

MEDI BRIEF

SPECIAL EDITION: ANNUAL FINANCIAL STATEMENTS FOR 2014: COMMENTARY

APRIL 2015

2014 HIGHLIGHTS

Average contribution increase

AMS - **7.3%**

Est. industry - **9.4%**

Contribution subsidy from reserves increased

2014 - **R97m**

2013 - **R78m**

Reserves increased

2014 - **531%**

2013 - **526%**

Interest earned on personal medical savings accounts increased

2014 - **R6.5m**

2013 - **R5.4m**

Average beneficiary age increased

2014 - **41.9**

2013 - **41.6**

Number of beneficiaries decreased

2014 - **19 445**

2013 - **20 189**

The Board of Trustees is responsible for preparing Anglo Medical Scheme's Annual Financial Statements (AFS) in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act.

A word from the Board

The Board of Trustees is responsible for preparing Anglo Medical Scheme's AFS in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act.

We believe that in preparing the AFS, we have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. We are also satisfied that the information contained in the AFS fairly presents the results of operations and cash flows for the year, and the financial position of the Scheme at the end of last year.

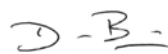
In addition, the Trustees are responsible for the other information included in the Board of Trustees report, for its accuracy and consistency with the AFS, and for ensuring the AFS comply with the relevant legislation.

Anglo Medical Scheme operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures that are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled. No event or item has come to our attention that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

The AFS were prepared using the going concern basis, as we have no reason to believe the Scheme will not be a going concern in the foreseeable future, based on forecasts, actuarial calculations and available cash resources.

Anglo Medical Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The code of corporate practices and conduct as set out in King III on Corporate Governance has been applied, and the Scheme's external auditors have audited the AFS in terms of International Standards on Auditing.

The AFS were approved by the Board of Trustees on 25 March 2015 and were signed on its behalf by:



DD Barber
Chairman



MA du Bois
Vice-Chairman



FK Robertson
Principal Officer

OUR TRUSTEES IN 2014

Member elected

Dave Barber (Chairman)
Mary Farrell
Marcelle Graham
Philip Laubscher
Campbell Mckie Thomson
Gavin Preston

Employer appointed

Medwyn du Bois (Vice-Chairman)
Colleen Elliott
Darren Ghavalas
Dr Frank Fox
Grant Howell
Saleh Mayet

ALTERNATE TRUSTEES IN 2014

Member elected

Sharon Hosking
James Liston
Phillip Chetty
Lin Sanford
Bernie Switala

Employer appointed

Alvin Masarira
Joanna Stanley
Johan Troskie (resigned 31/08/2014)
Palesa Vatsha
Wandisile Mandlana (appointed 31/03/2014, resigned 31/08/2014)
Nicholas Mason-Gordon (appointed 31/03/2014)
Duncan McCallum (appointed 17/09/2014)

Executive summary

Anglo Medical Scheme (AMS) enjoyed another positive year in 2014, ending with a surplus of R172 million and the reserves higher at R2.7 billion. The Scheme's solvency ratio was 531%, well in excess of the required 25%. Its prudently structured investment portfolio performed well, with continued investment growth – this is key to the long-term future of the Scheme.

Last year there was little change in the Scheme's membership. As a restricted scheme, future membership is dependent on the employment practices and corporate activity of the participating employers.

The Scheme has an average pensioner ratio significantly higher than the industry. This contributes to claims exceeding

contributions. The shortfall (R97 million) was funded from the Scheme's reserves in the form of a clawback. There was a 24% increase in clawback compared to 2013. This is expected to increase annually in the future.

AMS is in touch with its members' needs. It maintained attractive benefits at market-related contribution levels in 2014. The Scheme also announced improved benefits last year.

The Trustees are cognisant of member expectations to fund healthcare enhancements from the reserves and were able to maintain contributions at CPI in 2015 while ensuring the long-term sustainability of the Scheme.

The administration of AMS transferred successfully from Momentum Medical Scheme Administrators to Discovery Health in 2014 – incurring additional non-healthcare costs. The Scheme aims to maintain a non-healthcare ratio of less than 10%. This could become a challenge in the future as membership shrinks and the relative proportion of fixed admin costs rises against contributions.

How your plan performed

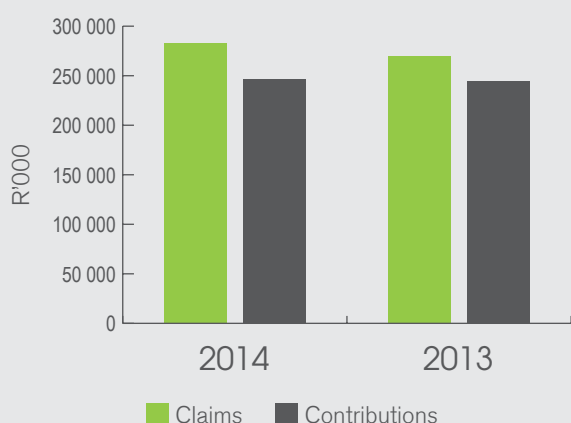
The Managed Care Plan (MCP) showed a net surplus as a result of fewer hospital admissions and reduced hospital claims. The Standard Care Plan (SCP) suffered a net loss due to an increase in hospital admissions and the number of high-cost cases. The Value Care Plan (VCP) was close to breaking even.

In-hospital pathology and radiology were higher than anticipated. Overall, medicine costs were down on both MCP and SCP due to a decrease in the number of claiming patients. Specialist costs increased across both plans.

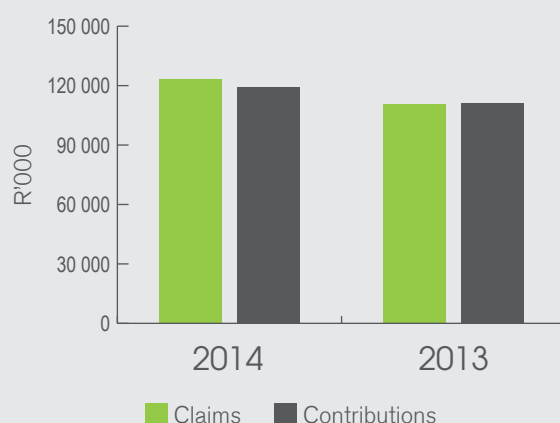
The claims ratio – the gap between the amount paid out in claims and the amount received in contributions – improved overall by 2% across the Scheme. MCP's significantly improved claims ratio drove this improvement. SCP did not perform as well, with claims exceeding contributions for the first time in many years, resulting in the SCP claims ratio worsening by 4%.

Generally, claims ratios do not exceed 90%; 10% allowance is made to cover administration costs. According to the CMS annual report the industry average is 86.4%. AMS is above the industry average and draws funds out of its reserves to cover the shortfall instead of increasing contributions.

**NET HEALTHCARE CLAIMS VS NET CONTRIBUTIONS:
MANAGED CARE PLAN**



**NET HEALTHCARE CLAIMS VS NET CONTRIBUTIONS:
STANDARD CARE PLAN**



Member Medical Savings Accounts: 2013 vs 2014

There was an increase in the interest earned on members' 2014 savings accounts, from R5.4 million to R6.5 million, as a result of the increase in the total savings balances at the end of 2014 – from R100.9 million to R115 million.

Our membership

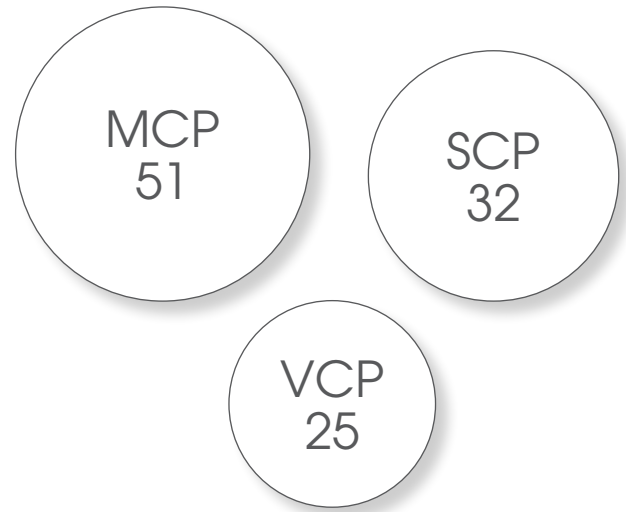
In 2014 the Scheme provided benefits to 9 190 members and 19 445 beneficiaries, of which 51.4% were female. Members were located primarily in Gauteng (44%) followed by KwaZulu-Natal (33%) and the Western Cape (11%). The balance of membership was spread across South Africa.

The Scheme membership demographics changed slightly in 2014:

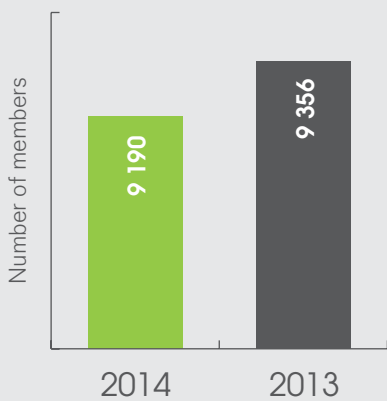
- 166 fewer active members
- An increased beneficiary pensioner ratio to 24.9% (2013: 24.1%)
- An increased beneficiary age to 41.9 years (2013: 41.6 years)
- A decrease in the Managed Care Plan (MCP) membership by 4.9%
- An increase in the Standard Care Plan (SCP) membership by 1.2%

Funds per member increased to R291 951 (2013: R264 265) and per beneficiary to R137 980 (2013: R122 249) at the end of the accounting period.

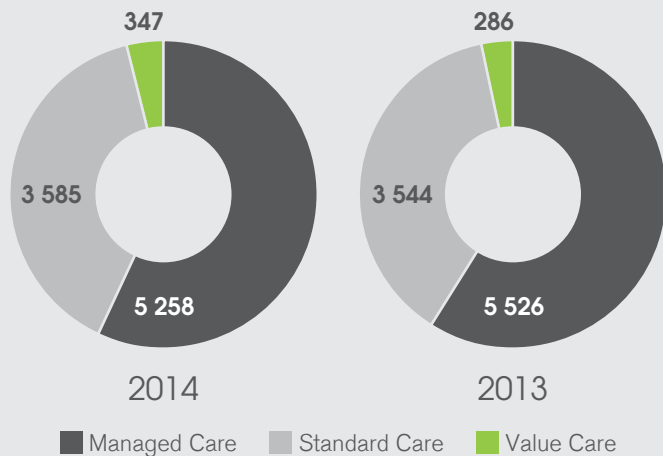
AVERAGE BENEFICIARY AGES



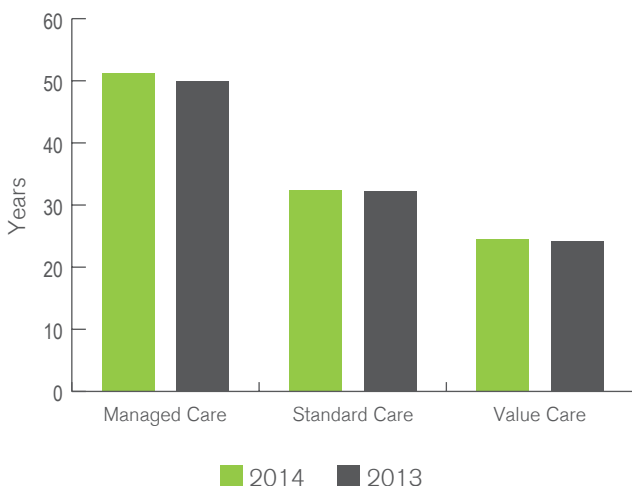
CHANGE IN TOTAL MEMBERSHIP



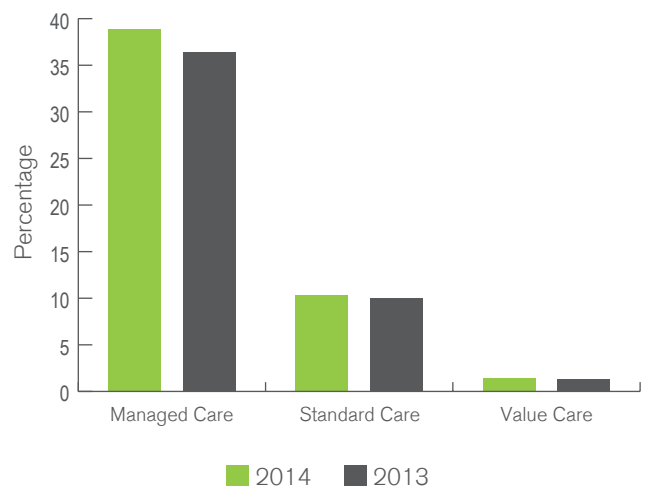
CHANGE IN MEMBERSHIP BY PLAN



AVERAGE AGE OF BENEFICIARIES



PENSIONER RATIO (BENEFICIARIES > 65)



ACCUMULATED FUNDS

	2014 R'000	2013 R'000
Total members' funds per Statement of Financial Position	2 683 034	2 511 157
Less: Reserve for unrealised investment gains	(342 584)	(281 340)
Accumulated funds per Regulation 29 of the Act	2 340 450	2 229 817
Annual contribution income per Statement of Comprehensive Income	441 202	423 654
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100 (incl. unrealised gains)	608.1%	592.7%
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100 (excl. unrealised gains)	530.5%	526.3%
Minimum ratio required by Regulation 29 of the Act	25.0%	25.0%

Managing your investment

The Board oversees the Scheme's investment strategy, and has appointed an Investment Committee to establish, manage and monitor this strategy in compliance with the Medical Schemes Act. The Committee is mandated by the Board to manage the Scheme's primary investment objective – earning a sufficient investment return in excess of inflation over the longer term.

The Committee believes that risk should be managed, in part, by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term. In appointing active managers, the Committee selects research-orientated managers with a long-term focus on assessing the intrinsic value of assets or buying shares with strong 'value' characteristics (i.e. low price/earnings ratio, high dividend yield and low price to book ratio).

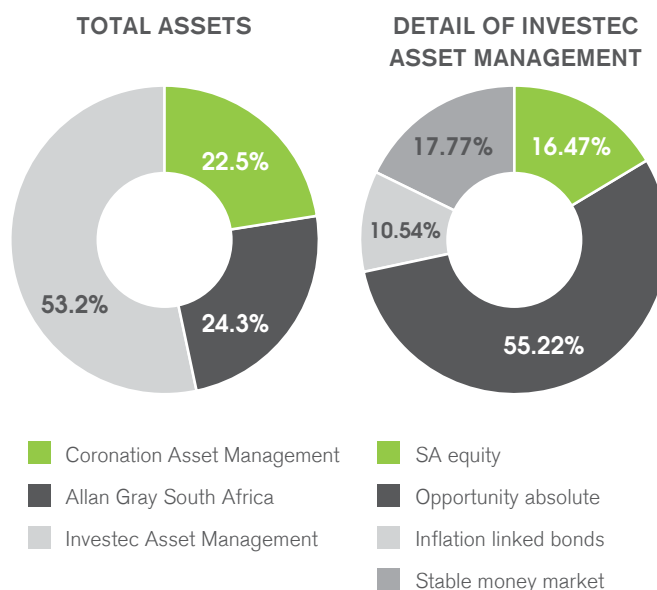
Member Medical Savings Account liabilities are ring-fenced separately to be explicitly matched with cash and held in trust by the Scheme on behalf of our members.

Current liabilities

The Scheme had R2.7 billion (2013: R2.5 billion) of members' funds at 31 December 2014. This translated to an accumulated funds ratio of 531% (2013: 526%), as per the Council for Medical Schemes method of calculation. The level of accumulated funds would have covered 6.5 years (2013: 6.4 years) of claims costs incurred for the year. The Trustees are satisfied this cover exceeds the Scheme's present needs as well as the long term needs.

STATEMENT OF CHANGES IN ACCUMULATED FUNDS

	Accumulated funds R'000
Balance as at 1 January 2013	2 420 498
Total comprehensive income for the year ended 2013	90 659
Balance as at 31 December 2013	2 511 157
Total comprehensive income for the year ended 2014	171 877
Balance as at 31 December 2014	2 683 034



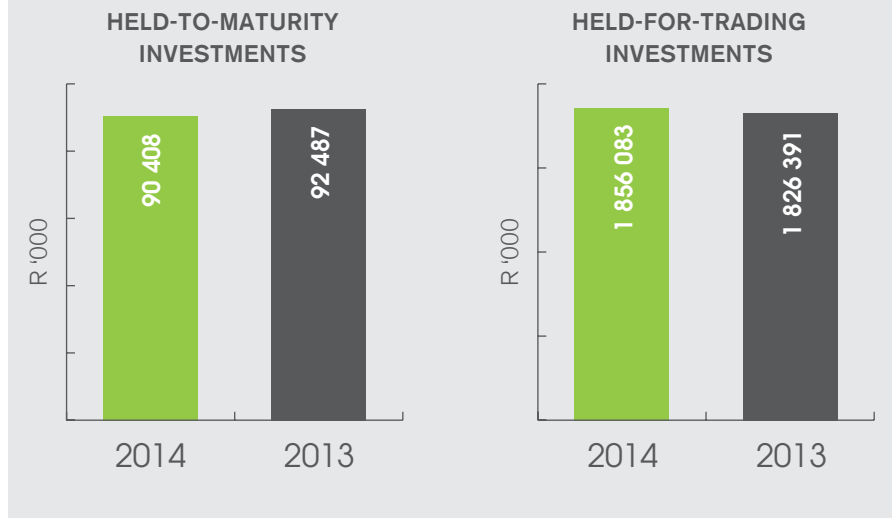
Member medical savings liability

Investec Asset Management

Mandate

Stable money market: 100%

Current assets



Non-healthcare costs

The sum of administration and managed care costs expressed as a percentage of the net contributions was 11.2%. The Trustees make every effort to ensure this figure remains as close to or below the 10% mark. This figure rose slightly on last year's amount due to the decline in membership and consequent reduction in contribution income, and the cost of the change of administration.

Managing claims (insurance risk)

The primary insurance activity undertaken by the Scheme assumes the risk of paying all healthcare related costs incurred by members in return for contributions received. These risks relate to the cost of providing healthcare services to Scheme members. The Scheme is also exposed to market risk through its insurance and investment activities. The Board of Trustees maintains a schedule of identified risks to the Scheme and has evaluated both the likelihood and impact of these risks. This list is reviewed on an ongoing basis and action is taken as and when necessary.

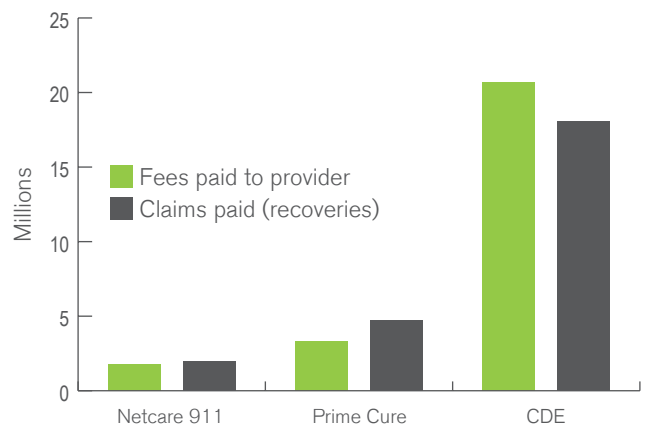
Risk transfer arrangements (capitation agreements)

The Scheme has entered into a limited number of risk sharing agreements with various service providers to spread the risk and minimise losses. The Scheme remains liable to its members to provide these services in the event that the capitation provider fails to meet its obligations.

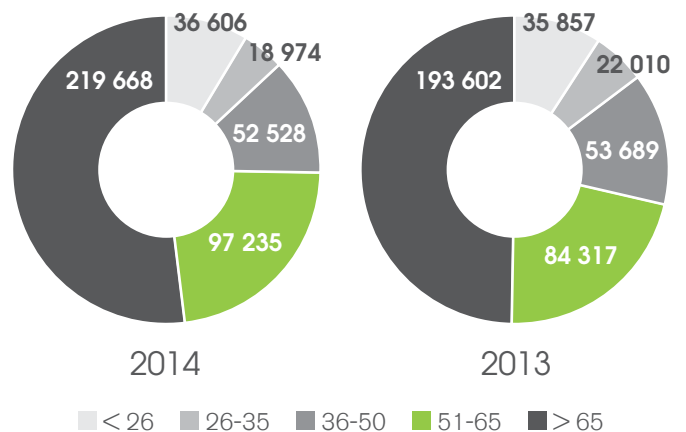
We partner with industry specialists to provide our members with access to the best available healthcare services. In 2014 these partners included Netcare 911 (road and air ambulance services for Managed Care and Standard Care members); Prime Cure (primary healthcare services, hospital benefits and ambulance services for Value Care members); and the Centre for Diabetes and Endocrinology (management and treatment of type 1 and type 2 diabetes, including diabetes-related hospital costs for Managed Care and Standard Care members).

The total net benefit of these arrangements in 2014 resulted in a deficit of R1,029 million (2013: 932 000 surplus).

RISK TRANSFER ARRANGEMENTS (MILLIONS)



SUMMARY OF CLAIMS (INSURANCE) RISK (AGE GROUPING)



Scheme reserves: long-term strategy

The Scheme has a significantly higher beneficiary pensioner ratio (24.9%) than the industry (average of 7.1% – CMS report September 2014). The individual pensioner ratio by plan is as follows:

- MCP 38.9%
- SCP 10.3%
- VCP 1.4%

This ratio increases the overall liability of providing adequate healthcare benefits at market-related rates to our members.

For the Scheme to continue delivering lifelong, quality products at competitive rates, an additional sum of money is required to fund member contributions. The key principle of the long-term funding strategy is to provide money from the reserves. An amount is budgeted annually to provide for the shortfall between the budgeted risk contribution income and claims incurred.

The investment returns are sufficient to meet the current shortfall and the reserves will be used to meet the shortfall in the long term. Based on the existing Scheme demographics and the expected ageing of the membership, the results of the actuarial valuations indicate the Scheme is funded for a period of 45 years.

The value of the Scheme's total long-term assets was R2.7 billion as at 31 December 2014. The 2014 actuarial valuation of the long-term liabilities associated with the operations of Anglo Medical Scheme was R2.8 billion.

The Scheme was 96% funded last year with a deficit of approximately R99.4 million (after allowing for expected medical costs relating to the ageing membership profile). This was an improvement from 2013. This funding level makes allowance for the future funding of age-related contribution increases of all current Scheme members.

Actuarial calculations of AMS assets and liabilities for the period 31 December 2013 to 31 December 2014

Funding position	31 December 2014 R'000	31 December 2013 R'000
Total long-term liabilities	2 778 218	2 669 927
Total value of assets	2 678 799	2 511 157
*Current long-term funding ratio	96.4%	94.1%

*This increase is attributable to the surplus and the relative positive change in the member demographics during the year.

Relaxation of regulatory requirements

Investment in participating employer

Section 35(8) (a) of the Medical Schemes Act 131 of 1998 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 0.63% of total assets.

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

Investment in administrator

Section 35(8) (c) of the Medical Schemes Act 131 of 1998 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 shares and bonds that will best achieve their stipulated benchmark.

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

Investment limitations

Regulation 30(3) states that a medical scheme shall not invest more than 40% of its assets in local equities. The Scheme exceeded this limit during the year.

The Scheme submitted a certified statement prepared by its consultants to the Council for Medical Schemes to state that an alternative percentage of 75% should apply to the excess assets as described in Regulation 30(3).

The Trustees are of the opinion that there are no material deviations from the Act.

Please refer to the full AFS for further relaxations.

BALANCE SHEET

	2014 R'000	2013 R'000
ASSETS		
Non-current assets		
Held-to-maturity investments	90 408	92 487
Current assets	2 729 462	2 547 753
Held-for-trading investments	1 856 083	1 826 391
Trade and other receivables	4 272	6 761
Cash and cash equivalents	754 108	613 746
Investment of member's medical savings accounts	115 000	100 855
Total assets	2 819 871	2 640 240
FUNDS AND LIABILITIES		
Members' funds		
Accumulated funds	2 683 034	2 511 157
Current liabilities	136 837	129 083
Personal medical savings accounts	113 947	100 313
Trade and other payables	8 679	4 631
Outstanding risk claims provision	14 211	24 139
Total funds and liabilities	2 819 871	2 640 240

INCOME STATEMENT

	2014 R'000	2013 R'000
Risk contribution income	369 855	358 454
Relevant healthcare expenditure		
Risk claims incurred	(410 555)	(382 797)
Claims incurred	(385 823)	(355 410)
Third party claim recoveries	(24 732)	(27 387)
Net (deficit)/recovery on risk transfer arrangements	(1 029)	932
Recovery on risk transfer arrangements	24 732	27 387
Risk transfer arrangement premiums paid	(25 761)	(26 455)
Gross healthcare result	(41 729)	(23 411)
Managed care: management services	(9 409)	(6 600)
Administration expenses	(31 251)	(28 312)
Net impairment losses on healthcare receivables	(748)	(236)
Net healthcare result	(83 137)	(58 559)
Other income	277 077	168 290
Investment income	208 649	80 425
Unrealised gains on held-for-trading investments	61 244	76 705
Interest received on member's Medical Savings Accounts	6 461	5 387
Sundry income	723	5 773
Other expenditure	(22 063)	(19 072)
Interest paid on member's Medical Savings Accounts	(6 461)	(5 387)
Asset management fees	(15 602)	(13 685)
Net surplus for the year	171 877	90 659
Other comprehensive income	-	-
Total comprehensive income for the year	171 877	90 659

Related party transactions

As the Scheme's administrator, Discovery Health (Pty) Ltd (2013: Momentum Medical Scheme Administrators (Pty) Ltd) participated in and influenced the financial and operating policy decisions of the Scheme. It received from the Scheme a market-related administration fee for administration and managed care services provided. In the current year these amounted to R24 410 404 and R4 443 380 respectively (2013: R24 698 518). The amount owing to the administrator at year-end was R3 158 342 (2013: R1 994 545).

Anglo Operations (Pty) Ltd (AOL) received from the Scheme a market-related reimbursement for head office rental and management services provided of R179 496 (2013: R145 790). The amount owing to AOL at year-end was R101 047 (2013: R18 930). The increase was due to the change in the AOL billing system.

Anglo Medical Scheme is a restricted scheme. The composition of the Board of Trustees includes employer-appointed Trustees.

Contributions of R1 475 003 (2013: R763 264) were received and claims of R813 256 (2013: R756 251) were paid in respect of those Trustees who were also members of the Scheme. Such claims were paid in accordance with the rules of the Scheme. The Trustees had savings account balances of R260 738 (2013: R161 067) at the end of the year.*

Key management personnel received remuneration of R4 577 604 (2013: R4 085 812) for the attendance of meetings, holding office and disbursements.

*2014 figures include all Trustees, 2013 included active Trustees only.

Basis of preparation

The AFS were prepared on the historical cost convention with the exception of investments classified as held-for-trading, which were carried at fair value through profit or loss. Investments that were held-to-maturity were held at amortised cost.

A stamp of approval from the auditors

External auditors, Deloitte and Touche, certified that our AFS accurately reflects the financial position of the Scheme, its financial performance and its cash flows as at 31 December 2014.



WANT THE FULL REPORT?

This special edition of MediBrief is a commentary on our 2014 Annual Financial Statements. There are extensive notes in our AFS that have not been included in this edition. If you would like a full set of financials with additional notes in terms of our investment disclosures, get in touch with us:

Visit our website: www.angloms.co.za and download the full report



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