

Empower

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Medical scheme cover versus insurance cover

As healthcare consultants, we are often asked by clients which is the best cover one can buy. Our typical response is that it would depend upon a number of factors, such as how much you can afford and what level of cover you require. The conversation then often leads to the client referring to some fantastic, affordable cover he/she heard about and whether we sell such a product.

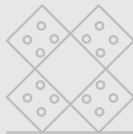



The response to the above type of question is not a simple one and requires a bit of a better understanding of the different types of healthcare cover available and what protection each gives you.

If you consider the lower contributions typically charged by insurance products, one cannot and must not think that the cover can be compared. While you might get some large pay-out from your medical insurance cover, the cover of a medical scheme will typically better match your expenses. This becomes quite clear if you look at a typical hospital account. Insurance cover of R300 or R500 per day will definitely not provide adequate funding for the cost of hospitalisation.

Generally, membership to a medical scheme provides much more protection than insurance cover, due to the Prescribed Minimum Benefits (PMB) which are always included. Insurance products are obliged to clearly state in marketing material that they are not a registered medical scheme.

Please be very careful to cancel medical scheme cover in favour of insurance cover just because of a lower contribution. Remember, you can downgrade your medical scheme cover as a first option and still qualify for tax credits and upgrade later, without any waiting periods or exclusions.

Tips

- medical scheme provides much more protection (PMBs) 
- you can downgrade your medical scheme cover if times get tough 
- a medical scheme cannot reject a membership application 
- medical schemes cannot charge members different contributions for the same plan 

DIFFERENCES BETWEEN MEDICAL SCHEMES AND HEALTH INSURANCE PRODUCTS

Medical Scheme

Medical Insurance

Legal framework under which it operates



Governed by the Council for Medical Schemes (CMS) according to the Medical Schemes Act. Commissions are regulated to not exceed 3%.

Governed by the Financial Services Conduct Authority (FSCA) according to the Short-Term or Long-Term insurance Act and the Demarcation Regulations. Commissions are regulated to not exceed a sliding scale, typically a higher percentage than medical schemes.

Basic financial rules and guarantees



Schemes are non-profit entities and any excess after all claims and costs are covered goes to the reserves of the scheme, belonging to the members collectively. Reserves have to be at least 25% of a year's premiums. Premiums cannot be discounted or loaded based upon age or health. Cover must be provided until death.

Premiums can be loaded due to bad health and age. Cover can be ended if risk becomes too high. Any underwriting profit goes to the insurer and its shareholders.

The risk can be re-insured.

Cover



Cover in and out of hospital starts from day one, is based upon the actual treatment provided and includes the full set of PMB cover, typically with no upper financial limit. Cash deposits not required because scheme pay-out is to provider hospital (90%). PMB cover includes cover for treatment of more than 260 procedures in hospital, as well as a list of 27 chronic conditions.

Policy document will state what is covered and typically offers a fixed amount per day in hospital, or per diagnosed event, based upon what is covered in the policy, irrespective of treatment required. Cash deposits may be required as insurance pay-out is to insured/policy holder, with no guarantee for provider to have its account settled.

Underwriting



Medical schemes are restricted in terms of waiting periods (max 3 months) or existing condition exclusions (max 12 months) and Late Joiner Penalties may only be applied for older persons who do not have adequate proof of previous medical scheme membership.

Insurance products may apply loadings on premiums according to the risk profile, may exclude benefits and may adjust premiums as the risk changes.

Tax benefits



Tax credits can be deducted from tax payable: R332 for tax payer who paid the contributions for him/herself, plus R332 for first dependant, plus R224 for each further dependant.

No tax benefits to the member.

There is a further category of insurance cover which provides similar cover to what you can obtain from a medical scheme's network plan's day-to-day benefits. This is categorised as Primary Care products (mainly aimed at employer groups) and are allowed to operate under a concession which allows these products, very similar to a medical scheme for a limited period still until these products will be moved into medical schemes.