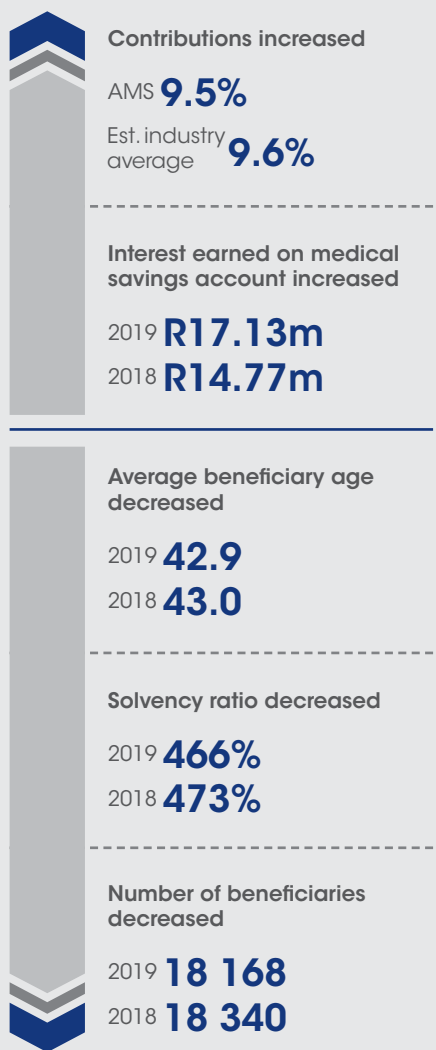


# MEDIBRIEF

SPECIAL EDITION: ANNUAL FINANCIAL RESULTS FOR 2019 – COMMENTARY

APRIL 2020

## 2019 AT A GLANCE



## Executive summary: a review of 2019

At the time of going to print, 2019 will likely be measured as a good year compared to the ill fortunes of 2020; members are no doubt grateful for the Scheme's solid financial position in the face of COVID-19. It is heartening to report that, despite tough economic conditions, the Scheme delivered a marginal net surplus of R45.19 million largely due to the improved investment performance of R183 million off the very poor 2018 negative of R23.76 million. The accumulated funds as at 31 December 2019 increased marginally to R2.82 billion from R2.78 billion. Gross contribution income increased to R562.82 million which, when expressed as a percentage of the accumulated funds, excluding unrealised gains, results in a reserving ratio of 465.62%. This is down on the 2018 ratio of 473%, but remains significantly above the required minimum of 25%.

Overall the number of members continued to decline marginally, ending the reporting period at 8 859, with the average age remaining almost unchanged. The industry average pensioner ratio (number of pensioners as a percentage of the total number of medical scheme members) was 9% at the end of 2018\* in stark contrast to the 26.4% of AMS members who were categorised

as pensioners at the end of 2019. The participating employer commitment of some 20 years ago – to prefund the Scheme's significantly higher-than-industry-average claims ratio resulting from the increasing age-related burden of disease – ensured member contribution increases remained market-related. The 2019 average contribution increase was 9.5%, marginally below the industry average at 9.6%.

Going into 2019, the Scheme's Benefit Plans had been aligned to offer similar benefits at lower or equivalent contribution rates offered by other comparable schemes. AMS remained in line with medical advancements as covered by the industry and members continued to receive better than industry value for money for their healthcare insurance. The value of the average gross claim per member per month increased by 5% from R5 778 to R6 081. This reflected the favourable CPI related tariff increase negotiated by our administrator, Discovery Health. The claims ratio, that is the total claims paid from risk expressed as a percentage of member contributions received, was 122.3%, 2% lower than 2018. R135 million was drawn out of the reserves to fund the shortfall between the contributions received and the claims paid in 2019.

\* CMS Annual Report 2018/2019

Continues >>>

BOARD OF TRUSTEES	1 Jan to 20 Nov	21 Nov to 31 Dec
Elliott CC (Chairman)	Employer Appointed	Member Elected
McCallum DR (Vice-Chairman)	Employer Appointed	Member Elected
Abramowitz DE	Member Elected	Member Elected
Coetzer JP	Employer Appointed	Employer Appointed
Farrell MR	Member Elected	Member Elected (A)
Fox FH #	-	Member Elected
Hosking S	Member Elected	Member Elected (A)
Howell GAE ^	Employer Appointed	-
Laubscher PA ^	Member Elected	-
Liston JB	Member Elected (A)	Employer Appointed
Mamabolo NM #	-	Employer Appointed
Mbekeni CWS ^	Employer Appointed (A)	-

BOARD OF TRUSTEES	1 Jan to 20 Nov	21 Nov to 31 Dec
Mason-Gordon NJ	Employer Appointed (A)	Member Elected
McKie Thomson CC ^	Member Elected	-
Mhlongo PQ #	-	Member Elected
Moodley R #	-	Employer Appointed
Preston GJ ^	Member Elected	-
Ragolane NS #	-	Member Elected (A)
Thompson HM #	-	Employer Appointed
van der Bijl BD	Employer Appointed	Employer Appointed
Matemera TS #	-	Employer Appointed (A)
Ameer KN #	-	Employer Appointed (A)

(A) Alternate trustee

^ Resigned 20 Nov 2019

# Appointed 21 Nov 2019

2019 was another tough year on the AMS investment front. Continued GDP contraction, worrying unemployment and the South African Reserve Bank lowering its outlook for economic growth at each Monetary Policy Committee meeting, resulted in the Scheme returns once again falling short of their target; namely, to equal or exceed the Consumer Price Index by 3.5% p.a. over a rolling five-year period. The Investment Committee scrutinised the Scheme's investment strategy, investment advisor and the asset managers and concluded that, under the current economic conditions and regulatory limitations, it was unlikely that a significantly different outcome could have been achieved if any one of the three parties had been changed.

The Scheme's actuaries have projected the long-term liabilities at R2.66 billion which, when viewed against their projected accumulated funds of R2.78 billion and expressed as a ratio, demonstrates that the Scheme is fully funded until 2045. In

the Trustees' assessment, they have no reason to believe the Scheme will not continue as a going concern in 2020.

The pending promulgation of the National Health Insurance Act (NHI) and the Medical Scheme Amendment Bill are awaited, as is the commencement date of the Protection of Personal Information Act (POPIA), both being closely monitored and commented on when appropriate. The Scheme is well positioned to implement POPIA within the one-year grace period following the announcement of its commencement date.

Initial actuarial work has been undertaken on the impact of the COVID-19 disease, both on claims and on the Scheme's investments. While the data is limited, the Trustees remain confident that the overall long-term strategy will provide for the healthcare needs of the Scheme members into the foreseeable future.

## Snapshot of the Scheme in 2019

**21** ▼ Fewer active members | Beneficiary pensioner ratio ▼ **26.4%** (2018: 26.5%) | Beneficiary age remained almost constant at **42.94** (43.01 years in 2018) | Managed Care Plan (MCP) membership ▼ **4%** | Standard Care Plan (SCP) membership **no change** | Value Care Plan (VCP) membership ▲ **17%**

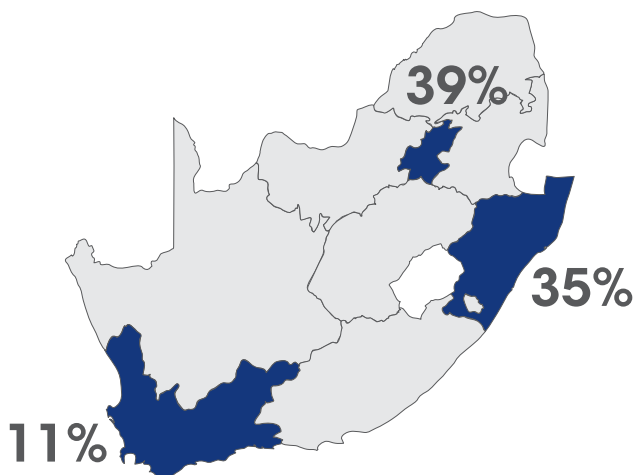
The average accumulated funds per member in 2019 grew to R318 679 (from R312 837). A slight growth, to be sure, though one that is linked to stability and consistency as the fund manages its investments over time.

### PRINCIPAL PARTICIPATING EMPLOYER GROUPS

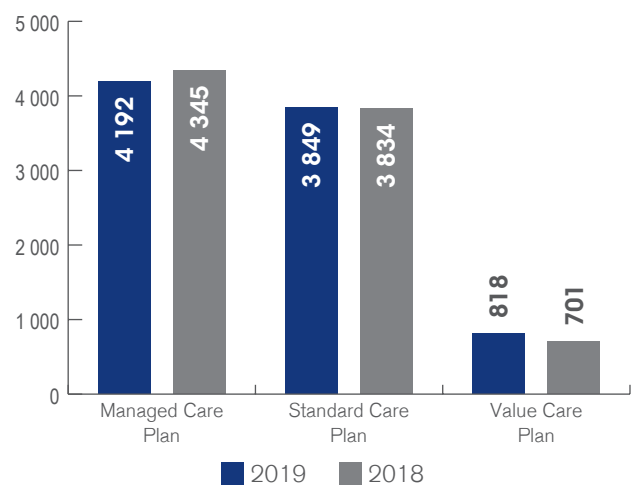
The principal participating employer groups contributing members to the Scheme are Anglo Operations (Pty) Limited, Mondi South Africa (Pty) Limited and Mpact Limited.

### MEMBERSHIP SPREAD

Members are located primarily in Gauteng (39%), KwaZulu-Natal (35%) and the Western Cape (11%) with the remaining percentage residing in outlying areas. Anglo Medical Scheme, though small in size when compared to others in the industry, demonstrates a membership base spread all across South Africa.

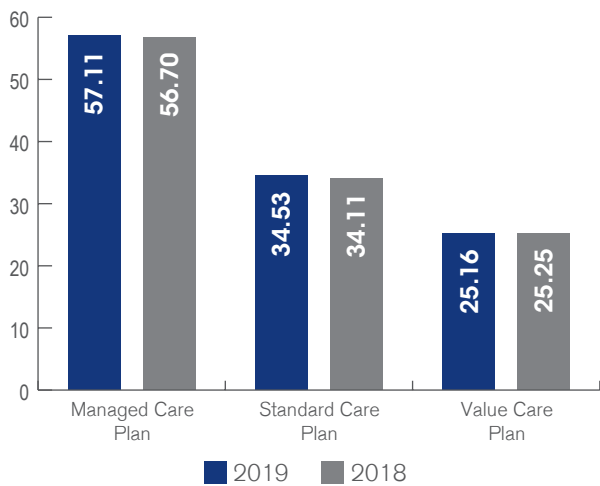


### CHANGE IN MEMBERSHIP BY PLAN

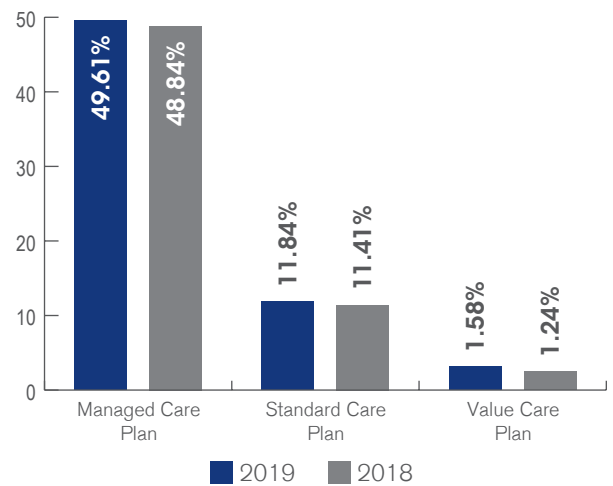


Whilst the numbers above are consistent with projections, it is worth calling out the 'outlier' growth which occurred in the Value Care Plan. This 17% growth is attributed to Mpact's staff growth during 2019.

AVERAGE AGE OF BENEFICIARIES



PENSIONER RATIO (BENEFICIARIES > 65)

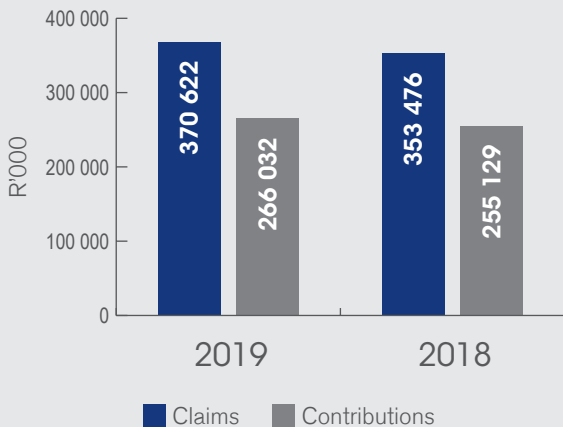


## Member medical savings accounts: 2018 vs 2019

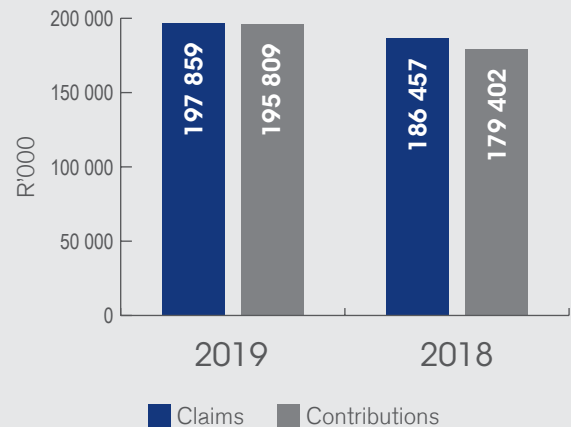
There was an increase in the interest earned on members' savings accounts, from R14.8 million in 2018 to R17.1 million in 2019, as a result of the increase in the total savings balances at the end of 2018 from R194.5 million to R219.7 million.

## Performance per plan

RELEVANT HEALTHCARE EXPENDITURE (CLAIMS) VS RISK CONTRIBUTIONS: MANAGED CARE PLAN



RELEVANT HEALTHCARE EXPENDITURE (CLAIMS) VS RISK CONTRIBUTIONS: STANDARD CARE PLAN



Pensioner ratio Anglo Medical Scheme: **26.4%**

Council for Medical Schemes (CMS) reported industry pensioner ratio (Annual Report 2018/2019):

**9.0%** All schemes **VS** Restricted schemes **6.9%**

RESULT

Increased costs of providing adequate healthcare benefits for members at market-related rates.

## Statement of responsibility by the Board of Trustees

The Trustees are responsible for the preparation and fair presentation of the annual financial statements of the Anglo Medical Scheme (the Scheme), set out on pages 31 to 80 of the full set of annual financial results, comprising the statement of financial position at 31 December 2019, the statements of comprehensive income, statement of changes in funds and reserves, statement of cashflows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees are also responsible for such internal control as the Trustees determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate

accounting records and an effective system of risk management. The Trustees have made an assessment of the Scheme's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

### Approval of the annual financial statements

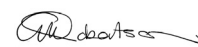
The annual financial statements of Anglo Medical Scheme, as identified in the first paragraph, were approved by the Trustees on 8 April 2020 and are signed on their behalf by:



Mrs CC Elliott  
Chairman



Mr DR McCallum  
Vice-Chairman



Ms FK Robertson  
Principal Officer

## Non-compliance with the Medical Schemes Act – Exemptions

The Trustees are of the opinion that there are no material deviations from the Act as a result of the Scheme having obtained the necessary exemptions from the Council for Medical Schemes to achieve compliance.

### Outstanding contributions

In terms of Section 26(7) of the Act, contributions should be received within three days of their due date. Instances were noted where contributions were received late. Balances after three days are due to reconciling discrepancies between the participating employers and the Scheme. Suspension policies are in place and applied where contributions are outstanding for individual paying members outside the participating employers' obligation.

### Investment in participating employer – exemption obtained

Section 35(8) (a) of the Medical Schemes Act states that a medical scheme shall not invest any of its assets in a participating employer. The Scheme invests in pooled investment vehicles which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark. Given this approach, the Scheme was exposed to participating employer shares.

### Investment in administrator – exemption obtained

Section 35(8) (c) of the Medical Schemes Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme invests in pooled investment vehicles, which allow investment managers the discretion to invest in a combination of equities and bonds that will best achieve their stipulated benchmark. Given this approach, the Scheme was exposed to administrator shares.

### Sustainability of benefit options

In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance. At 31 December 2019, The Managed Care and Standard Care plans incurred deficits before investment income. The Board of Trustees annually maintain market-related benefit offerings and competitive contribution increases. Due to the Scheme demographics, this gives rise to the non-compliance. The Council for Medical Schemes is aware of the Scheme's strategy and approves the benefits and contributions annually without any requirement to take further corrective action.

## The Scheme's investment strategy

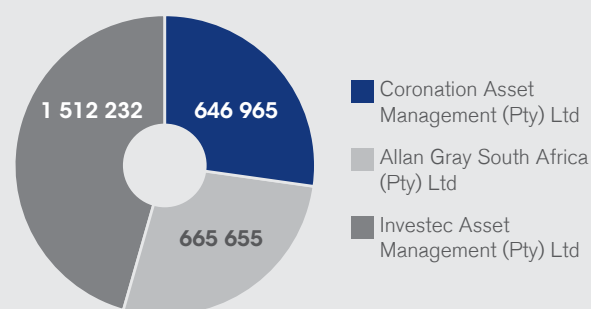
With an aim of maximising annual return within an acceptable level of risk, the Scheme operates within the constraints of the Act. Management of said risk is handled, in part, through the holding of a conservative, yet diversified portfolio wherein a significant proportion of the assets provide returns that are protected against long-term inflation. Over a rolling five-year period, this investment aims to earn a return, net of fees, above the Consumer Price Index of 3.5% per annum. The Trustees believe that this long-term strategy will provide for the healthcare needs of its members into the foreseeable future.

## STATEMENT OF CHANGES IN FUNDS AND RESERVES

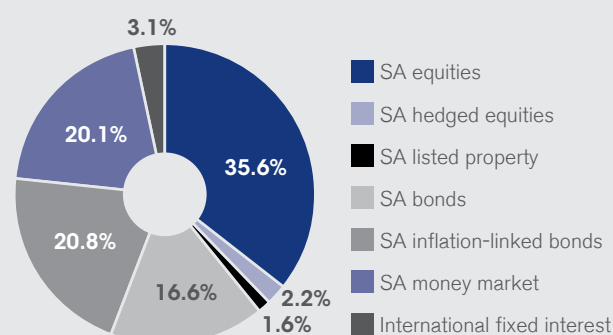
	Accumulated funds R'000
<b>Balance as at 1 January 2018</b>	<b>2 940 763</b>
Total comprehensive expense for the year	(162 770)
<b>Balance as at 31 December 2018</b>	<b>2 777 993</b>
Total comprehensive income for the year	45 185
<b>Balance as at 31 December 2019</b>	<b>2 823 178</b>

The Scheme's investments continued to underperform in 2019 and have underperformed over the medium term. The well published weak domestic economy resulted in the underperformance of the South African equity market which, coupled with us being prohibited from taking advantage of the global markets that, for the most part traded in positive territory, made for a difficult year. To mitigate the risk of the SA equity market concentration and to better diversify the assets, the Scheme applied to the Council for Medical Schemes (CMS) for regulatory relaxation in respect of the off-shore investing limitations in 2018 which was approved in 2020 subject to stringent review timelines. In 2019 the Scheme increased its holding of inflation-linked bonds to take advantage of the higher yields on offer and to hedge against possible inflation. Thirdly, the Scheme identified a fourth asset manager to appoint in 2020, with a view to improve the consistency with which the Scheme would achieve its performance objective.

## INVESTMENTS



## LOOK-THROUGH ASSET ALLOCATION



## ASSETS

Investments held at fair value through surplus or deficit

2019	<b>R2 824 852</b>
2018	<b>R2 712 554</b>

## Capital management

The Scheme is subject to the capital requirement imposed by Regulation 29(2) of the Act, which requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions to be 25%. Safeguarding its ability to remain a going concern so as to provide benefits for its stakeholders, the Scheme manages its capital in line with the requirements stipulated by the Act.

The calculation of the regulatory capital requirement is set out below:

	2019 R'000	2018 R'000
Total Members' Funds per the Statement of Financial Position	2 823 178	2 777 993
Less: cumulative unrealised net gain on measurement of investments to fair value	(202 566)	(275 309)
Accumulated funds per Regulation 29	2 620 612	2 502 684
Gross contribution income (R'000)	562 827	529 093
Solvency margin = Accumulated funds/gross contribution income x 100	465.62%	473.01%

## Key performance measures

### 1. Maintaining reserve sufficiency:

With the ultimate aim of providing for the healthcare needs of its members over their lifetime, the Scheme needs sufficient reserves to cover these costs. The Scheme's Accumulated Funds totalled R2.827 billion (as at December 2019) and, based on actuarial projections, the Scheme has maintained the fully funded position.

### 2. Scheme performance:

The performance of the Scheme is measured by the contribution increase that is effected annually, coupled with benefit changes. The Scheme's main aim is to maintain these contribution increases in-line with the industry average and within the generally accepted medical inflation rate of CPI plus 3%, as evidenced by the Scheme's 2019 average contribution increase of 9.5 % vs the industry average of 9.6%.

### 3. Value for money:

Annually, all three of the Scheme's plans are evaluated independently against competitor offerings. The benefits provided by AMS in 2019 scored higher than industry average and members continue to receive better value for money with around 10-15% more value than a member could buy in the open market for the same contribution.

### 4. Service excellence promise:

Delivering above average service on all the contracted service-level metrics, the Scheme's administrator, Discovery Health, met the service excellence promise to members. Distilling this into numbers, here's how 2019 looked:



\* Figure subject to change as members have four months within which to submit claims for payment.

**5. Non-healthcare cost below 10% of gross contribution income:** Whilst the Council for Medical Schemes requires that non-healthcare costs be kept below 10% of gross contribution income, the Scheme's non-healthcare costs for 2019 not only compared well against previous years, but were also significantly lower than the Council's requirements.

Year	2019	2018	2017	2016	2015
Non-healthcare costs as a percentage of gross contribution income	5.7%	6.2%	5.9%	6.2%	6.4%
Industry average	-	5.7%	6.0%	6.3%	6.0%

\* Industry average percentage for restricted membership medical schemes as reported by the Council for Medical Schemes.

## Related-party transactions

The Scheme is governed by the Board of Trustees who are appointed by the participating employers or elected by the members of the Scheme.

The Scheme's appointed administrator, Discovery Health (Pty) Ltd has significant influence over the Scheme as it administers and manages the financial and operating policies determined by the Board. Discovery Health (Pty) Ltd provides administration and managed care services. The associated fees amounted to R20.11 million (2018: R19.48 million) and R9.82 million (2018: R9.55 million) respectively and the amount owing at year-end was R2.45 million (2018: R2.33 million).

The Scheme pays rental to Anglo Operations (Pty) Ltd for the head office premises. In 2019 this amounted to R283k (2018: R267k).

Contributions of R1.67 million (2018: R1.46 million) were received and claims of R1.15 million (2018: R1.17 million) were paid with regard to Trustees of the Scheme. All claims were paid in accordance with the rules of the Scheme and at the end of 2019, the Trustees had Medical Savings Account balances of R101k (2018: R252k).

Key management personnel were paid a total of R6.77 million (2018: R6.54 million) for the attendance of meetings, holding office and management of the Scheme.

## INCOME STATEMENT

Statement of Comprehensive Income  
for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
<b>Risk contribution income</b>	8	<b>474 682</b>	<b>444 375</b>
<b>Relevant healthcare expenditure</b>		<b>(580 446)</b>	<b>(550 553)</b>
Net claims incurred		(577 029)	(544 823)
Risk claims incurred	9	(581 962)	(546 995)
Third party claims recoveries		4 933	2 172
Net income on risk transfer arrangements	10	7 565	4 973
Risk transfer arrangement fees/premiums paid		(42 031)	(38 782)
Recoveries from risk transfer arrangements		49 596	43 755
Managed care: management services	11	(10 982)	(10 703)
<b>Gross healthcare result</b>		<b>(105 764)</b>	<b>(106 178)</b>
Administration expenses	12	(32 475)	(31 536)
Net impairment gains/(losses)	13	182	(1 294)
<b>Net healthcare results</b>		<b>(138 057)</b>	<b>(139 008)</b>
Investment and other income		216 529	7 594
Investment income	14	215 565	6 689
Sundry income	15	964	905
Other expenditure		(33 287)	(31 356)
Expenses for asset management services rendered		(16 154)	(16 582)
Interest paid on Medical Savings Accounts		(17 133)	(14 774)
<b>Net surplus/(deficit) for the year</b>		<b>45 185</b>	<b>(162 770)</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>45 185</b>	<b>(162 770)</b>

## BALANCE SHEET

Statement of Financial Position  
as at 31 December 2019

	Notes	2019 R'000	2018 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	2	1 115 128	862 672
<b>Current assets</b>		1 962 373	2 144 109
Investments held at fair value through profit or loss	2	1 709 724	1 849 882
Trade and other receivables	3	4 754	6 249
Cash and cash equivalents	4	247 895	287 978
<b>Total assets</b>		<b>3 077 501</b>	<b>3 006 781</b>
<b>FUNDS AND LIABILITIES</b>			
Accumulated funds		2 823 178	2 777 993
Current liabilities		254 323	228 788
Outstanding risk claims provision	5	19 450	17 004
Medical Savings Account liability	6	219 655	194 491
Trade and other payables	7	15 218	17 293
<b>Total funds and liabilities</b>		<b>3 077 501</b>	<b>3 006 781</b>



## Outstanding claims provision

The outstanding risk claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. We use various assumptions, which are regularly reviewed to ensure their applicability. In 2019, provision was made for R19.45 million compared with R17.00 million for the previous year.

## Managing risk

The Board of Trustees has determined that the Scheme's risk strategy and policies – based upon the Scheme's risk tolerance – is in line with the governance framework stipulated by the King Report. The Scheme maintains a sound system of risk management and internal control providing reasonable assurance in the achievement of the organisational objectives with respect to:

- Effectiveness and efficiency of operations;
- Safeguarding of the Scheme's assets (including information);
- Compliance with applicable laws, regulations and supervisory requirements;
- Supporting business sustainability under normal and adverse operating conditions;
- Reliability of reporting; and
- Behaving responsibly towards all stakeholders.

When making its public statement on risk management, the Board first ensures that a systematic assessment of the processes and outcomes surrounding key risks is undertaken. This typically occurs annually or, when necessary, at appropriately considered intervals.

### Risk transfer arrangements

In line with the vision to soundly manage the claims risk, the Scheme has risk-sharing agreements with third-party service providers to ensure cost-effective services. This provides the Scheme with the ability to mitigate an identified risk by agreement with a third-party service provider. The principle is based on the sharing of predefined potential claims loss in return for exclusivity of delivering the service.

Organisation	Services capitated	Scheme
Prime Cure (Pty) Ltd	Provides primary healthcare services at Healthcare centres and contracted network service providers, including a limited hospital benefit.	Value Care Plan
Netcare 911 (Pty) Ltd	Provides emergency air and ambulance transport services.	Managed Care Plan Standard Care Plan
Centre for Diabetes and Endocrinology (CDE)	Provides diabetes-related medical services including related hospitalisation expenses.	Managed Care Plan Standard Care Plan
Dental Risk Company	Provides dental-related medical services.	Standard Care Plan

## Basis of preparation


The financial statements for 2019 were prepared in accordance with the going concern principle using the historical cost basis, except for investments carried at fair value through surplus or deficit. The AFS were prepared in accordance with IFRS and the Medical Schemes Act, which requires additional disclosures for registered medical schemes.

## Auditors' approval

In accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, external auditors, PricewaterhouseCoopers, certified that the AFS fairly presented the financial position of the Anglo Medical Scheme at 31 December 2019.

## Further information

This special edition of MediBrief is a commentary on our 2019 Annual Financial Statements. If you would like the full set of financials as well as more extensive notes on our annual financial statements, please get in touch with us.

 Call us: 011 638 2939

 Email us: [Yvonne.Landsberg@angloamerican.com](mailto:Yvonne.Landsberg@angloamerican.com)

 Download: [www.angloms.co.za](http://www.angloms.co.za) > My Scheme > Annual Financial Statements