



UNIVERSITY OF WESTERN CAPE (UWC)

PROPOSAL FOR THE AMENDMENT OF MEDICAL AID POLICY

DATE OF LAST APPROVAL: C2008/3



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OFFICE OF THE REGISTRAR

10 September 2008

The Chairperson of Council
University of the Western Cape

Dear Ms Kerr

PROPOSAL FOR THE AMENDMENT OF MEDICAL AID POLICY

The Executive Management Committee was advised by the UWC appointed Health Care Consultants, viz. Jacques Malan, to amend the Medical Aid Policy which currently applies to members of Discovery. The Executive Management Committee noted the shortcomings of the current policy and concurred that the proposed changes will provide more affordable health cover for employees and create savings for the university.

The Executive Management Committee requests Council to approve changes to the following areas of the policy:

- a) definitions relating to "spouse" and "child" to ensure that the policy is all encompassing;
- b) adoption of the Classic Priority option, rather than the Classic Comprehensive option, as the benchmark portfolio;
- c) transition to a 50/50 employer contribution, rather than the current two-thirds employer contribution, for all new employees as from 1 January 2009.

The attached document outlines the rationale for the proposed changes.

Ingrid Miller
Secretary: Executive Management Committee



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2 July 2008

UWC Medical Aid Subsidy Policy Review

In reviewing the medical aid contributions we identified *three areas* which required attention.

The first is the subsidy policy itself where the policy is silent on certain critical aspects and we need to update the following points to ensure that the policy is all encompassing:

Definition of Terms within the Subsidy Policy

Spouse - *the person to whom the member is married to in terms of any law or custom* or has been a life partner for more than 12 months.

Child - a member's natural child, or a stepchild or legally adopted child or a child in the process of being legally adopted or a child who has been placed in the custody of the member or his/her spouse or partner and who is not a beneficiary of any other medical scheme.

Eligible dependants as per Subsidy Policy

1. Child dependants

Children (as per definition above) over the age of 21 years whom are full time students will qualify for the subsidy benefit up to the age of 25 years old (Proof of full time studentship required on an annual basis).

Children (as per definition above) whom are financially dependent on the Principal member by earning less than R2500 per month (proof of financial dependency required), will be included in the definition of eligible dependants as part of the subsidy policy to maximum of 25 years old. The financial dependency benchmark

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will be subject to change depending on the industry norms and the selected medical schemes rule.

A child dependant will not be eligible to be a dependant on the principal member's medical aid membership once he/she has engaged in a marriage.

The contributions deducted for the child/adult dependant will be determined according to the medical schemes rules.

2. Mentally handicapped child dependants

Children whom are mentally handicapped will qualify as long as the main member qualifies for the subsidy once proof of the diagnosis has been provided.

Definition of mentally handicapped: *Subnormal intellectual development as a result of congenital causes, brain injury, or disease and characterized by any of various cognitive deficiencies, including impaired learning, social, and vocational ability. Also called mental deficiency.*

The second area requiring attention is the existing benchmark portfolio for Discovery. The dilemma is that the current policy stipulates that the University will subsidize employees up to and including the Classic Comprehensive option. Below is a table reflecting the option spread per employee where the options are listed in order of most expensive to most affordable:

Option	Employees	Percentage
Executive Plan	4	0.73%
Classic Comprehensive	111	20.18%
Essential Comprehensive	212	38.55%
Classic Priority	60	10.91%
Essential Priority	4	0.73%
Classic Saver	33	6.00%
Essential Saver	8	1.45%
Coastal Saver	97	17.64%
Classic Core	3	0.55%
Coastal Core	16	2.91%
Keycare	2	0.36%
Total	550	100.00%

The bulk of our members opted for the comprehensive options purely on the basis that the University capped the subsidy at Classic Comprehensive. This decision was taken when we first migrated to Discovery and has not been revisited since.

The result is that a large portion of our members are over insured with 95 members having savings in excess of R10 000,00 and only 25 members on the comprehensive plans are registered for chronic conditions.

The primary focus of the University should be to provide adequate medical/hospital cover when considering the benchmark. Discovery restructured the Essential Comprehensive plan last year (reduced savings from 25% to 15%) making it a less attractive option as many members discovered to their detriment last year.

To this end, we are recommending that we consider the **Classic Priority Option** as the benchmark portfolio. This option provides 200% hospital cover as opposed to the 100% offered on Essential Comprehensive and as stated previously, has a 25% component compared to 15% on Essential Comprehensive. There are co-payments (on non life threatening procedures) on both options which could have been drawn from the savings on Essential Comprehensive, depending on the availability of savings. On Classic Priority the co-payments would be funded by the member directly unless he/she has a large accumulated savings portion. The member would then apply for the co-payment to be funded from the savings within the Classic Priority option.

The only members who would be affected by moving the benchmark to Classic Priority are those registered for chronic conditions of which there are only 25 members, remembering that members are not precluded from selecting a "higher" option but the buy-up will be for their own account.

Financial Impact:

Although we need to consider hospital cover as our main driver for positioning the benchmark portfolio, we need to be aware that should the current policy remain unchanged, our medical aid costs will escalate dramatically next year, if members opt to migrate to Classic Comprehensive. (This increase is currently estimated at R2.3m pa) A move to Classic Comprehensive will further skew our ratio of contributions vs claims, which over the past three years has not been ideal and clearly demonstrates that our employees are over insured:

	2005	2006	2007
Total contributions	R18 839 374	R19 331 181	R19 498 216
Total claims	R12 857 720	R12 039 450	R12 539 009
Total claims/contributions ratio	68%	62%	64%

The benchmark in the industry for contributions to claims is 80% and by implementing Classic Priority, will we not only achieve 80% but our employees can expect to enjoy the following savings:

Family size	Essential Comprehensive	Classic Priority	Annual Saving
Principal	R1, 592	R1, 270	R3, 864
Principal + Spouse	R3, 097	R2, 270	R9,924
Principal + Spouse + child	R3, 414	R2, 778	R7, 632
Principal + Spouse + 2 Children	R3, 731	R3, 286	R5,340

The request is that the benchmark portfolio be set at Classic Priority with effect from 1 January 2009.

The third area requiring attention is that of the University's generous subsidy contribution towards medical aid. We may (arguably) be the only organization in SA that contributes two-thirds of medical aid contributions.

While it may be difficult to move away from this relationship for current employees ***the proposal is that the University consider a rand far rand (50/50) agreement capped at the Classic Priority option for any new employees commencing after 1 January 2009.***

Medical aid costs and therefore contributions have consistently been higher than CPIX in recent years and there is no indication that this trend will cease. The current arrangement is not sustainable and we have an opportunity now to curtail these costs.

A Hambrick - G. Coetzee

Regards
Human Resources Management

11. PROPOSAL FOR THE AMENDMENT OF THE MEDICAL AID POLICY, C ANNEX 2008/3/11

Background: The current medical aid policy had certain shortcomings with respect to employees who are members of the Discovery Medical Aid Scheme. The proposed changes to the policy would result in more affordable health cover for employees as well as create savings for the university. The proposed changes relate to:

- a) definitions relating to "spouse" and "child" to ensure that the policy is all encompassing;
- b) adoption of the Classic Priority option, rather than the Classic Comprehensive option, as the benchmark portfolio; and
- c) transition to a 50/50 employer contribution, rather than the current two-thirds employer contribution, for all new employees as from 1 January 2009.

Discussion: Council noted that executive management has considered the proposed changes and recommended it for approval. The changes regarding Discovery Medical Aid, only affect a small number of employees and the affected employees will individually be informed of the changes.

Council further noted that the current employer contribution of two-thirds to medical aid has been reviewed. It was proposed that the employer contribution change to 50/50 for all new employees.

Council cautioned that if the changes affect the entire remuneration system and in turn conditions of employment, it may have to be discussed with the labour union bargaining group.

Decision: Council approved the amendments to the medical aid policy and the transition to a 50/50 employer contribution for all new employees as from 1 January 2009.