

The case for a restricted medical scheme

With the sustainability of medical schemes coming under increasing scrutiny, many companies may be left wondering whether offering restricted medical scheme membership to their employees is still a viable benefit.

Restricted membership medical schemes – those not open to the public and where membership eligibility is dependent on working in a certain industry sector, company, professional association or trade union - are gradually giving way to the larger open membership schemes that anyone can join.



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That being said, restricted medical schemes have again achieved the highest scores in the Alexander Forbes *Health Medical Schemes Sustainability Index* released in January. SAMWUMED and Polmed (the top scorer for the third consecutive year), were once again top performers in the index.

It is evident that by pooling together certain individuals, restricted medical aids are able to better manage their risk exposures in some instances, collect premiums more easily from a specific employer, contain their costs better which is obviously good news for employee members, and design their benefits around the unique needs of a clearly ring-fenced membership base.

So why aren't more employers looking at a restricted scheme?

According to the [Board of Healthcare Funders](#) of Southern Africa (BHF), much of the concern has to do with four key factors:

- Toughening economic conditions and the drive towards streamlining and refocusing on the core business. This is a risk associated with the fact that these schemes are not formed in order to make money for the employer but rather as a distinct employee benefit, and to some extent are not seen as core business.
- There's a growing trend towards employee remuneration on a 'cost-to-company' basis that sees employees taking more responsibility for their own health and retirement planning.
- Public or 'open' medical schemes are aggressively marketing themselves as an alternative to large organisations that have their own restricted membership schemes. They are offering to take away the administrative burden associated with in-house schemes by transferring employees to the open scheme.
- Many employees are pushing their employers to allow them to join a medical scheme of their own choosing, without

necessarily understanding the advantages that a restricted scheme can provide them.

Benefits of a closed scheme

On the surface, it would seem that none of this warrants the continued participation in the governance of a closed medical scheme by the employer, to the extent that some trustees tasked with the management of such schemes regard them as a Cinderella operation, unworthy of their time and attention. It would be a flawed approach for a number of valid reasons:

- The King IV Report on Corporate Governance emphasises that organisations can no longer simply pursue profits to the exclusion of all else. Corporations no longer exist only to earn profits, but must strive to satisfy various societal needs. These societal needs are towards their customers, employees, shareholders, investors, community and the environment. The organisation as a corporate citizen is responsible amongst other things for fair remuneration and employee development and wellbeing.
- Closed schemes are more personal - trustees of restricted schemes are more likely to be aware of the personal circumstances of someone who applies for an ex gratia payment, and to understand the value of such a person to their employer and if he/she is deserving of a more charitable consideration. Trustees of a restricted membership scheme are more likely to show empathy to a member because they are employees of the same employer.
- Employers founded restricted membership schemes to benefit their employees and as part of a package of benefits to attract and retain talent. While they may well have been more paternalistic then, the fact remains that the health and wellbeing of employees matters because it affects productivity and employee engagement. Many employees cannot afford private medical care themselves or work too far away from government health facilities to use them effectively. They benefit greatly from these employer-based schemes. Such schemes were never created to make money for the employer.
- Individual closed schemes may have certain negotiating advantages that are not available to open schemes. For instance, a scheme's members may be mainly low income earners or may come from disadvantaged communities and so should pay less for health services. A scheme might be able to enter into a favourable risk sharing arrangement with a group of providers because the overall health risks posed by the membership are fairly low because they are all relatively young and healthy.
- They are smaller and therefore more flexible in their ability to adapt to changing market conditions and able to offer benefit solutions that are tailored to their membership's particular health needs.
- They can more effectively implement health governance, thereby ensuring that member's actual health needs are addressed and health outcomes are improved.
- Their risk profiles may be much better than those of open schemes which may not turn anyone away on the basis of health status. For example, when the average age of a scheme's beneficiaries decreases, its claims typically decrease, resulting in a higher operating profit and, eventually, lower contributions for members.
- An employer may be prepared to pay a greater portion of the monthly contribution for employees on a specific restricted medical aid. By minimising its risk, restricted medical aids may be able to offer more benefits or lower monthly contributions. In some instances, a group of employers or associations may be willing to inject funds into a restricted medical aid for their workers or members.

Cost reduction

One of the key benefits of belonging to a restricted membership scheme relates to cost. The required service levels and benefit design are based on a deep understanding of the membership group. In addition, most restricted medical schemes do not work through healthcare consultants or brokers, so there are no additional commissions to be paid. And with average contribution increases for open medical schemes much higher than those of the restricted schemes for various valid reasons, a restricted membership scheme can offer great value for money for those who have access to it.

According to the BHF, there are many compelling benefits for employers to retain their restricted medical scheme offering - most notably the data allows closed schemes to better manage health risk, stratify employee risk and implement wellbeing measures that impact favourably on financial indicators like leave liability, performance, focused employee assistance programmes and so on.

Cost reduction, and in turn better affordability for members in restricted schemes is also impacted favourably by not having to carry and subsidise the often onerous costs of member communications since in an employer environment scheme communications can effectively be communicated through the intranet and other employee communication channels.

Finally, the ability to use specific health risk data to affect pricing, benefits, better health outcomes and in turn employee productivity all serve to underpin the value and importance of a closed medical scheme offering as a compelling employee benefit in an environment where the war for talent is ruthless.

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