



# Notice of the ANNUAL GENERAL MEETING 2018

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:



<b>DATE</b>		15 August 2018
<b>TIME</b>		14:00
<b>VENUE</b>		Southern Sun Elangeni & Maharani Hotel, Durban

## 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 7 days before the date of the meeting – by not later than 12:00 on Wednesday 8 August 2018. Email to [rdutoit@lahealth.co.za](mailto:rdutoit@lahealth.co.za), or post to PO Box 652509, Benmore 2010

## Agenda for the Meeting

1. Welcome and quorum
2. To note and approve the Minutes of the Annual General Meeting held on 16 August 2017
3. Annual Financial Statements and Auditor's Report for the year ended 31 December 2017
4. Board of Trustees' Annual Report (as per Section 37[1] of the Medical Schemes Act [1998])
5. Announcement of appointment of KPMG as the Scheme's external auditors
6. Consideration: Notices of Motion for referral to the Board of Trustees for final decision
7. Introduction to the Chairperson's Report

## Annual financial statements, trustees' report and copies of the minutes of the previous annual general meeting

The 2017 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](http://www.lahealth.co.za). It may also be requested from the Scheme's call centre at **0860 103 933**.

# Venue

## Southern Sun Elangeni and Maharani Hotel, Durban

63 Snell Parade, Durban

### Directions

The hotel is located on Durban's beachfront near North Beach. Follow signs to 'Beaches' from Durban city. Alternatively use Google Maps or a GPS device with the following coordinates 29°50'43.58" S | 31°2'5.96" E

### From the King Shaka International Airport

Drive towards the Outer Ring Road towards Durban. Drive through the Toll Road and join up with the N2. Follow the N2 until you reach the Umdloti Link/ Jabu Ngcobo Dr turnoff. Turn left at turnoff. Drive towards the Leo Boyd Highway and turn right onto the M4 towards Durban. This will take you past the Sibaya Casino off-ramp. Keep travelling past Umhlanga Rocks turn-off, past La Lucia Mall turnoff. Continue past Durban Virginia Airport, the Riverside Road turnoff and the Durban Country Club. The M4 becomes the Ruth First. At the set of traffic lights, turn left into Sandile Thusi Road (Argyle Road). Turn right at the next set of robots/ traffic lights into Sylvester Ntuli Road (Brickhill Road). At the next set of robots/ traffic lights, turn left into Somtseu Road and continue over the next set of robots/ traffic lights and turn right into Snell Parade. Travel around the traffic circle and Southern Sun Elangeni & Maharani is on the right-hand side before the next traffic circle.



## Key Financial and Service Metrics

	2016	2017
Members' funds	R1 058 794 380	R1 318 649 214
Solvency ratio	39.50%	42.19%
Gross contribution income	R2 680 589 126	R3 125 823 120
Risk contribution income	R2 178 620 653	R2 533 112 828
Accumulated funds per member	R17 116	R19 502

2017	LA COMP	LA CORE	LA ACTIVE	LA FOCUS	LA KEYPLUS	TOTAL
Number of members at the end of the accounting period	1 839	4 831	41 871	12 136	6 939	67 616
Average number of beneficiaries for the accounting period	2 586	7 594	106 404	28 561	15 846	160 991
Average age per beneficiary	65.93	63.93	28.15	26.49	27.05	29.93
Pensioner ratio (beneficiaries >65 years old)	63.76%	59.87%	3.20%	1.81%	1.10%	6.21%
Average risk contribution per member per month	R6 323.66	R5 272.88	R3 249.00	R2 347.63	R1 932.47	R3 194.57
Average relevant healthcare expenditure per member per month	R5 793.17	R4 937.71	R2 592.47	R1 739.84	R1 511.87	R2 598.26
Relevant healthcare expenditure as a percentage of risk contributions	91.6%	93.6%	79.8%	74.1%	78.2%	81.3%
Administration fee per member per month	R289.99	R285.29	R288.91	R289.99	R144.64	R274.11
Non-healthcare expenditure as a percentage of risk contributions	6.4%	7.0%	12.4%	16.8%	11.9%	11.9%

# Chairperson's Report

On behalf of the Board of Trustees of LA Health Medical Scheme I take pleasure in presenting highlights of the Scheme's financial performance for the year ended 31 December 2017.

## External factors impacting the scheme

2017 was yet another complex and challenging year for medical schemes in the industry. Escalating healthcare costs, continuous legislative and compliance pressures in a difficult political environment, a worsening economic outlook, Municipalities' failure to pay contributions due to financial constraints and on-going debates regarding the reform of the healthcare industry, were just some of the challenges the Trustees faced.

The Trustees continuously have to ensure LA Health remains compliant and prepare the Scheme for potential future regulatory and other changes.

## The scheme's financial performance in 2017

LA Health Medical Scheme had a very positive 2017.

Following strong growth of 9.23% to 147 779 beneficiaries in 2016, LA Health experienced another year of strong membership growth with the average number of beneficiaries increasing by a further 8.94% to 160 991 at the end of December 2017.

The financial information contained in this highlights document have been extracted from, and are in agreement with, the audited 2017 Annual Financial Statements.

A net healthcare result of R171.1 million was achieved. Despite the membership growth and the resulting increase in gross contributions received, the reserve ratio increased from 39.5% in 2016 to 42.19% at the end of 2017. In real terms the Scheme had R1.31 billion in reserve at the end of 2017, higher than the R1.05 billion at the end of 2016.

The Scheme's risk contribution income was R2.53 billion with a net risk claims experience of R2.03 billion. This resulted in a net healthcare result (before investment income) of R171.1 million for the year, compared to R112.67 million in 2016. After investment gains the Scheme's total comprehensive income for 2017 was R259.85 million. Non-healthcare expenses were at 11.9% of the total risk contributions.

At year end 2017, the Scheme held R255.76 million of Medical Savings Account funds. This was inclusive of interest of R16.86 million earned during the year. In 2017, the Scheme paid claims to the value of R557.12 million on behalf of members from the Medical Savings Accounts.

The Trustees carefully manage contributions and benefits to ensure the Scheme's long term sustainability and 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; 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 continued focus of Discovery Health (Pty) Ltd is on product and service innovation ensuring the Scheme is able to meet operational and other challenges in an efficient and relevant manner.

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

### During 2017 the following persons served as members of the Board of Trustees:

Mr J Allan, Mr R Barnard, Mr A Bennett, Mr GJ Beukman (Chairperson), Mr R Bosman, Ms C Botes, Mr H Botha, Mr R de Bruyn, Mr HA Deysel (Deputy Chairperson), Mr R Field, Mr H Hoffman, Mr A Lemmer, Mr P Louwrens, Mr ME Mattheus, Mr MCT Schultz and Mr A Vorster.

All the Trustees are member-elected.

**Principal Officer:** Mr AM de Koker

### Audit and Risk Committee

The Scheme's Audit and Risk Committee, established in accordance with the requirements of the Medical Schemes Act (Act 131 of 1998), met four times during the year.

### The independent members of the Audit and Risk Committee in 2017 were:

Mr G Buchholtz, Ms N Chowthee (term ended 13 July 2017), Dr J Cornell and Mr R Denge (appointed 14 July 2017)

## Preparation for the future

The LA Health Trustees are aware sustainability in the current environment and readiness for future changes require ongoing assessment and planning, and continue to focus on the following important initiatives:

1. A continuous review of the LA Health value proposition for all employees, former employees and Local Government councillors.
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 is enabled to fulfil its fiduciary duties in this constantly changing and challenging environment.
4. Transformation of the Board of Trustees, through the existing democratic election process, to be representative of the demographics of the membership of the Scheme.

The Trustees are comfortable the Scheme is sustainable, and that it offers significant 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 and Risk Committee members
- Mr LW Grobler and the team at KPMG Inc., the Scheme's external auditors.
- André de Koker, our Principal Officer, and the Scheme's staff
- Our employer groups, their representatives and HR teams
- Dr J Cornell: the Scheme's independent medical advisor
- Mr R Leerkamp: NMG Actuarial Services – NMG Benefits
- Healthcare and other third party providers to the Scheme and our members
- The Scheme's Administrator, Discovery Health (Pty) Ltd

## In conclusion

The Trustees look forward to 2018 as another year of consistent, high quality service delivery and are resolute to continue to closely manage all aspects of the Scheme's offerings, ensuring continued 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 2017

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017		
	2016	2017
	R	R
<b>Assets</b>		
<i>Non-current assets</i>	5 615 558	5 439 650
Property and equipment	5 475 695	5 434 791
Motor Vehicle Loans	139 863	4 859
<i>Current assets</i>	1 399 352 093	1 708 696 643
Trade and other receivables	120 775 273	141 951 507
Held-to-maturity investments	601 500 000	603 600 000
Scheme funds	504 000 000	506 100 000
Medical savings account trust funds	97 500 000	97 500 000
Cash and cash equivalents	677 076 820	963 145 136
Scheme funds	567 713 699	811 179 588
Medical savings account trust funds	109 363 121	151 965 548
<b>Total assets</b>	<b>1 404 967 651</b>	<b>1 714 136 293</b>
<b>Funds and liabilities</b>		
<i>Members' funds</i>	1 058 794 380	1 318 649 214
Accumulated funds	1 058 794 380	1 318 649 214
<i>Non-current liability</i>	4 332 000	4 082 000
Post-retirement healthcare funding liability	4 332 000	4 082 000
<i>Current liabilities</i>	341 841 271	391 405 079
Outstanding risk claims provision	59 600 000	62 100 000
Medical savings account trust liability	214 731 013	255 755 364
Trade and other payables	67 510 258	73 549 715
<b>Total funds and liabilities</b>	<b>1 404 967 651</b>	<b>1 714 136 293</b>

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2016 R	2017 R
<b>Risk contribution income</b>	<b>2 178 620 653</b>	<b>2 533 112 828</b>
<b>Relevant healthcare expenditure</b>	<b>(1 805 644 562)</b>	<b>(2 060 274 614)</b>
Net claims incurred	(1 756 017 128)	(2 002 910 875)
Risk claims incurred	(1 765 104 701)	(2 026 010 249)
Third party claims recoveries	9 087 573	23 099 374
Net expense on risk transfer arrangements	(170 420)	(301 190)
Risk transfer arrangement fees/premiums paid	(10 145 487)	(19 303 869)
Recoveries from risk transfer arrangements	9 975 067	19 002 679
Managed care: management services	(49 457 014)	(57 062 549)
<b>Gross healthcare results</b>	<b>372 976 091</b>	<b>472 838 214</b>
Broker services fees	(51 351 818)	(61 188 230)
Administration fees	(187 786 251)	(217 351 819)
Sundry expenses	(15 381 215)	(16 198 166)
Impairment losses on healthcare receivables	(5 790 285)	(7 025 954)
<b>Net healthcare results</b>	<b>112 666 522</b>	<b>171 074 045</b>
<b>Other income</b>	<b>83 100 991</b>	<b>105 096 720</b>
Investment income	83 064 858	105 194 498
Scheme	68 974 970	88 334 567
Return on Medical Savings Account trust monies invested	14 089 888	16 859 931
Sundry (expenses) /income	36 133	(97 778)
<b>Other expenditure</b>	<b>(14 089 888)</b>	<b>(16 859 931)</b>
Interest paid on medical savings accounts	(14 089 888)	(16 859 931)
<b>Net surplus for the year</b>	<b>181 677 625</b>	<b>259 310 834</b>
<b>Other comprehensive income</b>	<b>(137 000)</b>	<b>544 000</b>
Actuarial (loss) /gain on post-retirement healthcare funding liability	(137 000)	544 000
<b>Total comprehensive income for the year</b>	<b>181 540 625</b>	<b>259 854 834</b>

## STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2017

	2016 R	2017 R
	<b>Accumulated funds</b>	<b>Accumulated funds</b>
<b>Balance at 1 January</b>	<b>877 253 755</b>	<b>1 058 794 380</b>
<b>Changes in funds and reserves</b>	<b>(137 000)</b>	<b>544 000</b>
Actuarial (loss) / gain on post retirement healthcare funding liability	(137 000)	544 000
<b>Net surplus for the year</b>	<b>181 677 625</b>	<b>259 310 834</b>
<b>Balance at 31 December</b>	<b>1 058 794 380</b>	<b>1 318 649 214</b>

**STATEMENT OF CASHFLOWS**

for the year ended 31 December 2017

	2016	2017
	R	R
<b>Cash flows from operating activities</b>		
Cash flows from operations before working capital changes	113 053 482	171 338 330
Working capital changes		
• Increase in trade and other receivables	(76 212 317)	(21 176 234)
• Increase in medical savings account trust liability	32 863 428	41 024 351
• Increase in outstanding claims provision	14 800 000	2 500 000
• Increase in trade and other payables	9 617 771	6 039 457
<b>Net cash flows from operating activities</b>	<b>94 122 364</b>	<b>199 725 904</b>
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(125 026)	(27 159)
Additions to held-to-maturity investments		
Scheme funds	-	(2 100 000)
Decrease in loans to employees	107 496	135 004
Interest income		
Scheme	68 974 970	88 334 567
Return on medical savings account trust monies invested	14 089 888	16 859 931
Interest paid	(14 089 888)	(16 859 931)
<b>Net cash flows from investing activities</b>	<b>68 957 440</b>	<b>86 342 412</b>
<b>Net increase in cash and cash equivalents</b>	<b>163 079 804</b>	<b>286 068 316</b>
Cash and cash equivalents at beginning of year	513 997 016	677 076 820
<b>Cash and cash equivalents at end of year</b>	<b>677 076 820</b>	<b>963 145 136</b>
<b>Scheme funds</b>	<b>567 713 699</b>	<b>811 179 588</b>
<b>Medical savings account trust funds</b>	<b>109 363 121</b>	<b>151 965 548</b>

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2017

	2016	2017
	R	R
<b>Cash and cash equivalents</b>		
<b>Medical scheme funds</b>		
Current accounts	108 492 611	147 520 158
Money market instruments	459 221 088	663 659 430
<b>Total current, call and fixed accounts</b>	<b>567 713 699</b>	<b>811 179 588</b>

The weighted average effective interest rate on cash and cash equivalents were 8% (2016 – 7.75%). The short term funds have an average maturity of 1 day (2016 – 1 day).

At 31 December 2017 the carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets.

<b>Medical Savings Account trust funds</b>		
Call account	5 900 000	5 900 000
Current account	103 463 121	146 065 548
<b>Total Medical Savings Account trust funds invested</b>	<b>109 363 121</b>	<b>151 965 548</b>

The weighted average effective interest rate on the Medical Savings Account funds was 6.39% (2016 – 6.41%). The short term deposits have an average maturity of 1 day (2016 – 1 day).

At 31 December 2017 the carrying amounts of the Medical Savings Account funds approximate their fair values due to the short-term maturities of these assets.

<b>Total cash and cash equivalents</b>	<b>677 076 820</b>	<b>963 145 136</b>
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

for the year ended 31 December 2017

	2016 R	2017 R
<b>Medical Savings Account trust liability</b>		
Balance on Medical Savings Account liability at the beginning of the year	181 867 585	214 731 013
Add:		
Medical Savings Account contributions received for the current year	501 968 473	592 710 292
Transfers received from other medical schemes	495 385	648 969
Interest earned on Medical Savings Account trust funds	14 089 888	16 859 931
Less:		
Claims paid to or on behalf of members	(474 546 932)	(557 116 604)
Refunds on death or resignation	(9 143 386)	(12 078 237)
<b>Balance on Medical Savings Account liability at the end of the year</b>	<b>214 731 013</b>	<b>255 755 364</b>

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

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 enroll in another medical scheme.

**Estimated claims to be paid out of members' Medical Savings Accounts  
in respect of claims incurred in 2017 but not reported:**

3 888 165

4 590 594

Actual interest earned, net of related expenses, is paid on Medical Savings Account. Investment of Medical Savings Account trust monies managed by the Scheme on behalf of its members, has been separately disclosed in the Financial Statements.

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

At 31 December 2017 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.

	2016 R	2017 R
<b>Accumulated funds</b>		
Total members' funds per statement of financial position	1 058 794 380	1 318 649 214
<b>Accumulated funds per Regulation 29</b>	<b>1 058 794 380</b>	<b>1 318 649 214</b>
<b>Annualised gross contributions</b>	<b>2 680 589 126</b>	<b>3 125 823 120</b>
<b>Solvency margin</b>		
<b>Accumulated funds/annualised gross contribution income x 100%</b>	<b>39.50%</b>	<b>42.19%</b>

The required solvency has been maintained throughout the year.

# NON COMPLIANCE MATTERS

## 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 and be financially sound.

At 31 December 2017, one of the Scheme's benefit options did not comply with Section 33(2):

Option	2016 Net healthcare deficit R	2017 Net healthcare deficit R
LA Core	(19 825 075)	(1 986 772)

The Board of Trustees addresses the sustainability of all the 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.

## Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

The procedures that the Scheme follows regarding these contributions are set out in the financial statements.

## LA HEALTH AGAIN TOUCHES THE HEARTS OF ITS COMMUNITY

The LA Health Trustee Charity Golf Challenge is a fully sponsored annual event in line with the Scheme's corporate social responsibility commitments

At the 2017 golf day a total of R114 120 was raised and donated to Huis Louisa Myburgh, CANSA and Evelyn House Retirement Home. The 2018 golf day was once again a resounding success and a grand total of R107 528 was raised for charity. The R107 528 raised was handed over to the 3 winning charities by the trustees concerned.

### First prize winner



The winning team of the day!



R53 764 Bel Porto School

### Second place winning charity



R31 248.40 Rosedon House

### Third place winning charity



R21 505.60 Animal Anti Cruelty League

Client Services 0860 103 933 • Fax 011 539 7276 • [www.lahealth.co.za](http://www.lahealth.co.za) • [service@discovery.co.za](mailto:service@discovery.co.za)

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