



Alliance-Midmed Medical Scheme

2019 Benefit and Contribution Pricing Report

October 2018



ALLIANCE-MIDMED MEDICAL SCHEME

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1. Introduction

The Board of Trustees and Scheme Management of Alliance-Midmed Medical Scheme ('the Scheme' or 'Alliance-Midmed') has requested that 3ONE Consulting Actuaries (3ONE) perform the 2019 benefit design and contribution pricing exercise. The purpose of the exercise is to set the contribution levels for the Scheme's benefit options in 2019, considering the following factors:

- 2018 financial and claims experience
- Demographic and risk profile changes over the period
- The Scheme's strategy and current position
- Changes in benefits
- Solvency requirements
- The larger health and medical scheme market.

Furthermore, the Scheme is committed to contribution levels that are affordable to its members and that will ensure that members' benefit entitlements are paid timeously and in full.

This report is fully compliant with the relevant professional guidance note APN303 titled "Advice to South African Medical Schemes on adequacy of contributions", and forms part of the submission to the Council for Medical Schemes in terms of their requirements as detailed in Circular 33 of 2018. The previous pricing exercise was performed by 3ONE.

All results, conclusions and recommendations contained in this report are based on the information (verbal, written and electronic) provided by Private Health Administrators ('PHA'), the administrators of the Scheme, as well as the financial management team of the Scheme. We have not sought independent verification of any of the information provided to us, nor have we requested that the information be audited. However, we have undertaken reasonability checks and are satisfied that the data supplied to us is sufficiently accurate for the purposes of this analysis.

This report has been compiled by 3ONE Consulting Actuaries, and is signed by the following appointed actuaries to the Scheme:



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2. Forecasted 2018 Year-End Position

This Section details the Scheme's actual year-to-date experience for the 2018 benefit year and provides a forecast of the year-end position. 3ONE has access to the following detailed data and information from 1 January 2015 to 30 September 2018:

- Line by line claims information
- Monthly membership and dependant data
- Management accounts and audited financial statements.

We have reconciled the data provided to us by PHA against the management accounts and audited financial statements, and are comfortable that the information is complete and accurate. Any minor discrepancies are due to timing issues and are deemed negligible for the purpose of this pricing exercise.

2.1 Scheme membership overview

The number of beneficiaries as at 30 September 2018 is **4,189**. The Scheme has experienced an annual decrease of beneficiaries. It has been assumed that the membership size of the Scheme will remain the same into the future.

The table below shows the membership in September over a four-year period.

Trend in membership

Member type	September 2015	September 2016	September 2017	September 2018
Principal members	1,728	1,824	1,853	1,774
Dependants	2,585	2,593	2,571	2,415
Total	4,313	4,417	4,424	4,189
Year-on-year change	-	+2.41%	+0.16%	-5.31%

The table below provides some key demographic statistics as at 30 September.

Demographic statistics

	September 2015	September 2016	September 2017	September 2018
Average family size	2.5	2.4	2.4	2.4
Average beneficiary age	32.0	32.1	32.5	33.3
Pensioner ratio	5.9%	6.1%	6.4%	7.1%

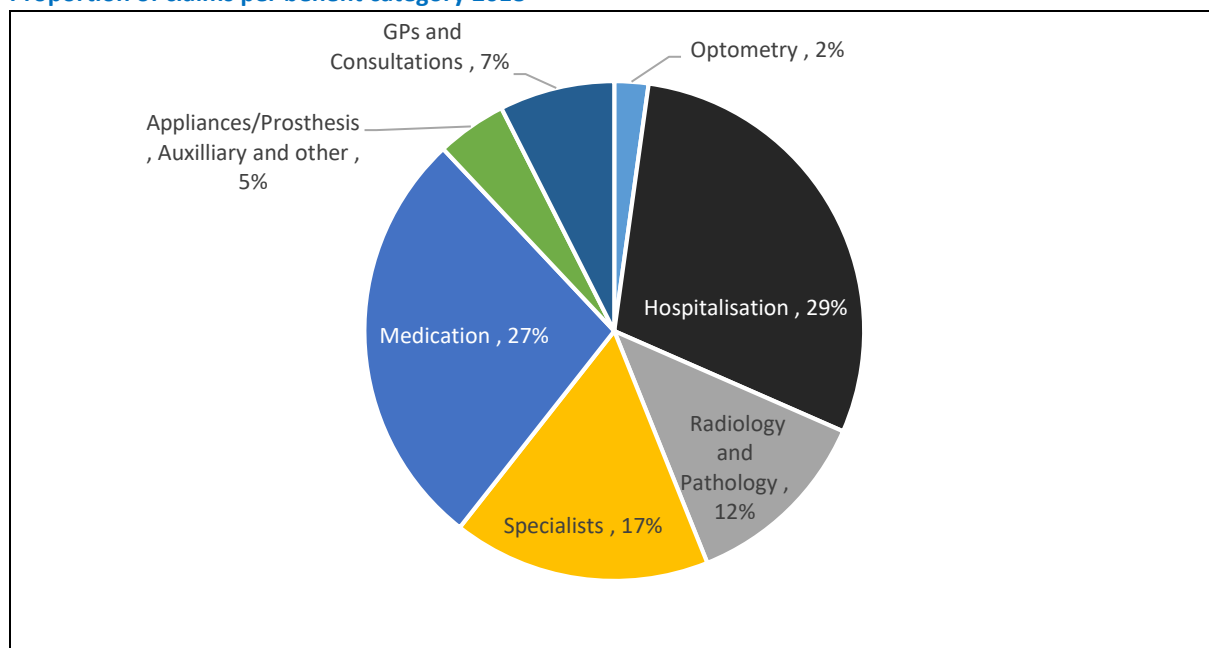
The Scheme has aged by approximately 0.8 years over the last year. Similar continued ageing and demographic profile deterioration has been assumed to continue into the future. The budgeted impact of this on claims utilisation is detailed in Section 4.

2. Forecasted 2018 Year-End Position

2.2 Claims experience

The chart below details the proportion of claims expected to be paid by benefit category, for all claims serviced in 2018.

Proportion of claims per benefit category 2018



Hospitalisation is responsible for the greatest proportion of claims and represents 29% of total claims costs.

The table below considers how the proportion of claims paid per benefit category has changed over the last few years. The proportional split by benefit category is fairly stable year-on-year, with only slight increases in claims arising from Hospitalisation each year.

Proportion of claims per benefit category 2016-2018

Benefit category	Claims proportion per benefit category		
	2016	2017	2018
Hospitalisation	25%	27%	29%
Specialists	16%	17%	17%
Medication	30%	28%	27%
Appliances/Prosthesis, Auxiliary and other	6%	4%	5%
GPs and Consultations	9%	9%	7%
Radiology and pathology	13%	13%	12%
Optometry	1%	2%	2%
Total	100%	100%	100%

2. Forecasted 2018 Year-End Position

2.3 Incurred But Not Reported (IBNR) Claims

The claims run-off factors (proportion of ultimate claims paid per month of development after service date) used to calculate the IBNR provision are based on the 2016, 2017 and 2018 year-to-date claims data of the Scheme. The claims run-off factors have been calculated separately for each of the main discipline categories.

We have used claims incurred to 31 July 2018 and paid to 30 September 2018, thereby allowing for two months lag in the payment of claims. The average claims run-off factors across all of the discipline categories are shown in the table below.

Development month	Run-off factors
Zero	Not applicable
One	
Two	97.7%
Three	98.6%
Four	99.8%
Five	99.9%
Six	99.9%
Seven	99.9%
Eight	100%
Nine	100%
Ten	100%
Eleven	100%

2.4 Seasonality

The table below details the overall proportion of claims paid in the first and second half of the year.

Overall claims proportions in the first and second half of the year

Year	First half	Second half
2016	48.9%	51.1%
2017	50.8%	49.2%
Assumed 2018	49.9%	50.1%

For 2018, we have assumed that 49.9% of the total Scheme claims were paid in the first half of 2018. This first half seasonality assumption is a blend of the previous two years. Given the size of the Scheme, we are exposed to shifts in seasonality due to the timing of high cost events.

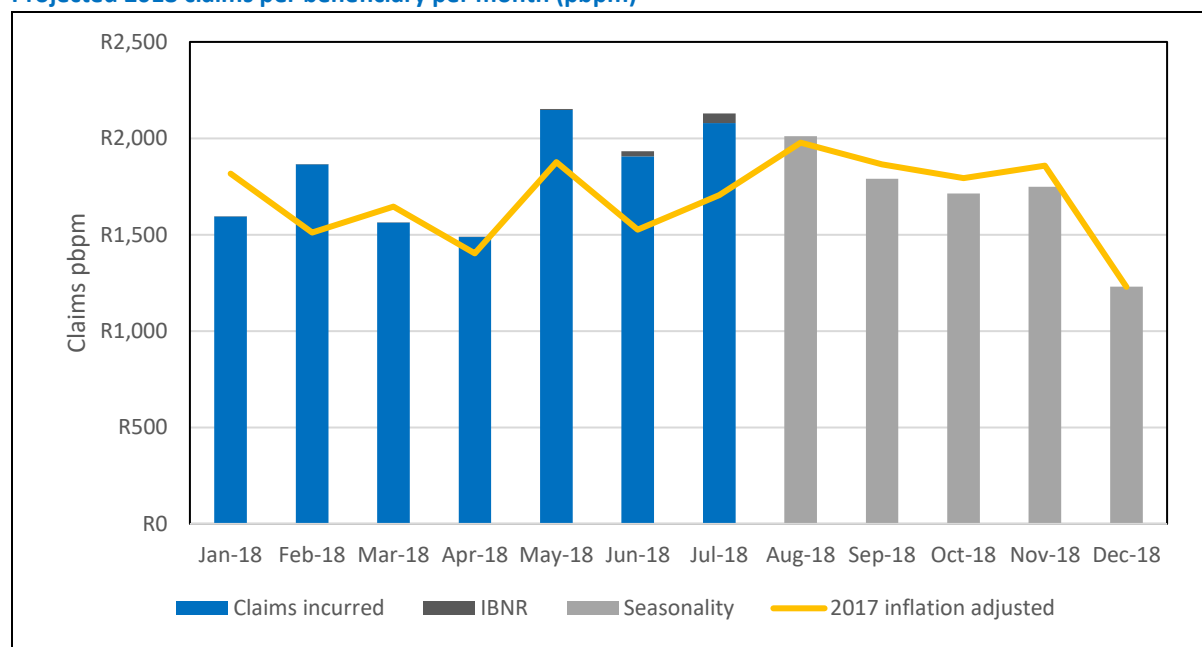
2. Forecasted 2018 Year-End Position

2.5 Forecasted 2018 year-end claims experience

We have not allowed for any membership losses for the remainder of the year. We expect **4,189** beneficiaries as at 31 December 2018, consistent with the membership as at 30 September 2018.

The graph below illustrates the projected 2018 claims by month for the Scheme. This shows the estimated proportion of claims outstanding and the seasonality used in projecting the claims for the remainder of the year. Given that we are using a two-month lag for IBNR, the dark grey shaded IBNR portions are small as most claims in respect of the first half of the year have already been paid. We have however tested the year-end projections based on current IBNR estimates and are comfortable with the consistency of the results.

Projected 2018 claims per beneficiary per month (pbpm)



The graph above illustrates that the main driver of the Scheme's worsened financial position is attributed to the poor claiming experience during 2018 compared to that of 2017.

The trend in average claims per beneficiary per month is shown in the table below.

Risk claims pbpm trend

	2016 actual	2017 actual	2018 projected
Overall scheme total	R1,254.02	R1,566.67	R1,768.57
Percentage increase	-	+24.9%	+12.9%

The total scheme claims increase for 2017 to 2018 is 12.0% lower than the 2016 to 2017 increase, but continues to perform worse than originally budgeted for 2018 given that 12.9% exceeds the allowance made for claims inflation.

2. Forecasted 2018 Year-End Position

The projected 2018 year-end income statement is shown below.

Financial Result 2018

	Scheme Total
Net contribution income	R90,980,120
Benefit expenditure	(R93,573,057)
Managed care fees	(R1,700,838)
Gross healthcare results	(R4,293,775)
Administration fees	(R4,024,631)
Scheme expenses	(R2,109,000)
EuropAssist fees	(R83,019)
Surplus/(deficit) from operations	(R10,510,425)
Investment income	R3,626,875
Net surplus/(deficit)	(R6,883,550)
<i>Accumulated funds ratio</i>	<i>31.4%</i>

3. Benefit Changes

3.1 Benefit limit increases

The Scheme advised that there will be no increases in the benefit limits and sub-limits for 2019. This decision is based on the projected financial position of the Scheme and the Scheme's focus on providing members with an affordable contribution increase for next year.

This is expected to have a **R226,537** annual savings impact on the Scheme's overall result; a 0.3% savings in claims.

3.2 Reduction of savings

The Scheme advised that the savings portion will be reduced from 8% to 5% of total contributions in 2019. An investigation was performed to determine the utilisation of medical savings accounts and the Scheme is satisfied that the impact of this change is outweighed by the resultant lower contribution increase.

3.3 Chronic medication savings

The Scheme advised that there will be a R26,000 per month saving on chronic medication. We have allowed for an impact of 0.3% savings on claims for 2019.

4. Assumptions for 2019

This section details all the assumptions considered and included in the 2019 benefit design and contribution pricing exercise. The assumptions are set in conjunction with the guidelines published in the Council for Medical Schemes' Circular 33 of 2018. According to Statistics South Africa, the August 2018 Consumer Price Inflation is 4.9%. The CMS proposed a maximum inflation level of 5.4%. Our assumptions are largely based on this inflation indicator, and projected changes to this indicator, together with historical cost increases regarding specific health sectors, such as hospitals and medicine and the recommended increases by the Scheme and its administrator.

4.1 Claims cost related assumptions

Type	Assumption
Scheme tariff increase	3.00%
Medication increase	5.00%
Hospital tariff increases	5.40%
Denis increases	5.30%
Utilisation increases, including ageing	3.35%

We have allowed for the impact of the VAT increase, effective 1 April 2018, on the tariffs increases shown above.

The South African Reserve Bank Monetary Policy Committee is currently forecasting average 2019 CPI to be 5.6%, whilst economists considered have forecast CPI to be around 5.7%. These views, together with those communicated by the Scheme and its administrator as well as the maximum increase suggested by the CMS, have therefore been considered in determining the proposed tariff and healthcare cost inflation increases.

The Single Exit Price (SEP) increase relates to the cost of medicines, with the annual cost adjustment regulated by the Minister of Health. The expected increase of 5.0% takes into account inflation forecasts, views from leading pharmacy benefit managers in the industry, the weakening of the exchange rate, and the extent to which the published SEP increase is expected to be realised in medicine-related inflation due to the impact of generic substitution.

We have assumed that the overall average increase in hospital tariffs will be 5.4%. The overall hospitalisation increase assumption has been based on a 25%/75% split between surgical and hospitalisation costs. Surgical costs are expected to increase in line with the medication increase detailed above. This results in an overall hospital increase of 5.3%.

The ageing and utilisation increases are based on actual experience with regards to risk profile deterioration and associated claims increases. This also includes general utilisation increases as a result of changes in members' behaviour and new technologies.

4. Assumptions for 2019

4.2 Membership growth

We assumed that the current membership size as at 30 September 2018 will continue into the future. We therefore expect no changes in the membership size.

4.3 Expenses

The projected variable non-health care expenses per member per month for 2018 were based on information provided by the Scheme, and checked relative to management accounts. We have used a 5.4% increase assumption for the expected per member per month costs.

The table below shows the change in non-health care expenditure ('NHE') per beneficiary per month ('pbpm') from 2018 to 2019. The open scheme industry average is also shown, including a comparison of NHE as a percentage of Gross Contribution Income ('GCI').

Per beneficiary per month NHE

	2018	2019	Percentage increase from 2018 to 2019
Administration fees	R79.66	R84.13	5.6%
Scheme expenses	R41.74	R44.22	5.9%
EuropAssist fees	R1.64	R1.74	6.0%
Total pbpm	R123.04	R130.09	5.7%
NHE as percentage of GCI	6.3%	6.2%	(0.1%)
Medical Scheme Industry*	<i>R189.47</i>	<i>R203.47</i>	<i>7.4%</i>
	<i>9.8%</i>	<i>9.6%</i>	<i>(0.2%)</i>

**Based on the latest CMS Annual Report, inflated with an average contribution increase of 9.4% and average NHE increases of 7.2%.*

NHE as a percentage of GCI is expected to decrease marginally into 2019 as the contribution increase is greater than the NHE increase. The Scheme expenses per beneficiary per month are expected to increase as the membership size remains constant.

In Rand terms, the Scheme expenses are only expected to increase by 5.7%. The table below details the expected increase in managed care fees per beneficiary per month from 2018 to 2019.

4. Assumptions for 2019

Managed care fees pbpm

Year	Managed care fees pbpm
2018	R33.66
2019	R35.54
Increase from 2018 to 2019	5.6%

The managed care fees per beneficiary per month are expected to increase by 5.6% into 2019. The 2019 fixed expenses are expected to be approximately R113,000 higher than in 2018. The change in expenses represents a 5.4% increase.

The Scheme makes no allowance for Road Accident Fund reimbursements for budgeting purposes.

4.4 Investment assumptions

3ONE has assumed an investment return assumption of 11.0% for 2019, based on current market yields on the Scheme's investment portfolio and an implicit allowance for return on savings balances.

5. Contribution Rates for 2019

5.1 2018 Contributions

The 2018 monthly contributions rates for Alliance-Midmed are shown in the table below. The savings contribution is 8.0% of the total contribution.

Monthly contribution rates 2018

Income band	Contribution type	Principal member	Adult dependant	Child dependant
R0 - R5,000	Risk Contribution	R1,757	R1,532	R316
	Savings Contribution	R153	R133	R27
	Total Contribution	R1,910	R1,665	R343
R5,001 - R6,000	Risk Contribution	R1,761	R1,602	R523
	Savings Contribution	R153	R139	R45
	Total Contribution	R1,914	R1,741	R568
R6,001 - R7,000	Risk Contribution	R1,949	R1,777	R589
	Savings Contribution	R170	R154	R51
	Total Contribution	R2,119	R1,931	R640
R7,001 - R8,000	Risk Contribution	R2,053	R1,869	R619
	Savings Contribution	R179	R163	R54
	Total Contribution	R2,232	R2,032	R673
R8,001 - R9,000	Risk Contribution	R2,146	R1,951	R643
	Savings Contribution	R187	R170	R56
	Total Contribution	R2,333	R2,121	R699
R9,001 - R10,000	Risk Contribution	R2,263	R2,059	R678
	Savings Contribution	R197	R179	R59
	Total Contribution	R2,460	R2,238	R737
R10,001 - R13,500	Risk Contribution	R2,363	R2,152	R707
	Savings Contribution	R206	R187	R62
	Total Contribution	R2,569	R2,339	R769
R13,501 - R17,500	Risk Contribution	R2,442	R2,224	R736
	Savings Contribution	R212	R193	R64
	Total Contribution	R2,654	R2,417	R800
R17,501 - R19,000	Risk Contribution	R2,486	R2,263	R747
	Savings Contribution	R216	R197	R65
	Total Contribution	R2,702	R2,460	R812
R19,001+	Risk Contribution	R2,560	R2,330	R766
	Savings Contribution	R223	R203	R67
	Total Contribution	R2,783	R2,533	R833

The lowest income band has an Adult to Principal ratio of 87% and a Child to Principal ratio of 18%. All the other income bands have an Adult to Principal ratio of 91% and a Child to Principal ratio of 30%.

5. Contribution Rates for 2019

The table below shows the average projected percentage of risk contributions claimed by each beneficiary type for 2018.

Beneficiary type	Claims ratio
Principal member	91.4%
Adult dependant	112.3%
Child dependant	93.7%

5.2 2019 Contributions

3ONE recommends an overall 2019 contribution increases of **10.7%** rounded to the nearest Rand. The recommended increase projects that the Scheme will make a R1.7 million net deficit at the end of 2019.

This increase aims to balance affordability, as the additional increase required for a break-even net result in 2019 raises the contributions to an unaffordable level. A long-term contribution increase assumption of 12.0%, inline with the current suggested contribution increase for 2019, is further suggested to ensure surpluses from 2020 onwards.

The tables below show the resulting 2019 contributions that are based on an 10.7% overall increase and a 5.0% of total contributions savings portion. The contributions are rounded up to the nearest Rand, and income bands remain unchanged.

Alliance-Midmed 2019 contributions

Income band	Contribution type	Principal member	Adult dependant	Child dependant
R0 - R5,000	Risk Contribution	R2,008	R1,751	R361
	Savings Contribution	R106	R92	R19
	Total Contribution	R2,114	R1,843	R380
R5,001 - R6,000	Risk Contribution	R2,013	R1,831	R598
	Savings Contribution	R106	R96	R31
	Total Contribution	R2,119	R1,927	R629
R6,001 - R7,000	Risk Contribution	R2,229	R2,031	R673
	Savings Contribution	R117	R107	R35
	Total Contribution	R2,346	R2,138	R708
R7,001 - R8,000	Risk Contribution	R2,347	R2,137	R708
	Savings Contribution	R124	R112	R37
	Total Contribution	R2,471	R2,249	R745
R8,001 - R9,000	Risk Contribution	R2,454	R2,231	R735
	Savings Contribution	R129	R117	R39
	Total Contribution	R2,583	R2,348	R774

5. Contribution Rates for 2019

Alliance-Midmed 2019 contributions continued

Income band	Contribution type	Principal member	Adult dependant	Child dependant
R9,001 - R10,000	Risk Contribution	R2,587	R2,353	R775
	Savings Contribution	R136	R124	R41
	Total Contribution	R2,723	R2,477	R816
R10,001 - R13,500	Risk Contribution	R2,702	R2,460	R808
	Savings Contribution	R142	R129	R43
	Total Contribution	R2,844	R2,589	R851
R13,501 - R17,500	Risk Contribution	R2,791	R2,542	R842
	Savings Contribution	R147	R134	R44
	Total Contribution	R2,938	R2,676	R886
R17,501 - R19,000	Risk Contribution	R2,841	R2,587	R854
	Savings Contribution	R150	R136	R45
	Total Contribution	R2,991	R2,723	R899
R19,001+	Risk Contribution	R2,927	R2,664	R876
	Savings Contribution	R154	R140	R46
	Total Contribution	R3,081	R2,804	R922

6. Projected 2019 Results

6.1 2019 income statement

This section shows the projected financial position of the Scheme as at the end of 2019, considering the previously noted benefit changes (Section 3), assumptions (Section 4), and contribution increases (Section 5).

Scheme Total (R'000)

	2018	2019
Net contribution income	90,980	103,599
Benefit expenditure	(93,573)	(99,962)
Managed care fees	(1,700)	(1,786)
Gross underwriting surplus/(deficit)	(4,293)	1,851
Administration fees	(4,024)	(4,229)
Scheme expenses	(2,109)	(2,222)
EuropAssist fees	(83)	(87)
Surplus/(deficit) from operations	(10,509)	(4,687)
Investment income	3,626	3,010
Net surplus/(deficit) for the period	(6,883)	(1,677)
<i>Accumulated funds ratio</i>	<i>31.4%</i>	<i>26.7%</i>

The Scheme is expected to make a net deficit of R1.7 million in 2019, with a solvency of 26.7%.

6. Projected 2019 Results

6.2 Sensitivity analysis

The scenarios below show the sensitivity of the Scheme's financial position in the event of assumptions differing from that expected.

Scenario A: This scenario tests the effect of an increase in the utilisation/ageing assumption of 1%.

Scenario B: This scenario tests the effect of a decrease in the utilisation/ageing assumption of 1%.

Scenario C: This scenario considers the impact should the Scheme membership decrease by 10% effective 1 January 2019. The scenario assumes members leave with the average family size and in proportion to the option size.

Scenario D: This scenario tests the effect of contribution increases being 1% higher than the approved increases.

Scenario E: This scenario tests the effect of contribution increases being 1% lower than the approved increases.

Scenario	2019 year-end solvency	Surplus/(deficit) after investment income (R'000)	Change in surplus/(deficit) (R'000)
Current	26.7%	(1,677)	-
A	25.7%	(2,721)	(1,044)
B	27.6%	(635)	1,042
C	27.0%	(1,646)	31
D	27.3%	(695)	982
E	26.0%	(2,673)	(996)

7. Recommendation & Conclusion

The primary aim of this exercise is to ensure that the Scheme is adequately priced to meet claims expenditure and benefit obligations. This objective needs to be balanced against competitiveness, so that the Scheme can continue to deliver value to its current membership. This balance is difficult to achieve given the highly price sensitive and competitive environment which is further strained by significant increases in health care.

At the time of preparing this report, Discovery Health had released its 2019 contribution increase. The weighted average increase of 9.2% is higher increase than its 2018 increase of 7.9%. The contribution weighted increase for Discovery is likely to be closer to 9.5%, demonstrating the difficulty for even the largest open medical Scheme to contain health care costs within the market, despite significant economies of scale and negotiating power. Many other large open schemes have also reported high contribution increases for 2019, such as Medshield with a contribution increase of 14.3% and Momentum with a 10.7% increase.

3ONE, in conjunction with the Scheme Executive, propose a contribution increase of 10.7%. The increase aims to rectify the losses made by the Scheme gradually, whilst taking its members' affordability levels into account. The Scheme recognises the importance of its reserves as a protection against adverse claims experience. Therefore, the long-term projected contribution increase, which in line with the increase put forward for 2019, aims to produce a surplus in 2020, whilst increasing its solvency over time.

In summary, the Scheme has implemented the following steps in ensuring the expected 2019 financial results materialise:

- Putting forward an affordable level contribution increases for member relief despite a poor projected financial result for 2018
- Keeping tariff increases low
- No benefit enhancements.

The Scheme remain exposed to claims volatility given its size, and will need to carefully monitor the emerging claims experience in 2019.

A. Competitor analysis

a. 2019 contribution comparison

In order to determine how Alliance-Midmed contributions are expected to compare to the market, we have mapped the contributions for 2019 against the contributions for other open Schemes.

The table below shows the total contributions for 2019.

Alliance-Midmed 2019 total contributions

Income band	Principal member	Adult dependant	Child dependant
R0 - R5,000	R2,114	R1,843	R380
R5,001 - R6,000	R2,119	R1,927	R629
R6,001 - R7,000	R2,346	R2,138	R708
R7,001 - R8,000	R2,471	R2,249	R745
R8,001 - R9,000	R2,583	R2,348	R774
R9,001 - R10,000	R2,723	R2,477	R816
R10,001 - R13,500	R2,844	R2,589	R851
R13,501 - R17,500	R2,938	R2,676	R886
R17,501 - R19,000	R2,991	R2,723	R899
R19,001+	R3,081	R2,804	R922

The table below details the average weighted contribution increases for the five competitor medical schemes considered. We have shown the actual contribution increases for each of the schemes considered too be Alliance-Midmed's competitors.

Scheme	2019 contribution increase
Bonitas Medical Fund ('Bonitas')	8.9%
Discovery Health Medical Scheme ('Discovery')	9.2%
Fedhealth Medical Scheme ('Fedhealth')	8.5%
Sizwe Medical Fund ('Sizwe')	6.1%
Momentum Health ('Momentum')	10.7%

A. Competitor analysis

b. High level benefit summary

The following table shows a high level 2018 benefit summary of Alliance-Midmed.

2018	Alliance-Midmed
Type of option	Traditional
Reimbursement rate	150% of Scheme Rate
Oncology	R500,000 per beneficiary Subject to Oncology managed care protocols and pre-authorisation
Non-CDL Chronic Diseases	Unlimited for PMB conditions M: R19,552 M+: R40,899
Outpatient Radiology	Basic: M: R1,442 M+1: R2,252 M+2: R3,355 M3+: R4,220 Specialised: R11,261 per member family per annum
General Practitioners	R459 per consultation. Limited to: M: 6 consultations M+1: 11 consultations M+2: 15 consultations M+3: 19 consultations M+4: 21 consultations M+5: 25 consultations M+6: 27 consultations
Specialists	150% of Scheme Rate The first consultation in a calendar year to a specialist will be at 250% of the Scheme Rate. Limited to: M: 4 consultations M+1: 8 consultations M+2: 9 consultations M+3: 9 consultations M+4: 11 consultations M+5: 11 consultations M+6: 11 consultations

A. Competitor analysis

c. Competitor comparison

The following table compares Alliance-Midmed with options of the abovementioned Schemes, as well as their actual contributions for 2019. We have only shown the highest income band from Alliance-Midmed as 48.8% of the members belong to this income band. The contributions and high-level benefit comparison are in 2019 terms.

Scheme	Option	Income band	Principal	Adult	Child	Hospital reimbursement	Chronic cover	Day-to-day benefits
Alliance-Midmed	N/A	R19,001+	R3,081	R2,804	R922	150% of Scheme Rate	Unlimited for PMB conditions M: R18,533 M+: R38,767	Specified benefits and sub-limits
Bonitas	BonSave	N/A	R2,486	R1,925	R744	150% of Scheme Rate	PMBs only 40% co-payment for non-DSP	Subject to savings
	Primary	N/A	R2,240	R1,752	R713	100% of Scheme Rate	PMBs only 40% co-payment for non-DSP	M: R2,310 M+1: R4,140 M+2: R4,860 M+3: R5,230 M+4+: R5,660
Discovery	Classic Saver	N/A	R3,028	R2,387	R1,212	200% of Scheme Rate	PMBs only	Subject to savings (25%)
Fedhealth	flexiFED 3 (Any hospital)	N/A	R2,294	R2,018	R818	100% of Scheme Rate	CDLs + 3 additional conditions	Subject to savings (25%)
Sizwe	Primary	R9,804+	R2,395	R1,703	R702	100% of Scheme Rate	PMBs only	M: R5,990 M+1: R8,870 M+2: R10,380 M+3: R11,870 M+4: R13,380 M+5: R14,880 M+6+: R16,370
Momentum	Custom (Any/Any)	N/A	R2,521	R2,024	R900	100% of Scheme Rate	PMBs only	HealthSaver option

A. Competitor analysis

The abovementioned options are summarised further to show total contributions payable for three different family sizes.

Scheme	Option	Income Band	P	P+A	P+A+2C
Alliance-Midmed	N/A	R19,001+	R3,081	R5,885	R7,729
Bonitas	BonSave	N/A	R2,486	R4,411	R5,899
	Primary	N/A	R2,240	R3,992	R5,418
Discovery	Classic Saver	N/A	R3,028	R5,415	R7,839
Fedhealth	flexiFED 3 (Any hospital)	N/A	R2,294	R4,312	R5,948
Sizwe	Primary	R9,804+	R2,395	R4,098	R5,502
Momentum	Custom (Any/Any)	N/A	R2,521	R4,545	R6,345

B. Claim summaries

The 2017, 2018 and 2019 projected claims per member per month, based on the assumptions detailed in Section 4, are shown in the table below and overleaf for each benefit category and option.

All of the claims have been weighted by the 2018 membership and family sizes so as to obtain comparable figures.

Alliance-Midmed risk claims pbpm

Benefit category	2017 actual	2018 projected	Increase from 2017 to 2018	2019 projected	Increase from 2018 to 2019
Medication	R434.46	R484.15	11.4%	R520.68	7.5%
GP consultations	R138.15	R130.13	(5.8%)	R138.91	6.7%
Optometry	R23.61	R37.64	59.5%	R40.22	6.8%
Auxiliary services	R69.37	R79.97	15.3%	R86.23	7.8%
Radiology and pathology	R196.21	R213.55	8.8%	R228.02	6.8%
Specialists	R260.29	R298.42	14.6%	R318.55	6.7%
Hospitalisation	R444.58	R524.70	18.0%	R573.22	9.2%
Total	R1,566.67	R1,768.57	12.9%	R1,905.81	8.1%

C. Income statements and five-year projections

The 2019 income statements are based on the assumptions and approach detailed throughout the body of the above report.

The five-year projections are based on the following key assumptions for the Scheme as a whole:

Five year projection assumptions

Assumption	Annual rate
1. Risk claims increase	9.0%
2. Contribution increase	12.0%
3. Non-healthcare expense inflation	5.0%
4. Investment return	11.0%
5. Membership loss	0.0%

1. This allows for annual average inflationary-type increase combined with annual utilisation increases.
2. The contribution increase is set in order to ensure a reasonable level of surplus each year.
3. This represents a CPI-related increase. The CMS has prescribed a budgeted CPI increase of 5.4% at a maximum, and this is considered reasonable considering it is similar to recent CPI figures and is the top of the targeted CPI band within South Africa.
4. This is in line with the budgeted investment return for 2019, based on current market yields on predominantly cash and notice deposits.
5. The budgeted membership movement is in line with recent membership experience and is applied across principal members and beneficiaries (ie the expected family size of those exiting the Scheme is assumed to be equal to those remaining on the Scheme).

The table overleaf provides the projected 2019 income statements, as well as the overall Scheme projected income statements to 2024.

C. Income statements and five-year projections

Projected income statements R'000 (2019 – 2024)

Financial item	2019	2020	2021	2022	2023	2024
<i>Beneficiaries</i>	4,189	4,189	4,189	4,189	4,189	4,189
<i>Members</i>	1,774	1,774	1,774	1,774	1,774	1,774
Gross contributions	109,048	122,134	136,790	153,205	171,590	192,181
Savings contributions	(5,449)	(6,103)	(6,835)	(7,656)	(8,575)	(9,604)
Net contributions	103,599	116,031	129,955	145,549	163,015	182,577
Risk claims	(99,962)	(108,959)	(118,765)	(129,454)	(141,105)	(153,804)
Managed care fees	(1,786)	(1,876)	(1,969)	(2,068)	(2,171)	(2,280)
Underwriting result	1,851	5,196	9,221	14,027	19,739	26,493
Administration fees	(4,229)	(4,440)	(4,662)	(4,895)	(5,140)	(5,397)
Scheme expenses	(2,222)	(2,334)	(2,450)	(2,573)	(2,701)	(2,837)
EuropAssist fees	(87)	(91)	(96)	(101)	(106)	(111)
Operating result	(4,687)	(1,669)	2,013	6,458	11,792	18,148
Investment income	3,010	3,107	3,468	4,315	5,794	8,077
Net surplus/deficit	(1,677)	1,438	5,481	10,773	17,586	26,225
<i>Solvency</i>	26.7%	25.0%	26.3%	30.5%	37.5%	47.1%