



## **QUARTERLY REPORTS**

for the period ended 30 September 2010

January 2011

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## **Introduction**

This report represents the results of the analysis of the quarterly statutory returns for the period ended 30 September 2010. Budget information for the third quarter of 2010 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.

CMS provides no assurance on reliability of budget figures contained in this report.

## **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 9.6% from the audited solvency level of 32.9% at 31 December 2009 to 29.7% at 30 September 2010. 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 30 September 2010 was 2.3% higher than the budgeted solvency level of 29.1% 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 15 (2009: 16) open schemes that failed to meet the prescribed solvency level at 30 September 2010 represent 62.9% (2009: 20.6%) of the total open schemes' beneficiaries.
- Only 7 (2009: 6) restricted schemes were below 25.0%, representing 47.1% of total restricted scheme beneficiaries.
- In total 21.2% of all registered medical schemes are below 25%, representing 56.3% of all beneficiaries.
- The net asset value (per Regulation 29) per beneficiary decreased with 1.2% from R3 508.6 at 31 December 2009 to R3 467.3 at 30 September 2010. The net asset value per beneficiary at 30 September 2010 was 0.7% lower than the budgeted net asset value of R3 491.5 for the same period.

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

- The total number of principal members of registered medical schemes increased by 3.5% from 3 488 009 at 31 December 2009 to 3 608 727 at 30 September 2010.
- The number of total beneficiaries increased by 2.7% from 8 068 505 at 31 December 2009 to 8 284 250 at 30 September 2010.
- The average number of members of 3 547 188 for the period ended 30 September 2010 was 0.7% higher than budget, and the average number of beneficiaries of 8 171 070 was 1.4% higher than budget.
- The industry average age for all registered schemes for the period ended 30 September 2010 was 31.7 (2009: 31.6) years and the proportion of pensioners, 6.6% (2009: 6.5%).

## **Contributions and relevant healthcare expenditure**

- Total gross contribution income for all medical schemes amounted to R72.1 billion for the period ended 30 September 2010, which was 0.1% lower than the budget of R72.1 billion for the same period.
- The gross contribution per average beneficiary per month amounted to R980.3 for the period ended 30 September 2010 which was 1.4% lower than budget of R994.6. Gross relevant healthcare expenditure per average beneficiary per month amounted to R885.8 for the period ended 30 September 2010 which was 10.1% higher than budget of R804.0.
- The gross contributions per average beneficiary per month at 30 September 2010 of R980.3 went up by 10.2% from R890.0 at 31 December 2009.
- Total risk contributions of R65.5 billion was 0.7% lower than budget of R65.9 billion. The risk contribution per average beneficiary per month for the period ended 30 September 2010 amounted to R891.2, which was 2.0% lower than the budget of R909.8.
- The relevant healthcare ratio of 89.2% at 30 September 2010 is lower than the budgeted relevant healthcare ratio of 88.4% with 4.8%. The relevant healthcare per average beneficiary per month for the period ended 30 September 2010 amounted to R794.7, which was 1.2% lower than the budget of R804.0. Total relevant healthcare for the period ended 30 September 2010 was R58.4 billion compared to the budgeted relevant healthcare of R58.3 billion, representing a 0.2% variance.
- The utilisation of the prior year's outstanding claims provision was 95.2% for all schemes as at 30 September 2010.

## **Non-health expenses**

- Total non-health expenses for all medical schemes amounted to R8.5 billion for the period ended 30 September 2010, which was 1.5% higher than the R8.4 billion budgeted for.
- The non-health expense per average beneficiary per month for the period ended 30 September 2010 was R115.9, which was 2.2% higher than the industry average of R113.4 at 31 December 2009.
- Non-health expenses, when expressed as a percentage of risk contributions, decreased from 14.0% at 31 December 2009 to 13.0% at 30 September 2010.

- At 30 September 2010, the industry averages of the various components of non-health expenses expressed as a percentage of total non-health expenses were as follows:

	<u>Sept'10</u>	<u>Dec '09</u>
- Gross administration expenses	68.1%	69.3%
- Managed care: management services	19.6%	17.2%
- Broker service fees (including distribution costs and broker fees)	11.3%	11.9%
- Net impairment losses: trade and other receivables	1.0%	1.5%

### **Operating results**

- Registered medical schemes incurred net healthcare deficits (before taking investment and other income into account) of R1.4 billion compared to a budgeted deficit of R724.3 million at 30 September 2010. The total deficit for net healthcare results exceeded the budget by 97.2%.
- Open schemes incurred a net healthcare deficit (before taking investment and other income into account) of R695.0 million compared to a budgeted deficit of R534.2 million whereas restricted schemes incurred a deficit (before taking investment and other income into account) of R733.4 million compared to a budgeted deficit of R190.1 million.
- The inclusion of investment and other income resulted in all registered schemes making a surplus of R868.3 million at 30 September 2010 compared to a budgeted surplus of R1.0 billion, which represents an actual to budget variance of 15.6%.

### **Investments**

- The current assets to current liabilities ratio for open schemes at 30 September 2010 is 2.3 (2009: 2.6), whereas for restricted schemes it is 2.8 (2009: 3.5).
- The total assets to total liabilities ratio for open and restricted schemes is 3.1 (2009: 3.4) and 3.6 (2009: 4.0) respectively.

# REGULATION 29: MINIMUM ACCUMULATED FUNDS (SOLVENCY RATIO)

## Annexure A

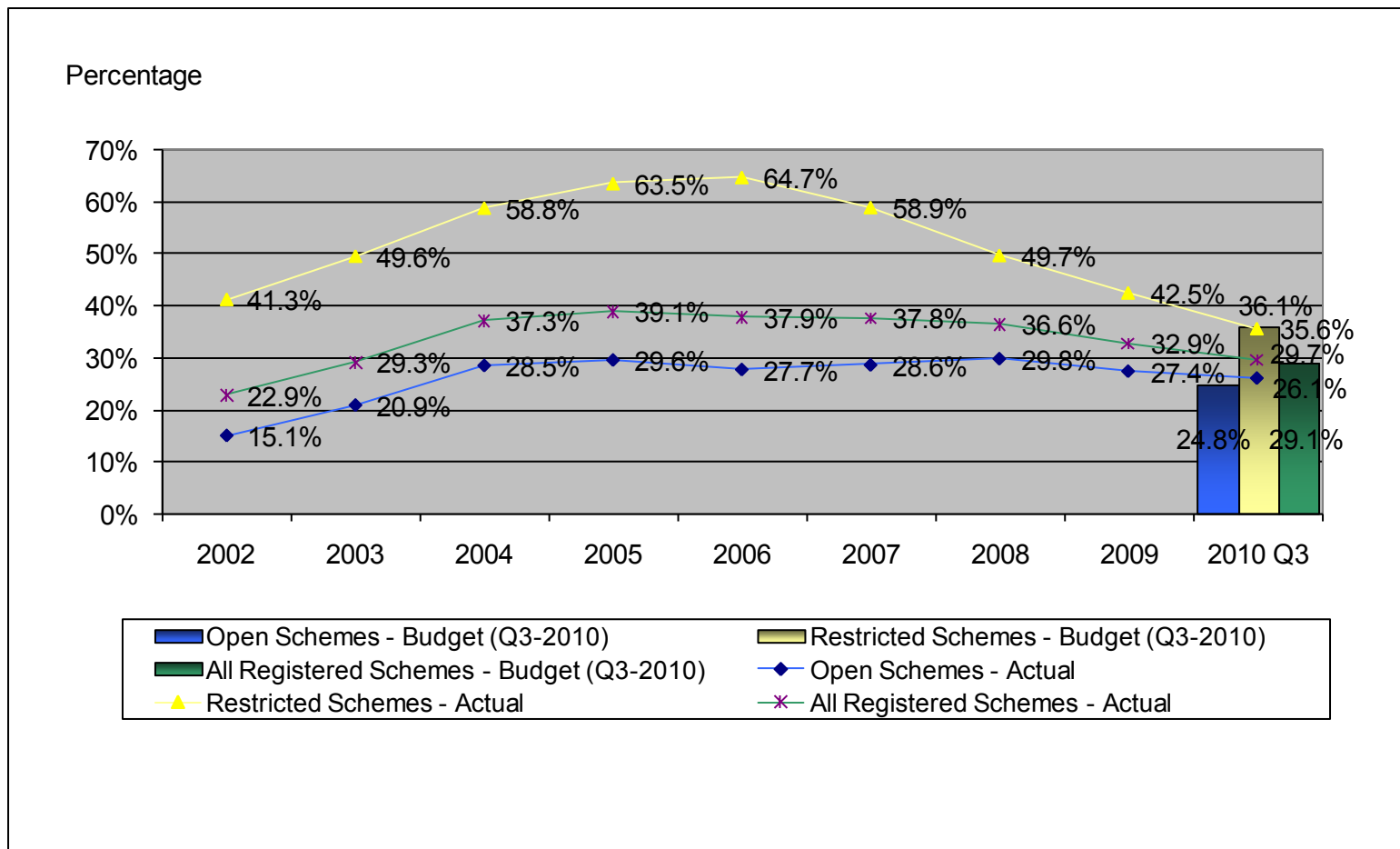
### **INDUSTRY AVERAGE:**

Please note that the 2003 amounts have not been restated.

	2002	2003	% Change 2003	2004	% Change 2004	2005	% Change 2005	2006	% Change 2006	2007	% Change 2007	2008	% Change 2008	2009	% Change 2009	2010 - Quarter 3 Actual	2010 - Quarter 3 Budget	% Change Actual 2010 vs Budget 2010
Open schemes	15.1%	20.9%	38.8%	28.5%	36.4%	29.6%	3.7%	27.7%	-6.2%	28.6%	3.2%	29.8%	4.2%	27.4%	-8.1%	26.1%	24.8%	5.3%
Restricted schemes	41.3%	49.6%	20.2%	58.8%	18.6%	63.5%	8.0%	64.7%	1.8%	58.7%	-9.2%	49.7%	-15.3%	42.5%	-14.5%	35.6%	36.1%	-1.3%
All registered schemes	22.9%	29.3%	28.2%	37.3%	27.3%	39.1%	4.8%	37.9%	-3.1%	38.0%	0.3%	36.6%	-3.7%	32.9%	-10.1%	29.7%	29.1%	2.3%

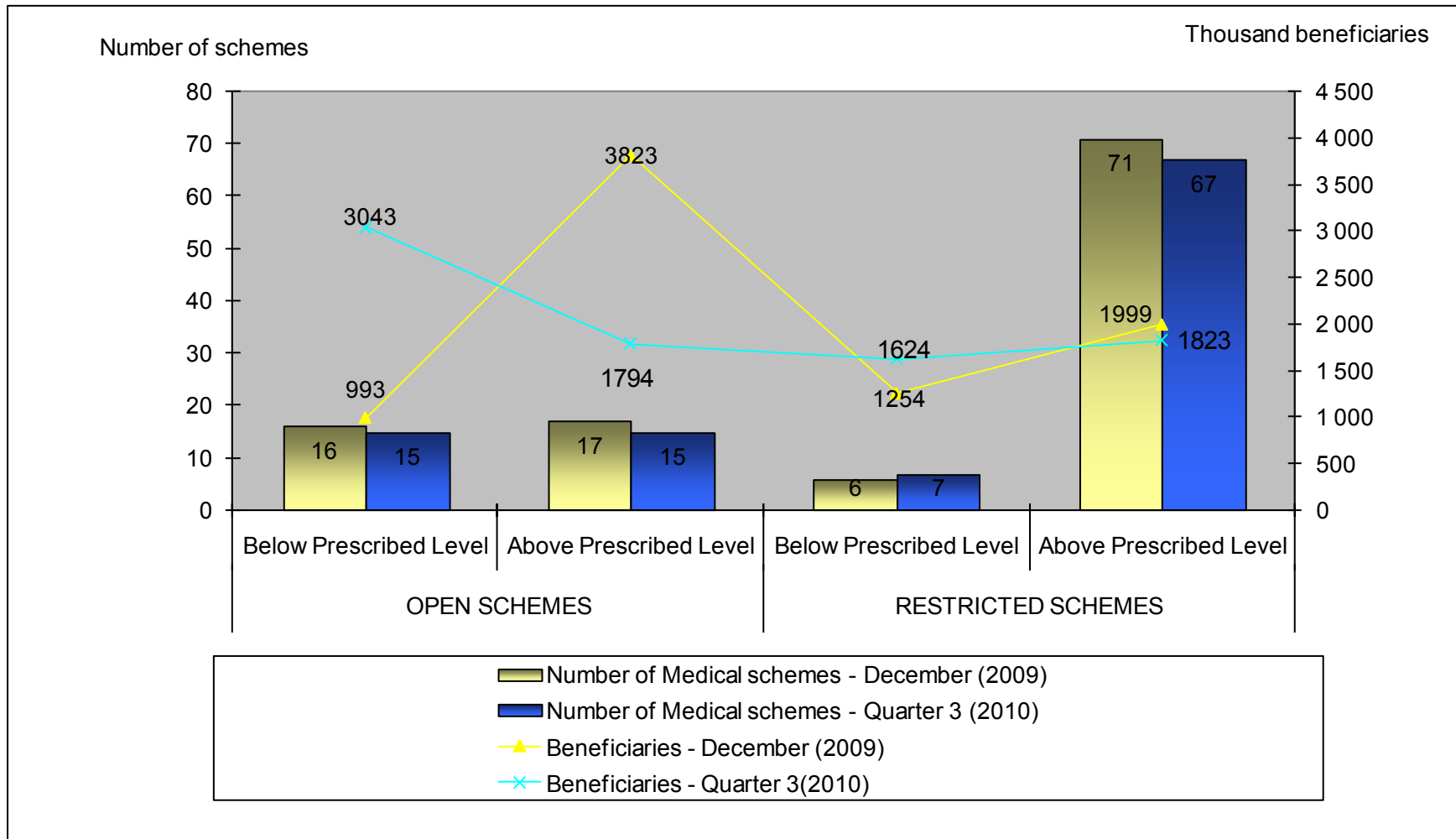
# SOLVENCY RATIO

# Annexure B



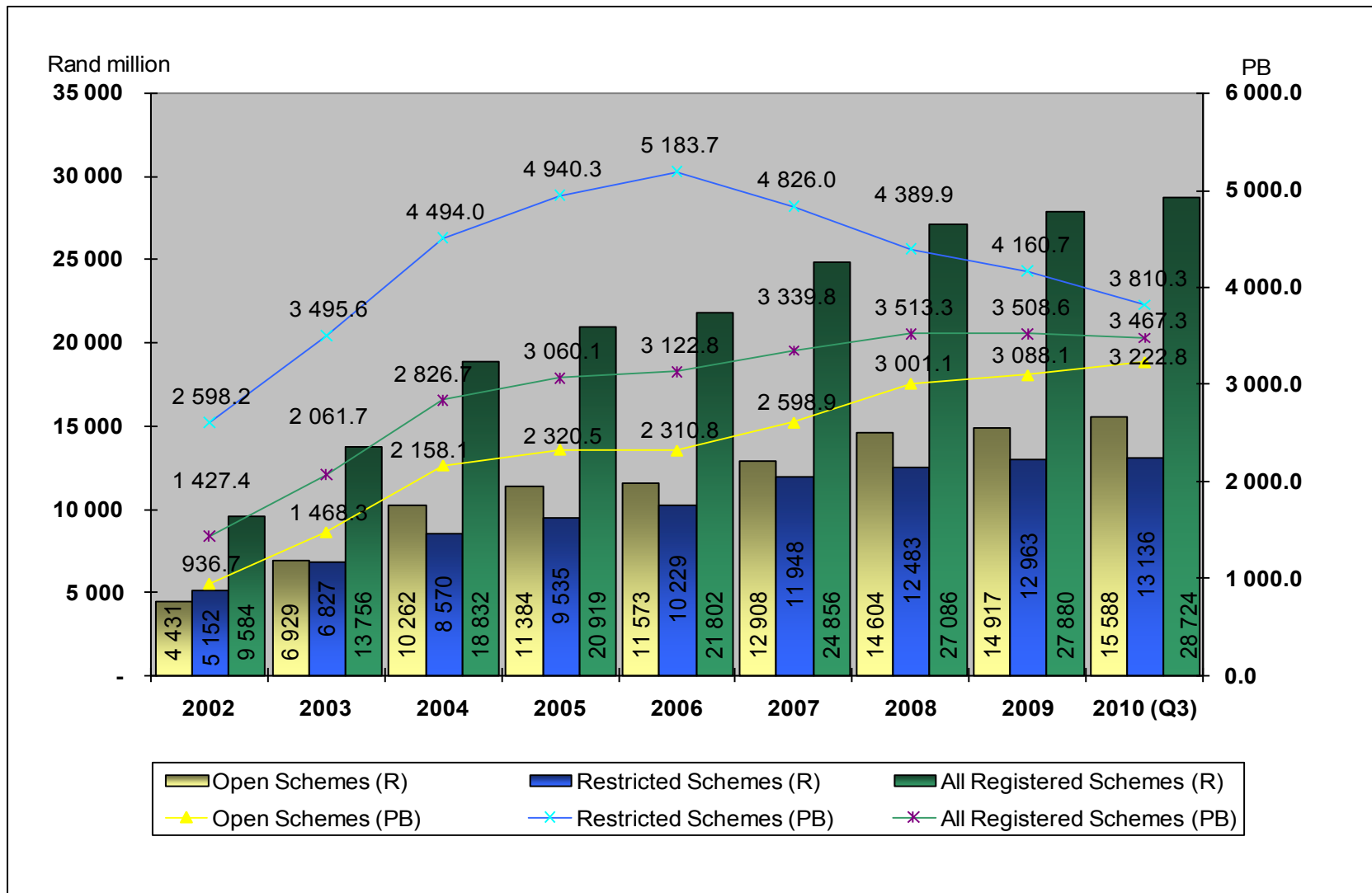
# PRESCRIBED SOLVENCY LEVELS AND NUMBER OF BENEFICIARIES

## Annexure C



# NET ASSETS PER REGULATION 29

# Annexure D



# INCOME STATEMENT DETAILS for the period ended 30 September 2010

## Annexure E

\* PB = Per Beneficiary

All references to relevant healthcare expenditure indicate claims and benefits.

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Average members		2,160,596	1,386,592	3,547,188
Average beneficiaries		4,804,370	3,366,700	8,171,070
Average age	Years	33.1	29.6	31.7
Pensioner ratio (65+ years)	%	7.5%	5.3%	6.6%
No. of dependants per member		1.2	1.4	1.3
Gross contributions (risk + PMSA)	R'000	44,746,303	27,342,034	72,088,336
Gross relevant healthcare (gross +PMSA) (Note a)		39,357,885	25,781,321	65,139,206
Gross Administration Expenses (risk + PMSA)		4,216,732	1,584,505	5,801,237
Total fees paid to third-party administrators (included in gross administration) (Note b)		3,249,964	1,187,804	4,437,768
Managed care: management services		1,113,894	559,045	1,672,939
Broker service fees (including distributions costs)		936,163	23,796	959,959

# INCOME STATEMENT DETAILS for the period ended 30 September 2010

## Annexure E

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Net impairment losses: trade and other receivables	R'000	66,706	22,503	89,209
Net healthcare results		(695,039)	(733,460)	(1428,499)
Surplus/ (deficit)		546,964	321,286	868,250

### NOTES:

- a) Including managed care: healthcare benefits included in risk transfer arrangements.
- b) Including direct administration fees, co-administration fees and indirect expenses paid.

\* PMSA = Personal Medical Savings Account

# BALANCE SHEET DETAILS at 30 September 2010

## Annexure F

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Members at 30 September 2010		2,193,590	1,415,137	3,608,727
Dependants at 30 September 2010		2,643,226	2,032,297	4,675,523
Beneficiaries at 30 September 2010		4,836,816	3,447,434	8,284,250
Non-current assets	R'000	6,552,716	6,628,173	13,180,889
Current assets	R'000	17,327,269	13,291,961	30,619,230
Trade & other receivables	R'000	3,244,892	807,061	4,051,952
	Contribution days outstanding	12.9	5.5	10.1
Cash & cash equivalents	R'000	10,013,947	9,500,950	19,514,897

# BALANCE SHEET DETAILS at 30 September 2010

## Annexure F

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Total assets		23,879,985	19,920,134	43,800,119
Members' funds (net assets per BS)	R'000	16,274,515	14,321,255	30,595,770
Accumulated funds		15,704,809	13,244,005	28,948,813
Non-current liabilities		62,712	837,197	899,909
Current liabilities		7,542,758	4,761,682	12,304,440
Trade & other payables		2,228,829	1,592,966	3,821,795
Savings liability		2,890,257	1,487,578	4,377,835
Outstanding claims provision		2,423,673	1,681,138	4,104,810
	Prior year claims provision utilised %	94.3	98.0	95.2

# BALANCE SHEET DETAILS at 30 September 2010

## Annexure F

		OPEN SCHEMES	RESTRICTED SCHEMES	TOTAL REGISTERED SCHEMES
Total liabilities	R'000	7,605,470	5,598,879	13,204,349
Total assets: total liabilities		3.1	3.6	3.3
Current assets: current liabilities		2.3	2.8	2.5
Gross claims incurred: cash & cash equivalents coverage	Months	3.2	4.4	3.7
Net assets per Regulation 29	R'000	15,588,042	13,135,883	28,723,925
Solvency ratio	%	26.1	35.6	29.7

### NOTES:

\* In respect of trade and other receivable outstanding days, the denominator is annualised gross contributions.

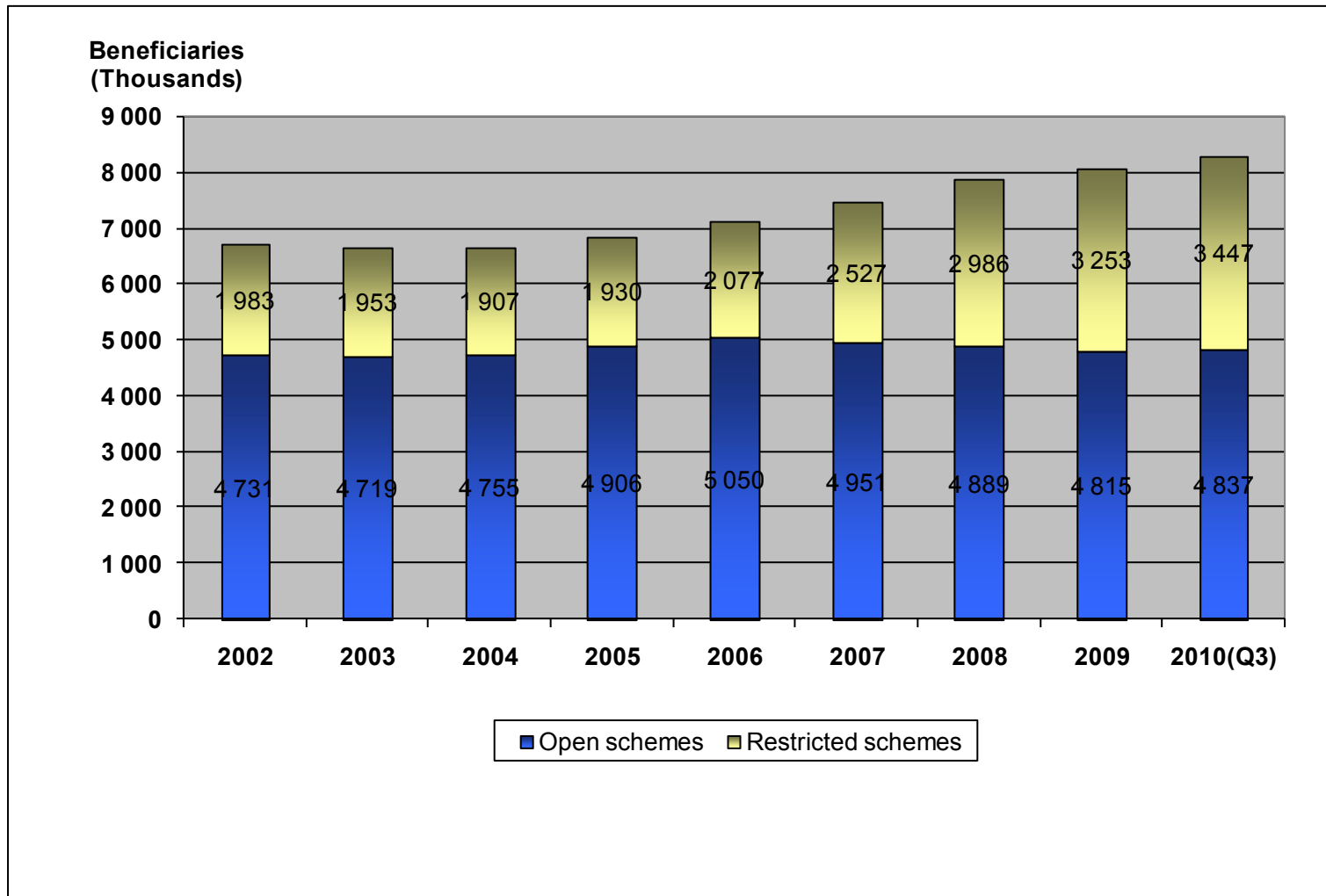
\* In respect of prior year claims provision utilised = prior year payments / provision at the beginning of the year.

\* In respect of gross claims incurred: cash & cash equivalents coverage = cash and cash equivalents includes current investments.

\* 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 30 September 2010**

**Annexure H**

		OPEN SCHEMES			RESTRICTED SCHEMES			TOTAL REGISTERED SCHEMES		
		Actual	Budget	% variance	Actual	Budget	% variance	Actual	Budget	% variance
Members		2,193,590	2,165,338	1.3%	1,415,137	1,418,083	-0.2%	3,608,727	3,583,421	0.7%
Beneficiaries		4,836,816	4,766,494	1.5%	3,447,434	3,417,910	0.9%	8,284,250	8,184,404	1.2%
Gross Contribution Income (GCI)	R'000	44,746,303	44,953,274	-0.5%	27,342,034	27,187,377	0.6%	72,088,336	72,140,651	-0.1%
Risk Contribution Income (RCI)		39,494,323	39,799,338	-0.8%	26,042,923	26,189,189	-0.6%	65,537,246	65,988,527	-0.7%
Gross relevant healthcare (incl. PMSA & managed care claims) (Note a)		39,357,885	34,076,849	15.5%	25,781,321	24,240,444	6.4%	65,139,206	58,317,294	11.7%
Relevant healthcare incurred (incl. managed care claims) (Note a)		33,855,866	34,076,849	-0.6%	24,585,901	24,240,444	1.4%	58,441,768	58,317,294	0.2%
Gross (incl. PMSA)/net non-health expenses		6,333,495	6,256,695	1.2%	2,190,483	2,138,826	2.4%	8,523,978	8,395,521	1.5%
Net healthcare results		(695,039)	(534,206)	30.1%	(733,460)	(190,081)	285.9%	(1,428,499)	(724,287)	97.2%
Surplus/(deficit)	R'000	546,964	524,054	4.4%	321,286	504,411	-36.3%	868,250	1,028,464	-15.6%

**DETAILED FINANCIAL INFORMATION:  
ACTUAL V BUDGET  
for the period ended 30 September 2010**

**Annexure H**

	OPEN SCHEMES			RESTRICTED SCHEMES			TOTAL REGISTERED SCHEMES		
	Actual	Budget	% variance	Actual	Budget	% variance	Actual	Budget	% variance
Quarter end reserve position (per Regulation 29) (Note c)	15,588,042	14,871,548	4.8%	13,135,883	13,267,002	-1.0%	28,723,925	28,138,550	2.1%

**NOTES:**

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

b) Gross non-health expenses = administration expenses, managed care: management services, 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 Balance Sheet as basis, and by adjusting for the following actual amounts as at 30 September 2010: 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

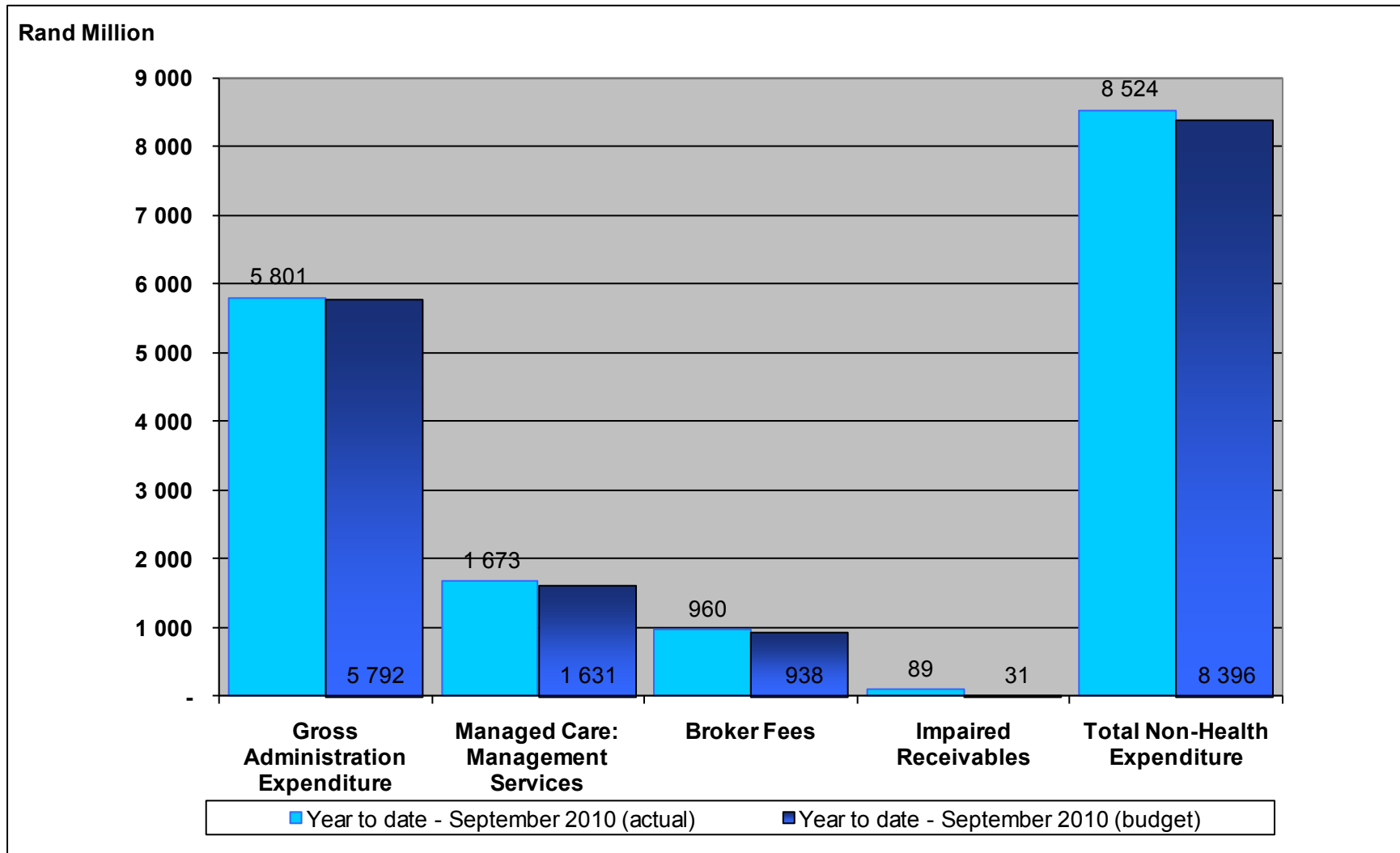
\* RCI = Risk Contribution Income

\* NA = information not available

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

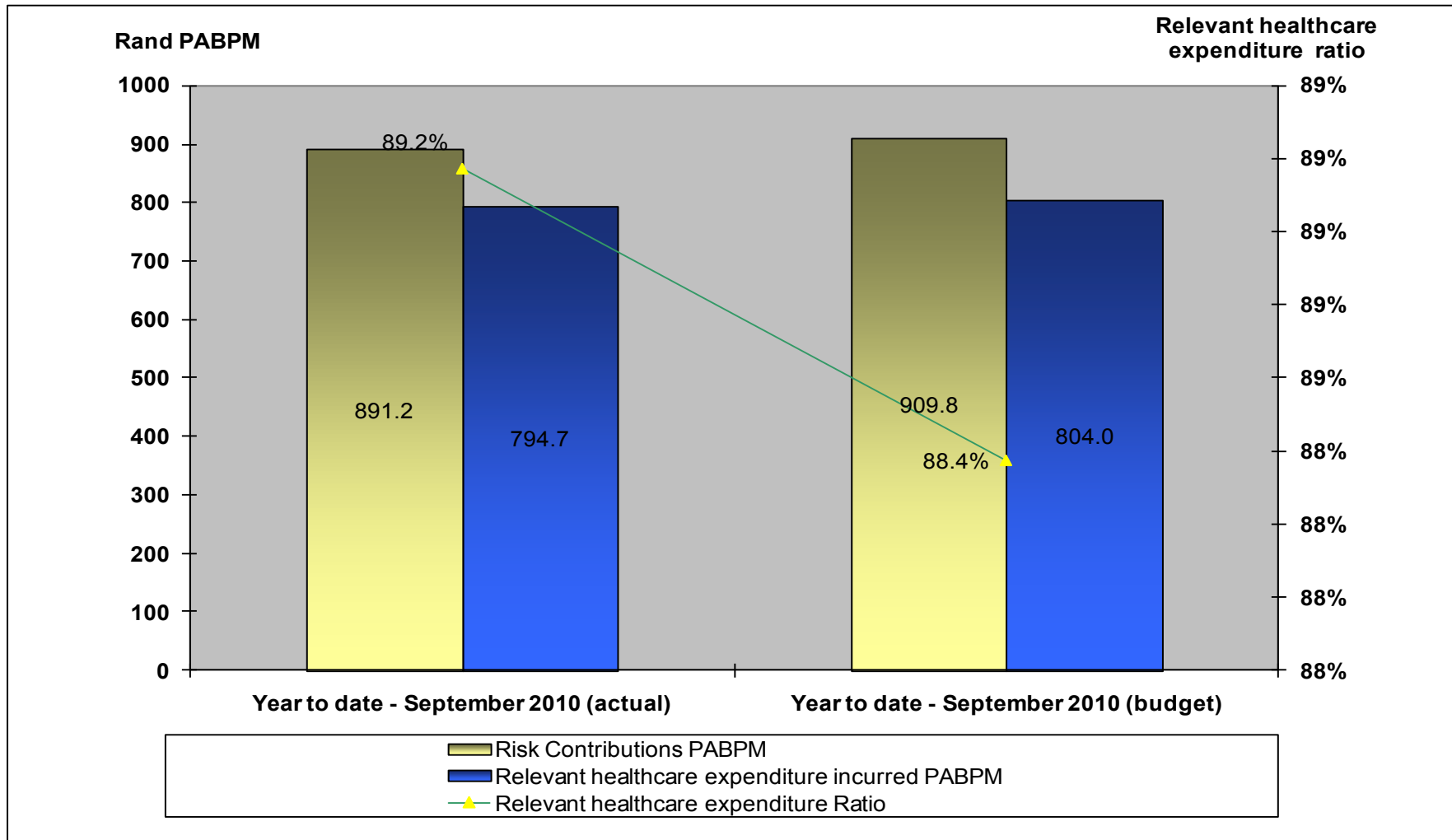
# TOTAL NON-HEALTH EXPENDITURE

# Annexure I



# NET RELEVANT HEALTHCARE EXPENDITURE RATIO: RISK BENEFITS GRAPH

## Annexure J



PABPM = per average beneficiary per month