase by 7.9% from 1 October 2022. Through the delayed implementation of the 2022 contribution increases, members will experience an effective increase of under 2% in 2022 when compared to their December 2021 rates.

The example below illustrates the total contributions paid by a single member on a DHMS Classic Saver policy in 2022 compared to the December 2021 rates annualised.

- The contribution freeze means that a single member will pay the same level of monthly contributions for the first 9 months of 2022 as they did for the second half of 2021. For a Classic Saver plan the monthly contributions are R3 485 from 1 January 2022 to 30 September 2022.
- This member would therefore pay a total of R31 365 for their contributions from January 2022 to September 2022. In October 2022, contributions will increase by 7.9%. The member pays R3 762 for their Classic Saver plan per month from October 2022, with total contributions from October 2022 to December 2022 amounting to R11 286.
- By the end of 2022, the total contribution paid by the member from January to December will then be **R42 651** (R31 365 + R11 286).
- The monthly contribution for a Classic Saver plan in December 2021 was R3 485. The total contributions paid at this rate, for 12 months is R41 820 (R3 485 x 12). The total contributions that will be paid by a single member in 2022, for the same plan, will be **R42 651**. This represents an annual increase from R41 820 to R42 651 for 2022, only a 2.0% effective increase in contributions due to the 2022 contribution freeze.

How does DHMS' views of medical inflation compare with international trends?

The 2021 and early 2022 claims experience for DHMS clearly indicates healthcare utilisation is returning in excess of pre-pandemic levels during periods of low COVID-19 infections. Similar experience has been recorded across other healthcare sectors globally. DHMS' expectations on future medical inflation are consistent with global healthcare trends², with 50 out of 53 insurers in the United States stating that COVID-19 will have either no impact or an upward impact on 2022 healthcare costs. Under these assumptions, insurers are expecting medical inflation for 2022 to be in line with prior years³. Under these expectations of future medical inflation, insurers that have increased premiums or contributions lower than expected future medical inflation, will require a price shock or a reduction in benefits in the future.

Does the 7.9% contribution increase apply to all DHMS plans?

Yes.

² Health System Tracker, Insurer filings suggest COVID-19 will not drive health spending in 2022, October 2021

³ PWC Health Research Institute, Medical cost trend: Behind the numbers 2022



Benefit adjustments related to the deferred increase

Will members still be able to change plan selections in May 2022 despite the contribution increase being deferred to October 2022?

Members will still have the opportunity to upgrade their health plan effective 1 May 2022 as had been previously communicated. Advisors will be able to process upgrade requests on the Financial Advisor Zone from mid-March 2022. All mid-year upgrade requests must be submitted by 30 April 2022.

Members will also have the opportunity to upgrade their plans when contributions are increased effective 1 October 2022, as well as on 1 January 2023.

Plan downgrade requests are processed throughout the year.

How will the deferral of the contribution increase impact benefit limits, deductibles, co-payments and thresholds?

There will be no changes to benefit limits, deductibles, co-payments and thresholds as these were already increased in January 2022.

How will the additional contribution deferral impact a member's Medical Savings Account (MSA)?

The MSA allocated to members on 1 January 2022 was calculated using the contribution rate for January 2022 for 12 months. Members are therefore entitled to an additional MSA amount as result of the contribution increase in October 2022. The additional MSA that members are entitled to as result of the higher contribution for October to December 2022 will be allocated to members in March 2022.

By how much will a member's Medical Savings Account increase during March 2022?

All members on plan options with a Medical Savings Account will be allocated an additional amount to their savings accounts from March 2022. The example below illustrates the impact of the 7.9% increase in MSA allocation for a single member on the Classic Saver plan in 2022.

	Total Monthly Contribution	MSA Portion of Monthly Contribution	Total MSA for the period	Total MSA Balance
Jan – Sep	R 3 485	R 871	R 7 839	R 10 659
Oct – Dec	R 3 762	R 940	R 2 820	

The MSA allocated to the member in January 2022 was based on the MSA proportion of the monthly contribution of R871 in January 2022 over a period of 12 months. In this case the member would have received a total MSA of R10 452 in January (R871 x 12). This means that the member would receive an additional MSA amount of R207 ((R940 – R871) x 3 months) in March 2022, taking into account the higher contribution from October to December 2022.

How will a member's Self-Payment Gap (SPG) be impacted by the further deferral of the increase to October 2022?

Through the extended contribution freeze, Discovery Health Medical Scheme members will enjoy 2022 benefits at 2021 contribution rates for the first 9 months of 2022. Members will save 7.9% per month in lower contributions for the first 9 months.

In compliance with the Medical Schemes Act, the percentage of annual fees allocated to medical savings may not exceed 25%. As a result, Medical Savings Account (MSA) contributions and allocations will reduce in accordance with reduced contributions for the first 9 months.

As a result, members will experience a slight increase in their Self-payment gap (SPG), however, this can be entirely offset against the saving from lower contribution rates, which is illustrated for a single member on the Classic Comprehensive plan in 2022:



Contribution increase date	Annual Contribution	Annual MSA	Annual Threshold	Self-Payment Gap
1 May 2022	R 79 716	R 19 924	R 23 420	R 3 496
1 October 2022	R 77 211	R 19 299		R 4 121
Impact of deferring the contribution increase from 1 May to 1 October	(R 2 505)	(R 625)	R 0	R 625

In the above example, the member has saved R2 505 in his contributions through the additional deferment. The annual medical savings account has reduced by R625, increasing the member's SPG by R625.

This increase in the SPG is offset by the reduction in annual contributions of R2 505, giving the member **a total saving of R1 880 by deferring the contribution increase from 1 May 2022 to 1 October 2022.**

How will the additional Medical Savings Account allocation affect members who are in their Self-Payment Gap (SPG) during March 2022?

While in the SPG, members will be able to use the additional Medical Savings Account until this is depleted.

Members that have reached their above threshold benefit (ATB) during March 2022 will remain in their ATB and continue to access the associated risk funded benefits. The additional Medical Savings Account allocation will be carried over to the next year or can be used for healthcare expenses not funded from the member's ATB in 2022.

Will the KeyCare income bands be increased in May 2022?

Adjustments to the KeyCare income bands will form part of the 2022 contribution increase, as such KeyCare income bands will not increase on 1 May 2022 but rather on 1 October 2022.

When will KeyCare income verification take place in 2022?

Given that KeyCare income bands will only be increased on 1 October 2022, KeyCare income verification will only take place in October 2022.

Operational rollout of the 2022 deferred increase

How will members be notified of the 2022 increase?

Members will receive communication in March 2022 to inform them of the contribution increase deferral.

During August 2022, members will receive communication from Discovery Health Medical Scheme detailing:

- their chosen health plan's updated contribution for October 2022
- the specifics of the October 2022 increase to their contributions
- the opportunity to upgrade their plans, effective 1 October 2022 including all operational details relating to plan upgrades.

Where can advisors apply for an upgrade for their client's plan?

Advisors will be able to change their client's plans on the Financial Advisor Zone from mid-March 2022 to 30 April 2022. If you are experiencing any difficulties with this process, please contact your Corporate Health Manager or Servicing Specialist.