



Administered by Discovery Health

Annual General Meeting **2013**

You are hereby invited to the Annual General Meeting of the members of Remedi Medical Aid Scheme

Here are the details if you would like to attend:

Date: 26 June 2013

Time: 13:00

Venue: The Auditorium, The House of JC Le Roux, Devon Valley Road, Stellenbosch

This invitation serves as the official notice of the Annual General Meeting of Remedi Medical Aid Scheme.

Please notify the Principal Officer of any motions

The Rules of the Scheme require attendees to notify the Principal Officer of any motions for discussion at least 7 days before the date of the meeting - not later than 12:00 on 15 June 2013.

Email to RemediPO@gmail.com or post to P.O. Box 652509, Benmore 2010

Agenda for the meeting

1. Welcome, apologies and quorum
2. To note and approve the Minutes of the 2012 Annual General Meeting held on 19 June 2012
3. To receive and adopt the Chairman's report for the year ended 31 December 2012
4. Tabling of the Annual Financial Statements
5. Acceptance of the Annual Financial Statements
6. Governance:
 - 6.1. Appointment of Auditors
7. General

Annual Financial Statements, Trustees' Report and copies of the Minutes of the previous Annual General Meeting

The 2012 Annual Report, including the audited Annual Financial Statements and the Trustees' Report, as well as the Minutes of the previous AGM, will be available on the Scheme's website www.yourremedi.co.za as well as at the following Discovery Health offices from 23 May 2013. It may also be requested from the Scheme's call centre at 0860 116 116.

Johannesburg

Discovery Health
16 Fredman Drive
Sandton

Pretoria

Discovery Health
Corner of Oak and
Tegel Avenues
Highveld Techno Park
Centurion

Cape Town

Discovery Health
Knowledge Park
Heron Crescent
Century City

Durban

Discovery Health
41 Imvubu Park Place
Riverhorse Valley
Business Estate

Port Elizabeth

Discovery Health
BPO Building
Coega IDZ
Zone 4

Chairman's Report

The 2012 financial year was yet another complex and challenging year for medical schemes in the industry. Escalating health care costs, continuous legislative and compliance pressures, the lackluster economy and the on-going debates regarding the reform of the healthcare industry were just some of the challenges the Trustees had to deal with.

I am happy to report that after almost two years of managing the transition of the administration of the Scheme to Discovery Health, the general member experience with regard to administration is now at an acceptable level. As with any other medical scheme, there are still some individual cases where members are unhappy with the administration and we will continue to work on these.

Despite all these challenges in the healthcare environment, Remedi had a very positive 2012.

Remedi experienced another year of strong membership growth with the number of beneficiaries increasing by 4.8% to a total membership of 41 140 at 31 December 2012.

During 2012, the contribution income net of savings increased by 7.72%, and healthcare expenditure by 9.98%. A net surplus for the year of R79.8 million was achieved, compared to R94.2 million in 2011. The reserve ratio was 75.35 % compared to 66.82% in 2011.

The primary contributor to this position is the provider tariff savings generated since the transition to Discovery Health, as well the significant risk management savings. In addition, the administration cost per beneficiary is still very competitive with non-healthcare expenses as a percentage of gross contributions at 7.3%. This is significantly lower than comparable open medical schemes in the market.

The Board of Trustees remains committed to plan for operational break-even going forward. Remedi's current financial position allowed the Scheme to decrease its contribution income for 2013 by around 5%, while still increasing the benefits in line with expected medical inflation.

Despite this very favourable financial position, the trustees will continue to manage contributions and benefits in a responsible way to ensure the Scheme's long term sustainability and to try and avoid potential benefit reductions and/or significant contribution increases in the future.

A number of longstanding regulatory issues prevailed through 2012 with a few new matters emerging during the year. The trustees continuously have to ensure Remedi remains compliant as well as prepare the Scheme for potential future regulatory changes. Below is a short summary of some of the key topical issues.

National Health Insurance (NHI) remains a key focus of Government and this was also confirmed at the ANC's conference in Mangaung in December 2012. Different Government Departments are aligning their efforts and processes towards this goal and we have seen the implementation of a number of pilot programmes launched in 2012. Some of these pilot programmes were not very successful and the current economic climate provides for additional challenges with regards to the funding of NHI.

A very positive element of the proposed NHI is that Government realises many basic services and infrastructural developments are needed to successfully implement NHI and they have suggested a phased implementation approach of 14 to 15 years, starting in 2012.

The management of **Personal Medical Savings Accounts (PMSA)** also received some attention during 2012 with the publication of Circular 38 of 2011, whereby Medical Schemes had to open a separate banking account for members' savings balances, add daily interest to positive individual PMSA balances and process on-going PMSA-related medical expenses from this account.

Remedi had already allocated interest earned on PMSA balances to its members, thus the biggest implication was an administrative process change to ensure compliance to the requirements of this Circular.

The implications and long term financial impact of **Prescribed Minimum Benefits (PMBs)** remain a big concern to the Scheme, and the establishment and increased utilisation of preferred provider arrangements or networks will continue to be a focus for Remedi and all other medical schemes.

The continually changing environment and the required compliance with current and future regulatory changes such as the **Protection of Information Bill**, the **Consumer Protection Act** and the **King III** requirements will continue to increase the non-healthcare costs of the Scheme and require more dedicated time and resources from the Principal Officer, the Trustees and the administrator.

The Remedi Trustees are aware that sustainability in the current environment and readiness for future changes requires on-going assessment and planning, and are currently focusing on the following important initiatives:

1. The continuous review of the Remedi value proposition when compared to similar benefit options in the open medical scheme market. This includes a review of the number of Options, the benefit structures within the different Remedi Options and the levels of contributions per Option and per membership category.

To assist the Trustees with this review, a very detailed member survey was conducted during the first quarter of 2013 to ensure member views are considered throughout this process.
2. To develop a programme to improve general member experience through:
 - a. further improved administration servicing,
 - b. call centre and walk-in centre optimisation to enable effective servicing of Remedi members,
 - c. member education and communication initiatives aimed at empowering members, and
 - d. the elimination of inefficiencies in the Rules, policies and processes.
3. Increased focus on the general wellness of members through increased utilisation of the Scheme's preventative care or screening benefits, as well as through specific wellness and healthy nutrition focuses.
4. Trustee development and succession planning to ensure a Board of Trustees that are enabled to fulfil their fiduciary duties in this constantly changing and challenging environment.

The Trustees are comfortable the Scheme is sustainable, and that it offers significantly more value to its members than comparable open medical schemes. The Board's strategic focus will ensure Remedi continues to provide peace of mind to its members for major medical expenses.

We feel confident that Remedi is still true to its vision statement

To provide cost effective healthcare benefits which meet members' needs, supported by efficient administrative processes, ensuring that our members have peace of mind regarding major medical expenses.

Thanks and appreciation

I would like to express my thanks and appreciation to the following stakeholders for their efforts and contributions:

- The Remedi Trustees
- Kobus du Plessis, our principal officer
- Dr Johan Dippenaar, our independent medical advisor
- Administrators, Discovery Health
- Our employer groups, their representatives and HR teams
- Preferred hospital provider, Mediclinic
- Preferred providers, ER 24 and CareCross
- Audit Committee members and auditors, PwC



Dr Ronnie van der Merwe
Chairman

Highlights from the Scheme's financial results for 2012

Statement of Financial Position as at 31 December 2012

ASSETS	2012 R	2011 R
Non-current assets	241 581 715	134 040 392
Available-for-sale investments	118 381 715	47 740 392
Held-to-maturity investments	123 200 000	86 300 000
Current assets	317 368 360	340 145 374
Trade and other receivables	11 636 359	9 796 870
Cash and cash equivalents	305 732 001	330 348 504
Current call and fixed accounts	239 823 867	330 348 504
Personal medical savings account trust funds	65 908 134	-
Total assets	<u>558 950 075</u>	<u>474 185 766</u>
 FUNDS AND LIABILITIES		
Members' funds	463 705 927	381 645 863
Accumulated funds	461 591 550	381 779 619
Available-for-sale revaluation reserve	2 114 377	(133 756)
Current liabilities	95 244 148	92 539 903
Personal medical savings account <i>trust</i> liability	65 760 013	68 481 528
Trade and other payables	13 884 135	14 958 375
Outstanding claims provision	15 600 000	9 100 000
Total funds and liabilities	<u>558 950 075</u>	<u>474 185 766</u>

Statement of Comprehensive Income for the year ended 31 December 2012

	2012	2011
	R	R
Risk contribution income	583 319 604	541 575 101
Relevant healthcare expenditure	(481 872 873)	(431 985 751)
Net claims incurred	(479 504 667)	(433 505 965)
Risk claims incurred	(480 276 276)	(434 686 182)
Third party claims recoveries	771 609	1 180 217
Net (loss)/income on risk transfer arrangements	(2 368 206)	1 520 214
Premiums paid on risk transfer arrangements	(20 171 965)	(18 404 037)
Recoveries from risk transfer arrangements	17 803 759	19 924 251
Gross healthcare result	101 446 731	109 589 350
Managed care: management services	(11 603 077)	(10 402 600)
Administration expenditure	(33 248 760)	(29 670 925)
Net impairment gain/(loss) on trade and other receivables	3 243	(334 359)
Net healthcare result	56 598 137	69 181 466
Other income	27 020 328	29 758 896
Investment income	26 901 244	29 643 994
Sundry income	119 084	114 902
Other expenditure	(3 806 534)	(4 520 651)
Asset management fees	(376 786)	(214 664)
Interest paid on savings balances	(3 429 748)	(4 305 987)
Net surplus for the year	79 811 931	94 419 711
Other comprehensive income		
Fair value adjustment on available-for-sale investments	4 052 197	(3 688 600)
Amount realised in disposal	(1 804 064)	(7 403 874)
Total comprehensive income for the year	82 060 064	83 327 237

Statement of Changes in Members' Funds and Reserve for the year ended 31 December 2012

	2012 R	2011 R
Accumulated funds		
Balance at beginning of year	381 779 619	287 359 908
Net surplus for the year	79 811 931	94 419 711
Balance at end of the year	<u>461 591 550</u>	<u>381 779 619</u>
Available-for-sale revaluation reserve		
Balance at beginning of year	(133 756)	10 958 718
Current year unrealised gains/(losses)	4 052 197	(3 688 600)
Amount realised on disposal	(1 804 064)	(7 403 874)
Balance at end of the year	<u>2 114 377</u>	<u>(133 756)</u>

Statement of Cash Flows for the year ended 31 December 2012

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities

Cash flows generated from operations after working capital changes	54 152 229	58 027 610
Interest received	21 136 748	19 230 472

Net cash generated from operations

75 288 977 **77 258 082**

Cash flow from investing activities

Purchase of held-to-maturity investments	(36 900 000)	(200 000)
Proceeds on sale of available-for-sale investments	-	143 444 300
Purchase of available-for-sale investments	(63 005 480)	(47 000 000)

Net (decrease)/increase in cash and cash equivalents

(24 616 503) **173 502 382**

Cash and cash equivalents at the beginning of the year	330 348 504	156 846 122
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CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

305 732 001 **330 348 504**

Extracts from the Audited Financial Statements

INVESTMENTS

AVAILABLE-FOR-SALE INVESTMENTS

Fair value at the beginning of the year	47 740 392	145 078 308
Capital disposals	-	(143 444 300)
Capital acquisitions	63 005 480	47 000 000
Capitalised interest and dividends	3 960 432	2 786 583
Movement on unrealised gain on revaluation	2 248 133	(11 092 474)
Realised gain on available-for-sale investments	1 804 064	7 626 939
Management fee	(376 786)	(214 664)
Fair value at the end of the year	<u>118 381 715</u>	<u>47 740 392</u>

The available-for-sale investments above represent investments in:

Other

Investments in insurance policy - Investment Solutions		
- Equity	19 546 516	9 021 297
- Bonds	30 702 268	18 446 356
- Corporate debt	11 146 479	936 906
- Property shares	4 298 413	973 468
- Money Market	52 688 039	18 362 365
Total	<u>118 381 715</u>	<u>47 740 392</u>

The investments have no fixed maturity. The fair value of the available-for-sale investments is based on the market value of the underlying assets as at 31 December of each year. The market value is determined by the quoted market prices of the underlying assets in the portfolios. A register of investments is available for inspection at the registered office of the Scheme.

HELD-TO-MATURITY INVESTMENTS

	2012	2011
	R	R
Fixed deposits	123 200 000	86 300 000
Non-current	123 200 000	86 300 000

The weighted average effective interest rate on fixed deposits was 5.64% (2011: 6.07%).

PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

Balance of personal medical savings account trust liability at the beginning of the year	68 481 528	74 740 435
Add:		
Personal medical savings account contributions received (note 8)	29 305 555	29 593 589
Interest and other income earned on trust monies invested (note 15)	3 630 249	4 305 987
Transfers from other schemes	94 673	42 789
Less:		
Claims paid on behalf of members (note 9)	(28 534 115)	(30 246 649)
Refunds on death or resignation	(7 217 877)	(9 954 623)
Balances due to members on personal medical savings accounts held in trust at the end of the year	65 760 013	68 481 528

In accordance with the rules of the Scheme, the savings plan is underwritten by the Scheme.

In line with the requirements of Circular 38 of 2011, the Scheme placed all personal medical savings account liability funds in a separate *trust* bank account. The interest earned on this account must be allocated to members.

Interest accrues at a rate of 5.25% (2011:5.95%). The Scheme does not charge interest on negative personal medical savings account balances.

The personal medical savings account liability contains a demand feature in terms of regulation 10 of the Act that any credit balance on a member's personal 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 then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enroll in another medical scheme.

It is estimated that claims to be paid out of members' personal medical savings accounts in respect of claims incurred in 2012, but not recorded, will amount to R1 027 878 (2011: R807 258).

The mismatch between the personal medical savings account *trust* liability and the personal medical savings account *trust* funds relate to timing differences. These differences cleared after year-end.

As at year-end the carrying amount of the members' personal medical savings accounts were deemed to be equal to their fair values, which is the amount payable on demand. These amounts were not discounted due to their demand feature.

	2012	2011
STATUTORY SCHEME SOLVENCY		
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	463 705 927	381 645 863
Less: Unrealised net gains	(2 114 377)	-
Accumulated funds per Regulation 29 of the Act	461 591 550	381 645 863
Gross annual contributions	612 625 159	571 168 690
Solvency margin		
Accumulated funds/Gross annual contributions X 100	75.35%	66.82%

Matters of non-compliance

The Scheme did not comply with the following sections and regulations of the Medical Schemes Act (Act 131 of 1998):

1. Sustainability of benefit options

S33(2)(b) of the Medical Schemes Act (Act 131 of 1998), as amended, states each benefit option should be self-supporting in terms of membership and financial performance and be financially sound. As at 31 December, the Comprehensive option incurred deficits as set out in the Statements of Comprehensive income to the Annual Financial Statements.

The non-compliance occurred as members claimed more than what was contributed. As the Scheme has adequate reserves, in excess of the requirements, the Trustees have a deliberate strategy to resist major contribution adjustments. The Board of Trustees has again, for 2013, budgeted for a deficit on the Comprehensive option, with approval from the Council for Medical Schemes.

2. Outstanding contributions

Section 26 (7) of the Medical Schemes Act, No 131 of 1998, as amended, states that all contributions shall be paid directly to a medical scheme not later than three days after payment is due. Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances where the Scheme received contributions after the due date.

There are no contracts in place agreeing to these late payments. An amount of R2 322 591 (2011: R2 359 619) was still outstanding for December 2012, after it was due. The trustees provided the administrator with a debt mandate, stipulating the different actions to be taken against defaulting members and employer groups. December contributions were received by 21 January 2013.

3. Investment in participating employers and medical scheme administrators

Section 35(8) of the Medical Schemes Act, No 131 of 1998, as amended, states that a medical scheme shall not invest any of its assets in the business of an employer who participates in, or any administrator, or any arrangement associated with the medical scheme.

As at 31 December 2012, the Scheme indirectly held shares in participating employers, Remgro Ltd (R633 433), British American Tobacco PLC (R884 817), Distell Group Ltd (R48 982), and Mediclinic International Limited (R599 749) through a pooled investment with their investment manager. The Scheme also, through the same pooled investment, indirectly held shares in MMI Holdings Ltd and Liberty Holdings Ltd to the value of R807 788 and R132 789 respectively. Funds in the specific investment portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns, without any inputs from the Scheme. The Scheme has applied for exemption from this section of the Act.

Key Financial and Service Metrics

	2012	2011
Members' funds	R461 591 550	381 779 619
Solvency ratio	75.35%	66.82%
Membership (lives)	41 140	38 811
Gross contribution income	R612 625 159	R571 168 690
Risk contribution income	R583 319 604	R541 575 101

Benefit Options	2012 Comprehensive	2012 Classic	2012 Standard	2012 Total
Number of members at the end of the period	6 318	7 794	3 875	17 987
Average number of beneficiaries for the period	15 692	15 746	8 567	40 005
Average age of beneficiaries for the period	36.1	27.1	26.5	30.4
Pensioner ratio	9.4%	3.2%	1.5%	5.1%
Average contributions net of savings per member per month	R3 454	R2 720	R1 752	R2 789
Average claims net of savings incurred per member per month	R3 454	R1 768	R1 367	R2 304
Average accumulated funds per member at year end	N/A	N/A	N/A	R25 902
Average return on investments as a percentage of investment	N/A	N/A	N/A	4.9%
Non-healthcare expenses as a percentage of gross contributions	5.6%	9.1%	14.4%	7.3%