



## **QUARTERLY REPORTS**

for the period ended 31 March 2008

October 2008

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## INTRODUCTION

This report represents the results of the analysis of the quarterly statutory returns for the period ended 31 March 2008. Budget information for the first quarter of 2008 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 could therefore not be made available to the public.

All the Annexures exclude bargaining council schemes due to the unavailability of quarterly information.

It should be noted that budgeted figures per average beneficiary per month were excluded in this report due to unavailability and/or poor quality of data.

## **Monitoring the financial performance and soundness of medical schemes – a brief summary of the most important trends**

### **Accumulated funds and solvency levels**

- The overall industry average solvency level decreased by 8.7% from the audited solvency level of 37.8% at 31 December 2007 to 34.5% at 31 March 2008. This is mostly attributable to the benefit designs and seasonality of claims patterns of the medical schemes and the fact that solvency is calculated on annualised gross contributions.
- The solvency level at 31 March 2008 was 5.0% lower than the budgeted solvency level of 36.4% 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 18 (2007: 18) open schemes that failed to meet the prescribed solvency level at 31 March 2008 represent 66.8% (2007: 63.4%) of the total open schemes' beneficiaries.
- Only 8 (2007: 7) restricted schemes were below 25.0%.
- The net asset value (per Regulation 29) per beneficiary decreased with 0.7% from R3 343.2 at 31 December 2007 to R3 320.1 at 31 March 2008. The net asset value per beneficiary at 31 March 2008 was 10.4% lower than the budgeted net asset value of R3 706.1 for the same period.

### **Membership, age distribution and pensioner ratio**

- The total number of principal members of registered medical schemes increased by 5.9% from 3 092 352 at 31 December 2007 to 3 275 099 at 31 March 2008.
- The number of total beneficiaries increased by 2.5% from 7 478 040 at 31 December 2007 to 7 662 199 at 31 March 2008.
- The average number of members of 3 258 490 for the period ended 31 March 2008 was 8.2% higher than budget, and the average number of beneficiaries of 7 640 807 was 14.7% higher than budget.
- The industry average age for all registered schemes for the period ended 31 March 2007 was 32.0 (2007: 31.4) years and the proportion of pensioners, 6.5% (2007: 6.2%).

## **Contributions and relevant healthcare expenditure**

- Total gross contribution income for all medical schemes amounted to R18.3 billion for the period ended 31 March 2008, which was 0.6% lower than the budget R18.4 billion for the same period.
- The gross contributions per average beneficiary per month was R800.0 for the period ended 31 March 2008. Gross relevant healthcare per average beneficiary per month was R729.2 for the period ended 31 March 2008.
- The gross contributions per average beneficiary per month at 31 March 2008 of R800.0 went up by 8.6% from R736.6 at 31 December 2007.
- Total risk contributions of R16.6 billion was lower than budget by 0.8%. The risk contribution per average beneficiary per month for the period ended 31 March 2008 was R724.8.
- The relevant healthcare ratio of 87.1% at 31 March 2008 exceeded the budgeted relevant healthcare ratio of 86.1% with 1.1%. The relevant healthcare per average beneficiary per month for the period ended 31 March 2008 was R631.0. Total relevant healthcare for the period ended 31 March 2008 was R14.5 billion compared to the budgeted relevant healthcare of R14.4 billion, representing a 0.3% variance.
- The utilisation of the prior year's outstanding claims provision was 98.3% for all schemes as at 31 March 2008.

## **Non-health expenses**

- Total gross non-health expenses for all medical schemes amounted to R2.3 billion for the period ended 31 March 2008, which was 2.4% lower than the R2.4 billion budgeted for.
- The gross non-health expenses per average beneficiary per month for the period ended 31 March 2008 was R102.4, which was 3.2% higher than the industry average of R99.2 at 31 December 2007.
- Gross non-health expenses, when expressed as a percentage of gross contributions, decreased from 13.8% at 31 December 2007 to 12.8% at 31 March 2008.

- At 31 March 2008, the industry averages of the various components of non-health expenses expressed as a percentage of total gross non-health expenses were as follows:

	<u>March '08</u>	<u>Dec '07</u>
- Gross Administration Expenses	69.7%	70.4%
- Managed care: management services	17.6%	16.8%
- Acquisition costs (including distribution costs and broker fees)	12.1%	11.7%
- Net impairment losses: trade and other receivables	0.6%	1.1%

### **Operating results**

- Registered medical schemes incurred negative net healthcare results (before taking investment and other income into account) of R197.1 million compared to a budgeted deficit of R80.3 million at 31 March 2008. The total deficit for net healthcare results exceeded the budget by 145.5%.
- Open schemes incurred net healthcare results (before taking investment and other income into account) of R78.3 million compared to a budget of R41.5 million whereas restricted schemes incurred deficit (before taking investment and other income into account) of R280.2 million compared to a budgeted deficit of R122.4 million.
- The inclusion of investment and other income resulted in all registered schemes making a surplus of R25.4 million at 31 March 2008 compared to a budgeted surplus of R24.6 million, which represents an actual to budget variance of 3.0%.

### **Investments**

- The current assets to current liabilities ratio for open schemes at 31 March 2008 is 2.2 (2007: 2.3), whereas for restricted schemes it is 3.1 (2007: 3.7).
- The total assets to total liabilities ratio for open and restricted schemes is 2.2 (2007: 3.1) and 4.5 (2007: 5.2) respectively.

## REGULATION 29: MINIMUM ACCUMULATED FUNDS (SOLVENCY RATIO)

## Annexure A

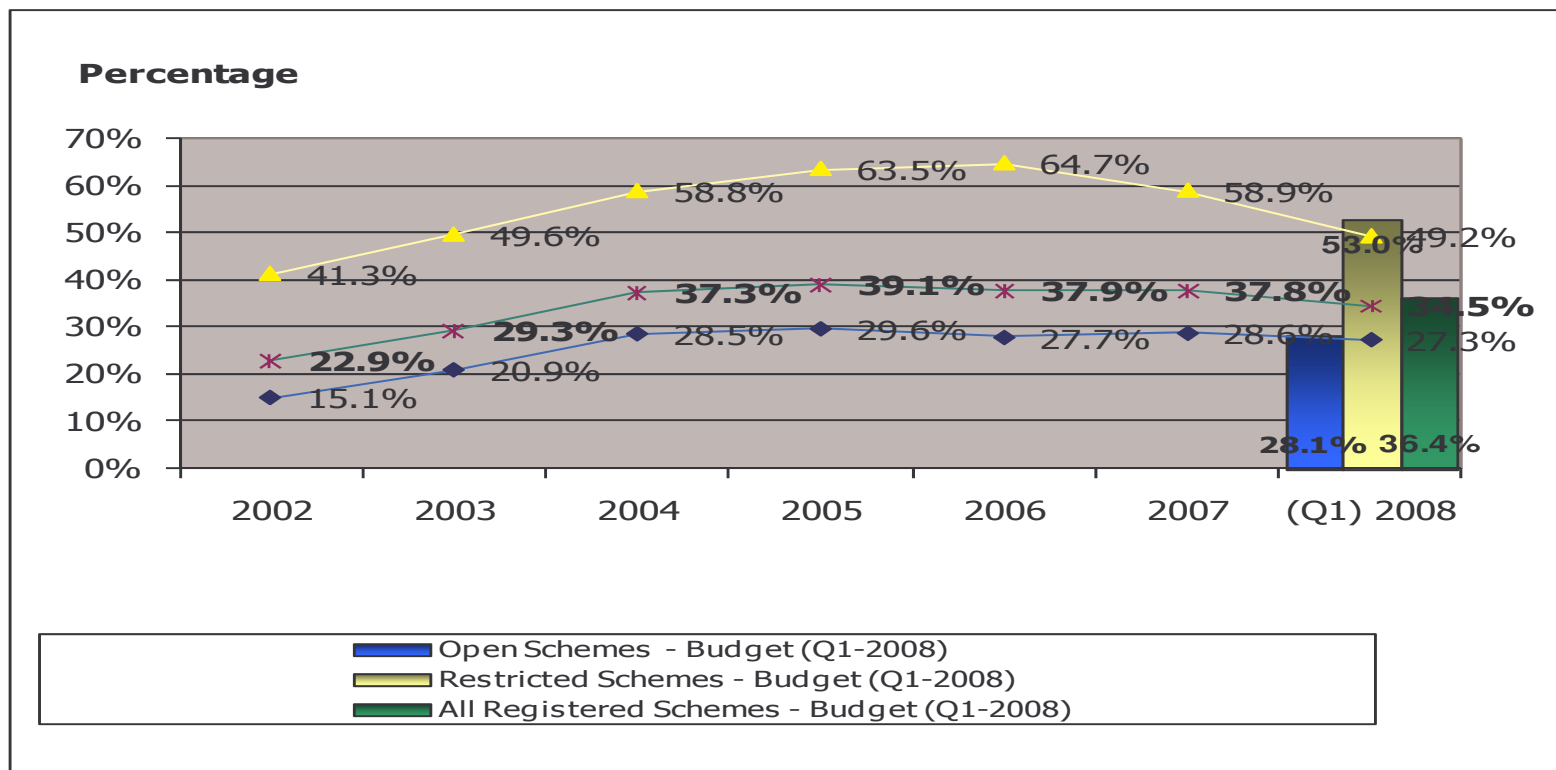
### INDUSTRY AVERAGE:

Please note that the 2002 and 2003 amounts have not been restated.

	2002	2003	% change 2003	2004	% change 2004	2005	% change 2005	2006	% change 2006	2007	% change 2007	2008 - Q1 actual	2008 - Q1 budget	% change actual 07 vs 08	% change actual 08 vs budget 08
Open schemes	15.1%	20.9%	38.8%	28.5%	36.4%	29.6%	3.7%	27.7%	-6.2%	28.6%	3.2%	27.3%	28.1%	-4.7%	-3.0%
Restricted schemes	41.3%	49.6%	20.2%	58.8%	18.6%	63.5%	8.0%	64.7%	1.8%	58.9%	-8.9%	48.9%	53.0%	-16.4%	-7.2%
All registered schemes	22.9%	29.3%	28.2%	37.3%	27.3%	39.1%	4.8%	37.9%	-3.1%	37.8%	-0.2%	34.5%	36.4%	-8.7%	-5.1%

# SOLVENCY RATIO

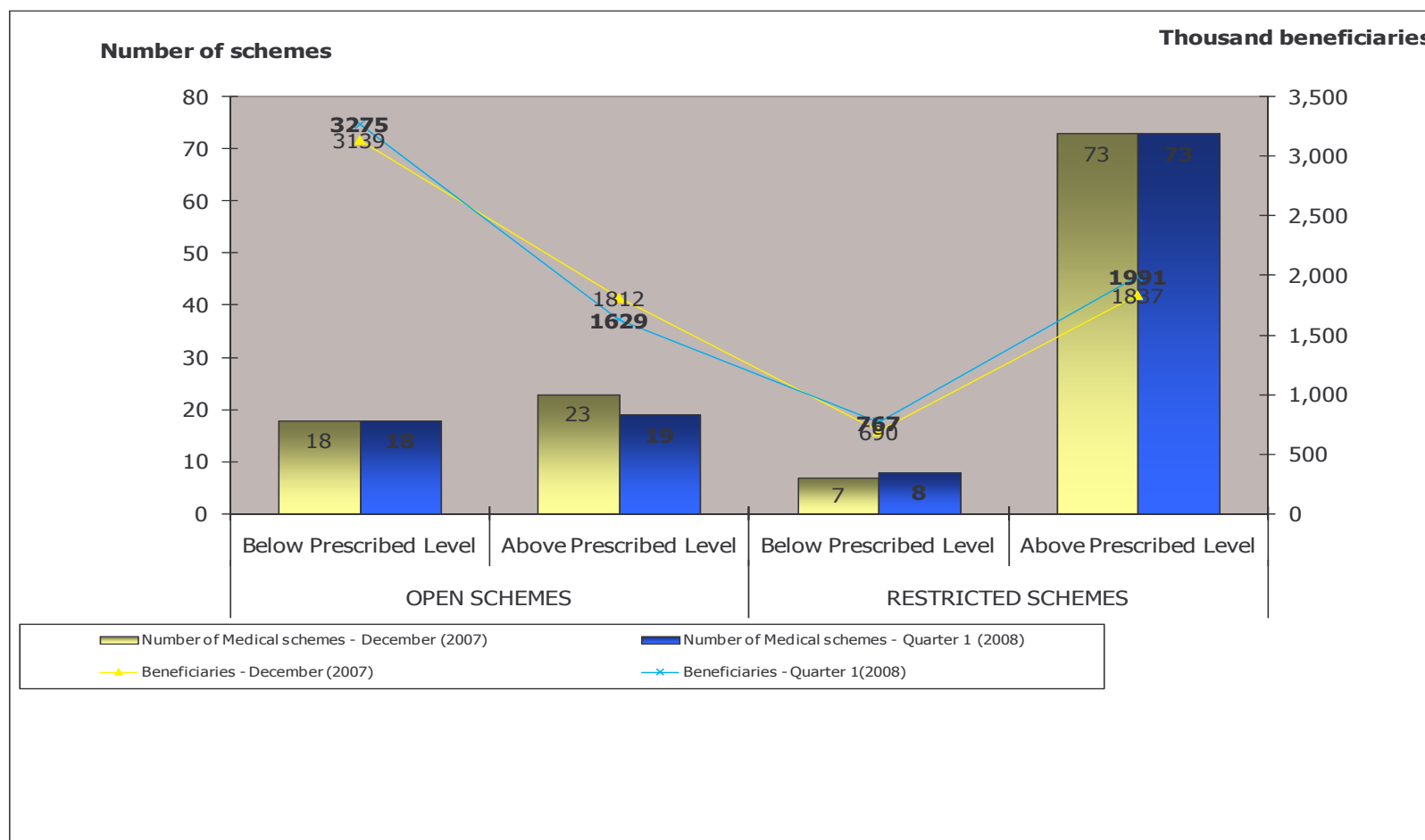
## Annexure B





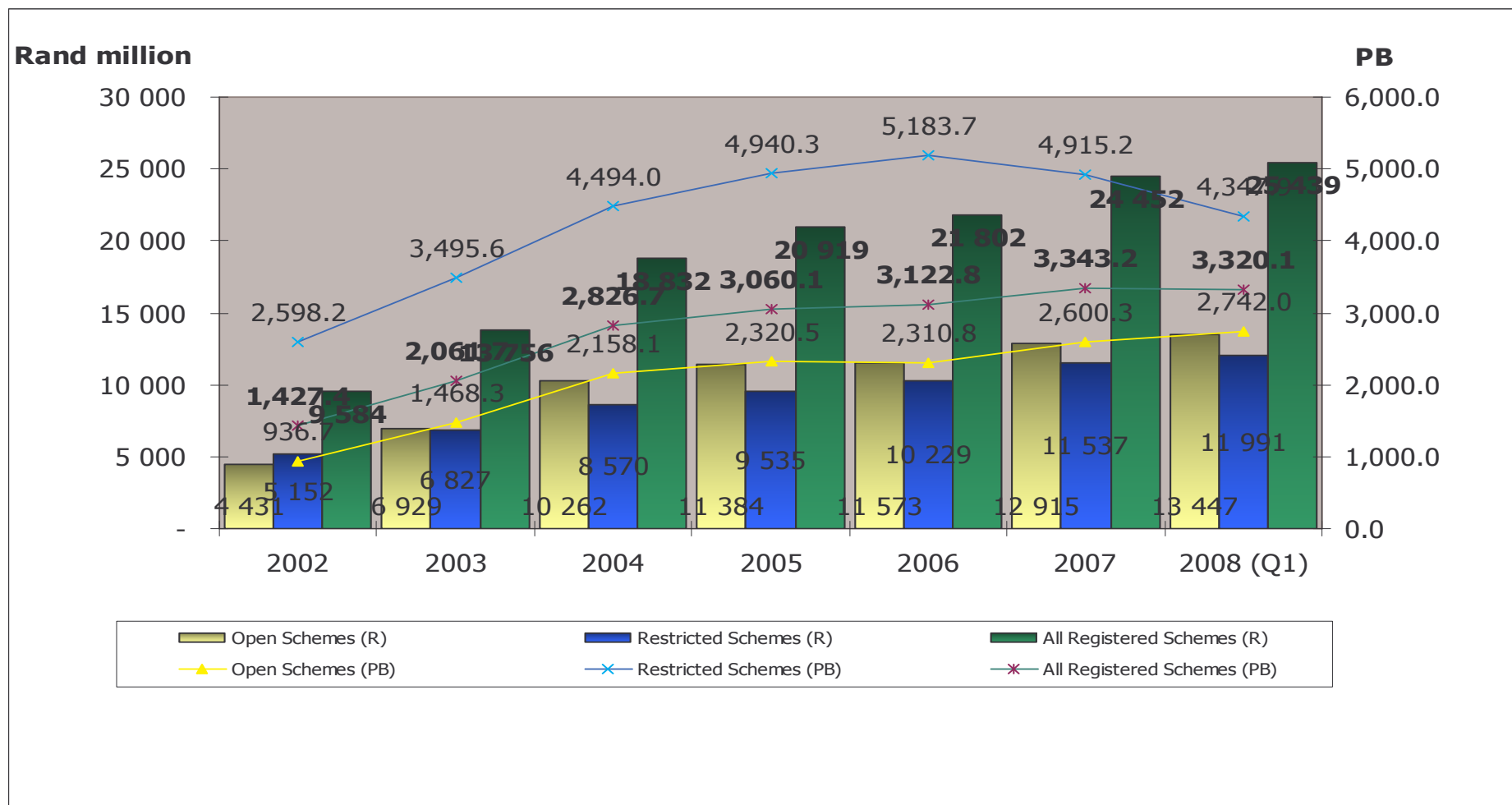
# PRESCRIBED SOLVENCY LEVELS AND NUMBER OF BENEFICIARIES

## Annexure C



# NET ASSETS PER REGULATION 29

## Annexure D



\* PB = Per Beneficiary

# INCOME STATEMENT DETAILS for the period ended 31 March 2008

## Annexure E

All references to relevant healthcare expenditure indicate claims and benefits.

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Average members		2,109,249	1,149,241	3,258,490
Average beneficiaries		4,916,881	2,723,926	7,640,807
Average age	Years	32.5	30.9	32.0
Pensioner ratio (65+ years)	%	6.7	6.2	6.5
No. of dependants per member		1.3	1.4	1.3
Gross contributions (risk + PMSA)	R'000	12,362,893	5,974,040	18,336,933
Gross relevant healthcare (gross +PMSA) (Note a)		10,993,807	5,726,768	16,720,575
Gross Administration Expenses (risk + PMSA)		1,250,738	385,027	1,635,765
Total fees paid to third-party administrators (included in gross administration) (Note b)		999,541	298,211	1,297,751
Managed care: management services		288,783	125,614	414,398
Acquisition costs (Note c)		278,942	4,632	283,574

# INCOME STATEMENT DETAILS for the period ended 31 March 2008

## Annexure E

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Broker fees (included in acquisition costs)		268,371	3,834	272,205
Net impairment losses: trade and other receivables		6,045	7,581	13,626
Net healthcare results	R'000	78,347	(280,225)	(201,878)
Surplus/ (deficit)		522,728	12,540	535,268

### NOTES:

- a) Including managed care: healthcare benefits included in risk transfer arrangements and net reinsurance. The reason for net reinsurance being included is due to the fact that the data was not collected separately, and the existence of the inability to split out the data.
- b) Including direct administration fees, co-administration fees and indirect expenses paid.
- c) Including broker fees and distribution costs.

\* PMSA = Personal Medical Savings Account

## BALANCE SHEET DETAILS at 31 March 2008

## Annexure F

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Members at 31 March 2008		2,111,264	1,163,835	3,275,099
Dependants at 31 March 2008		2,792,924	1,594,176	4,387,100
Beneficiaries at 31 March 2008		4,904,188	2,758,011	7,662,199
Non-current assets	R'000	5,258,267	5,462,423	10,720,689
Current assets	R'000	16,629,369	12,034,412	28,663,782
Trade & other receivables	R'000	2,807,022	782,731	3,589,753
	Contribution days outstanding	13.1	8.0	11.4
Cash & cash equivalents	R'000	13,822,347	11,250,429	25,072,776

# **BALANCE SHEET DETAILS**

## **at 31 March 2008**

# **Annexure F**

		<b>OPEN SCHEMES</b>	<b>RESTRICTED SCHEMES</b>	<b>TOTAL REGISTERED SCHEMES</b>
Total assets	R'000	21,887,636	17,496,835	39,384,471
Members' funds (net assets per BS)		14,154,525	13,569,804	27,727,744
Accumulated funds		13,563,171	11,486,606	25,053,193
Non-current liabilities		37,577	62,195	99,772
Current liabilities		7,695,534	3,864,837	11,555,611
Trade & other payables		2,304,522	782,731	3,589,753
Savings liability		2,912,897	1,268,647	4,181,544
Outstanding claims provision		2,478,115	1,446,355	3,924,470
	Prior year claims	99.0	83.5	98.3

## BALANCE SHEET DETAILS at 31 March 2008

## Annexure F

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
	provision utilised %			
Total liabilities	R'000	7,733,111	3,927,032	11,660,143
Total assets: total liabilities		2.8	4.5	3.4
Current assets: current liabilities		2.2	3.1	2.5
Gross claims incurred: cash & cash equivalents coverage	Months	2.4	1.5	2.0
Net assets per Regulation 29	R'000	13,444,021	11,991,489	25,435,510
Solvency ratio	%	27.3	49.2	34.5

## **BALANCE SHEET DETAILS at 31 March 2008**

## **Annexure F**

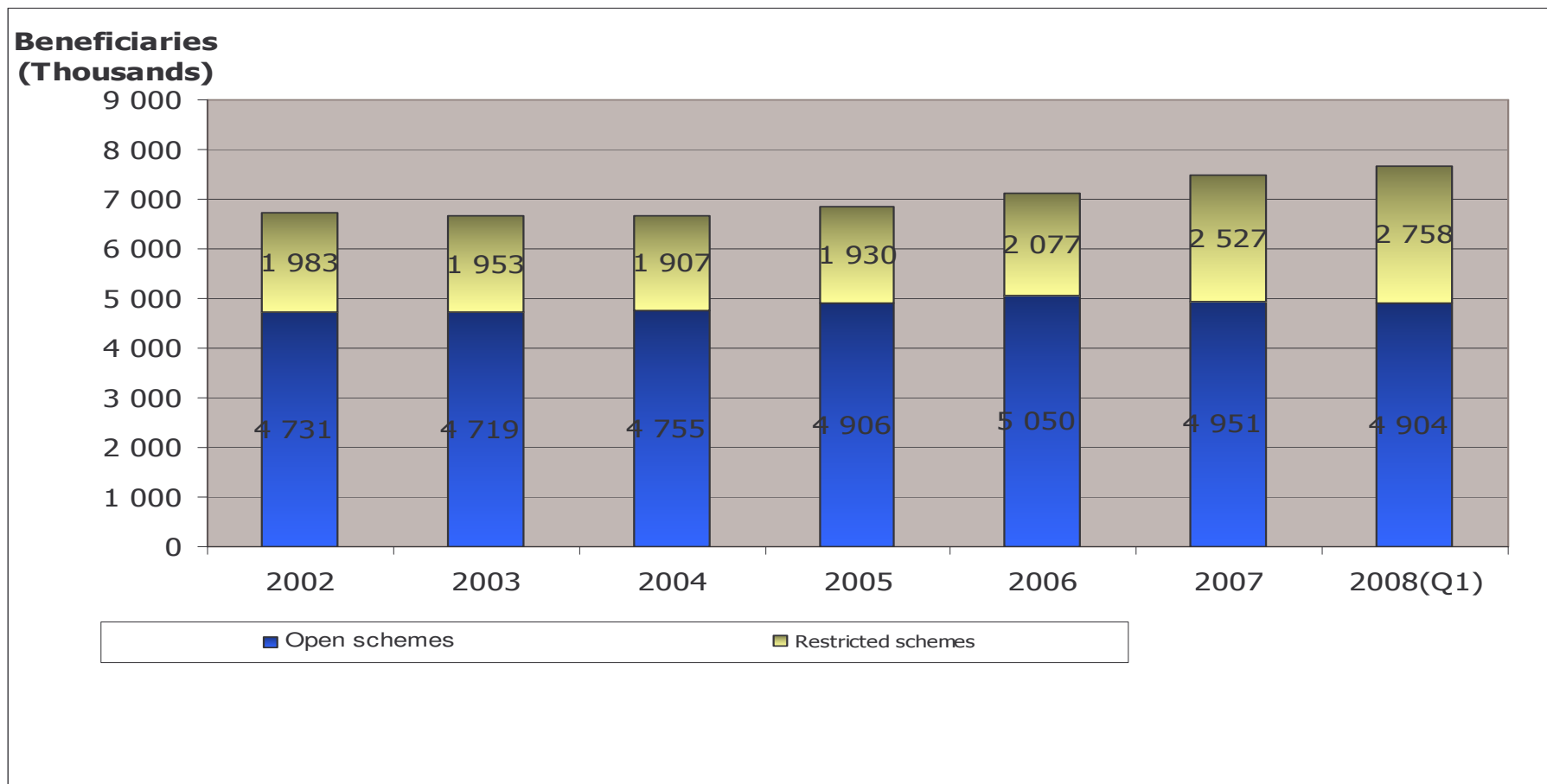
### **NOTES:**

- \* In respect of trade and other receivable outstanding days, the denominator 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

## Annexure G



**DETAILED FINANCIAL INFORMATION:  
ACTUAL V BUDGET  
for the period ended 31 March 2008**

**Annexure H**

		OPEN SCHEMES			RESTRICTED SCHEMES			TOTAL REGISTERED SCHEMES		
		Actual	Budget	% variance	Actual	Budget	% variance	Actual	Budget	% variance
Members		2,109,249	2,035,839	3.6%	1,149,241	974,911	17.9%	3,258,490	3,010,750	8.2%
Beneficiaries		4,916,881	4,470,579	10.0%	2,723,926	2,192,295	24.2%	7,640,807	6,662,875	14.7%
Gross Contribution Income (GCI)	R'000	12,362,893	12,513,942	-1.2%	5,974,040	5,946,488	0.5%	18,336,933	18,460,431	-0.7%
Risk Contribution Income (RCI)		10,992,105	11,132,073	-1.3%	5,622,784	5,633,608	-0.2%	16,614,889	16,765,682	-0.9%
Gross relevant healthcare (incl. PMSA & managed care claims) (Note a)		10,993,807	NA	0.0%	5,726,768	NA	0.0%	16,720,575	NA	0.0%
Relevant healthcare incurred (incl. managed care claims) (Note a)		9,088,825	9,213,403	-1.4%	5,379,552	5,224,660	3.0%	14,468,376	14,438,063	0.2%
Gross (incl. PMSA)/net non-health expenses		1,824,933	1,876,358	-2.7%	523,457	531,010	-1.4%	2,348,390	2,407,367	-2.4%
Net healthcare results		78,347	41,4566	89.0%	(280,225)	(122,388)	129.0%	(201,878)	(80,932)	149.4%

**DETAILED FINANCIAL INFORMATION:  
ACTUAL V BUDGET  
for the period ended 31 March 2008**

**Annexure H**

		OPEN SCHEMES			RESTRICTED SCHEMES			TOTAL REGISTERED SCHEMES		
		Actual	Budget	% variance	Actual	Budget	% variance	Actual	Budget	% variance
Surplus/(deficit)	R'000	522,728	397,634	31.5%	12,540	165,213	92.4%	535,264	562,847	-4.9%
Quarter end reserve position (per Regulation 29) (Note c)		13,444,021	13,244,867	1.5%	11,991,489	11,448,245	4.7%	25,435,510	24,693,112	3.0%

**NOTES:**

a) Including managed care: healthcare benefits included in risk transfer arrangements and net reinsurance. The reason for net reinsurance being included is due to the fact that the data was not collected separately, and the existence of the inability to split out the data.

b) Gross non-health expenses = administration expenses, managed care: management services, acquisition costs (including broker fees and distribution fees) and net impairment losses.

c) The budgeted amount was calculated by using the budgeted accumulated funds per Balance Sheet as basis, and by adjusting for the following actual amounts as at 31 March 2008: cumulative net gains on disposal of investments and property plant and equipment included in the Income Statement, specific assets encumbered for third-party liabilities and sub-ordinated loans as approved by the Council.

\* PMSA = Personal Medical Savings Account

\* GCI = Gross Contribution Income

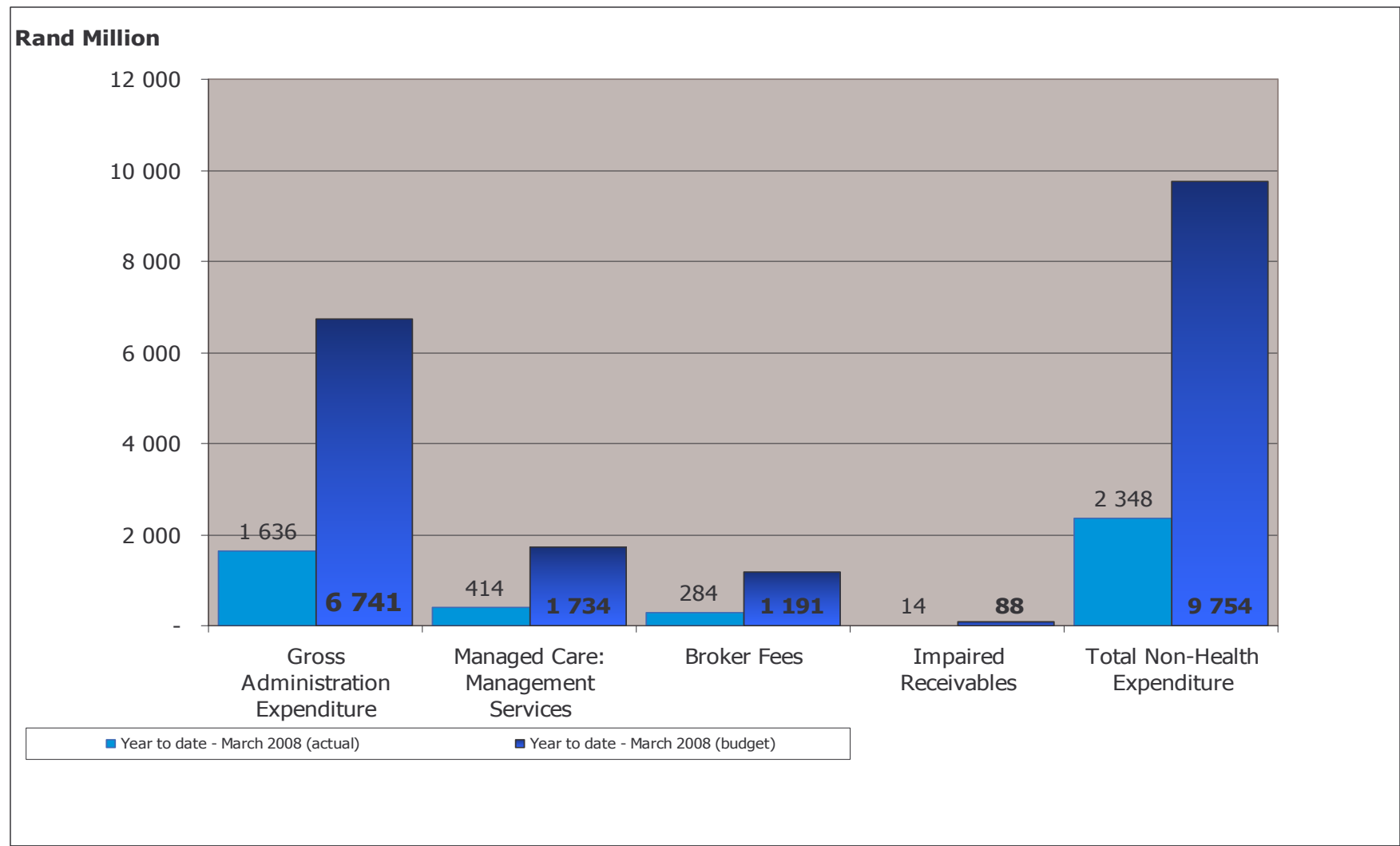
\* RCI = Risk Contribution Income

\* NA = information not available

We do not express an opinion on the accuracy of the budgeted figures submitted.

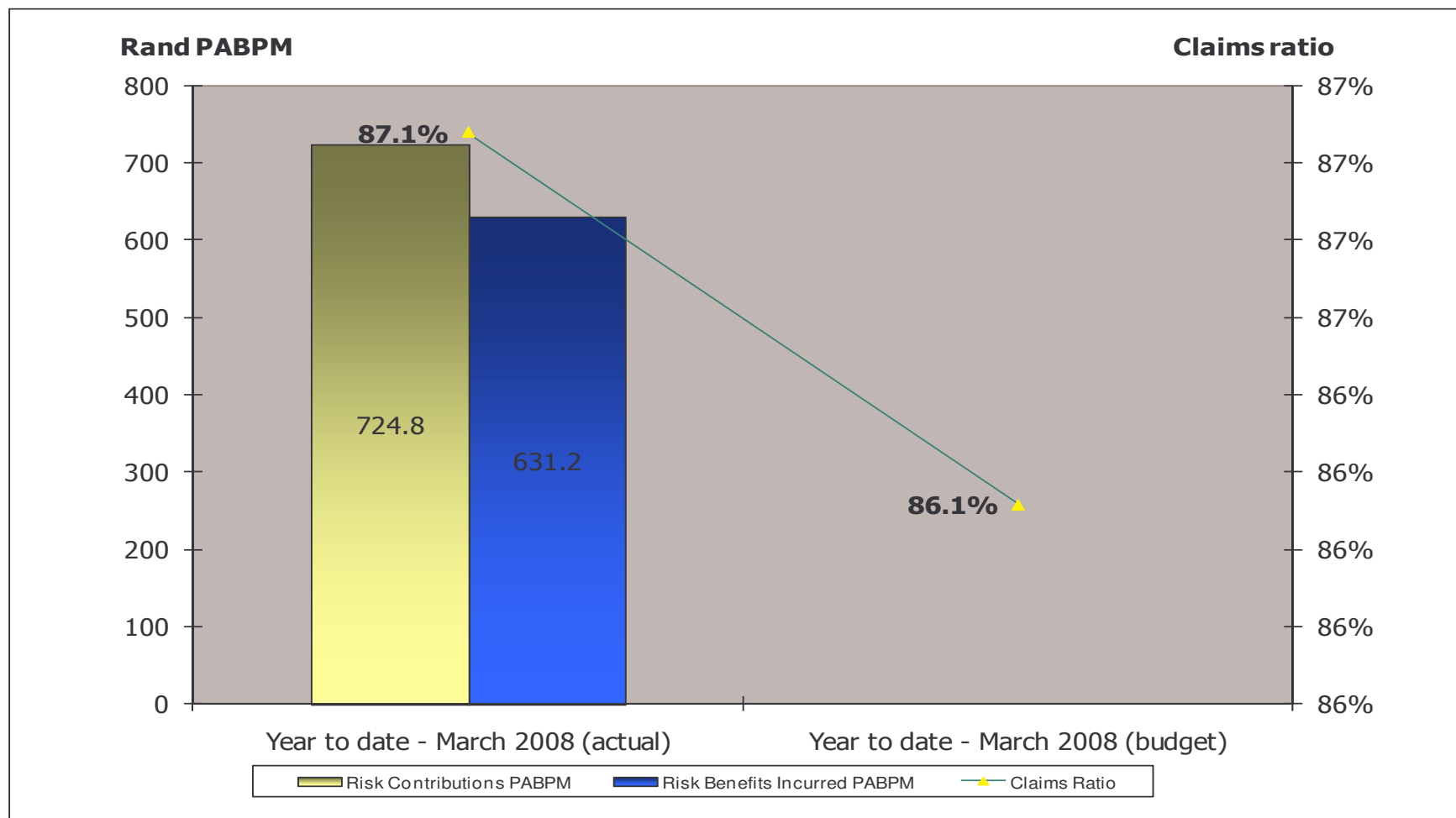
# TOTAL NON-HEALTH EXPENDITURE

# Annexure I



# NET RELEVANT HEALTHCARE EXPENDITURE RATIO: RISK BENEFITS GRAPH

## Annexure J



\* PABPM = per average beneficiary per month