

NOTICE OF ANNUAL GENERAL MEETING OF MEMBERS 2013



Annual General Meeting 2013

You are invited to attend the Annual General Meeting of the members of LA Health Medical Scheme.

Here are the details if you would like to attend:

Date: 19 June 2013

Time: 10:00

Venue: Elizabeth Place, 1st Floor Pickering Park, 20 Pickering Street, Newton Park, Port Elizabeth

This invitation serves as the official notice of the event.

Please notify the Principal Officer of any motions

The Rules of the Scheme require members to notify the Principal Officer of any motions for discussion at least seven days before the date of the meeting – no later than 12:00 on 12 June 2013. Email to rdutoit@lahealth.co.za, or post to LA Health, Postnet Suite 116, Private Bag X19, Milnerton, 7435

Agenda for the Meeting

1. Welcome and quorum
2. To note and approve the Minutes of the 2012 Annual General Meeting held on 20 June 2012
3. Introduction of the Chairperson's Report
4. Annual Financial Statements and Auditor's Report for the year ended 31 December 2012
5. Board of Trustees' Annual Report (as per Section 37(1) of the Medical Schemes Act (1998)
6. Announcement of re-appointment of Scheme's external auditors
7. Consideration: Notices of Motion for referral to the Board of Trustees for final decision.

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

The 2012 Annual Report, including the audited Annual Financial Statements and the Trustees' Report, as well as the Minutes of the previous AGM, will be available on the Scheme's website, www.lahealth.co.za, as well as at the following Discovery Health offices from 23 May 2013. It may also be requested from the Scheme's call centre at 0860 103 933.

Johannesburg

Discovery Health
16 Fredman Drive
Sandton

Pretoria

Discovery Health
Corner of Oak and
Tegel Avenues
Highveld Techno Park
Centurion

Cape Town

Discovery Health
Knowledge Park
Heron Crescent
Century Boulevard
Century City

Durban

Discovery Health
41 Imvubupark Place
Riverhorse Valley
Business Estate

Port Elizabeth

Discovery Health
BPO Building
Coega IDZ
Zone 4

Venue:

Elizabeth Place,
1st Floor Pickering Park,
20 Pickering Street,
Newton Park, Port Elizabeth

Directions to the venue from the Port Elizabeth Airport:

Head north-east. At the traffic circle, take the second exit onto Allister Miller Drive. Go through one traffic circle. Turn left onto Forest Hill N/B Road; then turn right onto Walmer Road.

Take the second left onto South Union Street (signs for M4/R75/Grahamstown/Uitenhage/City). Continue onto Settlers Highway/M4 and take Exit 5 for R102/Russel Road.

Merge onto Russel Road/R102 and turn right onto CJ Langenhoven Drive. Take the second road left onto Pickering Street. The venue is 29 metres ahead.



Key Financial and Service Metrics

	2012	2011
Member's funds	R417 051 117	R341 178 683
Solvency ratio	28.86%	28.63%
Gross contribution income	R1 444 890 836	R1 187 875 634
Risk contribution income	R1 190 025 616	R978 976 733
Accumulated funds per member	R9 767	R9 454

2012	LA Comp	LA Core	LA Focus	LA Active	LA KeyPlus	Total
Number of members at the end of the period	5 967	2 848	4 756	23 546	5 583	42 700
Average number of beneficiaries for the period	10 106	4 602	11 130	58 781	12 584	97 203
Average age of the beneficiaries for the period	59.21	58.93	27.76	28.19	26.62	32.37
Pensioner ratio	48.70%	49.98%	3.59%	3.42%	1.24%	9.70%
Average net contribution income per month	R3 628.96	R4 217.12	R1 617.37	R2 239.19	R1 279.86	R2 392.38
Average risk claims incurred per member per month	R3 116.35	R3 894.80	R1 259.85	R1 724.56	R968.79	R1 934.42
Net claims as a percentage of net contributions	85.9%	92.4%	77.9%	77.0%	75.7%	80.9%
Average administration costs per member per month	R218.34	R218.34	R218.33	R218.33	R108.07	R204.42
Average administration expenses as a percentage of net contributions	9.5%	9.0%	22.1%	16.5%	18.2%	14.5%

Chairperson's Report

2012 was yet another complex and challenging year for medical schemes in the industry. Escalating healthcare costs, continuous legislative and compliance pressures, the lackluster economy and the on-going debates regarding the reform of the healthcare industry were just some of the challenges the Trustees faced.

Despite all these challenges, LA Health had a very positive 2012.

Performance during 2012

LA Health experienced another year of strong membership growth with the number of beneficiaries increasing by a phenomenal 17.1% to 97,203 at the end of 31 December 2012, from 82,997 in 2011.

The financial information contained in the highlights that follow, have been extracted from, and are in agreement with, the audited 2012 Annual Financial Statements.

A net healthcare result of R54.9 million was achieved. Despite the membership growth and resulting increase in gross contributions received, the reserve ratio was maintained and slightly increased from 28.63% in 2011 to 28.86 % at the end of 2012. In real terms the Scheme had R417 million in reserve at the end of 2012, higher than the R341 million at the end of 2011.

The Scheme's risk contribution income was higher than expected at R1.2 billion with a net risk claims experience of R965 million. This resulted in a net surplus of R54.9 million for the year, compared to R42.6 million in 2011. After investment gains, the Scheme's total comprehensive income for 2012 was R75.87 million. Non-healthcare expenses were maintained from 2011, at 14.5% of the total risk contributions.

In line with the requirements of Circular 38 of 2011, the Scheme placed Medical Savings Account funds in a separate "trust" bank account. Interest earned, net of bank costs, is allocated to members with positive balances and the Scheme does not charge interest on debit Medical Savings Account balances. This account currently earns interest at a weighted average effective rate of 4.5%.

Despite the Scheme's favourable 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 avoid potential benefit reductions and/or significant contribution increases in the future.

The Trustees believe value for money can be experienced at two levels. Firstly on the level of overall costs and benefits provided, relative to the market; and secondly on the level of charges for services obtained, such as administration and actuarial services. On both these levels, the Trustees are confident members are receiving value for money.

The strong focus of Discovery Health (Pty) Ltd, the Scheme's administrator, on product and service innovation has ensured continuous service improvement. Discovery's focus on risk management and negotiated provider fees have enabled the Scheme to manage care and costs effectively, minimise abuse, and fund the best quality healthcare for members. Independent industry surveys have verified that these services, provided by Discovery Health (Pty) Ltd, are amongst the most highly rated in the industry.

Management of the Scheme

The Trustees manage the Scheme and are committed to ensuring statutory and regulatory compliance. The Audit Committee and the Scheme's contracted experts monitor and advise the Board of Trustees on statutory compliance, to ensure these requirements are met.

The members of the Board of Trustees are:

Messrs R Barnard, A Bennett (Chairperson: Finance Committee), GJ Beukman (Chairperson: Board of Trustees), R Bosman, DL Carstens, R de Bruyn, R Denge, HA Deyzel (Deputy Chairperson: Board of Trustees), R Field (Chairperson: Marketing Committee), F Hoffman, SA Kaunda, A Lemmer (Deputy Chairperson: Finance Committee), P Louwrens, ME Mattheus (Deputy Chairperson: Marketing Committee), MCT Schultz and A Vorster.

All the Board members, with the exception of Mr SA Kaunda, are member elected Trustees. The Board appointed Mr Kaunda in November 2012 after Ms I Seymour resigned as a Trustee in October 2012.

The Principal Officer is Mr AM de Koker.

The Scheme's Audit Committee, established in accordance with the requirements of the Medical Schemes Act (Act 131 of 1998), met five times during the year. Mr A Vorster vacated his seat as the independent Chairperson of this Committee when he was elected to the Board of Trustees in July 2012. A vacancy for an independent member of the Committee existed until the appointment of Mr G Buchholtz with effect from 1 January 2013.

The independent members of the Audit Committee are:

Mr J Davis (Chairperson)

Mr G Buchholtz (Deputy Chairperson)

Ms N Chowtee

External impacts on the Scheme

A number of longstanding regulatory issues prevailed through 2012 with a few new matters emerging during the year. The Trustees continuously have to ensure LA Health remains compliant, as well as prepare the Scheme for potential future regulatory and other changes. Below is a short summary of some of the key topical issues.

National Health Insurance (NHI) remains a key focus of Government as was evident at the ANC's conference in Mangaung in December 2012. Different Government Departments are aligning their efforts and processes towards this goal and we have seen the implementation of a number of pilot programmes launched in 2012. Some of these were not very successful. The current economic climate provides for additional challenges with regards to the funding of NHI and Government is now focusing on basic services and large infrastructural development that is needed to successfully implement NHI. To this end a phased implementation approach over at least 15 years, starting in 2012, has been advocated.

The management of **Medical Savings Accounts (MSA)** received some attention during 2012 after the publication of Circular 38 of 2011, compelling Medical Schemes to open separate banking accounts for members' positive medical savings balances, add daily interest to these individual MSA balances and process on-going MSA-related medical expenses from this account. LA Health already allocated interest earned on MSA balances, thus the biggest implication was an administrative process change, to ensure compliance in terms of the separate bank account.

The implications and long-term financial impact of **Prescribed Minimum Benefits (PMBs)** remain a big concern to the Scheme and the establishment and increased utilisation of preferred provider arrangements or networks will continue to be a focus.

The continually changing environment and the required compliance with 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 costs of the Scheme and require more dedicated time and resources from the Principal Officer, the Trustees and the Administrator.

Preparation for the future

The LA Health Trustees are aware that sustainability in the current environment and readiness for future changes, require on-going assessment and planning, and are focused on the following important initiatives:

1. The continuous review of the LA Health value proposition for all employees of Local Government. This includes a review of the number of benefit options, the benefit structures within the different LA Health Options and the levels of contributions per Option and per membership category.

2. An increased focus on the general wellness of members through increased utilisation of the Scheme's preventative care benefits and specific wellness and nutrition focuses.
3. Trustee development and training to ensure a Board of Trustees that are enabled to fulfil their fiduciary duties in this constantly changing and challenging environment.

The Trustees are comfortable the Scheme is sustainable, and that it offers significantly value to its members.

Thanks and appreciation

I would like to express my thanks and appreciation to the following stakeholders for their efforts and contributions:

- The LA Health Trustees
- Audit Committee members and external auditors, KPMG.
The external auditors were re-appointed for a period of three years to December 2015
- André de Koker, our Principal Officer, and the Scheme's staff

- Our employer groups, their representatives and HR teams
- Dr J Cornell: independent medical advisor
- Mr B Botha: legal advisor
- Mr R Leerkamp: independent actuary
- Ms M Fouché and the team at KPMG, the Scheme's auditor
- The Scheme's administrator, Discovery Health.

The Trustees look forward to 2013 as another year of consistent, high-quality service delivery and is resolute to continue to closely manage all aspects of the Scheme's offerings, ensuring the continued provision of exceptional value for all the members of LA Health Medical Scheme.



Gawie Beukman
Chairperson: Board of Trustees

Highlights of LA Health Medical Scheme's financial results for 2012

STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	2012 R	2011 R
ASSETS		
<i>Non-current assets</i>	144 345	506 636
Equipment	144 345	185 319
Loans to employees	-	321 317
<i>Current assets</i>	593 307 841	487 843 903
Investments held at fair value through profit or loss	-	1 985 059
Trade and other receivables	71 696 419	57 666 325
Cash and cash equivalents	521 611 422	428 192 519
Current call and short term deposits	423 020 069	428 192 519
Medical Savings Account <i>trust</i> funds	98 591 353	-
Total assets	593 452 186	488 350 539
FUNDS AND LIABILITIES		
<i>Members' funds</i>	417 051 117	341 178 683
Accumulated funds	417 051 117	341 178 683
<i>Non-current liability</i>	3 154 000	2 522 000
Post-retirement healthcare funding liability	3 154 000	2 522 000
<i>Current liabilities</i>	173 247 069	144 649 856
Outstanding risk claims provision	32 500 000	23 500 000
Medical Savings Account <i>trust</i> liability	106 776 976	91 131 049
Trade and other payables	33 970 093	30 018 807
Total funds and liabilities	593 452 186	488 350 539

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	2012 R	2011 R
Risk contribution income	1 190 025 616	978 976 733
Relevant healthcare expenditure	(962 225 640)	(795 278 509)
Net claims incurred	(962 425 075)	(795 044 833)
Risk claims incurred	(965 038 201)	(796 349 442)
Third party claims recoveries	2 613 126	1 304 609
Net income/(expense) on risk transfer arrangements	199 435	(233 676)
Risk transfer arrangement fees or premiums paid	(7 018 154)	(6 530 328)
Recoveries from risk transfer arrangements	7 217 589	6 296 652
Gross healthcare results	227 799 976	183 698 224
Managed care: management services fees	(27 240 906)	(22 527 892)
Broker services fees	(29 022 147)	(22 515 035)
Administration fees	(101 685 690)	(84 191 225)
Sundry expenses	(12 497 231)	(9 628 120)
Net impairment losses on healthcare receivables	(2 452 082)	(2 165 511)
Net healthcare results	54 901 920	42 670 441
Other income	25 076 938	22 119 985
Investment income	24 939 134	21 695 337
Sundry income	137 804	424 648
Other expenditure	(4 106 424)	-
Interest paid on personal medical savings accounts	(4 106 424)	-
Net surplus for the year	75 872 434	64 790 427
Total comprehensive income for the year	75 872 434	64 790 427

STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES

for the year ended 31 December 2012

	2012 R	2011 R
	Accumulated funds	Accumulated funds
Balance at 1 January	341 178 683	276 388 257
Total comprehensive income for the year		
Surplus for the year	75 872 434	64 790 427
Total comprehensive income	75 872 434	64 790 427
Balance at 31 December	417 051 117	341 178 683

STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012 R	2011 R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operations before working capital changes	55 727 369	42 774 743
Working capital changes		
• Increase in trade and other receivables	(14 030 094)	(9 191 232)
• Increase in Medical Savings Account <i>trust</i> liability	15 645 927	9 842 204
• Increase in outstanding claims provision	9 000 000	4 300 000
• Increase in trade and other payables	3 951 286	9 187 351
Net cash flows from operating activities	70 294 488	56 913 066
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to equipment	(14 671)	(21 590)
Disposals of investments	2 087 120	1 354 393
Decrease in loans to employees	321 317	90 332
Interest income	24 830 559	21 904 777
Dividend income	6 514	57 142
Interest paid	(4 106 424)	-
Net cash flows from investing activities	23 124 415	23 385 054
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	93 418 903	80 298 120
Cash and cash equivalents at beginning of year	428 192 519	347 894 399
CASH AND CASH EQUIVALENTS AT END OF YEAR	521 611 422	428 192 519

Extracts from the Notes to the Audited Financial Statements

CASH AND CASH EQUIVALENTS

Current, call and short-term deposits

Call deposits	93 650 000	92 000 000
Short-term fixed deposits	284 000 000	299 000 000
Current accounts	45 370 069	37 192 519
Total current, call and fixed accounts	423 020 069	428 192 519

The weighted average effective interest rate on short-term bank deposits was 5.73% (2011 – 5.96%). These deposits have an average maturity of 140 days (2011 – 61 days).

At 31 December 2012, the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

MEDICAL SAVINGS ACCOUNT *TRUST* FUNDS

Current account	98 591 353	-
Total <i>trust</i> funds invested	98 591 353	-

The weighted average effective interest rate on the current account was 4.5%.

At 31 December 2012, the carrying amounts of the *trust* funds approximate their fair values due to the short-term maturities of these assets.

Extracts from the Notes to the Audited Financial Statements (continued)

	2012 R	2011 R
MEDICAL SAVINGS ACCOUNT TRUST LIABILITY		
Balance on savings account liability at the beginning of the year	91 131 049	81 288 845
Add:		
Savings account contributions received or receivable for the current year	254 865 220	208 898 901
Transfers received from other medical schemes	846 603	720 409
Interest earned on Medical Savings Accounts	4 106 423	-
Less:		
Claims paid to or on behalf of members	(239 909 266)	(197 901 961)
Refunds on death or resignation	(4 263 053)	(1 875 145)
Balance on Medical Savings Accounts liability at the end of the year	106 776 976	91 131 049

In accordance with the rules of the Scheme, the Medical Savings Account is underwritten by the Scheme.

The Medical Savings Accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or Benefit Option, and enrolls in another Benefit Option or medical scheme without a Medical Savings Account or does not enrol in another medical scheme.

Estimated claims to be paid out of members' Medical Savings Accounts in respect of claims incurred in 2012 but not reported.

2 981 218	3 225 189
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In line with the requirements of the Council for Medical Scheme Circulars 38/2011 and 5/2012, the Scheme opened a separate bank account during 2012 for the managing of the Medical Savings Accounts. All interest earned in this bank account is allocated to members with positive balances. This account currently earns interest at a rate of 4,5%. Previously, per the Rules of the Scheme, no interest was paid.

Interest is paid on the Medical Savings Accounts based on the effective interest method. Investment of medical savings account *trust* monies, managed by the Scheme on behalf of its members, has been separately disclosed.

The mismatch between the Medical Savings Account *trust* liability and the Medical Savings Account *trust* funds, relate to timing differences. These differences cleared after year-end.

At 31 December 2012, the carrying amount of the Medical Savings Account *trust* liability approximates its fair value, since it is payable on demand. These amounts were not discounted to present values due to their demand feature.

ACCUMULATED FUNDS

Accumulated funds ratio

The accumulated funds ratio is calculated on the following basis:

Total members' funds per statement of financial position	417 051 117	341 178 683
Less: Cumulative net gains on re-measurement to fair value of financial instruments	-	(1 081 207)
Accumulated funds per Regulation 29	417 051 117	340 097 476
Gross contribution income	1 444 890 836	1 187 875 634
Accumulated funds ratio per Regulation 29	28.86%	28.63%

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

In terms of Section 33(2) of the Act, each Benefit Option shall be self-sustaining in terms of membership and financial performance and be financially sound. At 31 December 2012 the LA Comprehensive Option did not comply with Section 33(2) as a net healthcare deficit of R2 006 241 was incurred at year-end.

The Board of Trustees addresses the sustainability of all Benefit Options during the annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in this Option for its registered beneficiaries by taking into account investment income. The Board of Trustees is also comfortable with the continuous decrease in the annual operating deficit on the LA Comprehensive Option.

2. Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions must be paid directly to the medical scheme no later than three days after payment thereof becoming due.

There were instances during the year where the Scheme received contributions after three days of it becoming due; however there are no contracts in place agreeing to these late payments.

The Scheme manages these late payments in terms of its debt management policy and procedures.

LA Health again touches the hearts of its community

The LA Health annual Trustee Charity Golf Challenge is a fully sponsored event and is rapidly gaining momentum. As such, the 2013 Golf Challenge was a resounding success and a record amount of R86 233 was raised for charity.

R76 233 was raised through the Golf Challenge and donated to the Durbanville Children's Home, the John Vorster Old Age Home in Queenstown and the Children's Cancer Foundation of South Africa (CHOC). Through a once-off generous additional sponsorship of R10 000, from the Scheme's administrator, Discovery Health, it was possible to distribute the funds raised to four charities, determined by the four top Trustees' teams on the day.

This could not have been achieved without the financial support from the Scheme's business partners.

The donations were handed over to the four winning charities by the four Trustees concerned:



Winning charity: Reach for a Dream Foundation – Arno Vorster (on the left) – R42 500.



Second place winning charity: Pioneer School for the Visually Impaired, Worcester – Rudi Bosman (on the left) – R25 500.



Third place winning charity: Huis Louisa Meyburgh, Port Elizabeth – Andre Lemmer (on the left) – R 17 000.



Fourth place winning charity: Orlando Children's Home – Reuben Denge – R 10 000.