

MEDIBRIEF

SPECIAL EDITION: ANNUAL FINANCIAL RESULTS FOR 2020 – COMMENTARY

APRIL 2021

2020 the big picture

Average contribution

AMS **9.5%**

Estimated industry average **9.6%**

Total medical savings account balance

2020 **R231.2m** | 2019 **R219.7m**

Average accumulated funds per member

2020 **R331 462** | 2019 **R318 679**

Interest earned on medical savings account

2020 **R9.92m** | 2019 **R17.13m**

Average beneficiary age

2020 **42.8** | 2019 **42.9**

Solvency ratio

2020 **450%** | 2019 **466%**

Number of beneficiaries

2020 **17 840** | 2019 **18 168**

Beneficiary pensioner ratio

2020 **26.2%** | 2019 **26.4%**

Executive summary: a review of 2020

The World Health Organization vision, "Together for a healthier world", adopted in 2018, was rigorously tested by the announcement of the "severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)" in February 2020. Covid-19, as it is known, caused a level of global uncertainty which tested the soundness of leadership and economies worldwide.

Medical and financial thinking was challenged and the world came together in an unprecedented fashion in a bid to manage the pandemic. Our Trustees, members, participating employers and all third-party service providers were no exception. Together, we rapidly adapted, managed the disruptions and continued business as usual.

The Scheme responded to Covid-19 by evaluating the potential impact on members' access to healthcare, their healthcare needs, movement across the Plans and the expected effect on the bottom line. In a quest to ensure members received the best treatment, numerous initiatives presented by our administrator Discovery Health were considered, and benefits were added or extended. While some pensioners and active members, particularly retiring employees, moved to lower priced Plans, contribution income was not nearly as negatively impacted as initially predicted. Contribution income increased by 5.4% to R593.4 million (R562.8 million in 2019).

Membership decreased by 2% over the period under review, which when compared to the 0% change in 2019 and 2% decrease in 2018 was not considered abnormal. Many elective surgical procedures were cancelled or postponed and day-to-day healthcare spend decreased. Even after Covid tests and services were covered, the Scheme reported an unexpected 14.9% decrease in relevant healthcare expenditure, down from R580.4 million in 2019 to R493.9 million in 2020. The net healthcare deficit improved from -R138.1 million in 2019 to -R10.8 million and the Scheme ended 2020 with a claims ratio (claims expressed as a % of net contributions) of 94.5%, the lowest it has been in almost a decade.

Most schemes operate on a claims ratio of between 80-90%, meaning the total value of claims paid accounts for 80-90% of the total contribution income received.

Snapshot of the Scheme in 2020

146 ▼ Fewer active members | Beneficiary age remained almost constant at **42.79** (from 42.94 years in 2019)
Managed Care Plan (MCP) membership ▼ **5%** | Standard Care Plan (SCP) membership **no change**
Value Care Plan (VCP) membership ▲ **6%**

The remaining 10-20% goes to administration and reserve building. As our members age and require more healthcare services, the Scheme's total contribution income increasingly falls short of the total claims paid and reserve money is increasingly used to cover the shortfall. The long-term funding and substantial reserving was designed for this purpose which prevents the Scheme from having to substantially increase contributions or reduce benefits to make up the "loss" and keeps the Plans and increases in line with other similar schemes in the market. Due to Covid-19, R30 million was drawn from reserves in 2020, significantly below the 2019 figure of R135 million, and well below budget. The AMS Plans are annually benchmarked against similar products in the industry to ensure better value for money is offered to members and employers. The 2020 benefits scored higher than average across all three Plans at lower than average contribution rates. As 2020 was an exceptionally low claiming year, the expected "pent up demand" for healthcare services and further Covid-19 "waves", were factored into the 2021 budget. Due to the extreme uncertainty, benefits remained unchanged, except for the inclusion of Covid-19 related benefits. The actuarial assessments spectacularly underestimated the impact of Covid-19 on the financial markets globally. Schemes with lower solvencies tend to hold more of their reserves in cash than those with larger solvencies, who hold their assets over longer time horizons. Fortunately, prior to Covid-19, the Scheme's investment portfolio and asset manager performance had been rigorously scrutinised. The cash and bond position had been strengthened and initiatives had been implemented to diversify a percentage of the assets offshore.

A fourth asset manager was appointed to add a broader mix of skill to the current investment management in the expectation of achieving more consistent returns at a lower risk. While the 2020 Scheme's investment income fell far short of desired long-term requirements, R90.2 million compared to R215.6 million in 2019, the subsequent market recovery softened the 2020 March decline. The Scheme posted a portfolio return of 2.5%, 0.7% below the Consumer Price Index (CPI) and 4.7% below the investment objective of CPI + 3.5%. As markets return to normality, it is anticipated the investments will deliver on the objective.

Despite the extreme contraction of the financial markets, the reduced relevant healthcare expenditure offset much of the poor investment performance and the Scheme delivered a modest net profit of R59.3 million, marginally up on 2019 at R45.2 million. The resilience of Anglo Medical Scheme is once again favourably measured by the soundness of the Scheme's funding position and the continued unique value offered to members and employers alike.

The actuarially calculated value of the Scheme's long-term funding assets as at 31 December 2020 was R2.9 billion (2019 - R2.8 billion). This, compared to the gross long-term liability value calculated for the period to 2045 of R2.806 billion (2019 - R2.663 billion), resulted in a current long-term funding ratio of 102.9%, marginally down on 104.5% in 2019. The Trustees remain confident that the overall long-term strategy will provide for the healthcare needs of the Scheme members into the foreseeable future.

PRINCIPLE PARTICIPATING EMPLOYERS

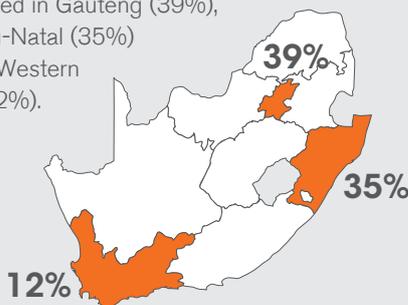
Anglo Corporate Services South Africa (Pty) Limited | Mondi South Africa (Pty) Limited | Mpact Limited

What our membership looked like in 2020



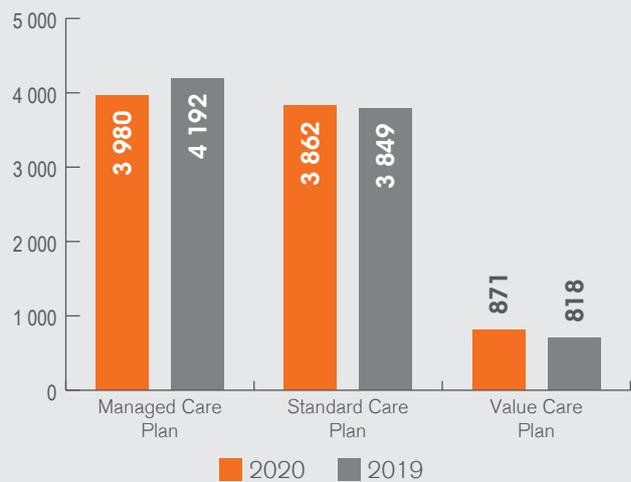
LOCATION

With members spread across South Africa, the majority are located in Gauteng (39%), KwaZulu-Natal (35%) and the Western Cape (12%).



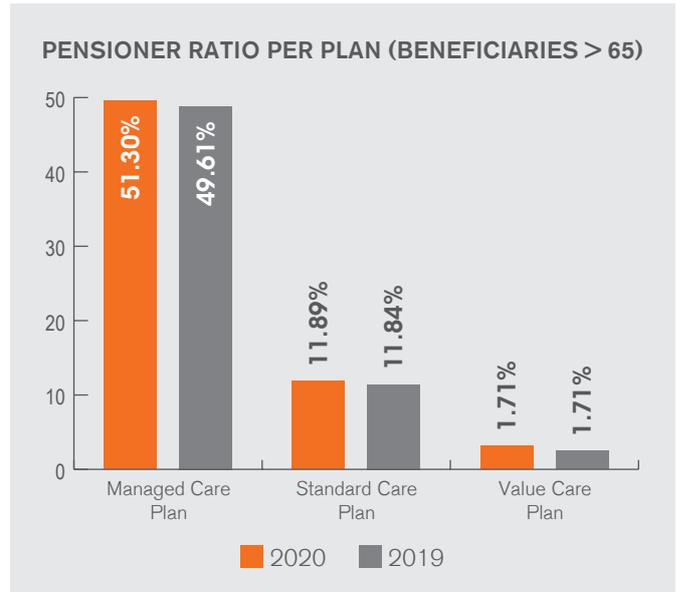
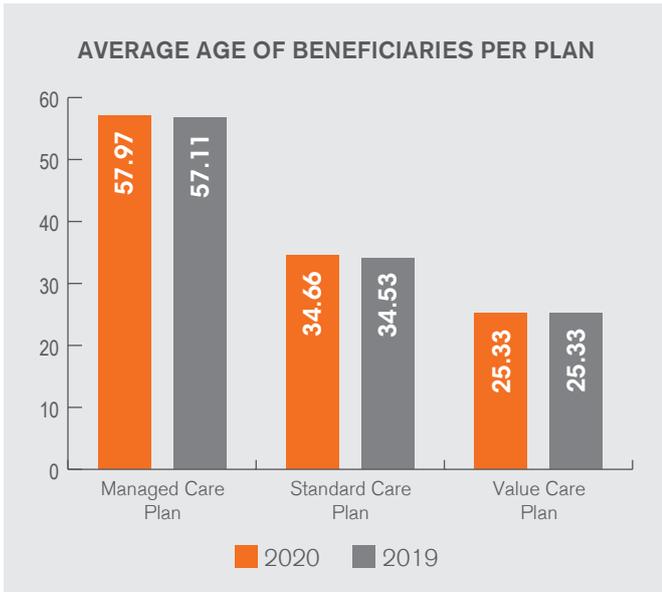
Average age: **42.8** Members: **8 713**
Dependants: **9 127**

CHANGE IN MEMBERSHIP BY PLAN



MAKE-UP AND PERFORMANCE OF AMS'S PLAN

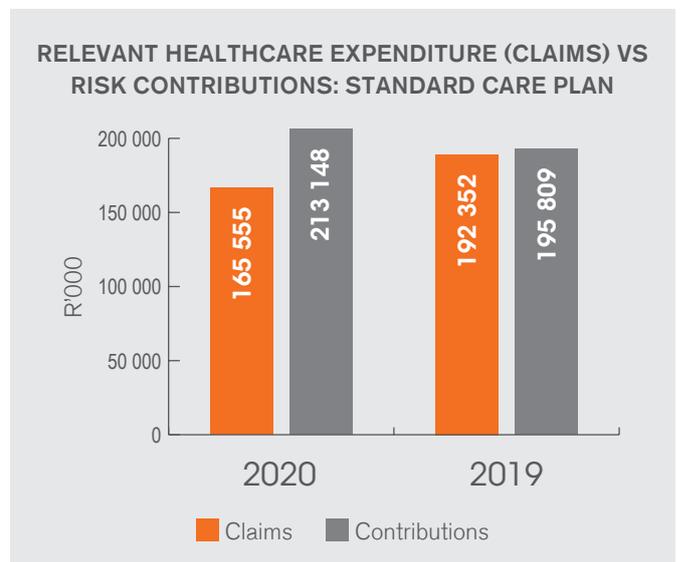
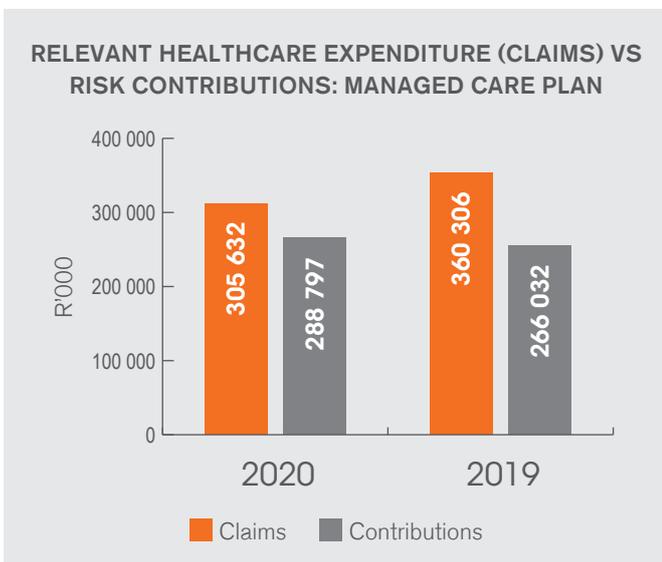
Anglo Medical Scheme provides its members with a choice of three plans: Managed Care, Standard Care and Value Care. Each plan offers various benefits with Managed Care being the most comprehensive.



How we measured our performance

- Sufficient reserves:** We need to maintain sufficient reserves so that we can always cover our members' costs. The accumulated funds at the end of 2020 were R2.888 billion and the projected asset value was R2.836 billion. This gave us a current long-term funding ratio of 102.9%.
- Reasonable contribution increases:** We aim to maintain contribution increases and benefits close to the industry average and the generally accepted medical inflation rate of CPI plus 3%.
- Value for money:** We want to provide better value for money than members would be able to find from our competitors. Our plans are independently evaluated every year, and in 2020 our benefits scored higher than average across all three plans and were all offered at lower-than-average contribution rates, indicating better value for money than could be purchased in the market.
- Service excellence:** We assess service excellence by measuring first-call resolution, today's work being completed today, our service level, length of time to pay a claim, and surveying member happiness. Our administrator, Discovery Health, achieved above average service on almost all the contracted service level metrics.
- Non-healthcare costs are below 10% of gross contribution income:** We strive to keep our non-healthcare costs below 10%, as required by the Council for Medical Schemes. In 2020, these costs were at 5.7%.

Performance per plan



Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 R'000	2019 R'000
Risk contribution income	8	516 851	474 682
Relevant healthcare expenditure		(493 926)	(580 446)
Net claims incurred		(480 757)	(577 029)
Risk claims incurred	9	(481 924)	(581 962)
Third party claims recoveries		1 167	4 933
Net (expense)/income on risk transfer arrangements	10	(1 985)	7 565
Risk transfer arrangement fees/premiums paid		(43 897)	(42 031)
Recoveries from risk transfer arrangements		41 912	49 596
Managed care: management services	11	(11 184)	(10 982)
Gross healthcare result		22 925	(105 764)
Administration expenses	12	(33 462)	(32 475)
Net impairment (losses)/gains	13	(301)	182
Net healthcare results		(10 838)	(138 057)
Investment and other income		93 317	216 529
Investment income	14	90 147	215 565
Sundry income	15	3 170	964
Other expenditure		(23 189)	(33 287)
Expenses for asset management services rendered		(13 267)	(16 154)
Interest paid on Medical Savings Accounts		(9 922)	(17 133)
Total comprehensive income for the year		59 290	45,185

Statement of Financial Position

as at 31 December 2020

	Notes	2020 R'000	2019 R'000
ASSETS			
Non-current assets			
Investments held at fair value through profit or loss	2	1 028 897	1 115 128
Current assets			
Investments held at fair value through profit or loss	2	2 118 209	1 962 373
Trade and other receivables	3	1 880 065	1 709 724
Cash and cash equivalents	4	8 679	4 754
		229 465	247 895
Total assets		3 147 106	3 077 501
FUNDS AND LIABILITIES			
Accumulated funds		2 882 468	2 823 178
Current liabilities		264 638	254 323
Outstanding risk claims provision	5	23 074	19 450
Medical Savings Account liability	6	231 229	219 655
Trade and other payables	7	10 335	15 218
Total funds and liabilities		3 147 106	3 077 501

Statement of Funds and Reserves

as at 31 December 2020

	Accumulated funds R'000
Balance as at 1 January 2019	2 777 993
Total comprehensive income for the year	45 185
Balance as at 31 December 2019	2 823 178
Total comprehensive income for the year	59 290
Balance as at 31 December 2020	2 882 468

Outstanding claims provision

The outstanding risk claims provision is a provision for the estimated cost of healthcare benefits that were incurred 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 2020, provision was made for R23.07 million compared to R19.45 million for the previous year.

AMS's investments and capital management

What's our investment strategy?

The Scheme's investment strategy is to maximise the annual return at an acceptable level of risk within the constraints of the Act. The Scheme believes that this risk should be managed, in part, by holding a conservative, yet diversified, portfolio with a significant proportion of the assets providing returns that offer protection against inflation over the longer term. The investment objective is to earn a return, net of fees, which exceeds the Consumer Price Index by at least 3.5% p.a. over a rolling five-year period.

Period	Portfolio Performance	Consumer Price Index	CPI plus 3.5% p.a.
1 January to 31 December 2020 (p.a.)	2.5%	3.2%	6.7%
5 Years (p.a.)	4.6%	4.6%	8.1%
20 Years (p.a.) (since inception)	10.5%	5.4%	8.9%

How our investments performed

Our investment objective has been achieved over the long term, but not in recent years. The Investment Committee has concluded that this recent outcome would not have differed under different fund managers. However, the Scheme added a fourth investment manager, Abax Investments (Pty) Ltd to its portfolio in 2020. The performance of the assets in 2020 and the ongoing market volatility have received considerable attention, including obtaining exemption from the Council for Medical Schemes to invest in global equities. The Trustees remain confident that the overall long-term strategy will provide for the healthcare needs of the Scheme members into the foreseeable future.

Total investments held at end 2020 (R'000)

2020 – R2 908 962 | 2019 – R2 824 852

Investments per asset allocation

	2020 R'000	2019 R'000
Bonds	917 325	897 476
Collective Investment Schemes	435 383	308 312
Commodities	61 602	79 283
Equities	912 960	1 105 282
Linked Insurance Policies	442 778	434 499
Money market instruments	138 914	-

Investments per investment manager

	2020 R'000	2019 R'000
Coronation Asset Management (Pty) Ltd	478 506	646 965
Allan Gray South Africa (Pty) Ltd	380 312	665 655
Investec Asset Management (Pty) Ltd	1 565 380	1 512 232
Abax Investments (Pty) Ltd	484 764	-

How we managed our capital

According to Regulation 29(2) of the Act, the Scheme needs a minimum solvency ratio of accumulated funds (as a percentage of gross contributions) to be 25%. This is how the capital requirement is calculated:

	2020 R'000	2019 R'000
Total Members' Funds per the Statement of Financial Position	2 882 468	2 823 178
Less: cumulative unrealised net gain on measurement of investments to fair value	(211 852)	(202 566)
Accumulated funds per Regulation 29	2 670 617	2 620 612
Gross contribution income (R'000)	593 438	562 827
Solvency margin = Accumulated funds/gross contribution income x 100	450.02%	465.62%

A sound system of risk management

The Scheme's risk strategy and policies – based upon the Scheme's risk tolerance – are 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.

Several methods are employed to assess and monitor risk exposure. These methods include the use of internal risk measurement models, sensitivity analyses and scenario analyses all of which are subject to strict audit criteria.

In addition to the Scheme's other compliance and enforcement activities, the Board has implemented a whistleblowing process.

How we share our 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	Plan
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 transport services and other ambulance 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

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.

Discovery Health (Pty) Ltd – Administrator	2020 R'000	2019 R'000
Statement of Comprehensive Income transactions		
Administration fees	20 683	20 110
Statement of Financial Position		
Balance due to Discovery Health (Pty) Ltd	1 714	1 641
Discovery Health (Pty) Ltd – Managed care organisation	2020 R'000	2019 R'000
Statement of Comprehensive Income transactions		
Managed care: management services	10 078	9 819
Statement of Financial Position		
Balance due to Discovery Health (Pty) Ltd	830	806

- The Scheme paid rental to Anglo Corporate Services South Africa (Pty) Limited for the head office premises of R283k (2019: R283k).
- Key management personnel made contributions of R1.82 million (2019 R1.67 million) to, and claimed the amount of R935k (2019: R1.15 million) from, the Scheme.
- All claims were paid in accordance with the rules of the Scheme and at the end of 2020, the Trustees had Medical Savings Account balances of R225k (2019: R101k).
- Trustees and management were paid a total of R7.29 million (2019: R6.77 million) for the attendance of meetings, holding office and management of the Scheme.

Non-compliance with the Medical Schemes Act – exemptions

The Trustees believe that there are no material deviations from the Act as the Scheme has 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, but instances were noted where contributions were received late. This may result in discrepancies between the participating employers' and Scheme's balances. Suspension policies are in place and applied where contributions are outstanding for individual paying members outside the participating employers' obligation.

Investment in participating employer

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

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. The Managed Care plan incurred deficits before investment income. Anglo American South Africa sold numerous subsidiaries over a period of time resulting in the loss of active employees and retention of pensioners. To compensate the Scheme for the resultant high pensioner ratio and expected deterioration of the claiming profile, the participating employers pre-funded the additional liability to the extent that the Scheme could maintain market-related benefits and contribution increases into the future. The Scheme meets its responsibility to the members by subsidising the expected claims excess over contributions from the reserves. The Trustees will continue to review the investment returns to align with the strategy ensuring sustainability.

Payment of claims within 30 days

In terms of section 59(2) of the Act, a claim should be settled within 30 days of submission, but there were instances of payments taking longer than 30 days. Delays can occur when accounts are referred for clinical audit or other investigations and the Scheme makes every effort to comply.

Prescribed minimum benefits

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Scheme must provide to members and dependants. During the year under review there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of minimum benefits. The Scheme has aligned its interpretation of prescribed minimum benefits with CMS's interpretation, and affected claims are being reprocessed to ensure correct payment.

Board of Trustees

Member-Elected		Employer-Appointed	
Elliott CC (Chairman)	Hosking S (A)	Ameer KN (A)	Moodley R
McCallum DR (Vice-Chairman)	Mason-Gordon NJ	Coetzer JP	Thompson HM
Abramowitz DE	Mhlongo PQ	Liston JB	van der Bijl BD
Farrell MR (A)	Ragolane NS (A)	Mamabolo NM	van Vugt TD (A)
Fox Dr FH		Matemera TS (A)	

(A) Alternate Trustee

2020



501 750 claims processed



97.17% of calls answered within 30 seconds



46 624 emails answered



9.20/10 average service rating by members



31 064 calls handled

Statement of responsibility

The Trustees are responsible for the preparation and fair presentation of the annual financial statements of the Anglo Medical Scheme, set out on pages 30 to 80 of the annual report, comprising the statement of financial position at 31 December 2020, 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 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 reviewed the Scheme's budget for the year ending 31 December 2021. The Trustees have assessed 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.

On the basis of this review and in light of the current financial position and available resources, the Trustees have no reason to believe that the Scheme will not be a going concern for the foreseeable future.

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

Approval of financial statements:

The annual financial statements of Anglo Medical Scheme, as identified in the first paragraph, were approved and authorised for issue by the Trustees on 7 April 2021 and are signed on their behalf by:



Mrs CC Elliott
Chairman



Mr DR McCallum
Vice-Chairman



Ms FK Robertson
Principal Officer

Basis of preparation

The 2020 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), set by the International Accounting Standards Board (IASB).

The financial statements are also prepared in accordance with the Medical Schemes Act, which requires additional disclosures for registered medical schemes.

Auditor's approval

In accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, the external auditors, PricewaterhouseCoopers, certified that the AFS fairly presented the financial position of the Anglo Medical Scheme at 31 December 2020.

Find out more

This special edition of MediBrief is a summary of the key information in our 2020 Annual Financial Statements. If you would like the full set of financials with their corresponding detailed notes on our annual financial statements, please get in touch with us.

 Call us: 011 638 2939

 Email us: Yvonne.Landsberg@angloamerican.com

 Download: www.angloms.co.za > My Scheme > Annual Financial Statements