



Administered by Discovery Health

Annual General Meeting 2015

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

Here are the details if you would like to attend:

Date: 25 June 2015

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 AGM 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 18 June 2015.

Email to RemediPO@gmail.com - or post to PO Box 652509, Benmore 2010.

Agenda for the meeting

1. Welcome, apologies and quorum
2. To note and approve the Minutes of the 2014 Annual General Meeting held on 26 June 2014
3. To receive and adopt the Chairman's report for the year ended 31 December 2014
4. Tabling of the Annual Financial Statements and Board of Trustees Report
5. Acceptance of the Annual Financial Statements and Board of Trustees Report
6. Governance:
 - 6.1. Appointment of Auditors
 - 6.2. Confirm elected Trustees
7. General

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

The 2014 audited Annual Financial Statements, Auditors Report and the Board of 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 4 June 2015:

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

Knowledge Park
Heron Crescent
Century City

Durban

Discovery Health
41 Imvubupark Place
Riverhorse Valley
Business Estate

Port Elizabeth

Discovery Health
BPO Building
Coega IDZ
Zone 4

Introduction

The 2014 financial year was yet another complex and challenging year for the medical aid industry. Escalating healthcare cost, continuous legislative and compliance pressures, the lacklustre economy and the ongoing debates regarding the reform of the healthcare industry were just some of the challenges the trustees had to deal with.

2014 also saw the introduction of a Competition Commission enquiry into the ongoing increases in cost in excess of inflation in the healthcare industry. The outcomes of this enquiry are expected to have significant implications. The Panel of Inquiry finalised their Statement of Issues on 1 August 2014. The potential sources of harm to competition as identified by the Panel of Inquiry are market power, barriers to entry, imperfect information and the regulatory framework. Stakeholders in the industry were given until 31 October 2014 to make submissions to the Commission after which they would assess and publish the submissions. Public hearings will commence from 1 May 2015 and in terms of the Terms of Reference of the Commission they will report back on the findings towards the end of 2015.

On the whole, Remedi had a positive 2014 despite all the challenges in the healthcare environment.

Scheme overview

Remedi had another year of positive membership growth, with the number of beneficiaries increasing by around 3% to a total membership of more than 45 000 at 31 December 2014. Over the last four to five years, Remedi membership has grown with almost 30%. This growth was driven by increased employment in almost all of the participating employers and as a result Remedi gained younger members, which resulted in the average age of the scheme reducing to around 30 at the end of December 2014.

Remedi remains financially sound and we ended the year with a positive net healthcare result of just over R9 million before adding investment income. This represents a marginal operational surplus of 1.3% and is very close to fund strategy of budgeting for an operational break-even before investment returns.

The main reasons for being in this position are:

- favourable provider tariffs
- significant savings through robust risk management
- effective management of scheme expenses. The non-healthcare expenses of Remedi was 8% in 2014 which compares favourably to the industry average of 12.2%

Remedi's current financial position allowed the trustees to increase its premium income for 2015 on average by around 7.3% while still increasing the benefits in line with expected medical inflation and adding a small number of additional preventive benefits. **This increase was significantly lower than the average industry increase of around 9.4%**

On a less positive note, we have seen that the Remedi Standard Option had an operational deficit for the second year in a row, and the trustees were forced to consider a number of changes to the Option in an effort to turn this trend around. The first step on this journey was to change the General Practitioner (GP) network from an outsourced model (through CareCross) to an insourced model by developing our own Remedi unique GP network for the Standard Option. The expectation is that this will at least prevent the yearly operation deficit from increasing and that further measures will have to be considered in the next couple of years to ensure the long-term sustainability of the Option.

For Remedi as a whole, we have seen a trend where the utilisation of out-of-hospital treatments such as chronic medicine, GP visits and specialists visits have increased more than what we expected and what is experienced in other schemes. We have also experienced a significant increase in requests and utilisation for new technologies such as biological medicine and the very latest surgical procedures. These trends will be carefully monitored and managed by the trustees to ensure it can be provided in a sustainable way.

In recent years Remedi has introduced a number of preventive and screening benefits that is funded from the Scheme's risk benefits and not from members' day-to-day benefits. These benefits specifically aim to provide members with key personal health information to enable them to firstly understand their personal health, but more importantly to act on this information and either start to live more healthy or to obtain the most effective medical care to ensure that medical conditions are managed more effectively, therefore ultimately resulting in better health outcomes. Unfortunately these preventive and screening benefits are not used by members and we would like to urge members to start to use these benefits and to get to know their health status.

Despite the current 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 avoid potential benefit reductions and/or significant contribution increases in the future.

Regulatory environment

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. Different government departments are continuing to align their efforts and processes towards this goal and we have seen the continuation of a number of pilot programmes during 2014.

The Department of Health strategic plan for 2014-2019 includes specific goals for establishing the NHI. This is aligned with the Medium Term Expenditure Framework of 2014, but this strategic plan goes further:

- To aim for 21/52 health districts as pilot districts by 2019.
- All legislation to be finalised with a functional NHI Fund by 2019.
- A Pricing Commission to regulate private sector prices to be functional by 2017.
- The implementation of a purchaser: provider split is being developed at central hospitals through the establishment of DRG-based revenue collection systems
- To recruit, appoint and manage GPs at district level. Unfortunately the latter drive is struggling, with reasonable success only in Gauteng. Several other provinces have less than 10 GPs appointed to date.

With the weaker growth outlook of 1.4% of GDP for 2014 and the resulting focus on restrained expenditure growth, the health budget for 2014/15 remains at R145.5 billion. This will grow by an average of 6.4% per year to R175.1 billion in 2017/18. Most additional spending is to grow the ARV programme. Treasury notes that NHI will only be introduced after the restructuring of intergovernmental fiscal relations to allow for a centralised NHI Fund. This implies complex discussions between the national and provincial authorities, and may well create further delays in clarifying the proposed NHI policy.

A positive element of the proposed NHI is that government realises that many basic services and infrastructural development is needed to successfully implement NHI and have suggested a phased approach of 10–12 years that started in 2012.

The continually changing environment and the Scheme's requirement to comply with a number of 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 cost of the Scheme. These require a lot of dedicated time and resources from the Principal Officer, the trustees and the administrator.

Membership

Remedi is a restricted scheme registered with the Council for Medical Schemes (CMS) in terms of the Medical Schemes Act, Nr 131 of 1998 and its Regulations (the Act). Membership to Remedi is compulsory for employees who are employed with those employers who participate as employer groups of the Scheme. These employer groups are:

- Remgro, Mediclinic, Distell, British American Tobacco South Africa, Tracker, Transhex, WWF, PPF, ER24 and RLG Africa.

As members of a restricted medical scheme, the trustees are elected and appointed by participating employer groups and employee members, which provides a significant advantage to members through member and trustee **ownership** of the Scheme.

The absence of broker commissions and trustee remuneration, as well as many other “cost savings” in a restricted medical scheme environment ensures that the **cost of administration** and other **non-healthcare costs remain low**. Members in a restricted medical scheme environment are therefore assured that their contributions are used for the funding of benefits and the costs and expenditure incurred to treat medical conditions and medicines, and not paid towards elaborate non-healthcare expenses.

Fewer options available to members also results in a smaller impact of buy-downs and therefore an appropriate retention of cross-subsidies, which assists the trustees in making informed decisions when contribution increases and benefit structures are determined.

The fact that only employees from participating employers can join Remedi and that membership is compulsory ensures a much greater level of cross-subsidisation within the Scheme. It also prevents anti-selective behaviour that can be detrimental to the long-term sustainability of any medical aid scheme.

Current initiatives

The Remedi trustees are aware that sustainability in the current environment and readiness for future changes requires ongoing assessment and planning, and are currently focussing on the following important initiatives:

1. An independent member survey was conducted in the first quarter of 2015 to ensure that the trustees are fully aware of the current satisfaction and loyalty levels of our members. This perception survey was supported by an independent actuarial comparison of the Remedi benefits and contributions with other comparable restricted and open medical aid schemes.
2. The trustees have also embarked on a journey to define a vision of how a restricted medical scheme should be designed and structured to ensure that it remains relevant and suitable to the needs of the participating employers and their employees in the long term. 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.
3. To develop a programme to improve general member experience through:
 - a. further improvement to administration,
 - b. call centre and walk-in centre optimisation to enable effective contact with the Scheme,
 - c. member education and communication initiatives aimed at empowering members, and
 - d. the elimination of all the inefficiencies in the rules, policies and processes.

4. Increased focus on the general wellness of members through increased utilisation of the Scheme’s preventive care and screening benefits, as well as through the Vitality HealthyFood benefit.
5. Trustee development and succession to ensure a Board of Trustees enabled to fulfil their fiduciary duties in this constantly changing and challenging environment.

Summary

The trustees are comfortable that 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 that 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 of:

- **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 during the 2014 benefit year:

- The Remedi Board of Trustees
- Kobus du Plessis, our Principal Officer
- Dr Johan Dippenaar, our independent medical adviser
- Administrators, Discovery Health
- Our employer groups, their representatives and HR teams
- Our preferred providers – Mediclinic, ER24, CareCross, PPN and CDE
- Audit Committee members and auditors, PwC



Dr CA van der Merwe

Chairman

21 April 2015

Highlights from the Scheme's financial results for 2014

Statement of Financial Position as at 31 December 2014

ASSETS	2014 R	2013 R
Non-current assets	310 785 331	258 509 892
Available-for-sale investments	140 785 331	129 509 892
Held-to-maturity investments	170 000 000	129 000 000
Fixed deposit accounts	128 000 000	129 000 000
Personal medical savings account <i>trust</i> funds	42 000 000	-
 Current assets	 320 019 035	 322 201 714
Trade and other receivables	12 584 499	10 969 890
Cash and cash equivalents	307 434 536	311 231 824
Current call and fixed deposit accounts	279 825 063	244 801 636
Personal medical savings account <i>trust</i> funds	27 609 473	66 430 188
 Total assets	 630 804 366	 580 711 606
 FUNDS AND LIABILITIES		
 Members' funds	 530 583 801	 486 465 386
Accumulated funds	523 412 793	481 713 492
Available-for-sale revaluation reserve	7 171 008	4 751 894
 Current liabilities	 100 220 565	 94 246 220
Personal medical savings account <i>trust</i> liability	66 798 380	65 218 962
Trade and other payables	19 022 185	15 127 258
Outstanding claims provision	14 400 000	13 900 000
 Total funds and liabilities	 630 804 366	 580 711 606

Statement of Comprehensive Income for the year ended 31 December 2014

	2014 R	2013 R
Risk contribution income	690 268 477	598 682 278
Relevant healthcare expenditure	(619 941 847)	(552 901 938)
Net claims incurred	(627 285 572)	(553 845 489)
Risk claims incurred	(628 348 620)	(554 819 762)
Third party claims recoveries	1 063 048	974 273
Net income on risk transfer arrangements	7 343 725	943 551
Premiums paid on risk transfer arrangements	(27 783 179)	(25 156 557)
Recoveries from risk transfer arrangements	35 126 904	26 100 108
Gross healthcare result	70 326 630	45 780 340
Managed care: management services	(14 858 336)	(13 318 946)
Administration expenditure	(42 404 140)	(38 232 909)
Net impairment loss on trade and other receivables	(234 146)	(479 518)
Net healthcare result	12 830 008	(6 251 033)
Other income	33 152 001	30 092 730
Investment income	33 225 534	29 217 394
Scheme	29 485 801	25 991 138
Return on personal medical savings account <i>trust</i> monies invested	3 739 733	3 226 256
Sundry (expense)/income	(73 533)	875 336
Other expenditure	(4 282 708)	(3 719 755)
Asset management fees	(542 975)	(493 499)
Interest paid on savings balances	(3 739 733)	(3 226 256)
Net surplus for the year	41 699 301	20 121 942
Other comprehensive income		
Items that may be subsequently reclassified to profit and loss		
Fair value adjustment on available-for-sale investments	4 668 626	5 390 672
Amount realised on disposal of available-for-sale investments	(2 249 512)	(2 753 155)
Total comprehensive income for the year	44 118 415	22 759 459

Statement of Changes in Members' Funds and Reserves for the year ended 31 December 2014

	2014 R	2013 R
Accumulated funds		
Balance at beginning of year	481 713 492	461 591 550
Net surplus for the year	41 699 301	20 121 942
Balance at end of the year	<u>523 412 793</u>	<u>481 713 492</u>
Available-for-sale revaluation reserve		
Balance at beginning of year	4 751 894	2 114 377
Current year unrealised gains	4 668 626	5 390 672
Amount realised on disposal	(2 249 512)	(2 753 155)
Balance at end of the year	<u>7 171 008</u>	<u>4 751 894</u>

Statement of Cash Flows for the year ended 31 December 2014

	2014 R	2013 R
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flow from operating activities		
Cash flows from operations after working capital changes	13 376 478	(8 933 412)
Interest received	23 826 234	20 233 235
Scheme	20 086 501	17 006 979
Return on personal medical savings account <i>trust</i> monies invested	3 739 733	3 226 256
Net cash generated from operations	<u>37 202 712</u>	<u>11 299 823</u>
Cash flow from investing activities		
Purchase of held-to-maturity investments *	(41 000 000)	(5 800 000)
	-	-
Net (decrease)/increase in cash and cash equivalents	<u>(3 797 288)</u>	<u>5 499 823</u>
Cash and cash equivalents at the beginning of the year	311 231 824	305 732 001
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>307 434 536</u>	<u>311 231 824</u>
Scheme	279 825 063	244 801 636
Personal medical savings account <i>trust</i> funds	27 609 473	66 430 188

* The net cash flow from purchase/sale of held-to-maturity investments has been included in the cash flow statement due to the amounts being re-invested on maturity

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

Nature and impact

In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. At 31 December 2014 the Comprehensive and Standard options incurred deficits as set out in the surplus(deficit) from operations per benefit option supporting note to the annual financial statements. The trustees review the performance of the benefit options offered by means of an annual actuarial review of contributions and benefits. The loss on the Comprehensive and Standard options are in line with the Scheme's pricing strategy, approved by the Council for Medical Schemes when the Rules were registered for 2014. The Scheme's pricing strategy allows for some cross-subsidisation between options, to ensure contributions remain affordable.

Causes for the failure

The non-compliance occurred as members claimed more than what was contributed.

Corrective action

This matter is high on the agenda of the Remedi Board of Trustees and is monitored and discussed regularly throughout the benefit year. The Board also instructed the Benefit Review Committee to focus on this matter during the annual benefit and premium review cycle.

As the Scheme has more than adequate reserves, in excess of the requirements in terms of the Act, the trustees have a deliberate strategy to resist major contribution adjustments. The Board of Trustees has again, for 2015, budgeted for deficits on the Comprehensive and Standard options, with approval from the Council for Medical Schemes.

2. Outstanding contributions

Nature and impact

In terms of section 26(7) of the Act, contributions should be received in accordance with the rules of the scheme, which indicates that it should be received by the latest three days after it is due. There were instances where the Scheme received contributions after three days of it becoming due, however, there are no contracts in place agreeing to any such arrangements. An amount of R51 440 (2013: R2 006 027) was still outstanding for December 2014 after it was due.

Causes for the failure

Administrative delays and late payments.

Corrective action

The trustees provided the administrator with a debt mandate, stipulating the different actions to be taken against defaulting members and employer groups. All the December contributions were received by 26 January 2015.

3. Investment in participating employer and medical administrators

Nature and impact

In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.

At 31 December 2014 the Scheme indirectly held shares in participating employers, Remgro Ltd R1 394 246 (2013: R300 428), British American Tobacco PLC R1 762 574 (2013: R1 772 909) and Mediclinic International Limited R227 230 (2013: R142 154), through a pooled investment with their investment manager.

The Scheme also, through this same pooled investment, indirectly held shares in MMI Holdings Ltd to the value of R365 583 (2013: R388 045), Liberty Holdings Ltd to the value of R366 386 (2013: R285 021) and Discovery Holdings Limited R26 680 (2013: RNil).

Causes for the failure

Investment in pooled investment structure.

Corrective action

Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximises returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme has received exemption from this section of the Act.

Key Financial and Service Metrics

	2014	2013
Members' funds	R523 412 793	R481 713 492
Solvency ratio	72.46%	76.74%
Membership (lives)	45 223	43 889
Gross contribution income	R722 335 157	R627 725 364
Risk contribution income	R690 268 477	R598 682 278

Benefit Options	2014 Comprehensive	2014 Classic	2014 Standard	2014 Total
Number of members at year-end	6 556	9 444	4 175	20 175
Average number of beneficiaries for the accounting period	15 575	19 430	9 648	44 653
Average age of beneficiaries for the accounting period	35.9	25.7	25.5	29.1
Pensioner ratio	9.5%	2.5%	1.4%	4.6%
Average contributions net of savings per member per month	R3 649	R2 884	R1 662	R2 884
Average claims net of savings incurred per member per month	R3 971	R2 062	R1 554	R2 590
Members' funds per member at 31 December	N/A	N/A	N/A	R26 299
Non-health expenses as a percentage of gross contributions	5.9%	8.3%	14.5%	8.0%
Return on investments as percentage of investments at 31 December	N/A	N/A	N/A	5.4%