



ALLIANCE-MIDMED MEDICAL SCHEME

# Alliance-Midmed Medical Scheme

## 2019 financial forecast update

April 2019



## 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 March 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 March 2019. The projected claims experience for 2019 is based on claims paid to March 2019 and incurred to February 2019. January 2019 to February 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 February 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 Feb 2019	Pricing budget	Updated results
<i>Beneficiaries</i>	4,189	3,914
Net contribution income	17,267	16,290
Benefit expenditure	(17,258)	(16,283)
Managed care fees	(298)	(290)
<b>Gross healthcare results</b>	<b>(289)</b>	<b>(283)</b>
Administration fees	(705)	(670)
Scheme expenses	(334)	(239)
EuropAssist fees	(15)	(14)
<b>Surplus/(deficit) from operations</b>	<b>(1,343)</b>	<b>(1,206)</b>
Investment income	529	802
<b>Net surplus/(deficit)</b>	<b>(814)</b>	<b>(404)</b>

The net result to February 2019 improved by approximately R400,000 from that budgeted at the time of performing the pricing exercise. This is primarily attributed to better than budgeted Scheme expenses and investment income.

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)
<i>Beneficiaries</i>	4,189	4,150	3,910
<i>Members</i>	1,857	1,748	1,687
Net contribution income	103,599	102,445	97,755
Benefit expenditure	(99,962)	(97,201)	(92,845)
Managed care fees	(1,786)	(1,777)	(1,739)
<b>Gross healthcare results</b>	<b>1,851</b>	<b>3,467</b>	<b>3,171</b>
Administration fees	(4,229)	(4,167)	(4,029)
Scheme expenses	(2,222)	(2,222)	(2,222)
EuropAssist fees	(87)	(92)	(84)
<b>Surplus/(deficit) from operations</b>	<b>(4,687)</b>	<b>(3,014)</b>	<b>(3,164)</b>
Investment income	3,010	3,521	4,529
<b>Net surplus/(deficit)</b>	<b>(1,677)</b>	<b>507</b>	<b>1,365</b>
<b>Accumulated funds ratio</b>	<b>26.7%</b>	<b>32.6%</b>	<b>37.5%</b>

The projected 2019 year-end net result has improved by approximately R0.9 million, with the solvency also improving by 4.9%, since the previous updated forecast in January 2019. The solvency improvement is chiefly as a result of the incorporation of the final 2018 year-end reserves, as reported in financial accounts, and improved investment return relative to that expected.

The claims ratio (benefit expenditure divided by net contribution income) has remained relatively similar since the previous update. The improved 2019 forecasted result is therefore primarily driven by the improved investment income.

#### 4. Reconciliation of results

The table below considers the drivers of the change in projected 2019 net surplus and solvency for the current updated 2019 projection relative to the Pricing Budget.

Table 3: Impact of drivers of change (R'000)

Experience driver	Impact on 2019 net surplus	Impact on 2019 solvency
1. Single Exit Price (SEP) increase	+370	+0.4%
2. Hospital tariff increase	+30	-
3. Non-healthcare fee increases	+95	+0.1%
4. Remaining actual claims and membership experience	+2,547	+10.3%
<b>Total impact</b>	<b>+3,042</b>	<b>+10.8%</b>

1. The Minister of Health announced a Single Exit Price increase of 3.78% for 2019 in the Government Gazette No. 42183 of 23 January 2019. We have therefore incorporated a 3.78% increase in medication cost due to price inflation. This is lower than the assumed increase of 5.00%, which has resulted in the net result improving by **R370,000**.
2. The average hospital tariff increase negotiated with the hospital groups was ultimately 5.54% for 2019. This is lower than the increase of 5.65% assumed for the pricing exercise, which resulted in the 2019 net result improving slightly by **R30,000**.
3. The increase in non-healthcare expenses has proved lower on average to that assumed. This resulted in a **R95,000** increase in the net result.
4. All remaining updated claims, financial and membership profile experience, relative to that assumed at the time of pricing, has resulted in the 2019 net result improving by **R2,547,000**. This improvement has been primarily driven by better than expected investment return for 2018 and 2019 year-to-date, together with slightly better than expected claims experience in the latter part of 2018.

The ultimate reserving level for 2019 was projected at 26.7% at the time of performing the 2019 benefit and contribution pricing in October last year. The solvency is currently expected to improve to 37.5% for the 2019 year-end.

## 5. Conclusion

Overall, the Scheme's projected 2019 result has improved from a R1.7 million deficit projected in the original budget, as set at the time of performing the 2019 pricing, to a R1.4 million surplus in this month's update. This is a further improvement from the break-even position projected in the previous financial forecast update provided in January this year.

The claims ratio improved only slightly from the original budget (96.5%) to this month's update (95.0%). This, together with improved investment return, has resulted in the improving net results.

At the time of pricing a decision was taken to put through a 10.7% contribution increase in 2019 in order to rectify the losses made in 2018 and to protect the Scheme's reserves in case of adverse claims events. This strategy aimed for a breakeven position in 2020. It is positive that a surplus is already expected in 2019, with a more comfortable solvency position than budgeted.

The Scheme's expected improved result affirms the Schemes ability to recover following a relatively poor experience in 2018.

It is worth reiterating that given its relatively small size (which continues to shrink), Alliance-Midmed remains at risk of volatility due to high cost claiming events. A few large events can have a relatively large impact on Alliance-Midmed's financial results.

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. The updated 2019 projection incorporated in this report, will be used as a 2019 budget going forward for comparative purposes.