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MEDICAL AID SCHEME

ANNUAL GENERAL MEETING

2019

Notice is hereby given that the Annual General Meeting of the members of TFG Medical Aid Scheme will be held soon.

Here are the details if you would like to attend:

Date: 26 June 2019

Time: 11:30

Venue: The Auditorium, Stanley Lewis Centre, 340 Voortrekker Road, Parow

This invitation serves as the official notice of the event.

Agenda for the meeting

1. Welcome
2. Confirmation of the minutes of the 2018 Annual General Meeting, held on 21 June 2018
3. Adoption of Chairperson's Report and 2019 Benefit Changes Presentation
4. To adopt the Annual Financial Statements for the 2018 financial year
5. Governance:
 - 5.1 Appointment of external auditors
 - 5.2 Election of the Board of Trustees
 - 5.3 Confirmation of composition of the Audit Committee
 - 5.4 Confirmation of composition of the Disputes Committee

Please notify the Principal Officer of any motions

The Rules of the Scheme require attendees to notify the Principal Officer of any motions for discussion at least 7 days before the date of the meeting – not later than 17:00 on 18 June 2019.

You can email your motions to tfgmasagm@discovery.co.za, or post it to PO Box 652509, Benmore 2010.

Annual Financial Statements, Trustees' Report and copies of the minutes of the previous Annual General Meeting

The 2018 Annual Report, including the audited Annual Financial Statements, the Trustees' Report (for the year ending December 2018) and the minutes of the previous Annual General Meeting will be available on the Scheme's website (www.tfgmedicalaidscheme.co.za) by the latest 11 June 2019. It may also be requested from the Scheme's call centre on **0860 123 077** from this date.

CHAIRPERSON'S REPORT

TFG Medical Aid Scheme (TFGMAS) is committed to providing access to healthcare benefits and efficient administration at an appropriate cost, and ensuring that our members have financial peace of mind when they or their family experience health issues. This means ensuring good governance and balancing the costs of the benefits that we offer against the size of the contributions needed to fund claims. Your trustees are aware that, as the cost of healthcare has been rising consistently faster than the consumer price index (CPI), medical contributions are absorbing an increasing part of members household budgets.

Bearing this in mind, and combined with the changing healthcare landscape, the need to cater for a younger member base and threats of amalgamation, your trustees embarked on the restructure of the plan options in 2018. The reason for this decision is to secure the continuation of the Scheme.

Your trustees are aware that this decision has caused concern for some members. However, we are confident that the new benefit offering of the TFG Health Benefit Plan (TFG Health) with the reduction in contributions continues to offer competitive value to our members and ease budget strain. While TFG Health relies on tighter networks than Plan A, it also offers more benefits than Plan A did.

Due to a higher claims experience in 2018 coupled with a low return on investments, TFGMAS suffered a deficit for the year. Your trustees are confident that with the restructured benefit plans and an upswing in the investment markets this will not be repeated in 2019.

Financial highlights

Some highlights from the Scheme's annual financials are set out below:

	Actual 2018	Actual 2017	2018 vs 2017	Budget 2018	Actual vs Budget
Net (deficit)/surplus	(R3.7m)	R11.3m	▽	R14.1m	▽
Risk contributions	R137.2m	R132.6m	△	R133.2m	△
Claims ratio %	96.1%	86.9%	△	85.01%	△
Solvency ratio	102.15%	107.18%	▽	125.15%	▽

The lower-than-budgeted results were mainly due to higher-than-expected healthcare expenditure relating to high-cost cases and increased hospital costs. These costs include complex cases whose impact is difficult to ascertain from a budget perspective. The solvency ratio reported is higher than the required 25% statutory required levels and assists TFGMAS to absorb these costs if they occur.

The solvency ratio reported aligns with the trustees' strategic intent for the solvency ratio to remain more than the statutory level.

Despite the net deficit reported for the 2018 financial year, the results continue to confirm a positive financial position and the Scheme is projected to have a stable and sustainable future.

Please refer to the highlights from the Statement of Financial Position (Balance Sheet) as at 31 December 2018, Statement of Comprehensive Income (Income Statement) for the year ended 31 December 2018 and the Statement of Cash Flows for the year ended 31 December 2018 for more information.

HEALTHCARE INDUSTRY LANDSCAPE

Through various board and board sub-committees, your trustees continue to monitor the wider issues in the healthcare industry, which include:

National Health Insurance (NHI)

There is an immediate focus on strengthening the capacity of the public sector to deliver care of an acceptable standard. As part of this, the Department of Health aims to spend R2 bn to fill more than 15 000 posts for health workers across the country's public health facilities.

A health social compact is being developed as an output of the Presidential Health Summit that was held in October 2018. This social compact is expected to involve both public and private stakeholders in the national effort to improve the public health sector. It is not clear whether a bill will be published for public comment before being tabled before Parliament.

The Health Market Inquiry

The release of the final Health Market Inquiry report has been postponed indefinitely as the work of the Health Market Inquiry has been halted until 1 April 2019. This postponement applies to three seminars, which had been planned as follows:

- Funder's market concentration and countervailing power
- Facilities' market concentration and remedies
- Excessive utilisation and supplier-induced demand

Conduct of Financial Institutions Bill 2018

The Conduct of Financial Institutions Bill provides conduct guidance to all financial institutions that are regulated within the Twin Peaks framework (in terms of the Financial Sector Regulation Act of 2017). The conduct requirements are based on financial industry activities rather than types of institutions. The bill provides that medical schemes and their administrators will only be subject to these requirements in 2021, following the transition period of joint regulation by the Financial Sector Conduct Authority and the Council for Medical Schemes.

Medical Schemes Amendment Bill 2018

TFGMAS contributed to the industry debate on the amendments to the Medical Scheme Amendment Bill through submissions on behalf of its members in September 2018.

We await the outcome of the submissions.

SCHEME INITIATIVES

During the 2018 annual strategic meeting, the Board resolved to restructure Plan A to answer the call for a low- cost medical option with entry-level benefits and to ensure the long-term sustainability of the Scheme. Changes are necessary to keep the Scheme attractive to current and prospective members, and are important within the broader context of the healthcare industry.

The Scheme is constantly evaluating the value offering for all members. A recent analysis conducted by Alexander Forbes after the introduction of TFG Health has shown that our value proposition and benefit richness remains among the best of the closed medical schemes, and compares very favourably with the open market.

COMPANY SUPPORT

We express our appreciation to the participating employer group, TFG, for the continued financial support of the Scheme through its medical aid subsidy, as well as by providing personnel to act in the capacity as trustees and committee members. This support arguably sets the Scheme apart from other closed medical schemes.

IN APPRECIATION

I would like to express my sincere gratitude to the Principal Officer, the Board of trustees, and committee members who serve without remuneration in addition to having their other responsibilities in TFG, as well as to our service providers and our members for their continued support in the past year.

SUMMARY

The Scheme continues to be sustainable as a going concern and offers better value to our members than comparable closed medical schemes or open medical schemes with similar benefits. The Board's strategic focus aims to ensure that TFGMAS continues to provide peace of mind to its members for major medical expenses.



Mr M Wilson

CHAIRPERSON

17 April 2019

TFGMAS HIGHLIGHTS FROM THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2018

	2018	2017
	R	R
Assets		
Non-current assets	126 419 862	128 869 428
Fair value through profit or loss investment	126 419 862	-
Available-for-sale investments	-	128 869 428
Current assets	38 336 044	36 940 811
Trade and other receivables	493 690	234 725
Cash and cash equivalents	37 842 354	36 706 086
Total assets	164 755 906	165 810 239
Funds and liabilities		
Members' funds	156 566 143	160 230 919
Accumulated funds	156 566 143	142 091 852
Available-for-sale reserve	-	18 139 067
Current liabilities	8 189 763	5 579 320
Outstanding risk claims provision	5 600 000	3 000 000
Trade and other payables	2 589 763	2 579 320
Total funds and liabilities	164 755 906	165 810 239

TFGMAS HIGHLIGHTS FROM THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018	2017
	R	R
Risk contribution income	137 214 832	132 567 381
Relevant healthcare expenditure	-131 871 733	-115 217 049
Net risk claims incurred	-128 481 226	-112 049 705
Risk claims incurred	-128 735 195	-112 335 020
Third party claims recoveries	253 969	285 315
Managed care: management services fees	-3 390 507	-3 167 344
Gross healthcare results	5 343 099	17 350 332
Administration expenses	-7 910 561	-7 390 118
Other operating expenses	-1 099 082	-831 095
Net impairment losses on healthcare receivables	-13 822	-95 411
Net healthcare results	-3 680 366	9 033 708
Other income	15 590	2 229 405
Investment income	31 291	2 236 758
Sundry expense	-15 701	-7 353
Net (deficit)/surplus for the year	-3 664 776	11 263 113
Other comprehensive income	-	12 572 834
Unrealised fair value gains on available-for-sale investment	-	10 749 459
Realised losses on disposal of available-for-sale investments	-	1 823 375
Total comprehensive income for the year	-3 664 776	23 835 947

TFGMAS HIGHLIGHTS FROM THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2018

	Accumulated funds	Available-for-sale reserve	Members' funds
	R	R	R
Balance at 1 January 2017	130 828 739	5 566 233	136 394 972
Total comprehensive income for the year	11 263 113	12 572 834	23 835 947
Net surplus for the year	11 263 113	-	11 263 113
Other comprehensive income	-	12 572 834	12 572 834
Unrealised gains on fair value through profit or loss investments	-	10 749 459	10 749 459
Realised gains on fair value through profit or loss investment	-	1 823 375	1 823 375
Balance at 31 December 2017	142 091 852	18 139 067	160 230 919
IFRS 9 transition adjustment	18 139 067	-18 139 067	-
Total comprehensive income for 2018	-3 664 776	-	-3 664 776
Balance at 31 December 2018	156 566 143	-	156 566 143

TFGMAS HIGHLIGHTS FROM THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	2018	2017
	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit)/surplus for the year	-3 664 776	11 263 113
Adjustments for:		
Dividends received	-1 731 439	-1 858 435
Interest received	-2 632 883	-3 330 580
Realised loss on disposal of investments	1 827 899	1 823 375
Unrealised loss on investments	1 737 246	-
Movement in outstanding claims provision	6 848 765	2 877 914
Cash flows from operations before working capital changes	2 384 812	10 775 387
Working capital changes		
• (Increase)/decrease in trade and other receivables	-258 965	844 112
• Decrease in outstanding claims provision	-4 248 765	-1 677 914
• Increase/(decrease) in trade and other payables	10 443	-259 071
Cash flows from operations	-2 112 475	9 682 514
Interest income	2 632 882	3 330 580
Dividend income	1 731 439	1 858 435
Net cash flows from operating activities	2 251 847	14 871 529
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of investments	767 779	16 000 000
Acquisition of investments	-1 883 358	-40 370 193
Proceeds on disposals of held-to-maturity investments	-	13 500 000
Net cash flows from investing activities	-1 115 579	-10 870 193
NET INCREASE IN CASH AND CASH EQUIVALENTS	1 136 268	4 001 336
Cash and cash equivalents at beginning of year	36 706 085	32 704 750
CASH AND CASH EQUIVALENTS AT END OF YEAR	37 842 354	36 706 086

TFGMAS HIGHLIGHTS FROM THE ANNUAL FINANCIAL STATEMENTS

MATTERS OF NON-COMPLIANCE

The Scheme did not comply with the following sections and regulations of the Medical Schemes Act:

1. Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were a small number of instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

Procedures are in place regarding the collection of these contributions.

2. Investment in participating employer and medical administrators

In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.

At 31 December 2018 the Scheme indirectly held shares in The Foschini Group Ltd, MMI Holdings Ltd, Liberty Holdings Ltd, Discovery Ltd and Sanlam Limited to the value of R150,963 (2017: R0); R694,008 (2017: R800,028); R74,484 (2017: R54,740); R0 (2017: R16,732) and R339,703 (2017: R421,500) respectively.

Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme has received exemption from this section of the Act.

3. Limitation of assets - equity exposure

At 31 December 2018, the Scheme indirectly held shares amounting to 40,35% (2017: 46.93%) of the minimum aggregate of the fair value of liabilities and the minimum accumulated funds to be maintained by a medical scheme, which exceeded the 40% limitation imposed by category 4(a) of Annexure B to the Regulations of the Act. The Scheme has issued a certified statement with regard to Regulation 30(3A) of the Medical Schemes Act 191 of 1998 prepared by a qualified person to the Council for Medical Schemes, notifying them of the Scheme's intention to invest excess assets in more equity, taking the Scheme's healthy solvency ratio into account.

4. Sustainability of benefit options

In terms of S33(2)(b) of the Medical Schemes Act 131 of 1998, as amended, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. At 31 December 2018, the Scheme's Plan B option did not comply with S33(2)(b) of the Medical Schemes Act 131 of 1998, as the option recorded a deficit of R4 034 185.

Plan B experienced claims in excess of expectations and a few high cost claims added to the claims experienced caused the option to record a deficit for the year. The Trustees made changes to the benefit design and contributions for the new benefit year, and the expectation is that the option will return to a surplus position.

KEY FINANCIAL AND SERVICE METRICS

	2018	2017	
Members' funds	R156 566 143	R160 230 919	
Solvency ratio	102.15%	107.18%	
Membership (Principals)	2 963	2 940	
Gross risk contribution income	R137 214 832	R132 567 381	
Accumulated funds per member	R52 840	R48 331	
	2018 Plan A	2018 Plan B	2018 Total
Number of members at year-end	1 851	1 112	2 963
Average number of beneficiaries for the accounting period	3 899	2 606	6 505
Average age per beneficiary	29	38	32
Pensioner ratio (beneficiaries >65 years old)	3%	13%	7%
Average risk contributions per member per month	R2 956	R5 366	R3 864
Average relevant healthcare expenditure per member per month	R2 686	R5 414	R3 714
Relevant healthcare expenditure as a percentage of gross contributions	90.9%	100.9%	96.1%
Non-healthcare expenditure as a percentage of gross contributions	8.6%	4.7%	6.6%