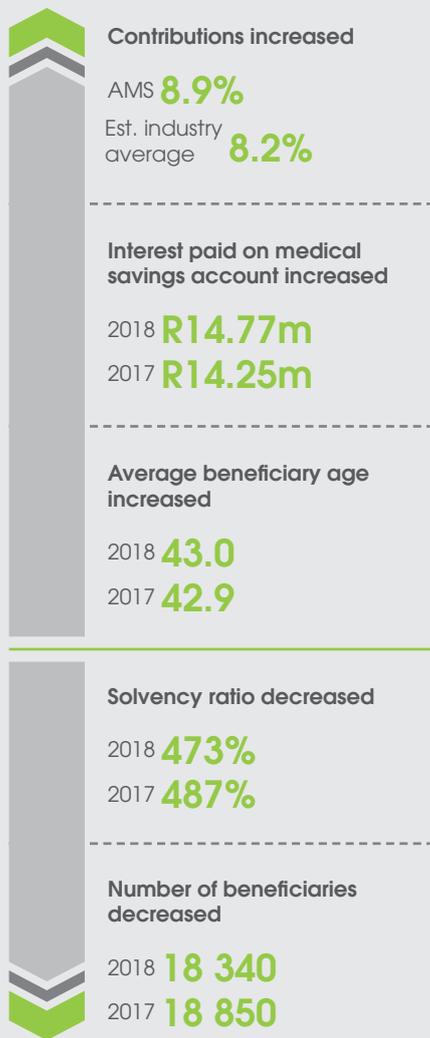


MEDIBRIEF

SPECIAL EDITION: ANNUAL REPORT FOR 2018 – COMMENTARY

APRIL 2019

2018 AT A GLANCE



Executive summary: a review of 2018

2018 was a tough year for the Anglo Medical Scheme. Amid continued regulatory uncertainty, a sluggish economy and the threatened 'junk' status, it was not surprising that the investment returns fell short of target, delivering a negative 0.4% performance year on year. This, together with the 10.1% increase in relevant healthcare expenditure (total member claims), resulted in the Scheme posting a net deficit of R162.8 million for the period under review.

The Board of Trustees continued to maintain a firm commitment to the strategy, the long-term investment strategy and benefits priced at market-related contribution rates. The accumulated funds increased marginally by 1.7%, largely due to the 2018 annual contribution increase. The Scheme ended the year with a 3.0% decrease in the solvency ratio at 473.0%, far exceeding the regulatory requirement of 25.0%.

Membership decreased by 2.0% to 8 880 principal members. The number of beneficiaries decreased by 3.0% – potentially raising affordability questions; a concern that has been noted by the Board. The pensioner ratio increased to 26.5%. This ratio is expected to continue to increase over the next few years with the number of young new employees coming into the Scheme not anticipated to compensate for the rate of ageing of the existing membership. The demographics

of the three Plans changed according to the loss of younger beneficiaries resulting in a negative impact on the average cost per claim per month, which increased by an average of 12.0%.

The Scheme continues to monitor and manage its risks closely, ensuring that ethical leadership and integrity are entrenched throughout all its activities. The investment and regulatory risks attracted particular attention. As the Scheme's funding model is more akin to a pension fund than a medical scheme, which has access to international markets, meeting the investment return targets has been particularly onerous over the period under review. Alternative risk mitigation measures are being explored by the Investment Committee with the intention of achieving better diversification and improved returns. The two proposed amendment bills published for public comment affecting the medical scheme industry, namely the NHI and Medical Schemes Act bill, are being closely monitored and commented on when appropriate. If the bills had been passed as published, there would have been negative consequences on our funding model. However, it appears that the industry comments are being considered and it is expected that a revision of at least the Medical Schemes Act amendment bill will be published for further comment at some future date. We continue to work in conjunction with our administrator to lobby for a balanced change.

2018 TRUSTEES

Employer appointed
Elliott CC (Chairman)
McCallum DR (Vice-Chairman)
du Bois MA (resigned 31 December 2018)
Howell GAE
van der Bijl BD
Coetzer JP

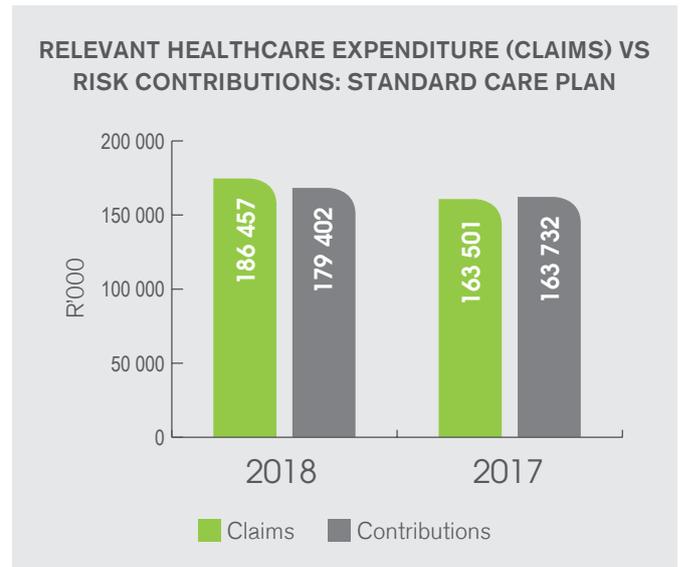
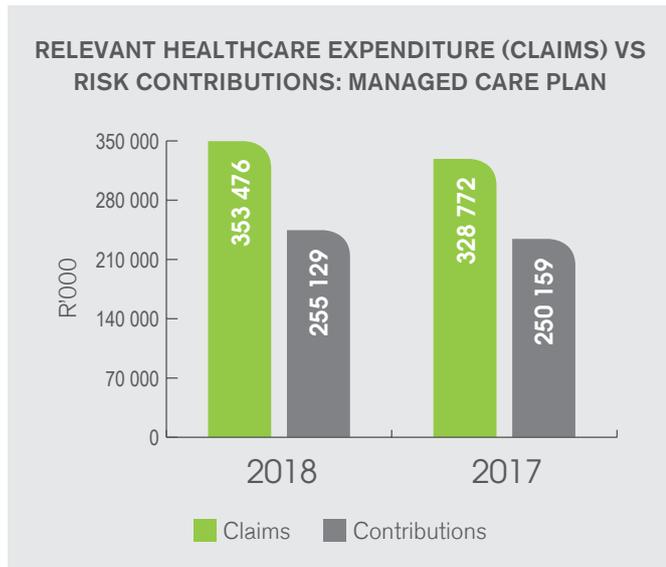
Member elected
Abramowitz DE
Farrell MR
Hosking S
Laubscher PA
Mckie Thomson CC
Preston GJ

2018 ALTERNATE TRUSTEES

Employer appointed
Mason-Gordon N
Mbekeni C

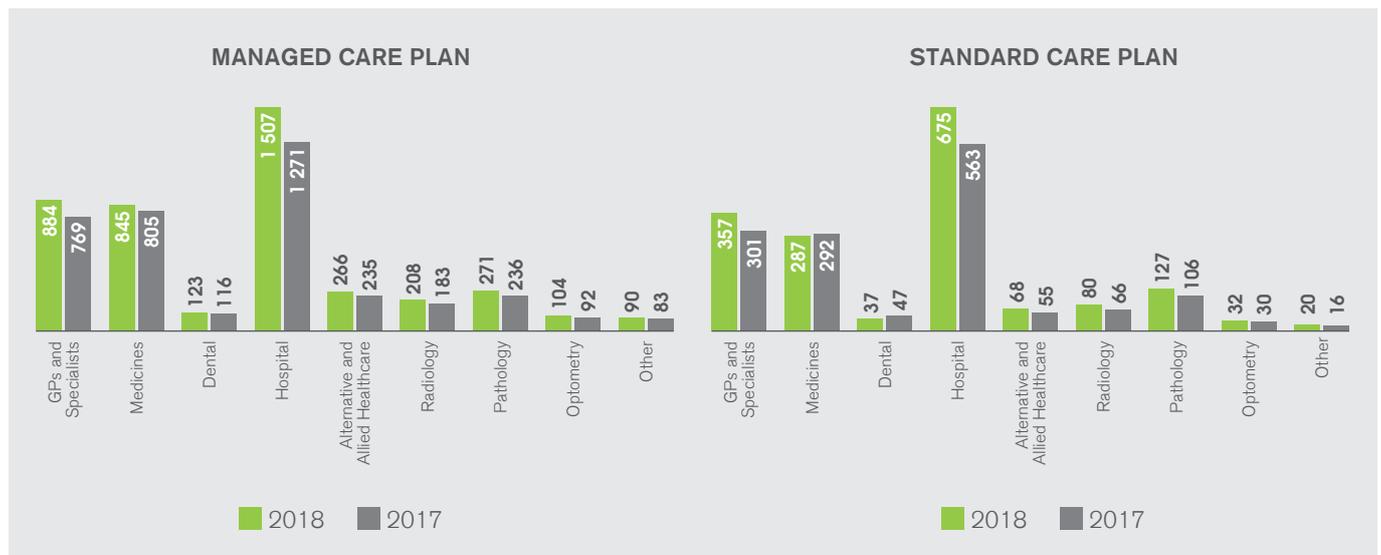
Member elected
Liston J
Sanford L

Performance per plan



Medical expenditure by service provider group

Claims per life per month (including capitation fees) paid from risk and savings



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%.

The Scheme's objectives when managing capital are to maintain the capital requirements of the Act, and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders at market-related contribution rates. The high solvency margin results from a grant made by employers to effectively increase the Scheme's capital to pre-fund the ageing liability of the Scheme.

PRINCIPAL PARTICIPATING EMPLOYER GROUPS: The principal participating employer groups are Anglo Operations (Pty) Limited, Mondi Limited and Mpack Limited.

The Scheme's investment strategy / Reserves and solvency

The Scheme's investment strategy has been, and remains, aimed at maximising 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.

The poor performance of the assets and the ongoing market volatility have received considerable attention, including our application to the Council for Medical Schemes to obtain exemption 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.

ACCUMULATED FUNDS

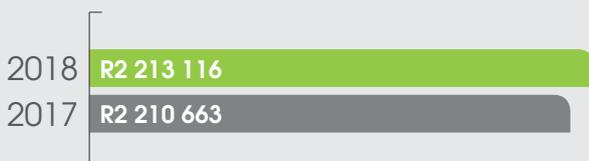
	2018 R'000	2017 R'000
Total members' funds per Statement of Financial Position	2 777 993	2 940 763
Less: cumulative unrealised net gain on measurement of investments to fair value	(275 309)	(479 662)
Accumulated funds per Regulation 29 of the Act	2 502 684	2 461 101
Gross contribution income	529 093	505 213
Accumulated funds ratio per Regulation 29 (including unrealised gains)	525.0%	582.1%
Accumulated funds ratio per Regulation 29 (excluding unrealised gains)	473.0%	487.1%
Minimum ratio required by Regulation 29 of the Act	25.0%	25.0%

STATEMENT OF CHANGES IN FUNDS AND RESERVES

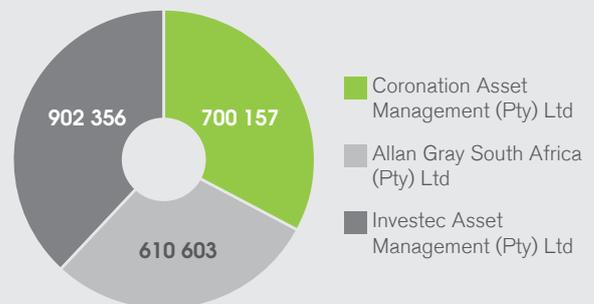
	Accumulated funds R'000
Balance as at 1 January 2017	2 841 128
Total comprehensive surplus for the year	99 635
Balance as at 31 December 2017	2 940 763
Total comprehensive deficit for the year	(162 770)
Balance as at 31 December 2018	2 777 993

ASSETS

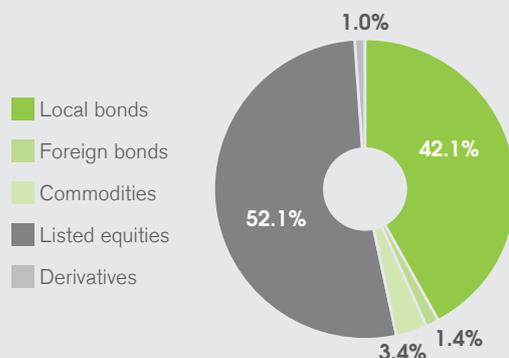
Investments held at fair value through surplus or deficit



INVESTMENTS



EFFECTIVE ASSET ALLOCATION



The average accumulated funds per member decreased in 2018 to R312 837 (2017: R325 341)

Key performance measures

- ✓ 1. The Scheme needs sufficient reserves to cover the liability of the cost of providing for the healthcare needs of members over their lifetime. The Accumulated Funds as at 31 December 2018 was R2,78 billion. However, the funding ratio declined by 14.9% from the previous year due to the lower-than-expected returns on the Scheme's assets and the higher-than-expected healthcare costs.
- ✓ 2. The performance of the Scheme is measured by the contribution increase that is effected annually coupled with benefit changes. The aim of the Scheme is to continue to maintain contribution increases closer to the industry average and the generally accepted medical inflation rate of CPI + 3%. As can be seen below, unfortunately industry medical inflation is running closer to the 4.5% above CPI than the generally accepted CPI + 3%. Over this period the Scheme averaged CPI + 3.7%, in line with the stated strategy.

Year	2019	2018	2017	2016	2015
Average annual contribution increase per member	9.5%	8.9%	11.4%	8.5%	6.5%
CPI	5.2%	4.7%	5.3%	6.4%	4.6%
Industry gross average increase per beneficiary*	9.3%	8.2%	11.3%	9.9%	9.4%

* The industry figure quoted serves as a guide only. It reflects the industry average percentage increase in the gross contribution income per beneficiary as reported by the Council for Medical Schemes.

- ✓ 3. The Scheme aims to provide members with better value for money than they would be able to purchase in the open market. The three Plans were independently evaluated in 2018 and all three scored higher than average and were all offered at lower-than-average contribution rates, indicating better value for money than could be purchased in the market.
- ✓ 4. We promise service excellence to our members. The Scheme's administrator, Discovery Health, delivered above average service on almost all the contracted service-level metrics.
- ✓ 5. The Scheme aims to maintain the non-healthcare costs in line with or below the industry average.

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

* Industry average percentage for restricted membership medical schemes as reported by the Council for Medical Schemes. The 2018 information is made available later in 2019.

Non-healthcare costs

Administration expenditure has been kept within the target range for the fourth consecutive year. In 2018 administration expenses alone comprised 7.1% of risk contribution income compared to 7.0% in the previous year.

2018

-  **554 000*** claims processed
-  **53 000** emails answered
-  **36 000** calls handled
-  **98%** of calls answered within 30 seconds
-  **9.48/10** average service rating by members

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

Pensioner ratio Anglo Medical Scheme: 26.5%

Council for Medical Schemes (CMS) definition of pensioner vs Industry average pensioner ratio

8.4% All schemes **VS** Restricted schemes **6.5%**

RESULT

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

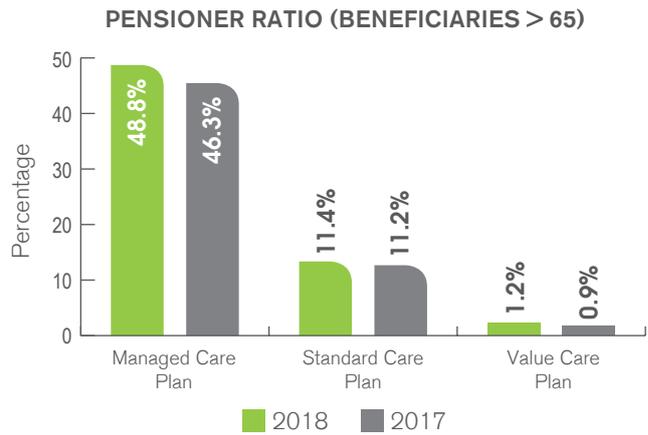
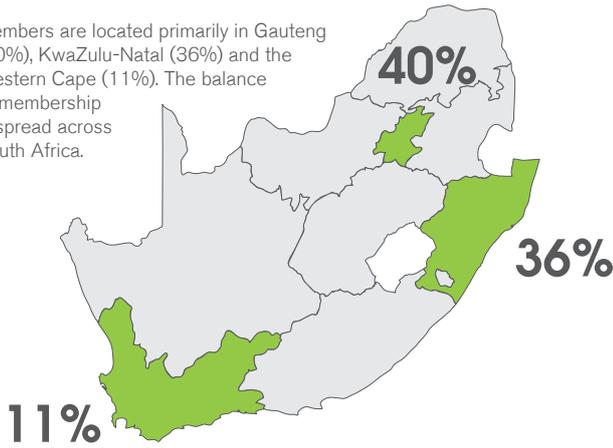
SNAPSHOT OF THE SCHEME IN 2018

148 ▼ fewer active members | Beneficiary pensioner ratio ▼ **26.5%** (2017: 26.2%) | Beneficiary age remained almost constant at **43.01** years | Managed Care Plan (MCP) membership ▼ **5.0%** | Standard Care Plan (SCP) membership **no change** | Value Care Plan (VCP) membership ▲ **14%**

Member medical savings accounts: 2017 vs 2018

There was an increase in the interest paid on members' savings accounts, from R14.3 million in 2017 to R14.8 million in 2018, as a result of the increase in the total savings balances at the end of 2018 from R173.9 million to R194.5 million.

Members are located primarily in Gauteng (40%), KwaZulu-Natal (36%) and the Western Cape (11%). The balance of membership is spread across South Africa.



Managing risk

The Board of Trustees is responsible for the total risk management of the Scheme and has determined the risk strategy and policies based on the Scheme's appetite or tolerance for risk in line with the governance framework as set out in 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.

The Board ensures that a systematic and documented assessment of the processes and outcomes surrounding key risks is undertaken annually and at appropriately considered intervals for the purpose of making its public statement on risk management.

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.

The following risk transfer capitation arrangements were in place for the year:

Organisation	Services capitated	Scheme benefit option
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 basic dental-related medical services.	Standard Care Plan

BALANCE SHEET

Statement of Financial Position

as at 31 December 2018

	2018 R'000	2017 R'000
ASSETS		
Investments held at fair value through profit or loss	2 213 116	2 210 663
Trade and other receivables	6 249	4 376
Cash and cash equivalents	787 416	926 691
Total assets	3 006 781	3 141 730
FUNDS AND LIABILITIES		
Accumulated funds	2 777 993	2 940 763
Liabilities	228 788	200 967
Outstanding risk claims provision	17 004	13 350
Medical Savings Account liability	194 491	173 891
Trade and other payables	17 293	13 726
Total funds and liabilities	3 006 781	3 141 730

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 the year under review, provision was made for R17.00 million compared with R13.35 million for the previous year.

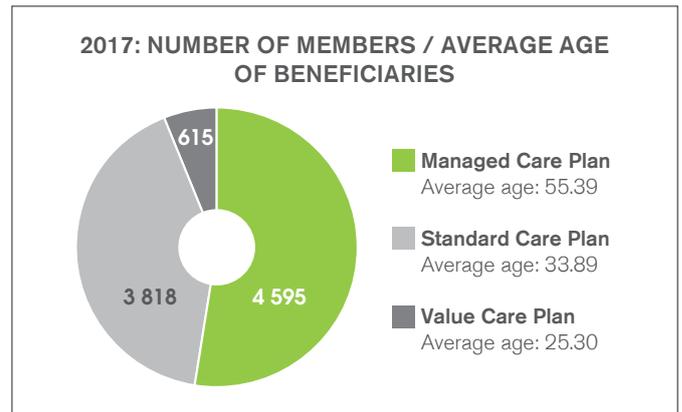
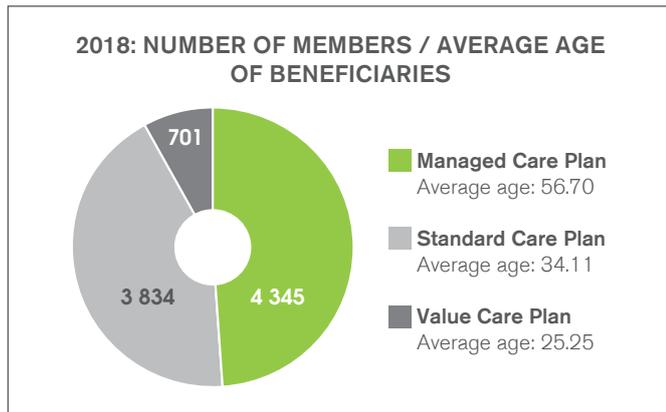
INCOME STATEMENT

Statement of Comprehensive Income

for the year ended 31 December 2018

	2018 R'000	2017 R'000
Risk contribution income	444 375	421 911
Relevant healthcare expenditure	(550 553)	(500 229)
Net claims incurred	(544 823)	(494 473)
Risk claims incurred	(546 995)	(498 244)
Third-party claims recoveries	2 172	3 771
Net income on risk transfer arrangements	4 973	4 974
Risk transfer arrangement fees/ premiums paid	(38 782)	(31 652)
Recoveries from risk transfer arrangements	43 755	36 626
Managed care: management services	(10 703)	(10 730)
Gross healthcare result	(106 178)	(78 318)
Administration expenses	(31 536)	(29 724)
Net impairment losses	(1 294)	(332)
Net healthcare results	(139 008)	(108 374)
Investment and other income	7 594	238 918
Investment income	6 689	237 949
Sundry income	905	969
Other expenditure	(31 356)	(30 909)
Expenses for asset management services rendered	(16 582)	(16 657)
Interest paid on Medical Savings Accounts	(14 774)	(14 252)
Net (deficit)/surplus for the year	(162 770)	99 635
Total comprehensive (expense)/income for the year	(162 770)	99 635

Membership movements



Related-party transactions

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

Discovery Health (Pty) Ltd has significant influence over the Scheme as Discovery Health (Pty) Ltd participates in the Scheme's financial and operating policy decisions but does not control the Scheme. Discovery Health (Pty) Ltd provides administration and managed care services.

These fees amounted to R19.48 million (2017: R18.82 million) and R9.55 million (2017: R9.25 million) respectively from the Scheme during 2018 and the amount owing at year-end was R2.33 million (2017: R3.75 million).

Anglo Operations (Pty) Ltd receives from the Scheme market-related reimbursement for head office rental and management services provided. In 2018 this amounted to R267 000 (2017: R253 000).

With regard to Trustees who were also members of the Scheme, contributions of R1.46 million (2017: R1.25 million) were received and claims of R1.17 million (2017: R946k) were paid. All claims were paid in accordance with the rules of the Scheme and at the end of 2018, the Trustees had Medical Savings Account balances of R252k (2017: R217k).

Key management personnel, namely the Board of Trustees, the Principal Officer and other support staff, were paid a total of R6.54 million (2017: R6.10 million) for the attendance of meetings, holding office and disbursements.

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), comprising the statement of financial position at 31 December 2018, 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 10 April 2019 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.

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 was exposed to participating employer shares that constituted approximately 1.1% of total assets. The Scheme applied to the CMS and received an exemption from this section of the Medical Schemes Act.

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. The Scheme applied to the CMS and received an exemption from this section of the Medical Schemes Act.

Investment limitations

Regulation 30(3) of the Medical Schemes Act states that a medical scheme shall not invest more than 40% of its assets in local equities. The Act makes provision for medical schemes to exceed this limit under certain circumstances. The Scheme submitted a certified statement prepared by its consultants to the CMS to state that an alternative percentage of 75% should apply to the excess assets as permitted in Regulation 30(3).

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.

Please refer to the Annual Report for the full list of non-compliance areas.

Basis of preparation

The financial statements for 2018 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 Annual Financial Statements (AFS) were prepared in accordance with IFRS and the Medical Schemes Act, which requires additional disclosures for registered medical schemes.

Approval from the auditors

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 2018.

Interested in the nitty-gritty?

This special edition of MediBrief is a commentary on our 2018 Annual Financial Statements. If you would like the full set of financials and more extensive notes on our annual financial statements, get in touch with us:



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Visit us: 45 Main Street, Marshalltown, Johannesburg



Write to us: PO Box 62524, Marshalltown, 2107



Email us: Yvonne.Landsberg@angloamerican.com