

COUNCIL FOR MEDICAL SCHEMES

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Date: 25 July 2005

Circular No 33 of 2005

PRE-FUNDED POST RETIREMENT FUNDS

A number of medical schemes have funds which were paid in by employers to fund their post-retirement obligations to employees and to assist with additional pensioner costs.

These funds are treated in many different ways in the financial statements of schemes including as liabilities, reserves for specific purposes, stabilization reserves, etc.

We have previously advised schemes that we do not consider retirement funding of any sort as the business of a medical scheme and that the funds should be removed to a more appropriate vehicle.

As these funds were transferred into a legal entity, the scheme, they now form part of the assets of the scheme and may therefore only be removed in compliance with the Medical Schemes Act 131 of 1998 and in accordance with the rules of the scheme.

The Act requires that before any business may be removed from a medical scheme the requirements of section 63, specifically subsections 3 to 17, must be complied with.

Schemes are therefore advised that all such pre-funding reserves or funds must be removed from schemes within 12 months of this notice. In consideration of the most appropriated vehicle to remove the funds to, board of trustees' should ensure that this vehicle encapsulates the original intention of the funds created thereby protecting the interest of those members.




In addition schemes are required to provide full details of the following:

- Identification of the beneficiaries the funds pertain to.
- Original agreement signed and entered into stipulating the purpose that resulted in the creation of the funds.
- Nature of the vehicle to be used to house the funds so transferred.
- Appropriateness of the vehicle to which the funds are removed thereby ensuring that it encapsulates the original purpose and/or intention of the funds.
- Details with regards to how the interests of members entitled to the benefits from the fund will be protected, now and in the future.
- Impact on the schemes' liquidity and solvency position before and after removal of the funds.
- Manner in which the funds will be realized and disinvested.

If after 12 months there are any such funds still reflected in the medical schemes financial statements, those funds will be considered to be general funds of the scheme available to all members for claims benefits. Such funds will be transferred to the schemes' general reserves (i.e. accumulated funds), and will be included in the solvency calculation of the scheme.

Please do not hesitate to contact us if you have any questions in this regard.

Yours sincerely,

 25/07/2005

T PATRICK MASOBE
REGISTRAR OF MEDICAL SCHEMES