Subject F08: Health, Social and Employee Benefits Fellowship Principles

F108 2025 Annual Review –Summary of changes.

Note: This note is to be used in conjunction with the 2024 set of notes.

December 2024

Background

The content of the F108 course is reviewed and updated on an annual basis for clarification and industry developments. This note is to assist students who have studied the previous version of the F108 notes to identify material areas where the core reading has changed. Minor grammatical changes or immaterial corrections are not included in this note.

The majority of the changes relate to the clarification of “insurance” and “reinsurance” in healthcare and employee benefits.

Syllabus

No changes have been made to the syllabus.

Chapter 2 – Stakeholders and the social protection system

An exam tip box was inserted below the paragraph “Insurance is often used … in greater detail in Chapter 19”:

> The difference between insurance and reinsurance can be confusing. From earlier subjects, you may have assumed that reinsurance is insurance purchased by insurers and provided by a pure reinsurer, in other words a company that specialises in reinsurance business and does not write any business directly to the public.
>
> This is not strictly correct. While many insurers do use reinsurance provided by pure reinsurers, especially in the health and care space, in the Subject A311 course you would also have learned that sometimes two direct insurers can provide each other with reciprocal quota share reinsurance. In this case neither is a pure reinsurer but it is still reinsurance as the policyholder had a risk that they transferred to the insurer who then transferred the insurance risk on to another insurer in a way that did not directly affect the policyholder. In fact, it is possible for a single insurer to be licensed to write both insurance and reinsurance business.
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> In this course, we deal with some entities taking on risks that are benefit funds and not insurers. The benefit funds can buy insurance from a direct insurance writer or from a pure reinsurer. In both cases, we say the benefit fund is reinsuring the risk.
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> If the risk is transferred to a pure reinsurer, the risk transfer takes the form of proportional or non-proportional reinsurance, which were concepts that you learned about in Subject A311. If the risk is transferred to a direct insurance writer, the risk transfer will look like an insurance policy. You will read more about this type of risk transfer in Chapters 11 and 12. Both versions of reinsurance are covered in Chapter 19.

Chapter 4 – The role of the employer

On page 115 the paragraph "Group cover is where … minimum number of members." sas amended to:

> Group cover is where a single risk insurance contract covers an entire group of lives. Each contract is generally only a year long and can be owned by:
> - An employer, in which case it is termed insurance; or
> - A retirement fund, in which case it is called reinsurance.
>
> The most common type is a compulsory membership group scheme where the owner of the policy may insist that all eligible lives participate in the arrangement. In order to qualify as a group arrangement, there may need to be a minimum number of members.

Chapter 8 – Health insurance products

The exam tip box on page 275 was changed to the following:

> In South African health insurance practice, the co-payment described above, as well as excesses, are sometimes referred to as coinsurance. This is incorrect as coinsurance refers to the practice of the insurance risk being shared between two or more direct writers, both of whom contract with the policyholder. In the case of co-payments and excesses, the risk is shared between the direct insurer and the covered life. No matter what terminology you have seen used in practice, please use the terminology set out in these notes in your Subject F108 course exam. Coinsurance is discussed further in Chapter 19.

Chapter 10 – Morbidity risk

The "Reinsurance arrangements" section was changed to the following:

> Reinsurance is a process by which part of the liability under a contract or scheme rules, and hence some of the risk, is passed on to an insurer which could be:
>
> - A pure reinsurer, in other words a company that only writes reinsurance business, which tends to be used in health and care insurance; or
> - An insurance company, which is most common in retirement funds.
>
> When a risk-taking entity like an insurer or benefit fund enters into a reinsurance agreement with either an insurance company or a pure reinsurance company, there is a risk that the reinsuring company will fail to meet its obligations, for example, it may default on the payment of reinsurance claim recoveries. The possibility of such a failure therefore represents a risk for the insurance company.
>
> The usual contractual arrangement is that the full liability to the covered life rests with the entity that took on the risk from the life in the first place. The reinsurer's liability is to the benefit provider, not to the covered life. If the reinsurer is unable, perhaps because of financial

difficulties, to pay its share of a reinsured claim, then the benefit provider usually faces a greater cost than expected, unless they have accounted for this in scheme rules.

The considerations outlined below are relevant when considering the transfer of risk from any benefit provider to a third party.

Chapter 11 – Mortality and longevity risk

The last paragraph on page 478 was amended to the following:

Although most retirement funds tend to reinsure fully, it is possible for them to partially reinsure. For example, a relatively large fund may require excess-of-loss cover, where claims in excess of a certain amount are insured and the remainders are retained by the fund. Such structures used to be popular in DB funds where the death benefit in excess of the actuarial liability was insured. The intention was to protect the fund against catastrophic claims, which could arise as a consequence of plane accidents, factory fires, or other risks that affected many members of the fund at the same time.

The last paragraph on page 481 was amended to the following:

A buy-in can be seen as a reinsurance arrangement or an investment decision where instead of allocating the assets of the fund to asset classes, they invest in an insurance policy which exactly matches the future pension payments. Should the insurer fail, the liability to pay the pension reverts to the fund.

Chapter 12 – Morbidity risk

The block on pg 495 is examinable and was changed to an exam tip box.

On page 496 the second paragraph was amended to:

A very specific risk arising in health insurance, is the morbidity risk brought about by advances in medical science and technology. These advancements may mean the cost of treatment for particular illnesses might rise because new and more expensive treatments and equipment are now in use. In addition, these advancements may mean earlier diagnosis of certain illnesses. These same advances in medical science and technology can affect the mortality and longevity risks experienced by health and care insurers and retirement funds.

The impact of earlier diagnosis manifests differently depending on the type of insurance product offered. For products that pay a lump sum, that is CI, on diagnosis of a specified condition, early diagnosis increases the risk, while for indemnity products covering the costs of treatment and providing more complete health cover, that is PMI, medical advances may

improve the overall risk. This is because it may allow for earlier interventions for some conditions, which tend to be less costly.

The first paragraph on page 497 was moved to section 6.

Section 6 on page 501 was rewritten as follows:

Many retirement funds provide benefits in the event of a member becoming disabled. This can be in the form of an ill-health or early retirement benefit or a disability income or lump sum benefit while the member continues to contribute to the fund. The regulatory environment may require the employer, rather than the fund, to provide the disability income benefits to active fund members as is the case in South Africa which means the income benefit effectively replaces the individual's salary and they continue paying contributions to the fund like any active member.

The benefits may be a lump sum benefit upon diagnosis or regular annuity payments.

In either event, any morbidity-related benefit provided by the fund may have a value that exceeds the value of the actuarial liability (AL), either due to the earlier than expected payment or due to a larger benefit than expected.

As with mortality, funds can choose either to self-insure or purchase group cover to protect against morbidity risk. Employers almost always choose to fully insure any disability benefit.

An important consideration when deciding how much morbidity risk to insure or reinsure is the extent to which the fund requires the expertise of a professional insurer, particularly for initial claims assessment and management. Both of these are costly and require specialized skills from medical experts and occupational therapists, but are important to avoid approving invalid claims and ensuring that claimants return to work as soon as they are well enough. In particular, lump-sum disability benefits are usually paid when the beneficiary is diagnosed as being permanently disabled. The expertise required to evaluate claimants, and because once the benefit is paid money cannot be recouped if the person later recovers, often makes using the specialist skills of an insurer an attractive proposition.

In addition, certain countries, anti-discrimination laws may compel employers, but not retirement funds, to find ways to accommodate workers with disabilities. For these reasons, many employers would prefer to focus on core competencies and fully insure disability income benefits in order to access the insurer’s expertise.

Where disability benefits are paid, there is a risk of moral hazard. This is when the benefits are large relative to salary income and the nature of the disability is difficult to evaluate.

The last paragraph of the example box on page 513 was amended to:

Under the indemnity basis, the insurer bears the experience risk. This can be on a full indemnity basis, but often limits, excesses, or other risk sharing will apply.

Chapter 13 – Data and assumption setting

On page 566 the first paragraph under "Reinsurers' data" was amended to:

> Retirement fund benefits may be partially or fully reinsured or provided in-scheme (self-insured benefits). However, they do not obtain data from their insurers as one might from a pure reinsurer, licensed only to write reinsurance business. Similarly, two insurers providing each other with reciprocal reinsurance would not be able to provide each other with comprehensive data. Hence, for this chapter, reinsurance data refers to data made available from pure reinsurers.

Chapter 15 – Pricing

On page 759 the paragraph immediately above Chapter Question 16 was amended to:

> The expected benefit will take account of any risk control measures such as excesses, coinsurance or reinsurance.

Chapter 18 – Financing and funding

The table in the information box on page 950 was updated as follows:

Period	Ageing (DR)	Eligibility (EL)	Replacement rate (RR)	Labour force participation	Total
1970–1990	0.9	0.3	2.0	–0.1	4.1
1990–2010	1.5	–0.6	0.4	–0.5	0.8
2010–2030 (projection)	3.9	–1.1	–1.3	–0.3	1.2

Chapter 19 – Reinsurance and general risk management

On page 991 the introduction paragraph was changed to

> This chapter unpacks the vast array of risk management tools available to an actuary when working with health, social, and employee benefit arrangements. Section 1 gives an introduction to the risk management space. Section 2 outlines the key considerations when approaching risk management. Section 3 focuses on reinsurance as applied to health and care products. Section 4 deals with self-insurance and coinsurance as well as reinsurance in the context of retirement funds. Section 5 deals with other risk management tools, many of which are specific to the health and care space. Section 6 looks at service level agreements, while Section 7 gives an overview of internal processes and their role in managing risk.

On page 991 the first paragraph under the heading for section 2 was amended to the following:

> Risks first need to be identified, analysed, and measured before they can be managed. In general, the term risk is used for unknown outcomes whose distribution is known and that can therefore be quantified, while uncertainty refers to situations where the outcomes are unknown and cannot be easily quantified. unquantifiable or unknown sources of uncertainty.

On page 1001 the following clarification was inserted as a last paragraph under the quota share section:

> Notably, a company can share and manage its risk via a reciprocal quota share arrangement. This involves two or more insurance companies agreeing to provide each other with quota share cover. None of the participating insurance companies need be a reinsurer and the proportions shared do not need to be the same. It is important to note that the policyholder only contracts with their direct writer and will be unaware of the reciprocal quota share arrangement.

On page 1002 the second paragraph was clarified as follows:

> The insurer has purchased a 60% quota share reinsurance treaty with a maximum retention of R1 000 000 per policy for its CI business.

On page 1006 the following was inserted as a paragraph after the paragraph ending in "…all events during the year." and the paragraph starting "Stop loss protects…" under Aggregate excess of loss (Aggregate XoL)/ stop loss:

> Stop loss can be understood as a more generalised version of aggregate XoL, where stop loss covers a wider range of risks that can emerge from a book of business as opposed to a specific cause or peril which is a characteristic of aggregate XoL. However, the two forms of reinsurance aim to address the same underlying risk – aggregate losses. The excess points in stop loss cover can be expressed as a specified monetary value or loss ratio.

On page 1010 heading 4 was changed to

> 4. Self-insurance, co-insurance and reinsurance for retirement funds

The Risk Reserve section on page 1010 was rewritten to:

> Risk reserve accounts are most appropriate in benefit arrangements which are large enough to benefit sufficiently from diversification. In these cases, the reserve will support substantial payouts. Small funds face a solvency risk if a single large payment or multiple smaller payments occurring at the same time deplete the risk reserve. There is a trade-off between the cost and benefit derived from setting up a risk reserve. As seen in the reinsurance section above, purchasing insurance outside the benefit arrangement is often more costly but can substantially reduce the benefit arrangement's potential liability.

Self-insurance can also apply in the provision of health and care benefits. For example, a large company might choose to self-insure its employees by setting up a risk reserve. Instead of paying monthly premiums to a direct insurer, the company uses this ring-fenced fund to cover employees' medical expenses like doctor visits and medication. This type of arrangement is usually offered by companies who have a large volume of low-income workers who cannot afford to purchase health insurance for themselves. The company in question offers this benefit as a form of employee benefit.

On page 1011 below the paragraph titled Solvency Reserve the following was inserted:

Coinsurance

As defined in the glossary and explained in Chapter 8, coinsurance is the term given to an arrangement whereby risks, covered under one policy, are split between one or more direct writers. The policyholder must claim from the relevant direct writer when a particular claim event occurs. An example of this is one insurer (Insurer A) providing coverage for hospitalization and inpatient care and another insurer (Insurer B) providing coverage for outpatient services, such as doctor visits. When a policyholder experiences an out of hospital event, covered by their policy, they will claim from Insurer B. Likewise, if a policyholder experiences an in-hospital event, covered by their policy, they will claim from Insurer A. This setup aims to manage risk by dividing the insurance risk of a policy and can provide patients with more comprehensive coverage.

Notably, coinsurance is different from reciprocal insurance (covered in the quota share explanation above). Reciprocal insurance is a behind-the-scenes risk management tool where a policyholder is unaware of the risk-sharing done by the direct writer of their policy. In this case, a policyholder will make all claims through the direct writer and has no relationship with the other insurers forming part of the coinsurance arrangement.

The section “Insurance” on page 1011 was replaced by the following:

Reinsurance for retirement funds

Purchasing insurance from a direct insurance writer to protect against the risks associated with mortality and morbidity is common in both DB and DC funds and with employer-offered risk benefits. Where the policyholder is a benefit fund, this is termed reinsurance, and where the policyholder is an employer, it is termed insurance.

Insurance may be competitively priced depending on the insurance cycle. As the premium is determined annually at contract-renewal stage, policyholders could benefit from competition if they put their benefits out to tender annually. However, price is just one consideration when deciding to change insurer. The existing relationship with the insurer and the additional benefits it may offer as well as the administrative complexities involved with changing insurer where there is a claim-reporting delay, can make policyholders reluctant to change insurers. However, even if premium rates exceed the cost of self-insuring, insurance may be attractive where funds and employers lack the necessary scale to pool mortality and morbidity risks and the skills to price, reserve for, and manage the benefits.

> Funds with a complex benefit design may not always be able to implement insurance that covers all of the benefits offered on death or disability. These funds may be underinsured, in which case benefits in excess of the insurance proceeds are a liability to the fund. Employers tend to avoid any benefits that cannot be fully insured, although government employers may take on these risks.
>
> An insurer may also impose strict conditions under which a benefit may or may not be paid and the fund or employer could be held liable for any benefit due or face reputational damage.

On page 1021 the paragraph under the subheading Co-payments, levies, deductibles, and medical savings accounts (MSAs) was amended to:

> Co-payments, levies, and deductibles all make the policyholder responsible for part of the cost related to the medical treatment.

On page 1049 under chapter solution 6 the following text was deleted:

> The primary aim of non-proportional reinsurance is that it covers the insurer in the event of claims being larger than expected. Therefore, it is unlikely to have it on individual policies where the sum insured is fixed from the outset, because claim size is already known. However, group contract might expect an aggregate version of it, since the total claims the insurer pays out could be greater than expected, in other words more claims might have occurred.

On page 1050 chapter solution 9, the reinsurer column in (ii) should read 600 and 900 as the first two values and not 60 and 90.

Question and Answer Bank

On page 1450 both instances of “coinsurance” was replaced by “co-payments”.