Quarterly Reports
for the Period ending 30 September 2016

January 2017

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Introduction

This report represents the results of the analysis of the quarterly statutory returns for the period ended 30 September 2016. Budget information for the third quarter of 2016 is also provided for comparative purposes. This report reflects consolidated industry data only, as data on an individual scheme level has not been audited and can therefore not be made available to the public.

The Council for Medical Schemes (CMS) provides no assurance on the reliability of budget figures contained in this report.

Monitoring the financial performance and soundness of medical schemes – a brief summary of the key trends

Accumulated funds and solvency levels

- The overall industry average solvency level decreased by 8.9% from the audited solvency level of 32.6% at 31 December 2015 to 29.7% at 30 September 2016.
- Total reserves per Regulation 29 for all medical schemes amounted to R48.7 billion at 30 September 2016, which was 1.4% lower than the reserves of R49.4 billion as at 31 December 2015.
- The solvency level at 30 September 2016 was 1.2% lower than the budgeted solvency level of 30.0% for the same period.
- On an industry level, the solvency level exceeded the required minimum level of 25.0%, as per Regulation 29(1) of the Medical Schemes Act 131 of 1998, for both open and restricted schemes.
- The 7 (2015: 4) open schemes that failed to meet the prescribed solvency level at 30 September 2016 represent 23.5% (2015: 3.9%) of the total open schemes' beneficiaries.
- And 5 (2015: 3) restricted schemes were below 25.0%; and they represent 51.3% (2015: 50.2%) of restricted schemes beneficiaries.
- The net asset value (per Regulation 29) per beneficiary decreased by 2.0% from R5 605.8 at 31 December 2015 to R5 493.9 at 30 September 2016. The net asset value per beneficiary at 30 September 2016 was 2.7% lower than the budgeted net asset value of R5 647.8 for the same period.

Membership, age distribution and pensioner ratio

- The total number of principal members of registered medical schemes increased by 0.9% from 3 950 927 at 31 December 2015 to 3 984 589 at 30 September 2016.
- The number of total beneficiaries increased by 0.6% from 8 809 523 at 31 December 2015 to 8 860 489 at 30 September 2016.
- The average number of members of 3 961 662 for the period ended 30 September 2016 was 2.5% lower than budget, and the average number of beneficiaries of 8 809 273 was 0.4% higher than budget.
- The industry average age for all registered schemes for the period ended 30 September 2016 was 32.0 years which is 0.9% lower than 32.3 years as at 31 December 2015 and the proportion of pensioners for the period was 7.1% which is a decrease of 9.0% from 7.8% as at 31 December 2015.

Contributions and relevant healthcare expenditure

- The total gross contributions for all medical schemes amounted to R122.9 billion for the period ended 30 September 2016, which was 0.7% lower than the budget of R123.7 billion and 8.1% higher than the R113.7 billion for 30 September 2015.
- The gross contribution per average beneficiary per month was R1 550.0 for the period ended 30 September 2016. Gross relevant healthcare expenditure per average beneficiary per month was R1 485.1 for the period ended 30 September 2016.
- The gross contribution per average beneficiary per month at 30 September 2016 of R1 550.0 went up by 7.9% from R1 436.6 at 30 September 2015.
- Total risk contribution income of R110.8 billion was 0.7% lower than budget, but 8.0% higher than the R102.5 billion at the end of September 2015. The risk contribution per average beneficiary per month for the period ended 30 September 2016 was R1 396.9.
- The relevant healthcare expenditure ratio of 94.4% as at 30 September 2016 was 2.2% higher than the budgeted relevant healthcare expenditure ratio of 92.3% and was also 1.6% higher than the 30 September 2015 ratio of 92.9%.
- The relevant healthcare expenditure per average beneficiary per month for the period ended 30 September 2016 was R1 318.2.
- Total relevant healthcare expense for the period ended 30 September 2016 was R104.5 billion compared to the budgeted relevant healthcare expense of R103.0 billion, representing a 1.4% variance. Compared to the same period of the previous year, total relevant healthcare expenditure increased by 9.7% from R95.2 billion in September 2015.
- Relevant healthcare expenditure per average beneficiary per month at 30 September 2016 of R1 318.2 went up by 9.5% from R1 203.5 as at 30 September 2015.
- The utilisation of the prior year's outstanding claims provision was 98.1% for all schemes as at 30 September 2016.

Non-healthcare expenses

- The total non-healthcare expenses for all medical schemes amounted to R10.5 billion for the period ended 30 September 2016, which was 2.8% lower than the R10.8 billion budgeted for and 9.5% higher than the R9.6 billion at the end of September 2015.
- The non-healthcare expense per average beneficiary per month for the period ended 30 September 2016 was R133.0, which was 7.7% higher than the industry average of R123.5 at 31 December 2015.
- Non-healthcare expenses, when expressed as a percentage of risk contribution income, for 30 June 2016 remained the same at 9.5% as at 31 December 2015.
- At 30 September 2016, the industry averages of the various components of non-healthcare expenses expressed as a percentage of total non-healthcare expenses were as follows:

	Sep '16	Dec '15
- Administration expenses	84.9%	84.6%
- Broker service fees (including distribution costs and broker fees)	13.5%	13.9%
- Net impairment losses: trade and other receivables	1.6%	1.5%

Prior to Circular 56 of 2015 and the subsequent restatement of the 2015 and 2016 figures, non-healthcare expenditure also included managed healthcare management services (fees for managing health benefits). Non-accredited services have subsequently been included in administration expenditure as administration expenditure: benefit management services.

Operating results

- Registered medical schemes incurred a net healthcare deficit (before taking investment and other income into account) of R4.3 billion compared to a budgeted deficit of R2.3 billion at 30 September 2016. The total net healthcare results are 85.9% worse than expected.
- Open schemes incurred a net healthcare deficit (before taking investment and other income into account) of R1.6 billion compared to a budget of R651.0 million, whereas restricted schemes incurred a net healthcare deficit of R2.7 billion compared to a budgeted net healthcare deficit of R1.7 billion.
- The inclusion of investment and other income resulted in all registered schemes incurring a deficit of R746.0 million at 30 September 2016 compared to a budgeted surplus of R352.3 million, which represents an actual to budget variance of 311.8%.
- In the 2015 annual results all schemes incurred net healthcare deficit of R1.2 billion and net surplus of R2.5 billion.

Investments

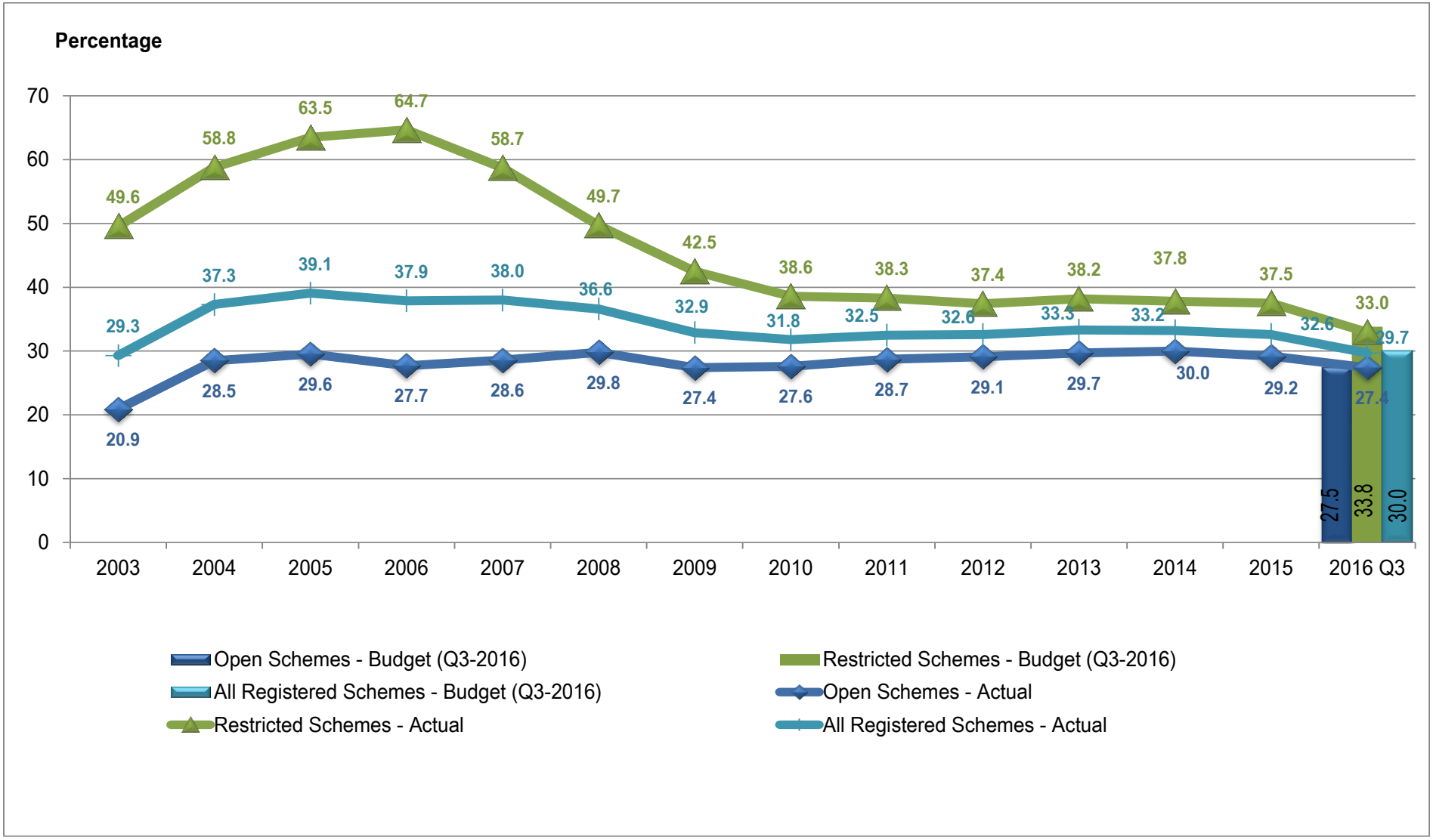
- The current assets to current liabilities ratio for open schemes at quarter end of 30 September 2016 is 2.5 (2015: 2.8), whereas for restricted schemes it was 2.1 (2015: 2.9).
- The total assets to total liabilities ratio for open and restricted schemes is 3.1 (2015: 3.5) and 3.9 (2015: 5.0) respectively.

Regulation 29: Minimum Accumulated Funds
Annexure A
(Solvency Ratio)

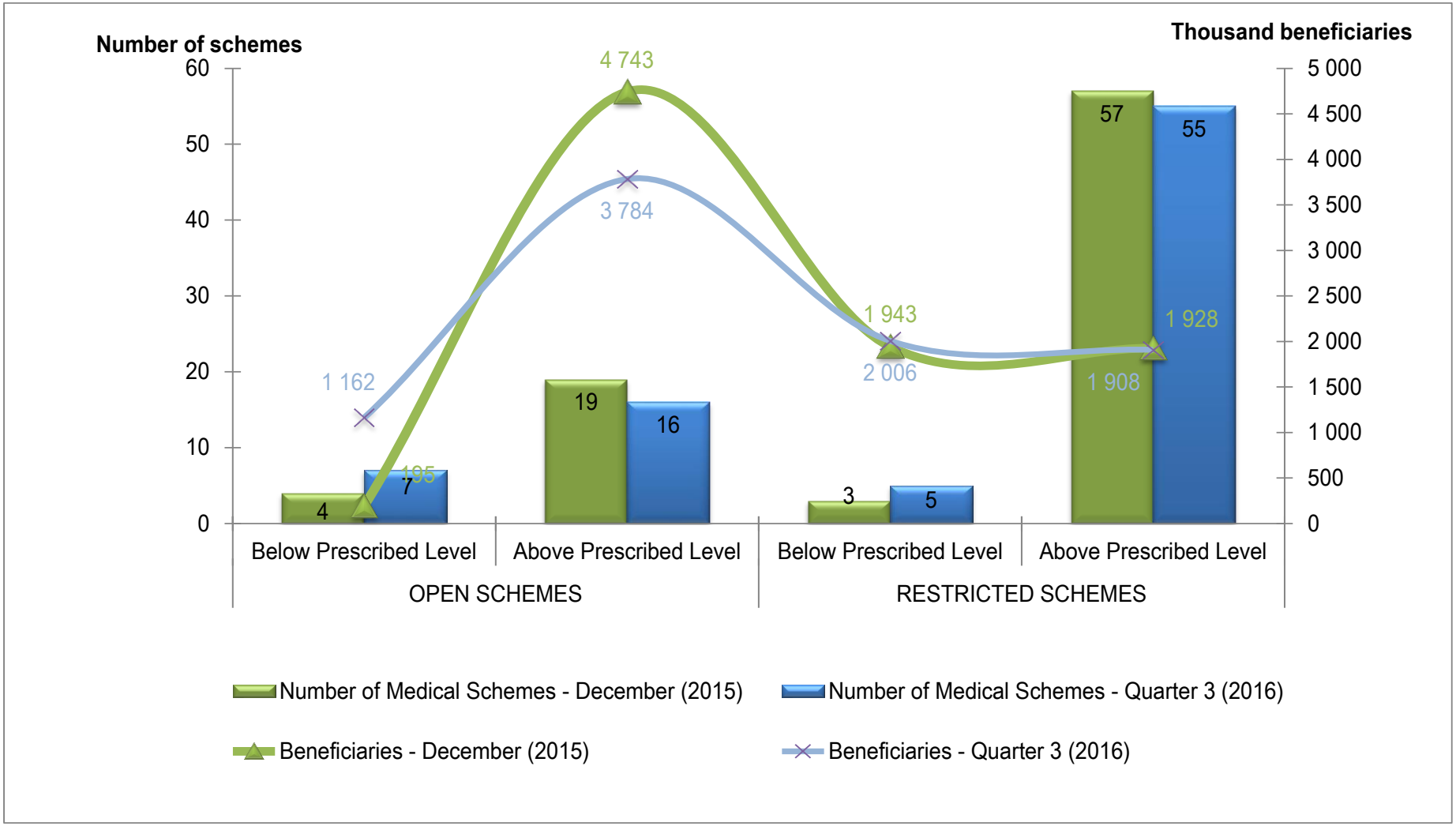
INDUSTRY AVERAGE:

	2006	2007	2008	2009	2010	2011	2012	2013	2014	% Change 2014	2015	% Change 2015	2015 Quarter 3 Actual	2016 Quarter 3 Actual	2016 - Quarter 3 Budget	% Variance Actual 2016 vs Budget 2016
Open schemes	27.7%	28.6%	29.8%	27.4%	27.6%	28.7%	29.1%	29.7%	30.0%	*1.0%*	29.2%	-2.7%	28.3%	27.4%	27.5%	-0.2%
Restricted schemes	64.7%	58.7%	49.7%	42.5%	38.6%	38.3%	37.4%	38.2%	37.8%	*-0.8%*	37.5%	-0.8%	35.0%	33.0%	33.8%	-2.5%
All registered schemes	37.9%	38.0%	36.6%	32.9%	31.8%	32.5%	32.6%	33.3%	33.2%	*0.0%*	32.6%	-1.8%	31.0%	29.7%	30.0%	-1.2%

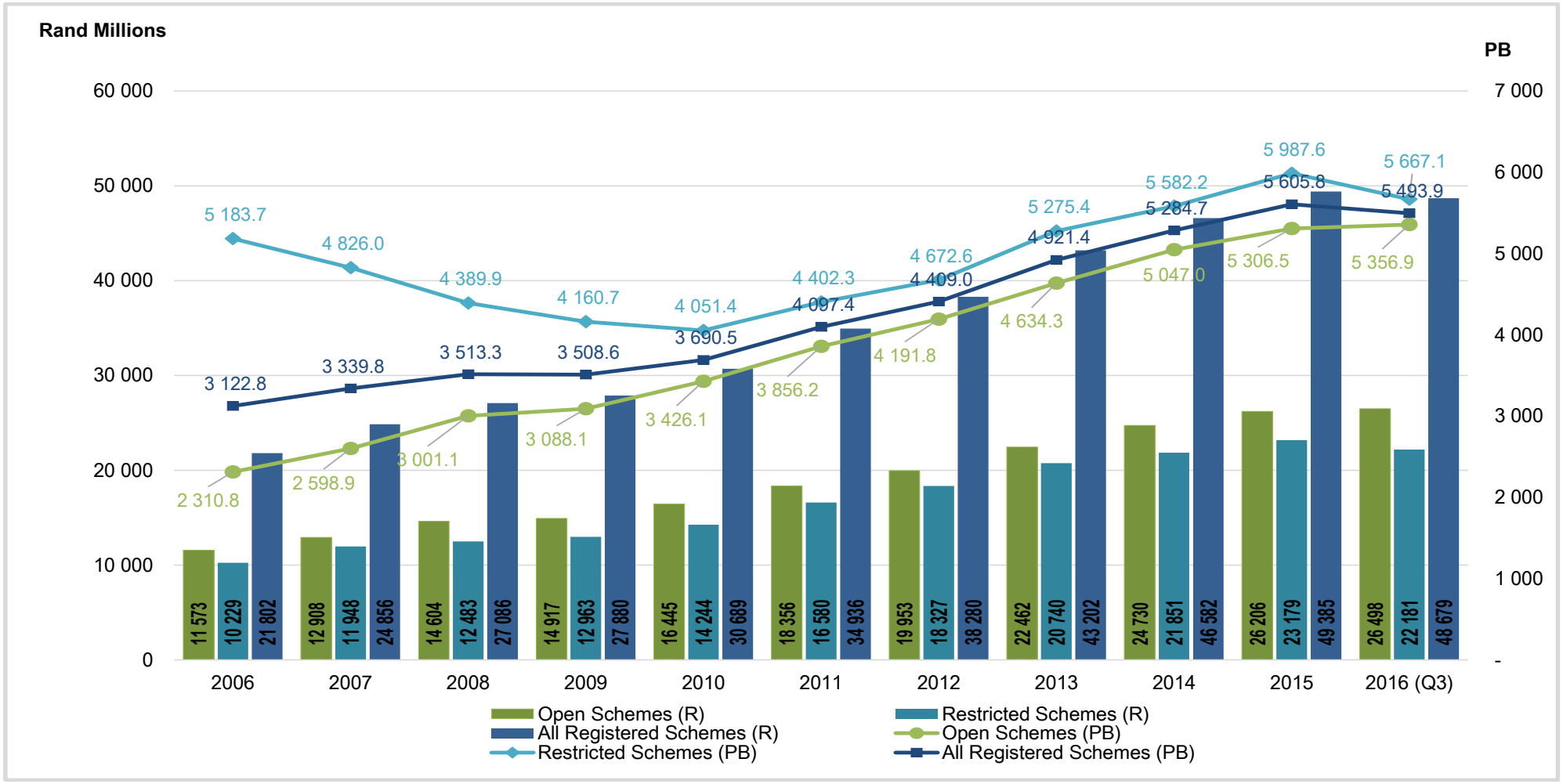
Solvency Ratio Graph
Annexure B



Prescribed Solvency Levels and Number of Beneficiaries Graph
Annexure C



Net Asset Per Regulation 29 Graph
Annexure D



PB – Per beneficiary

Statement of Comprehensive Income
for the period ended 30 September 2015
Annexure E

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Average members		2 329 835	1 631 827	3 961 662
Average beneficiaries		4 924 942	3 884 295	8 809 237
Average age	Years	33.8	29.9	32.0
Pensioner ratio (65+ years)	%	8.2	5.7	7.1
No. of dependants per member		1.1	1.4	1.2
Gross contributions (risk + PMSA)	R'000	72 543 611	50 348 398	122 892 010
Gross relevant healthcare expenditure (gross + PMSA) (Note a)		67 871 470	49 870 262	117 741 732
Gross administration expenses (risk + PMSA)		5 981 367	2 974 166	8 955 532
Broker service fees (including distributions costs)		1 364 809	62 551	1 427 360
Net impairment losses: trade and other receivables		74 464	91 789	166 254
Net healthcare results		(1 591 563)	(2 717 474)	(4 309 036)
Surplus/ (deficit)		305 677	(1 051 719)	(746 041)

NOTES:
a) Including accredited managed care: healthcare benefits as well as the results of risk transfer arrangements.

* PMSA = Personal Medical Savings Account

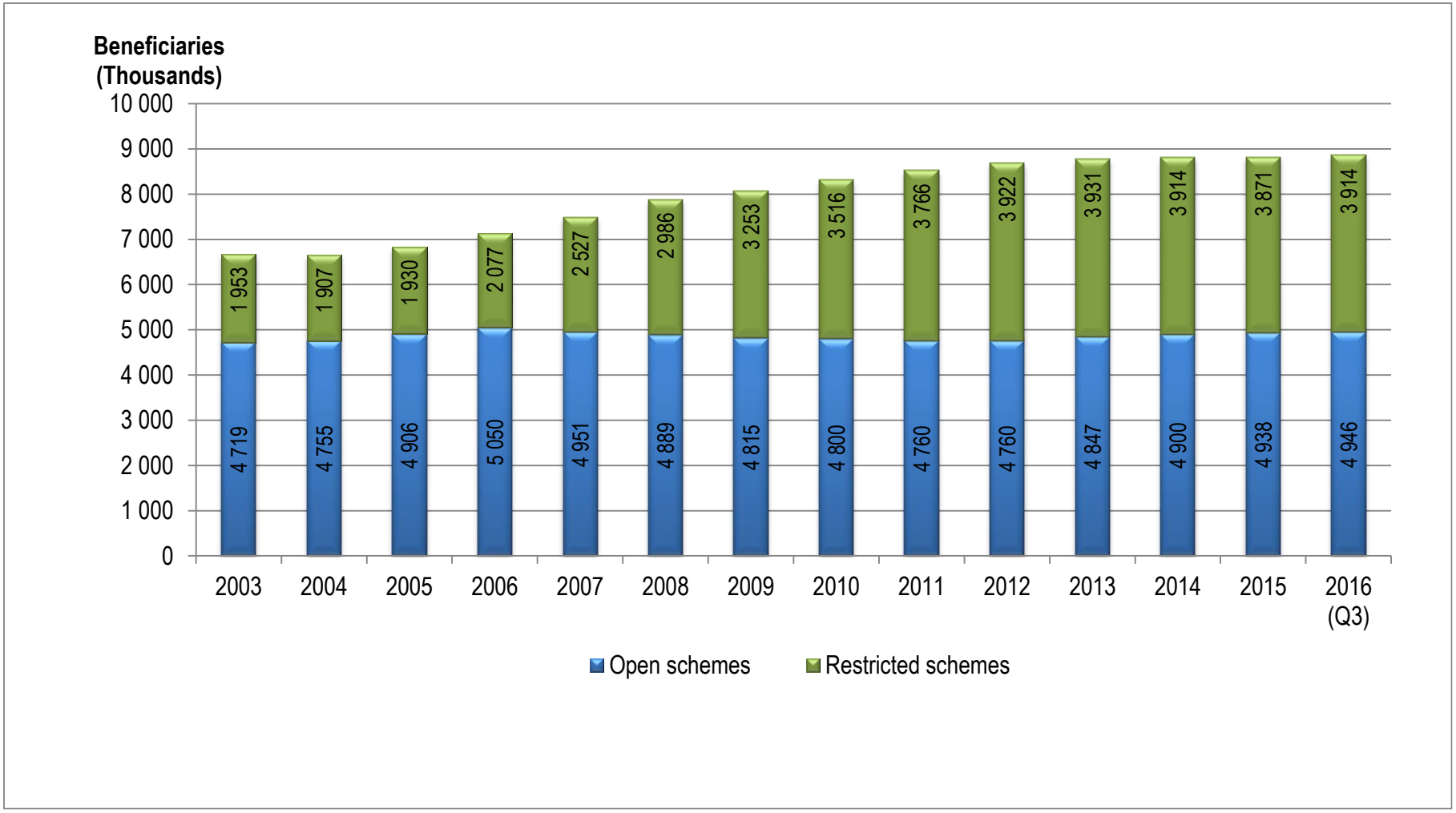
Statement of Financial Position
at 30 September 2016
Annexure F

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Members		2 345 596	1 638 993	3 984 589
Dependants		2 600 854	2 275 046	4 875 900
Beneficiaries		4 946 450	3 914 039	8 860 489
Non-current assets	R'000	8 922 508	14 924 515	23 847 023
Current assets		31 387 737	17 647 377	49 035 113
Trade & other receivables		5 136 088	1 439 776	6 575 864
	Contribution days outstanding	11.6	4.4	8.7
Cash & cash equivalents	R'000	4 702 979	8 672 945	13 375 924
Total assets		40 310 244	32 571 892	72 882 136
Members' funds (net assets per statement of financial position)		27 493 017	24 114 415	51 607 432
Accumulated funds		26 668 775	22 991 138	49 659 913
Non-current liabilities		18 825	41 353	60 178
Current liabilities		12 798 402	8 416 123	21 214 526
Trade & other payables		3 106 403	2 596 831	5 703 234
Personal medical savings account trust liability		6 049 547	2 690 607	8 740 154
Outstanding claims provision		3 642 453	3 128 685	6 771 138
	Prior year claims provision utilised %	95.2%	101.2%	98.1%
Total liabilities	R'000	12 817 227	8 457 476	21 274 704
Total assets: total liabilities		3.1	3.9	3.4
Current assets: current liabilities		2.5	2.1	2.3
Risk claims incurred: cash & cash equivalents coverage	Months	1.9	0.1	0.2
Net assets per Regulation 29	R'000	26 497 534	22 181 303	48 678 838
Solvency ratio	%	27.4	33.0	29.7

NOTES:

* In respect of trade and other receivable outstanding days, the denominator used is annualised gross contributions.
* In respect of prior year claims provision utilised = prior year payments / provision at the beginning of the year.
* We do not express an opinion on the accuracy of the split between current and non-current assets, and current and non-current liabilities.

Number of Beneficiaries Graph
Annexure G



Detailed Financial Information: Actual v Budget
for the period ended 30 September 2016
Annexure H

		OPEN SCHEMES			RESTRICTED SCHEMES			TOTAL REGISTERED SCHEMES		
		Actual	**Budget**	**% variance**	**Actual**	**Budget**	**% variance**	**Actual**	**Budget**	**% variance**
Members		2 329 835	2 356 972	-1.2	1 631 827	1 707 188	-4.4	3 961 662	4 064 160	-2.5
Beneficiaries		4 924 942	5 031 440	-2.1	3 884 295	3 742 220	3.8	8 809 237	8 773 660	0.4
Gross contribution income (GCI)	R'000	72 543 611	73 485 770	-1.3	50 348 398	50 262 525	0.2	122 892 010	123 748 295	-0.7
Risk contribution income (RCI)		62 644 710	63 501 732	-1.3	48 108 588	48 060 705	0.1	110 753 298	111 562 437	-0.7
Gross relevant healthcare expenditure (incl. PMSA & managed care claims) (Note a)		67 871 470	NA	0.0	49 870 262	NA	0.0	117 741 732	NA	0.0
Relevant healthcare expenditure incurred (incl. managed care claims) (Note a)		56 816 570	56 576 157	0.4	47 697 555	46 448 358	2.7	104 514 125	103 024 515	1.4
Net non-healthcare expenses		7 419 703	7 576 496	-2.1	3 128 506	3 278 916	-4.6	10 548 209	10 855 412	-2.8
Net healthcare results		(1 591 563)	(650 920)	144.5	(2 717 474)	(1 666 570)	63.1	(4 309 036)	(2 317 490)	85.9
Surplus/(deficit)		305 677	775 397	-60.6	(1 051 719)	(423 102)	148.6	(746 041)	352 295	-311.8
Quarter end reserve position (per Regulation 29) (Note c)		26 497 534	26 935 879	-1.6	22 181 303	22 696 508	-2.3	48 678 838	49 632 386	-1.9

NOTES:

a) Including accredited managed care: healthcare benefits included in risk transfer arrangements.

b) Net non-healthcare expenses = administration expenses, broker costs (including broker fees and distribution fees) and net impairment losses.

c) The budgeted amount was calculated by using the budgeted accumulated funds per Statement of financial position as basis, and by adjusting for the following actual amounts as at 30 September 2016: cumulative net gains on disposal of investments and property plant and equipment included in the Statement of comprehensive income, specific assets encumbered for third-party liabilities and sub-ordinate loans as approved by the Council.

* PMSA = Personal Medical Savings Account
* GCI = Gross Contribution Income
* RCI = Risk Contribution Income
* N/A = information not available

DETAILED FINANCIAL INFORMATION: Actual v Prior Year
for the period ended 30 September 2016
Annexure I

		OPEN SCHEMES			RESTRICTED SCHEMES			TOTAL REGISTERED SCHEMES		
		2015	2014	% variance	2015	2014	% variance	2015	2014	% variance
Members		2 329 835	2 332 603	-0.1	1 631 827	1 620 575	0.7	3 961 662	3 953 178	0.2
Beneficiaries		4 924 942	4 932 648	-0.2	3 884 295	3 860 145	0.6	8 809 237	8 792 793	0.2
Gross contribution income (GCI)	R'000	72 543 611	67 397 499	7.6	50 348 398	46 288 555	8.8	122 892 010	113 686 053	8.1
Risk contribution income (RCI)		62 644 710	58 188 384	7.7	48 108 588	44 332 486	8.5	110 753 298	102 520 870	8.0
Gross relevant healthcare expenditure (incl. PMSA & accredited managed care claims) (Note a)		67 871 470	60 885 066	11.5	49 870 262	44 256 596	12.7	117 741 732	105 141 662	12.0
Relevant healthcare expenditure incurred (incl. managed care claims) (Note a)		56 816 570	51 880 581	9.5	47 697 555	43 360 073	10.0	104 514 125	95 240 654	9.7
Net non-healthcare expenses		7 419 703	6 909 894	7.4	3 128 506	2 722 382	14.9	10 548 209	9 632 277	9.5
Net healthcare results		(1 591 563)	(602 091)	164.3	(2 717 474)	(1 749 970)	55.3	(4 309 036)	(2 352 061)	83.2
Surplus/(deficit)		305 677	681 117	-55.1	(1 051 719)	(439 236)	139.4	(746 041)	241 882	-408.4
Quarter end reserve position (per Regulation 29)		26 497 534	25 410 258	4.3	22 181 303	21 631 188	2.5	48 678 838	47 041 446	3.5

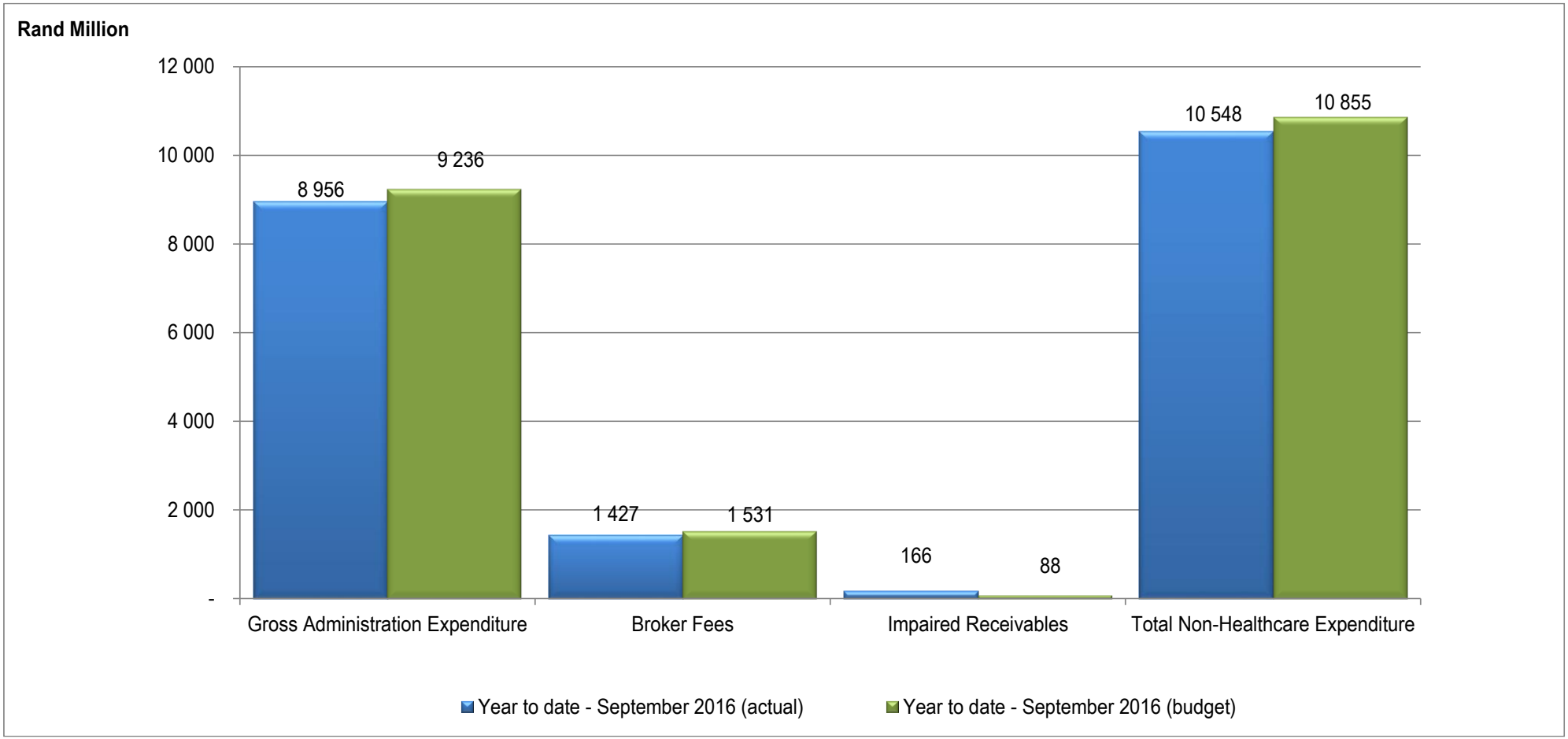
NOTES:

a) Including accredited managed care: healthcare benefits included in risk transfer arrangements.

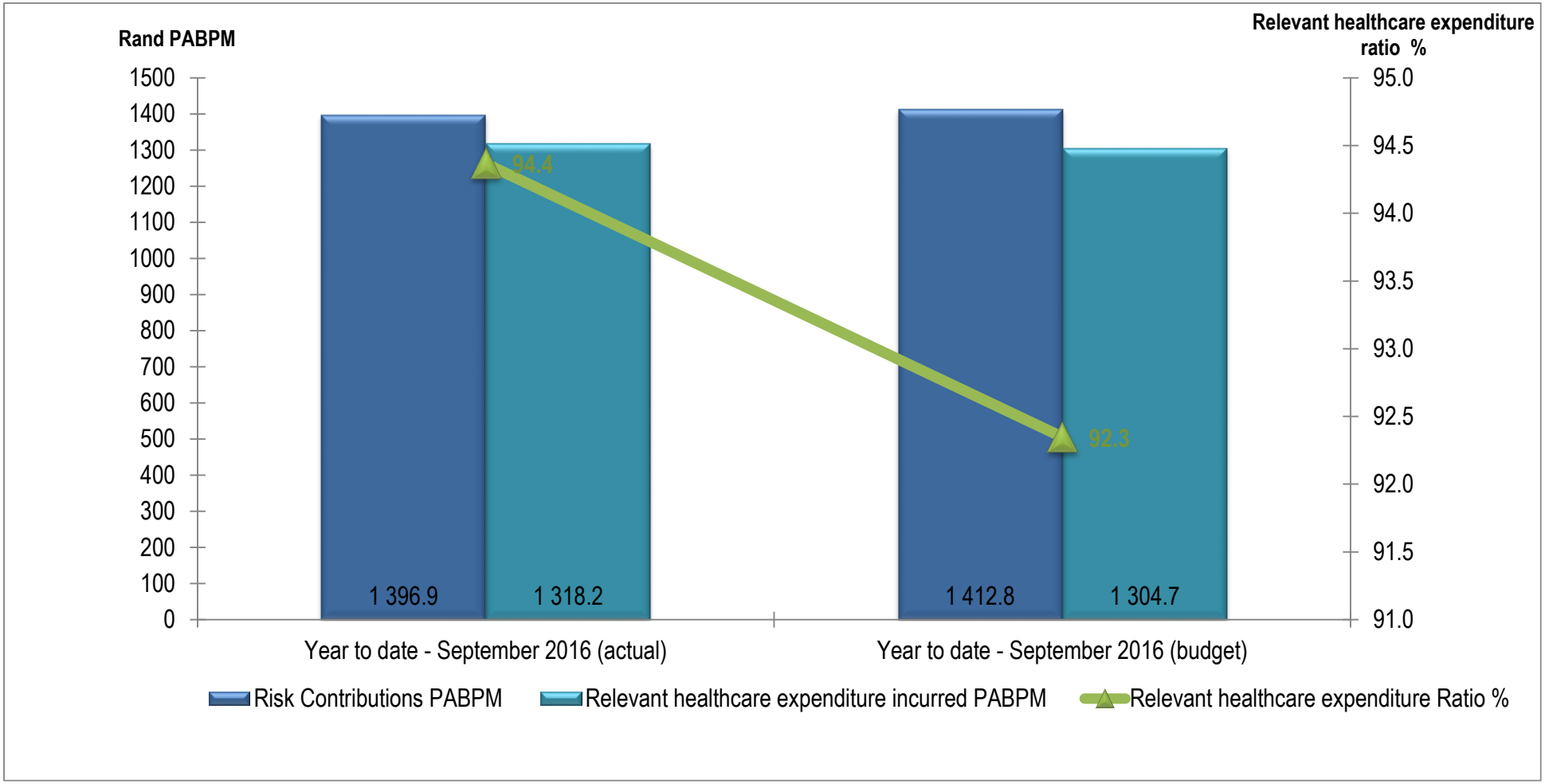
b) Net non-healthcare expenses = administration expenses, broker costs (including broker fees and distribution fees) and net impairment losses.

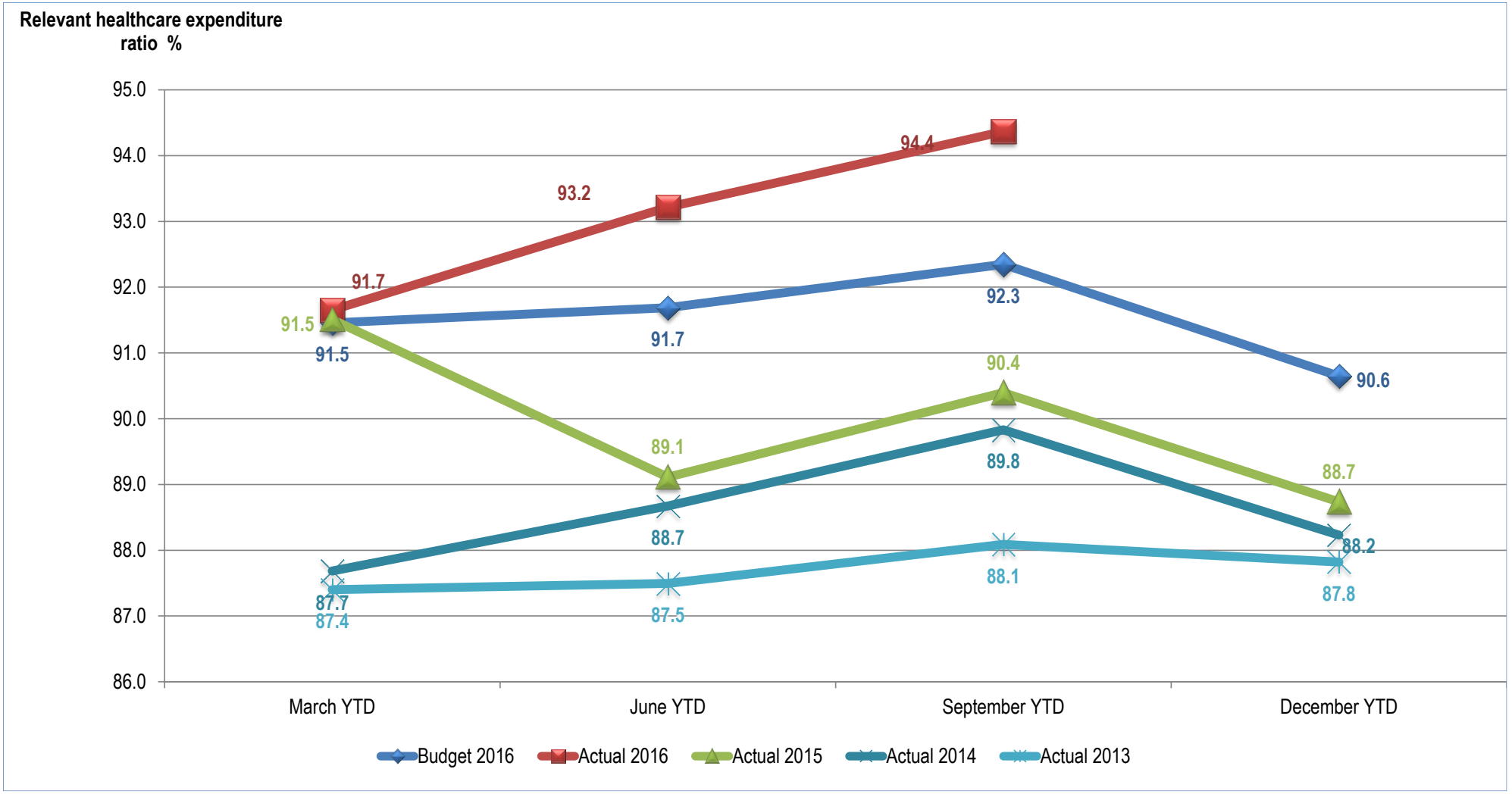
* PMSA = Personal Medical Savings Account
* GCI = Gross Contribution Income
* RCI = Risk Contribution Income

Total Non-Health Expenditure Graph
Annexure J



Net Relevant Healthcare Expenditure Ratio: Risk Benefits Graph
Annexure K



PABPM = per average beneficiary per month

Net Relevant Healthcare Expenditure Ratio: Seasonality
Annexure L