

ANNUAL GENERAL MEETING UPDATE

2020



Annual financial statements, Trustees' report and copies of the Minutes of the previous Annual General Meeting

The 2019 Annual Report, including the audited Annual Financial Statements and the Trustees' Report, as well as the Minutes of the previous Annual General Meeting, will be available on the Scheme's website www.lahealth.co.za. It may also be requested from the Scheme's call centre at **0860 103 933**.

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KEY FINANCIAL AND SERVICE METRICS

	2019	2018
Members' funds	R1 806 238 136	R1 565,259,261
Solvency ratio	42.71%	43.10%
Gross contribution income	R4 229 521 847	R3 632 082 893
Risk contribution income	R3 403 469 859	R2 930 670 112
Accumulated funds per member	R21 553	R20 594

2019	LA COMP	LA CORE	LA ACTIVE	LA FOCUS	LA KEYPLUS	TOTAL
Number of members at the end of the accounting period	1 531	4 345	53 819	16 954	7 154	83 803
Average number of beneficiaries for the accounting period	2 070	6 683	138 247	39 798	16 061	202 859
Average age per beneficiary	68.11	65.49	28.21	26.54	27.54	29.37
Pensioner ratio (beneficiaries 65 years and older)	67.05%	63.96%	3.19%	1.53%	1.37%	5.22%
Average risk contribution per member per month	R6 983.50	R5 889.74	R3 605.79	R2 599.26	R2 101.57	R3 469.26
Average relevant healthcare expenditure per member per month	R6 997.54	R5 990.24	R3 000.49	R1 959.16	R1 710.17	R2 925.78
Relevant healthcare expenditure as a percentage of risk contributions	100.2%	101.7%	83.2%	75.4%	81.4%	84.3%
Administration fee per member per month	R320.61	R320.61	R320.61	R320.61	R160.34	R306.15
Non-healthcare expenditure as a percentage of risk contributions	6.40%	7.00%	12.3%	16.7%	11.9%	12.2%

CHAIRPERSON'S REPORT

On behalf of the Board of Trustees of LA Health Medical Scheme, I take pleasure in presenting highlights of the Scheme's financial performance for the year ended 31 December 2019.

External factors affecting the Scheme

The healthcare industry has entered a dynamic period of change with the publication of the National Health Insurance (NHI) Bill in 2018, and the government's ongoing commitment to get NHI implemented by 2026. The Competition Commission published its final Health Market Inquiry (HMI) report in 2019 and it is expected that some of the recommendations will find its way into legislation. It is in this environment that the Trustees continuously have to ensure LA Health remains compliant and ready to manage potential future regulatory and other changes.

Stakeholder engagements between government, medical scheme industry bodies, the industry and providers are ongoing.

On 15 March 2020, the President of South Africa declared a National State of Disaster as a result of the global COVID-19 pandemic and placed the Country in Lockdown. In this unprecedented situation there are uncertainties about the impact this may have on the Scheme, the members and the Employers. However, the Scheme is well positioned, with strong reserves.

The financial information contained in this highlights document have been extracted from, and are in agreement with, the audited 2019 Annual Financial Statements.

The Scheme's financial performance in 2019

LA Health Medical Scheme had a very positive 2019.

Scheme performance overview

The Scheme experienced strong growth of 10.26% to 202 859 beneficiaries in 2019. However, the average age of beneficiaries was lower and the pensioner ratio marginally lower when compared to 2018. Despite the large growth, the reserves remained stable.

In 2019 the Scheme delivered well on most of its key metrics:

METRIC	2019 VS 2018 ACTUALS	CURRENT STATUS
Membership	10.26%	Membership grew to 83 803 principal members at the end of 2019 compared to 76 004 in 2018.
Average age of beneficiaries	0.57%	29.37 years, which is slightly lower than 29.54 in 2018, and well below the industry average of 32.8 (CMS:2018)
Proportion of lives over the age of 65	0.33%	The pensioner ratio remained stable at 5.22%, which is slightly lower than the 5.55% in 2018. This is significantly lower than the industry average of 9.0% (CMS:2018)
Reserves	15.4%	R1 806 billion vs R1 565 billion in 2018
Accumulated funds per member	+R959	R21 553 in 2019 compared to R20 594 in 2018
Operating surplus	(23m)	Operating surplus of R118m for 2019 vs R141m in 2018
Claims ratio	1.6%	A slight deterioration against 2018. At 84.3%, vs 82.7% in 2018. Better than the industry average of 90.2% (CMS:2018)
Non-healthcare costs as percentage of risk contributions	(0.3%)	At 12.2% in 2019, lower than 12.5% in 2018. Above the industry average of 8.2% (CMS:2018)

At year-end 2019, the Scheme held R360.54 million of Medical Savings Account funds. This was inclusive of interest of R24.67 million earned during the year. In 2019, the Scheme paid claims to the value of R779.4 million on behalf of members from the Medical Savings Accounts.

The Trustees carefully manage contributions and benefits to ensure the Scheme's long term sustainability and avoid potential benefit reductions and/or significant contribution increases in the future.

The Trustees believe value for money can be experienced at two levels. Firstly, on the level of overall costs and benefits provided, relative to the market; secondly, on the level of charges for services obtained, such as administration and actuarial services. On both these levels, the Trustees are confident members are receiving value for money.

The continued focus of Discovery Health (Pty) Ltd is on product and service innovation ensuring the Scheme is able to meet operational and other challenges in an efficient and relevant manner.

Discovery Health's focus on risk management and negotiated provider fees have enabled the Scheme to manage care and costs effectively, minimise abuse and efficiently fund quality healthcare for members. Independent industry surveys have verified that these services, provided by Discovery Health (Pty) Ltd, are amongst the most highly rated in the industry.

Events after the reporting date

Subsequent to the reporting date and prior to the date the annual financial statements were authorised for signature, on 15 March 2020, the President of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic. Even as the outbreak is progressing in South Africa, there are uncertainties about the potential impact of COVID-19 on the Scheme and its members. However, the Scheme has considered a number of possible scenarios, including stress test scenarios, to assess the potential impact of COVID-19. The results of the scenarios indicate that the Scheme's claims for 2020 could decrease (due to limited access for elective procedures) by approximately 3.1% or increase by approximately 8.5%.

The Board of Trustees took into account the Scheme's strong financial position and reserves, and believe those will allow the Scheme to absorb the potential direct and indirect negative impact of COVID-19, with a reduction of less than 2% in the 2020 solvency level, based on the most likely scenario. It is not expected that Scheme's ability to pay claims as they arise will be impacted by COVID-19.

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.

Management of the Scheme

The Trustees strategically manage the Scheme and are committed to ensuring statutory and regulatory compliance. The Audit and Risk Committee, and the Scheme's contracted experts, monitor and advise the Board of Trustees on statutory compliance, to ensure these requirements are met.

During 2019, the following persons served as members of the Board of Trustees:

Mr J Allan, Mr R Barnard, Mr A Bennett, Mr GJ Beukman (Chairperson), Mr R Bosman, Mr H Botha, Mr R de Bruyn, Mr R Denge, Mr HA Deysel (Deputy Chairperson), Mr M Dlamini, Mr R Field, Mr H Hoffman, Mr A Lemmer, Mr P Louwrens, Ms C Nel and Mr A Vorster.

All the Trustees are member-elected.

Principal Officer: Mr AM de Koker

Audit and Risk Committee

The Scheme's Audit and Risk Committee, established in accordance with the requirements of the Medical Schemes Act (Act 131 of 1998), met four times during the year.

The independent members of the Audit and Risk Committee in 2019 were:

Mr G Buchholtz, Dr J Cornell and Ms F Mohamed.

Preparation for the future

The LA Health Trustees are aware sustainability in the current environment, and readiness for future changes, require ongoing assessment and planning, and continue to focus on the following important initiatives:

1. A continuous review of the LA Health value proposition for all employees, former employees and Local Government councillors.
2. An increased focus on the general wellness of members through increased utilisation of the Scheme's preventative care benefits, and specific wellness and nutrition focuses.
3. Trustee development and training to ensure a Board of Trustees that is enabled to fulfil its fiduciary duties in this constantly changing and challenging environment.
4. Transformation of the Board of Trustees, through the existing democratic election process, to be representative of the demographics of the membership of the Scheme.

In conclusion

In a particularly challenging environment in the face of the global COVID-19 pandemic, the Trustees look forward to 2020 as another year of consistent, high quality service delivery and are resolute to continue to closely manage all aspects of the Scheme's offerings, ensuring continued exceptional value for all the members of LA Health Medical Scheme.

Gawie Beukman
Chairperson: Board of Trustees



HIGHLIGHTS OF LA HEALTH MEDICAL SCHEME'S FINANCIAL RESULTS FOR 2019

Statement of financial position at 31 December 2019		
	2019 R	2018 R
ASSETS		
<i>Non-current assets</i>	5 317 829	5 388 025
Motor Vehicle Loans	5 317 829	5 388 025
<i>Current assets</i>	2 350 726 087	2 047 154 883
Trade and other receivables	199 301 085	159 739 223
Held-to-maturity investments	729 000 000	669 000 000
Scheme funds	504 000 000	504 000 000
Medical savings account <i>trust</i> funds	225 000 000	165 000 000
Cash and cash equivalents	1 422 425 002	1 218 415 660
Scheme funds	1 302 391 660	1 096 238 830
Medical savings account trust funds	120 033 342	122 176 830
Total assets	2 356 043 916	2 052 542 908
FUNDS AND LIABILITIES		
<i>Funds and liabilities</i>		
Members' funds	1 806 238 136	1 565 259 261
Accumulated funds	1 806 238 136	1 565 259 261
<i>Non-current liability</i>	3 102 000	3 991 000
Post-retirement healthcare funding liability	3 102 000	3 991 000
<i>Current liabilities</i>	546 703 780	483 292 647
Outstanding risk claims provision	104 591 348	91 500 000
Medical savings account trust liability	360 545 976	302 328 457
Trade and other payables	81 566 456	89 464 190
Total funds and liabilities	2 356 043 916	2 052 542 908

Statement of Comprehensive Income

for the year ended 31 December 2019

	2019	2018
	R	R
RISK CONTRIBUTION INCOME	3 403 469 859	2 930 670 112
RELEVANT HEALTHCARE EXPENDITURE	(2 870 294 827)	(2 423 055 146)
Net claims incurred	(2 789 308 687)	(2 351 879 344)
Risk claims incurred	(2 800 557 685)	(2 366 942 596)
Third party claims recoveries	11 248 998	15 063 252
Net expense on risk transfer arrangements	(2 827 418)	(3 333 709)
Risk transfer arrangement fees/premiums paid	(23 563 247)	(21 353 570)
Recoveries from risk transfer arrangements	20 735 829	18 019 861
Managed care: management services	(78 158 722)	(67 842 093)
GROSS HEALTHCARE RESULTS	533 175 032	507 614 966
Broker services fees	(86 598 026)	(73 702 841)
Administration fees	(300 343 261)	(260 074 483)
Sundry expenses	(18 503 811)	(18 343 077)
Impairment losses on healthcare receivables	(9 729 757)	(14 367 493)
Net healthcare results	118 000 177	141 127 072
OTHER INCOME	146 504 527	124 154 307
Investment income	146 502 296	121 041 066
Scheme	121 829 467	102 003 734
Return on Medical Savings Account trust monies invested	24 672 829	19 037 332
Sundry (expenses)/income	(2 231)	3 113 241
OTHER EXPENDITURE	(24 672 829)	(19 037 332)
Interest paid on medical savings accounts	(24 672 829)	(19 037 332)
NET SURPLUS FOR THE YEAR	239 831 875	246 244 047
OTHER COMPREHENSIVE INCOME	1 147 000	366 000
Actuarial (loss)/gain on post-retirement healthcare funding liability	1 147 000	366 000
Total comprehensive income for the year	240 978 875	246 610 047

Statement of changes in funds and reserves

for the year ended 31 December 2019

	2019	2018
	R	R
	Accumulated funds	Accumulated funds
BALANCE AT 1 JANUARY	1 565 259 261	1 318 649 214
CHANGES IN FUNDS AND RESERVES	1 147 000	366 000
Actuarial (loss)/gain on post retirement healthcare funding liability	1 147 000	366 000
NET SURPLUS FOR THE YEAR	239 831 875	246 244 047
Balance at 31 December	1 806 238 136	1 565 259 261

Statement of cashflows

for the year ended 31 December 2019

	2019 R	2018 R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operations before working capital changes	118 330 604	144 588 575
Working capital changes		
• Increase in trade and other receivables	(39 561 862)	(17 787 716)
• Increase in medical savings account trust liability	58 217 519	46 573 093
• Increase in outstanding claims provision	13 091 348	29 400 000
• Increase in trade and other payables	(7 897 734)	15 914 475
Net cash flows from operating activities	142 179 875	218 688 427
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	–	(26 496)
Additions to held-to-maturity investments		
Medical Savings Account trust funds	(60 000 000)	(67,500 000)
Disposal of held-to-maturity investments	–	–
Disposal of held-to-maturity investments		
Scheme funds	–	2 100 000
Decrease in loans to employees	–	4 859
Interest income		
Scheme	121 829 467	102 003 734
Return on medical savings account trust monies invested	24 672 829	19 037 332
Interest paid	(24 672 829)	(19 037 332)
Net cash flows from investing activities	61 829 467	36 582 097
Net increase in cash and cash equivalents	204 009 342	255 270 524
Cash and cash equivalents at beginning of year	1 218 415 660	963 145 136
Cash and cash equivalents at end of year	1 422 425 002	1 218 415 660
Scheme funds	1 302 391 660	1 096 238 830
Medical savings account trust funds	120 033 342	122 176 830

Notes to the financial statements

for the year ended 31 December 2019

	2019 R	2018 R
Cash and cash equivalents		
SCHEME FUNDS		
Current accounts	149 969 012	132 969 770
Money market instruments	1 152 422 648	963 269 060
Total current, call and fixed accounts	1 302 391 660	1 096 238 830
The weighted average effective interest rate on cash and cash equivalents was 7.29% (2018 – 7.73%) These short term funds have an average maturity of 1 day (2018 – 1 day).		
At 31 December 2019, the carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets.		
MEDICAL SAVINGS ACCOUNT TRUST FUNDS		
Current account	19 260	142 560
Money market instruments	120 014 082	122 034 270
Total Medical Savings Account trust funds invested	120 033 342	122 176 830
Total cash and cash equivalents	1 422 425 002	1 218 415 660
MEDICAL SAVINGS ACCOUNT TRUST LIABILITY		
Balance on Medical Savings Account liability at the beginning of the year	302 328 457	255 755 364
Add:		
Medical Savings Account contributions received for the current year	826 051 988	701 412 781
Transfers received from other medical schemes	860 092	546 707
Interest earned on Medical Savings Account trust funds	24 672 829	19 037 332
Less:		
Claims paid to or on behalf of members	(779 456 987)	(662 611 680)
Refunds on death or resignation	(13 910 403)	(11 812 047)
Balance on Medical Savings Account liability at the end of the year	360 545 976	302 328 457
In accordance with the Rules of the Scheme, the Medical Savings Account is underwritten by the Scheme.		
Medical Savings Accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and enrolls in another benefit option, or medical scheme without a Medical Savings Account, or does not enroll in another medical scheme.		
Estimated claims to be paid out of members' Medical Savings Accounts in respect of claims incurred in 2019 but not reported:	6 346 095	5 304 605
Actual interest earned, net of related expenses, is paid on Medical Savings Account. Investment of Medical Savings Account trust monies managed by the Scheme on behalf of its members has been separately disclosed in the Financial Statements.		
The mismatch between the Medical Savings Account trust liability and the Medical Savings Account trust funds relate to timing differences. These differences are cleared after year-end.		
At 31 December 2019, the carrying amount of the Medical Savings Account trust liability approximates its fair value, since it is payable on demand. These amounts were not discounted to present values due to their demand feature.		
ACCUMULATED FUNDS		
Total members' funds per statement of financial position	1 806 238 136	1 565 259 261
Accumulated funds per Regulation 29	1 806 238 136	1 565 259 261
Annualised gross contributions	4 229 521 847	3 632 082 893
SOLVENCY MARGIN		
Accumulated funds/annualised gross contribution income x 100%	42.71%	43.10%

The required solvency has been maintained throughout the year.

NON COMPLIANCE MATTERS

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 and be financially sound.

At 31 December 2019, two of the Scheme's benefit options did not comply with Section 33(2):

Option	2019 Net healthcare deficit R	2018 Net healthcare deficit R
LA Comprehensive	(8 718 986)	(4 778 735)
LA Core	(26 607 275)	(36 355 282)

The Board of Trustees addresses the sustainability of all the benefit options during the annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in these Options for its registered beneficiaries, by taking into account investment income.

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 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.

The procedures that the Scheme follows regarding these contributions are set out in the financial statements.

Claims paid more than 30 days from date of receipt

In terms of Section 59(2) of the Act, a medical scheme shall pay to a member or a supplier of a healthcare service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme.

In exceptional cases claims were paid later than 30 days after date of receipt. This usually resulted from members or providers submitting claims without the necessary details required for these payments to be made.

Assistance is provided to the affected members and providers to ensure that these incidences are minimized.

These are isolated cases and thus do not have a material effect on the Scheme.

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, due to complexities and differences in interpretation, there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of Minimum Benefits.

The affected claims are being reprocessed to ensure they are correctly paid.

● Client Services 0860 103 933 ● Fax 011 539 7276 ● www.lahealth.co.za ● service@discovery.co.za ●

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