ALLIANCE-MIDMED MEDICAL SCHEME

Because Your Health Matters

Alliance-Midmed Medical Scheme

2019 financial forecast update

July 2019

3ONE

CONSULTING ACTUARIES

1. Introduction

The purpose of this document is to provide the Alliance-Midmed Medical Scheme ('Alliance-Midmed' or 'the Scheme') with an update of the Scheme's expected financial experience for 2019, considering additional experience and information that has become available.

The analysis is based on claims payment information and membership data to the end of June 2019 as provided by Private Health Administrators ('PHA'). We are comfortable that the data is complete and accurate for the purposes of this analysis.

We have considered actual financial experience as incorporated in monthly management accounts for January 2019 to May 2019. The projected claims experience for 2019 is based on claims paid to June 2019 and incurred to May 2019. January 2019 to May 2019 is considered as year-to-date for the purposes of the document.

2. 2019 year-to-date vs budget

The table below compares the 2019 experience to May from the original 2019 budget, as produced during the pricing exercise, to the updated 2019 results.

Table 1: YTD financial results (R'000)

Financial experience YTD Jan to May 2019	Pricing budget	Updated results
Beneficiaries	*4,189*	*3,905*
Net contribution income	43,166	40,627
Benefit expenditure	(42,847)	(40,536)
Managed care fees	(745)	(724)
Gross healthcare results	**(426)**	**(633)**
Administration fees	(1,762)	(1,672)
Scheme expenses	(851)	(681)
EuropAssist fees	(36)	(35)
Surplus/(deficit) from operations	**(3,075)**	**(3,021)**
Investment income	1,307	1,818
Net surplus/(deficit)	**(1,768)**	**(1,203)**

The net result to May 2019 improved by approximately R500,000 from that budgeted at the time of performing the pricing exercise. This is primarily as a result of Scheme expenses and investment income being better compared to budget.

The claims ratio has remained very similar to that budgeted.

3. Updated 2019 projected results

The table below compares the original 2019 budget, as produced during the pricing exercise, to the updated 2019 projected results.

Table 2: Updated 2019 projection (R'000)

	Pricing budget	Updated projection (Jan 2019)	Updated projection (Apr 2019)	Updated projection (Jul 2019)
Beneficiaries	*4,189*	*4,150*	*3,910*	*3,887*
Members	*1,857*	*1,748*	*1,687*	*1,668*
Net contribution income	103,599	102,445	97,755	97,092
Benefit expenditure	(99,962)	(97,201)	(92,845)	(96,311)
Managed care fees	(1,786)	(1,777)	(1,739)	(1,726)
Gross healthcare results	**1,851**	**3,467**	**3,171**	**(945)**
Administration fees	(4,229)	(4,167)	(4,029)	(3,986)
Scheme expenses	(2,222)	(2,222)	(2,222)	(2,222)
EuropAssist fees	(87)	(92)	(84)	(83)
Surplus/(deficit) from operations	**(4,687)**	**(3,014)**	**(3,164)**	**(7,236)**
Investment income	3,010	3,521	4,529	3,879
Net surplus/(deficit)	**(1,677)**	**507**	**1,365**	**(3,357)**
Accumulated funds ratio	*26.7%*	*32.6%*	*37.5%*	*33.3%*

Since the previous update, the claims ratio has deteriorated from 95% to 99%. Claims experience year-to-date has been worse than expected and as a result the year-end net result is expected to deteriorate by R4.7 million since the previous update. The reserving level is also expected to reduce by 4.2% since the previous update in April 2019.

The financial forecast in the previous updates were projected using the 2018 claims experience as a base and incorporating actual year-to-date experience. For this update we used the 2019 year-to-date experience as a base to project the rest of the 2019 experience.

Comparing this month's updated forecast to what was originally budgeted for, the 2019 year-end net result is expected to be approximately R1.7 million worse. This again is driven by the poor year-to-date claiming experience compared to budget. The claims ratio is expected to increase by approximately 2.5%.

4. High cost claims summaries

A high cost claim has been defined as a claim (total annual claims per beneficiary) exceeding R200,000 (2019 terms). 2018 claims have been inflated to ensure comparability with the 2019 claims. All 2018 claims shown are in 2019 terms.

We have considered claims incurred to May and paid to June in 2018 and 2019 respectively.

The table below provides a summary of the high cost claims experience in 2019 compared to 2018.

Summary statistic	2018	2019
Number of high cost claimers	25	17
High cost claimers per 1,000 beneficiaries	5.91	4.35
Total cost of high cost claims	R7,212,188	R8,022,669
Average cost of high claims per beneficiary per month	R340.87	R410.87
High cost claims as % of total claims	16.9%	21.0%

In 2019, 0.4% of beneficiaries contributed 21.0% of total claims costs whilst in 2018, 0.6% of beneficiaries contributed to 16.9% of total claims cost. This implies that although there were a greater number of high cost claims in 2018 compared to 2019 (ie the rate of high cost claims reduced), the cost of high claiming events per beneficiary increased.

5. Conclusion

The Scheme is expected to make a deficit of R3.4 million at the end of 2019. This is a R1.7 million deterioration from what was originally budgeted during pricing last year. The year-to-date claims experience has been worse than expected. In particular, the claims ratio is expected to deteriorate by approximately 4.2% since the previous update.

3ONE has incorporated actual 2019 year-to-date experience off which the 2019 year-end was projected. The previous update used 2018 experience as a base for the 2019 projection, adjusted for year-to-date experience.

It is expected that the Scheme's reserves will be 33.3% of its gross contributions at the end of 2019. This is a 6.6% improvement from wat was originally budgeted. This is primarily driven by Alliance-Midmed's declining membership.

High cost claiming events are highly unpredictable and, especially for smaller schemes like Alliance-Midmed, claims from only a handful of beneficiaries can have a detrimental impact on the Scheme's financial position (ie only 0.4% of beneficiaries contributed to 21.0% of total claims cost year-to-date). We have therefore allowed for a certain proportion of high claiming events to occur for the remainder of 2019.

3ONE will continue to monitor all claims experience as it emerges in order to provide ongoing realistic updates on the projected 2019 year-end position that will inform the benefit design and pricing exercise for 2020.