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Gems to up rates by over 10%

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By Laura du Preez

The country's second-largest medical scheme, the Government Employees Medical Scheme (Gems), this week announced an average increase in contributions for next year of more than 10 percent.

The scheme says the 10.26-percent average increase for its members, who are government employees, is "unavoidably higher than increases of previous years" as a result of its need to build reserves and its intake of a very large group of pensioners earlier this year.

The increase by Gems, together with the 10.9-percent increase announced in late September by the country's largest medical scheme, Discovery Health Medical Scheme, means many medical scheme members will be paying in excess of 10 percent more in contributions next year.

Other large open schemes that have announced increases higher than 10 percent are Liberty Health, Medihelp and Resolution Health.

Gems has been struggling to build up its reserves to the required level as a result of a very rapid growth in membership since the scheme launched in 2006, and Gems's deputy chairperson, Christa Brink, says the migration of about 16 000 pensioners to the scheme in April this year was "a true test".

The pensioners have significantly diluted the reserves, despite the scheme's size: it now has 660 000 members and covers 1.7 million lives (members and their dependants).

The scheme has been taking on 6 000 new members a month this year. For each new member, Gems needs to build up more reserves, because reserves are based on contribution income.

Schemes are required by law to hold 25 percent of their contributions in reserve. At the end of 2011, Gems had reserves of 8.6 percent, well below the required limit.

In addition to the growth in membership, Brink says, the scheme had not budgeted for the 16 000 pensioners it took on in April, and they will reduce the scheme's reserves by 1.1 percent by the end of this year.

The pensioners are former state employees who were members of Medihelp and retired before 1992. Their average age is 82 years.

The state was funding in full their contributions to an option on Medihelp. It is now funding in full their contributions to the top option on Gems.

However, the decision by National Treasury to move the pensioners to Gems in March this year was expected to result in a saving for government in the subsidy, for which it is liable in terms of an agreement with these former employees.

Brink says these pensioner members came to Gems without any reserves being transferred, and they have been adding between R20 million and R25 million a month to deficits the scheme has been incurring.

Brink says 96.6 percent of these pensioners are users of chronic medicines, while 95 percent claim benefits on a monthly basis.

Brink points out that Gems's contribution increases for next year will be applied to contributions, which have historically been low by medical scheme industry standards.

The contributions paid by Gems members are based on their income, and Gems will adjust all the salary bands it uses by seven percent next year to ensure that most members who recently received salary increases will not move to higher salary bands in the scheme's contribution table, she says.

Benefits for members have been enhanced by 5.5 percent, Brink says.

She says Gems has submitted a business plan to the Council for Medical Schemes outlining how the scheme plans to reach its required reserve levels.

While rapid membership growth can place a temporary strain on the solvency of a medical scheme, growth in membership puts the scheme in a healthier position, because the larger the membership, the more diversified the risk, she says.

Gems now covers about 62 percent of all eligible public service employees, and 55 percent of members did not previously have access to the medical scheme subsidy provided by the government, Brink says.



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