AMS | ANGLO MEDICAL SCHEME

MEDIBRIEF

APRIL 2023 SPECIAL EDITION: ANNUAL FINANCIAL RESULTS FOR 2022 – COMMENTARY

2022: the big picture

Total medical savings account balance
2022 **R238.8m** | 2021 **R230.9m**

Average accumulated funds per member
2022 **R377 513** | 2021 **R375 719**

Interest earned on MSA
2022 **R12.43m** | 2021 **R8.29m**

Number of beneficiaries
2022 **17 918** | 2021 **17 531**

Average contribution increase
AMS **6.0%** | CPI **7.2%**

Average beneficiary age
2022 **41.7** | 2021 **42.3**

Solvency ratio
2022 **461.7%** | 2021 **467.4%**

Beneficiary pensioner ratio
2022 **24.1%** | 2021 **25.2%**

Executive summary: a review of 2022

Just when we thought there was a glimmer of hope on the horizon with the December 2021 Covid-19 data showing little more than a blip on the graphs, along came the Russia/Ukraine conflict, something we all hoped would not happen. 2020 and 2021 tested our healthcare responses, and the 2022 global geopolitical turmoil, rising interest rates and high inflation have tested our financial resilience. Despite these challenges, the Scheme performed reasonably and reported a small surplus of R76.6 million for the year, down on the 2021 surplus of R347.6 million, which was largely due to a decrease in investment income and movements in unrealised gains (2021 investment income was unusually high). The 2022 net asset value was reported to be R3.3 billion, slightly up on the 2021 asset value of R3.2 billion.

As global and, more so, local uncertainty continues, we are ever grateful for the wisdom of our forefathers and our Scheme's reserves; however, finding the balance between holding and releasing reserves is a monumental task. As the slow recovery from the pandemic has continued, the 2022 healthcare utilisation and claims costs increased, but not as significantly as expected, and it is beginning to appear that the lower claiming patterns may be the 'new normal' for some years to come. This lower-than-expected claims pattern resulted in an increase in the Long Term Funding (LTF) ratio from 120.3% to 133.7%. The two main drivers impacting this ratio are the claims costs and investment returns. Even a small percentage variation in either component has a sizable impact on the ratio when extended over the full 15 to 20-year period.

Membership grew by 2% due to corporate activity and, with younger members joining the Scheme, there was a marginal 1% reduction in the average beneficiary age to 41.7 years and a 4% reduction in the pensioner ratio to 24.1% (25.2% in 2021). While contributions were increased by 6% in 2022, the average gross contribution income per beneficiary per month increased by 4%, partly due to membership Plan changes, but more significantly due to new members choosing the more affordable Plans.

The Scheme annually compares and evaluates its position in the market to ensure it maintains its relevance and competitiveness and the 2022 offering remained better than market equivalent options when measured against 10 competitor products. The benefits provided scored higher than average across all three Plans and were all offered at lower than average contribution rates.

continues >>

PARTICIPATING EMPLOYERS
The principal participating employer groups are Anglo Corporate Services South Africa (Pty) Limited, Mondi South Africa (Pty) Limited and Mpact Limited.

Snapshot of the Scheme in 2022

162 ▲ more active memberships | Beneficiary age down to ▼ **41.68** (from 42.31 years in 2021) | Managed Care Plan membership ▼ **3%** | Standard Care Plan membership ▲ **5%** | Value Care Plan membership ▲ **10%**

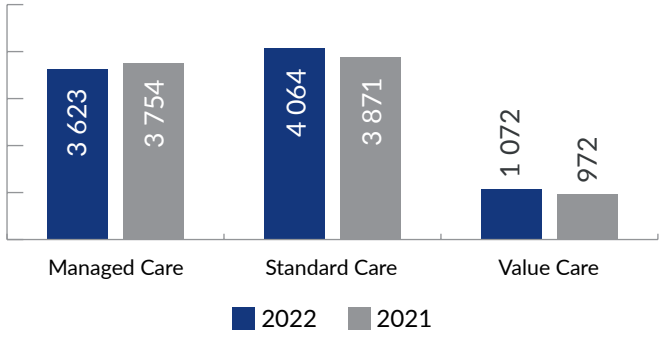
A net healthcare deficit of R73.2 million was reported for the year reflecting in the shortfall between the budgeted risk contribution income and claims incurred due to the Scheme's higher than average membership age. The 2022 average cost of claims per annum for members aged between 26 and 35 years old was R12 997, whereas for members above 65 years old the average cost was R72 430 (p.a.).

The Scheme continued to maintain a sound system of risk management and internal control, providing reasonable assurance in the achievement of organisational objectives with respect to:

- Effectiveness and efficiency of operations;
- Safeguarding of the Scheme's assets (including information);
- Compliance with applicable laws, regulations and supervisory requirements;
- Supporting business sustainability under normal and adverse operating conditions;
- Reliability of reporting; and
- Behaving responsibly towards all stakeholders.

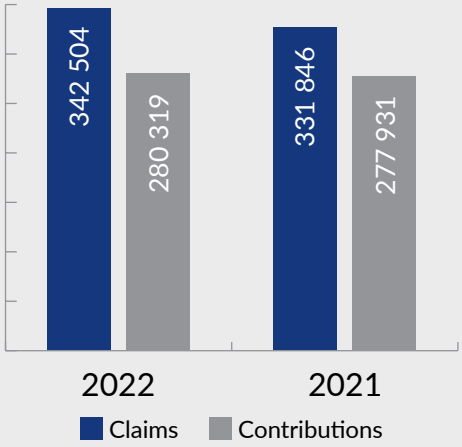
We at AMS strive to deliver service excellence to our members with an average rating of 95.8% achieved across all the agreed service level measurements, with members rating their satisfaction at a similar level. Credit needs to be given to our dedicated call-centre team, Client Liaison Officers and all those behind the scenes who help to achieve this level of excellence.

Change in membership per plan

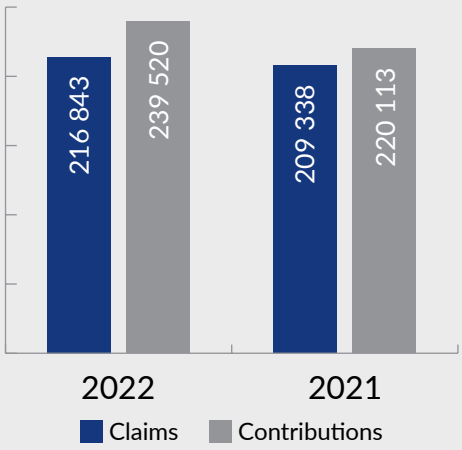


Performance per plan

RELEVANT HEALTHCARE EXPENDITURE (CLAIMS) VS RISK CONTRIBUTIONS: MANAGED CARE PLAN R'000



RELEVANT HEALTHCARE EXPENDITURE (CLAIMS) VS RISK CONTRIBUTIONS: STANDARD CARE PLAN R'000



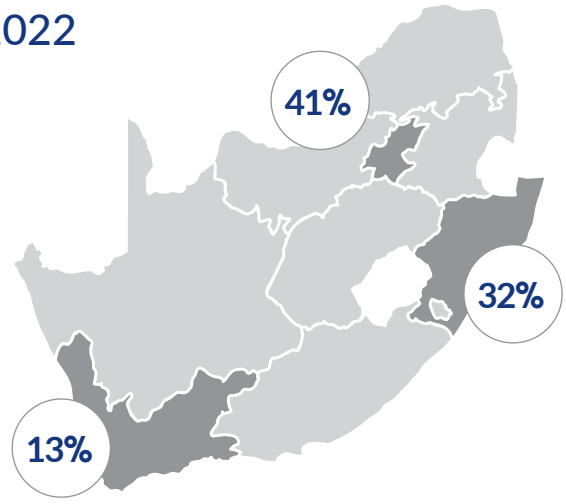
What our membership looked like in 2022

Location

Our members are spread across South Africa, the majority of whom are located in **Gauteng (41%)**, **KwaZulu-Natal (32%)** and the **Western Cape (13%)**.

Average age: **41.7** Members: **8 759**
Dependants: **9 159**

51.05% **48.95%**



Statement of Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 R'000	2021 R'000
Risk contribution income	8	**539 569**	**515 425**
Relevant healthcare expenditure		**(577 673)**	**(557 166)**
Net claims incurred		(565 974)	(546 201)
Risk claims incurred	9	(566 701)	(547 268)
Third-party claims recoveries		727	1 067
Net income on risk transfer arrangements	10	61	396
Risk transfer arrangement fees/premiums paid		(46 071)	(45 485)
Recoveries from risk transfer arrangements		46 132	45 881
Managed care: management services	11	(11 760)	(11 361)
Gross healthcare result		**(38 104)**	**(41 741)**
Administration fees	13	(21 710)	(20 919)
Administration expenses	12	(13 599)	(12 843)
Net impairment gains/(losses)	14	248	(245)
Net healthcare results		**(73 165)**	**(75 748)**
Investment and other income		176 198	445 042
Investment income	15	174 150	442 668
Sundry income	16	2 048	2 374
Other expenditure		(26 454)	(21 700)
Expenses for asset management services rendered		(14 020)	(13 407)
Interest paid on Medical Savings Accounts		(12 434)	(8 293)
Total comprehensive income for the year		**76 579**	**347 594**

Statement of Financial Position

as at 31 December 2022

	Notes	2022 R'000	2021 R'000
ASSETS			
Non-current assets			
Investments held at fair value through profit or loss	2	1 021 041	1 134 702
Current assets		2 567 902	2 370 442
Investments held at fair value through profit or loss	2	2 360 924	2 214 823
Trade and other receivables	3	7 355	8 496
Cash and cash equivalents	4	199 623	147 123
Total assets		**3 588 943**	**3 505 144**
FUNDS AND LIABILITIES			
Accumulated funds		3 306 641	3 230 062
Current liabilities		282 302	275 082
Outstanding risk claims provision	5	29 585	30 592
Medical Savings Account liability	6	238 828	230 875
Trade and other payables	7	13 889	13 615
Total funds and liabilities		**3 588 943**	**3 505 144**

Statement of Changes in Funds and Reserves

for the year ended 31 December 2022

	Accumulated funds R'000
Balance as at 1 January 2021	**2 882 468**
Total comprehensive income for the year	347 594
Balance as at 31 December 2021	**3 230 062**
Total comprehensive income for the year	76 579
Balance as at 31 December 2022	**3 306 641**

Outstanding claims provision

The outstanding risk claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. We use various assumptions, which are regularly reviewed to ensure their applicability, to determine this provision. In 2022, provision was made for R29.6 million (including R2.5 million for state vaccination claims) compared to R30.6 million for the previous year (including R3.9 million for state vaccination claims).

AMS's investments and capital management

What's our investment strategy?

The Scheme's investment strategy is to maximise the annual return at an acceptable level of risk within the constraints of the Medical Schemes Act. The Scheme believes that this risk should be managed in part by holding a conservative yet diversified portfolio with a significant proportion of the assets providing returns that offer protection against inflation over the longer term. The investment objective is to earn a return net of fees that exceeds the Consumer Price Index by at least 3.5% p.a. over a rolling five-year period.

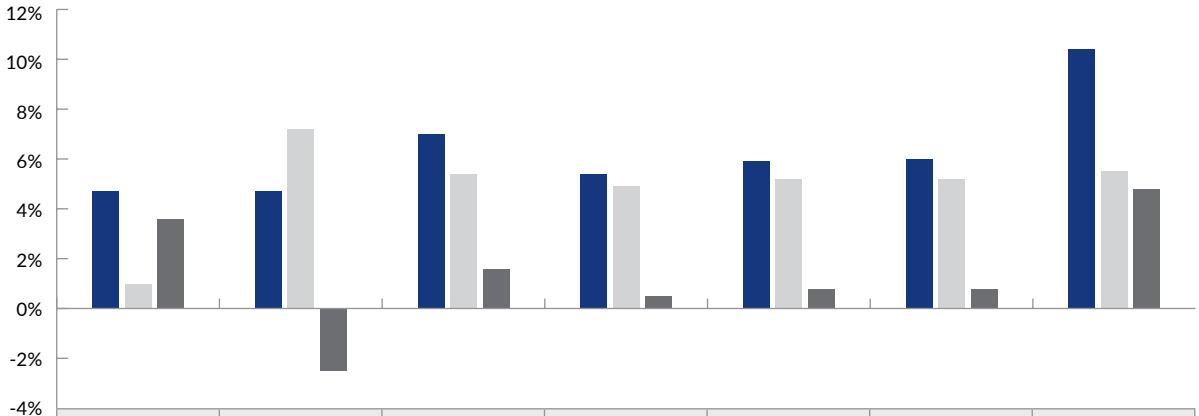
Period	Portfolio Performance	Consumer Price Index	CPI plus 3.5% p.a.
1 January to 31 December 2022 (p.a.)	4.7%	7.2%	10.7%
5 years (p.a.)	5.4%	4.9%	8.4%
21 years (p.a.) (since inception)	10.4%	5.5%	9.0%

Total investments held at year end (R'000)

How our investments performed

The major global equity indices delivered negative returns over the one-year period ending 31 December 2022, with the US having had its worst performance since 2008. The MSCI World Index delivered -18.1% in US Dollar terms (-12.7% in Rands) and global bonds fared equally badly. The South African equity market delivered 4.6% for the 12 months, inflation remained persistently high with year-on-year CPI at 7.2% and the Rand depreciated by 6.6%. The SA economy can be measured over two decades, the first where the balance sheet was strong and the country experienced good economic growth and the second where government policy faltered, negatively influencing growth. This can be seen when comparing the AMS performance since inception versus the last 10 years. Despite the surprisingly good quarter ending 2022, persistently high inflation, the change in the US Federal Reserve Bank monetary policy and the impact of the Russia/Ukraine war resulted in a disappointing negative 2.5% real return for the Scheme, net of fees. However, it is important to note that, over this period, no asset class (local or global) delivered a positive real return.

Anglo Medical Scheme real return including member savings vs inflation



	3 months	1 year	3 years	5 years	7 years	10 years	22 years
AMS performance	4.7%	4.7%	7.0%	5.4%	5.9%	6.0%	10.4%
Inflation	1.0%	7.2%	5.4%	4.9%	5.2%	5.2%	5.5%
AMS real return	3.6%	-2.5%	1.6%	0.5%	0.8%	0.8%	4.8%

Investments per asset allocation	2022 R'000	2021 R'000
Bonds	1 149 238	1 072 629
Collective Investment Schemes	483 540	430 201
Commodities	58 908	57 562
Equities	1 118 310	1 148 545
Linked Insurance Policies	444 042	502 518
Money Market Instruments	127 927	138 070
	3 381 965	**3 349 525**

Investments per investment manager		
Coronation Asset Management (Pty) Ltd	598 243	602 928
Allan Gray South Africa (Pty) Ltd	511 992	467 137
Ninety One SA (Pty) Ltd	1 705 402	1 721 350
Abax Investments (Pty) Ltd	566 328	558 110
	3 381 965	**3 349 525**

How we managed our capital

According to Regulation 29(2) of the Act, the Scheme needs a minimum solvency ratio of accumulated funds (as a percentage of gross contributions) to be 25%. This is how the capital requirement is calculated:

Total Accumulated Funds per the Statement of Financial Position	3 306 641	3 230 062
Less: cumulative unrealised net gain on measurement of investments to fair value	(470 889)	(478 050)
Accumulated funds per Regulation 29	2 835 752	2 752 012
Gross contribution income (R'000)	614 208	588 792
Solvency margin = Accumulated funds/gross contribution income x 100	461.7%	467.40%

How we measured our performance

- **Sufficient reserves:** Maintaining sufficient reserves ensures that we can always cover our members' healthcare costs. The actuarially determined accumulated funds at the end of 2022 was R3.298 billion. This gave us a current long-term funding ratio of 133.7%.
- **Contribution increases and benefit changes:** Our goal is to maintain contribution increases and their aligned benefits close to the industry average and the generally accepted medical inflation rate of CPI plus 3%. We achieved this in 2022 with an average annual contribution per member of 6.0%.
- **Value for money:** We want to provide better value for money than members would be able to find from our competitors. Our plans are independently evaluated every year, and in 2022 our benefits scored higher than average across all three plans and were all offered at lower-than-average contribution rates, indicating better value for money than could be purchased in the market.
- **Service excellence:** We assess service excellence by measuring first-call resolution, today's work being completed today, our service level, length of time to pay a claim, and member satisfaction. Our administrator, Discovery Health, maintained service levels above the required 90%.
- **Non-healthcare costs below 10% of gross contribution income:** We strive to keep our non-healthcare costs below 10%, as required by the Council for Medical Schemes. In 2022, these costs were at 5.7%.

A sound system of risk management

The Scheme maintains a sound system of risk management and internal control providing reasonable assurance in the achievement of organisational objectives. Several methods are employed to assess and monitor risk exposure. These methods include the use of internal risk measurement models, sensitivity analyses and scenario analyses all of which are subject to strict audit criteria. In addition to the Scheme's other compliance and enforcement activities, the Board of Trustees has implemented a whistleblowing process.

How we share our risk

The Scheme has risk-sharing agreements with third-party service providers to ensure cost-effective services. This provides the Scheme with the ability to mitigate an identified risk by agreement with a third-party service provider. The principle is based on the sharing of predefined potential claims loss in return for exclusivity of delivering the service.

Organisation	Services capitated	Plan
Kaelo Prime Cure (Pty) Ltd	Provides primary healthcare services at healthcare centres and contracted network service providers, including a limited hospital benefit.	Value Care Plan
Netcare 911 (Pty) Ltd	Provides emergency transport services and other ambulance services.	Managed Care Plan Standard Care Plan
Centre for Diabetes and Endocrinology (CDE)	Provides diabetes-related medical services including related hospitalisation expenses.	Managed Care Plan Standard Care Plan
Dental Risk Company	Provides a network of dentists providing dental-related medical services.	Standard Care Plan

Related-party transactions

The Scheme is governed by the Board of Trustees who are appointed by the participating employers or elected by the members of the Scheme. The Scheme's appointed administrator, Discovery Health (Pty) Ltd has significant influence over the Scheme as it administers and manages the financial and operating policies determined by the Board. Discovery Health (Pty) Ltd provides administration and managed care services.

- Annually renewable administration and managed care arrangements are in place with Discovery Health (Pty) Ltd.
- An annually renewable managed care arrangement is in place with Medikredit (Pty) Ltd.
- A risk transfer arrangement is in place with Kaelo Prime Cure (Pty) Ltd.
- A head office rental arrangement is in place with Anglo Corporate Services South Africa (Pty) Limited.

Transactions with parties with significant influence over the Scheme	2022 R'000	2021 R'000
Statement of Comprehensive Income transactions		
Discovery Health (Pty) Ltd		
• Administration fees	21 710	20 919
• Managed Care: management services fees	10 517	10 157
Medikredit (Pty) Ltd – electronic checking fees	**1 315**	**1 276**
Kaelo Prime Cure (Pty) Ltd – risk transfer arrangement fees	**16 356**	**14 814**
Anglo Corporate Services South Africa (Pty) Limited		
• Head office rental and management fees	467	336
Statement of Financial Position		
Balance due to Discovery Health (Pty) Ltd	2 664	2 519
Balance due to Medikredit (Pty) Ltd	110	105
Balance due to Kaelo Prime Cure (Pty) Ltd	-	1 266
Anglo Corporate Services South Africa (Pty) Limited	-	51
Investment in employers	67 142	84 256

Non-compliance with the Medical Schemes Act – exemptions

Outstanding contributions: In terms of Section 26(7) of the Act, contributions should be received within three days of their due date, but instances were noted where contributions were received late. This may result in discrepancies between the participating employer and the Scheme's balances. Suspension policies are in place and applied where contributions are outstanding for individual paying members outside the participating employers' obligation.

Investment in participating employer: Section 35(8) (a) of the Act states that a medical scheme shall not invest any of its assets in a participating employer. The Scheme invests in pooled investment vehicles, which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark. Given this approach, the Scheme was exposed to participating employer shares. An exemption is valid until 30 November 2025.

Investment in administrator: Section 35(8) (c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme invests in pooled investment vehicles, which allow investment managers the discretion to invest in a combination of equities and bonds that will best achieve their stipulated benchmark. Given this approach, the Scheme was exposed to administrator shares. This exemption is valid until 30 November 2025.

Sustainability of benefit options: In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance. The Managed Care Plan incurred deficits before investment income. Anglo American South Africa sold numerous subsidiaries over a period of time resulting in the loss of active employees and retention of pensioners. To compensate the Scheme for the resultant high pensioner ratio and expected deterioration of the claiming profile, the participating employers pre-funded the additional liability to the extent that the Scheme could maintain market-related benefits and contribution increases into the future. The Scheme meets its responsibility to the members by subsidising the expected claims excess over contributions from the reserves. The Trustees will continue to review the investment returns to align with the strategy ensuring sustainability.

Payment of claims within 30 days: In terms of section 59(2) of the Act, a claim should be settled within 30 days of submission, but there were instances of payments taking longer than 30 days. Delays can occur when accounts are referred for clinical audit or other investigations, and the Scheme makes every effort to comply.

Investment in equities in territories outside the Republic of South Africa: In terms of Category 4(b) of Annexure B to the Regulations of the Act, investments in equities in territories outside the Republic of South Africa are prohibited. The Scheme has exposure to equities in territories outside the Republic through its Ninety-One investment portfolio. The exemption expires on 21 April 2023, and a renewal application has been lodged.

Key performance indicators

547 125 claims processed	**33 067** calls handled
42 165 emails answered	**95.79%** service level achieved
9.48/10 average service rating by members	

Board of Trustees

Member Elected	Member Elected – Alternate trustee	Employer Appointed	Employer Appointed – Alternate trustee
Elliott CC (Chairman) Fox Dr FH (Vice-Chairman) Farrell MR Hosking S Mason-Gordon NJ Mhlongo PQ	McKie Thomson CMT Preston GP Ragolane NS	Coetzer JP Liston JB Mamabolo NM Moodley R Thompson HM van der Bijl BD	Ameer KN Matemera TS van Vugt TD

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which are set by the International Accounting Standards Board (IASB). The Financial Statements are also prepared in accordance with the Act, which requires additional disclosures for registered medical schemes.

Statement of responsibility

The Trustees are responsible for the preparation and fair presentation of the annual financial statements of the Anglo Medical Scheme (the Scheme), set out on pages 32 to 82, comprising the statement of financial position at 31 December 2022, the statement of comprehensive income, statement of changes in funds and reserves, statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with IFRS and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees are also responsible for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Trustees have reviewed the Scheme's budget for the year ending 31 December 2023. The Trustees have made an assessment of the Scheme's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

On the basis of this review and in light of the current financial position and available resources, the Trustees have no reason to believe that the Scheme will not be a going concern for the foreseeable future.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements of Anglo Medical Scheme, as identified in the first paragraph, were approved and authorised for issue by the Trustees on 5 April 2023 and are signed on their behalf by:

Mrs CC Elliott	Dr FH Fox	Ms FK Robertson
Chairman	Vice-Chairman	Principal Officer

Auditor's approval

In accordance with IFRS and the requirements of the Medical Schemes Act of South Africa, the external auditors, PricewaterhouseCoopers, certified that the annual financial statements fairly presented the financial position of the Anglo Medical Scheme at 31 December 2022.

Find out more

This special edition of MediBrief is a summary of the key information in our 2022 Annual Financial Statements. If you would like the full set of financials with their corresponding detailed notes on our annual financial statements, please get in touch with us.

Call us: 011 638 2939 | Email us: Yvonne.Landsberg@angloamerican.com
Download: www.angloms.co.za > My Scheme > Annual Financial Statements