



# Annual General Meeting

2024

WE INVITE YOU TO ATTEND THE ANNUAL GENERAL MEETING OF LA HEALTH MEDICAL SCHEME.

## EVENT DETAILS

**Date:** Wednesday 26 June 2024

**Time:** 10:00

**Where:** Protea Hotel Durbanville, 99 Jip de Jager Drive, Vineyards Office Estate, Tyger Valley, Cape Town.

## DIRECTIONS TO THE VENUE FROM CAPE TOWN

- Follow the N1 in a Northerly direction to the Jip de Jager Dr/Mike Pienaar Boulevard/M16 in Loevenstein.
- Veer left and follow Jip de Jager to your destination in De Bron.

GPS coordinates: -33.85668, 18.62618.

## THIS INVITATION IS OUR OFFICIAL NOTICE OF THE ANNUAL GENERAL MEETING

We will not deal with any claims or other personal queries at the Annual General Meeting. Members may contact the LA Health call centre on 0860 103 933 for help.

Please notify the Principal Officer of any motions at least 7 days before the date of the meeting if you would like to raise a motion for discussion.

Please send your motions by not later than 12:00 on Wednesday 19 June 2024.

### How to send your motion

**Email:** [rdutoit@lahealth.co.za](mailto:rdutoit@lahealth.co.za)

**Post:** PO Box 652509, Benmore 2010

## BEFORE THE ANNUAL GENERAL MEETING YOU MAY WANT TO READ THE FOLLOWING DOCUMENTS

- The 2023 audited Annual Financial Statements
- The Trustees' report
- The draft minutes of the previous meeting, held on 29 June 2023

These documents are available on [www.lahealth.co.za](http://www.lahealth.co.za), or you can request copies from the call centre on **0860 103 933**.

# Agenda for the Meeting

1. Welcome and verification that the required number of members are present in the meeting.
2. Noting and approving the minutes of the Annual General Meeting held on 29 June 2023.
3. Consider and discuss the Annual Financial Statements and auditor's report for the year ended 31 December 2023.
4. Consider and discuss the Board of Trustees' annual report in line with Section 37[1] of the Medical Schemes Act [1998].
5. Confirm the Board's appointment of DELOITTE as the Scheme's external auditor for the 2024 audit.
6. Consideration: Notices of motions received for referral to the Board of Trustees for final decision.
7. Introduction of the Chairperson's report.
8. Announcement of the outcome of the 2024 Trustee Election.

# Chairperson's report for the 2023 financial year

## INTRODUCTION

LA Health Medical Scheme (the Scheme) is a medical scheme for the employees, their families, and retired workers in Local Government and its associated stakeholders.

During 2023, the Scheme maintained a strong financial position and was able to cover healthcare costs incurred by our members. In 2023, although we've seen an increase in healthcare costs, the Scheme's financial position continued to improve, and membership continued to grow.

The Scheme is dedicated to being fair, transparent, honest, and responsible in all its dealings and aims to ensure our beneficiaries can afford good healthcare, no matter how much they earn or how big their family is.

Members have a choice of five different benefit options to suit their needs: the LA Comprehensive, LA Core, LA Active, LA Focus and LA KeyPlus Options.

The Scheme is managed by the Trustees – their careful and focused leadership ensures that it is run well, puts members first and keeps its promise of excellent service.

## FINANCIAL OVERVIEW

International Financial Reporting Standards (IFRS) govern how financial statements report transactions and events, enabling consistency, transparency, and comparability between businesses worldwide. To further enhance the comparability of financial results published by insurers, the new IFRS17: Insurance Contracts standard became effective from 1 January 2023, and is applicable to medical schemes, replacing the interim standard IFRS4, issued by the International Accounting Standards Board.

Although IFRS 17 introduced significant changes to the terminology and presentation of our financial statements, there are no changes for members, to the nature or operations of the Scheme, its business model, or any processes applied by the Scheme in fulfilling its obligation to members, or how we manage the Scheme's reserves. Please refer to the one pager, distributed with this Notice, for more information.



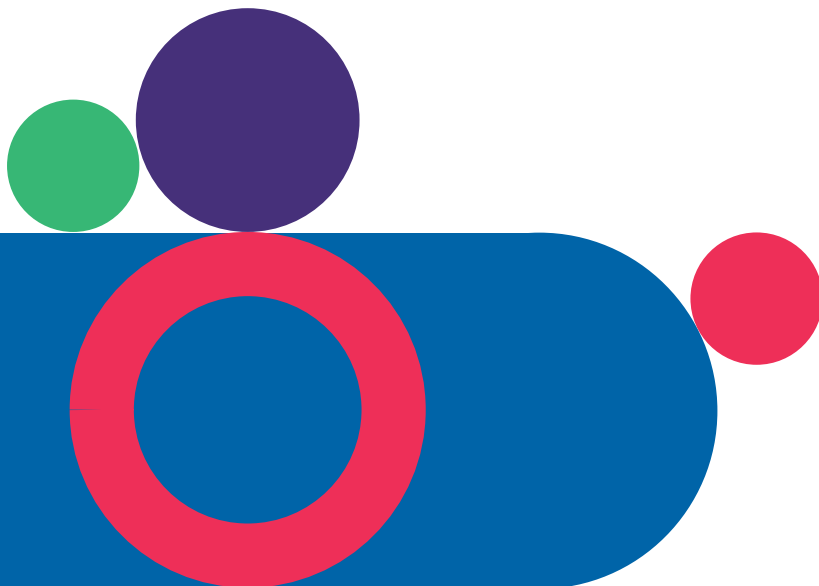
## THE SCHEME'S FINANCIAL PERFORMANCE IN 2023



| Metric   | 2023 Vs 2022 actuals     |   | Current status  |
|--|--------------------------|---|---|
| Membership   | + 5 900 members          | ↑ | Membership increased to 101 844 from 95 944 principal members at the end of 2022. This is a 6.14% year-on-year growth.  |
| Average age of beneficiaries                                       | 0.24%                    | ↑ | The average age of the beneficiaries (29.49 years) is marginally higher than the 29.25 years in 2022. This is lower than the industry average of 33.9 years (CMS:2023). |
| Proportion of lives over age 65                                    | 0.3%                     | ↓ | The pensioner ratio decreased to 4.35% from 2022. This is lower than the industry average of 9.28% (CMS:2023).  |
| Reserve ratio  | 0.54%                    | ↓ | The reserve ratio decreased slightly to 53.26% in 2023, from 53.80% in 2022. The reserves exceed the required 25% level.  |
| Reserves   | +R351.74million (11.57%) | ↑ | At year end, the Scheme held reserves of R3.391bn, an increase from R3.039bn in 2022.   |
| Accumulated funds per member                                       | +R1 568                  | ↑ | The accumulated funds per member increased to R33 300 from R31 732 at the end of 2022.  |
| Net healthcare result  | +R102.09 million         | ↑ | An outcome of R351.74 million was achieved against the R249.64 million in 2022.   |
| Net investment income  | R115.18 million          | ↑ | The investment income was higher: R307.82 million in 2023 vs R192.64 million in 2022.   |
| Insurance service expenditure as a percentage of insurance revenue | 0.3%                     | ↑ | Insurance service expenditure as a percentage of insurance revenue increased slightly to 96.1% from 95.8% in 2022.  |
| Non-healthcare costs   | 4.89%                    | ↓ | Non-healthcare costs were lower in 2023: R101.3 million vs R106.6 million in 2022, due to favourable outcomes of the tender process.                                    |

\*CMS:2023 refers to the latest report of the Council for Medical Schemes

On average the Scheme received contributions of R4 194 and paid claims of R4 028 per member per month in 2023.



## GOVERNANCE AND COMPLIANCE

### TRUSTEES

The Trustees oversee LA Health Medical Scheme on members' behalf. They follow the Scheme's rules and ensure compliance with the Medical Schemes Act (the Act). Their job is to always do what's best for all the members and to make sure the Scheme is managed correctly. All the Trustees are elected by the Scheme's members.

During 2023 the Trustees of the Scheme were:

|                                   |                  |
|-----------------------------------|------------------|
| Mr. GJ Beukman (Chairperson)*     | Mr. HA Deysel*   |
| Mr. R Denge (Deputy Chairperson)* | Mr. MAV Dlamini* |
| Mr. RC Barnard                    | Mr. RJ Field*    |
| Mr. AJ Bennett*                   | Mr. A Lemmer*    |
| Mr. RG Bosman*                    | Mr. S Mabunda    |
| Mr. HF Botha*                     | Mr. CL Mavuso    |
| Ms. MN Chidi-Manganye             | Ms. C Nel        |
| Mr. R de Bruyn*                   | Mr. S Yamba      |

\* Trustees retiring on 30 June 2024

A Trustee election took place in the lead up to the 2024 Annual General Meeting, as the terms of office of several of the Trustees end on 30 June 2024.

The new Trustees will be announced at the Annual General Meeting.

### PRINCIPAL OFFICER

Mr. André de Koker

### AUDIT AND RISK MANAGEMENT COMMITTEE

The Committee consists of five members, of which two are Trustees. The other members are not Trustees or employees of the administrator.

The Committee was established through written terms of reference by the Board of Trustees in compliance with the requirements of the Act. It supports the Board in fulfilling its responsibilities related to financial controls and risk management, overseeing accounting policies, internal controls, and financial reporting practices.

### EXTERNAL AUDITOR

The Board of Trustees wishes to thank KPMG, the Scheme's external auditor for the 2023, and past financial year audits.

In ensuring the external auditor remains independent and objective, and to comply with rotation requirements, the Scheme has appointed Deloitte to perform the audit for the year ending 31 December 2024.

## RISK MANAGEMENT

Risk is defined as the possibility of an event occurring that could have a negative impact on the achievement of the Scheme's strategic objectives.

The Board of Trustees has adopted a practical risk management approach to identify, assess, and agree on risks and risk mitigation steps to manage and control these risks. Ultimately, the Board of Trustees is responsible for managing these risks, with oversight being provided by the Audit and Risk Committee.

### LEGISLATIVE ENVIRONMENT

The Trustees keep up to date with any new legislative and industry-specific information and changes that could affect medical schemes. They often check and assess any new laws or rules to make sure the Scheme can quickly adapt to these changes. The most important legal updates for 2023 are listed below.

### NATIONAL HEALTH INSURANCE

The National Health Insurance Bill is a plan that was first shared on 21 June 2018. It describes how government plans to set up the National Health Insurance Scheme, which will eventually provide healthcare services to all people in South Africa.

The NHI Bill was debated in the relevant committees of Parliament and stakeholders were asked to comment. The Bill passed through both the National Assembly and the National Council of Provinces, and was then referred to the President to be signed into law.

On 15 May 2024, the President signed the Bill. The National Health Insurance Act will take effect (become binding on everyone) when it is published in the Gazette or on a date determined in terms of the Act.

We closely monitor these developments and consider the potential impact to the Scheme and its members. However, we do not expect that the finalisation of the Bill into law will have an immediate impact on the Scheme in the short to medium term. We continue to support the Country's efforts in securing equitable access to healthcare for all South Africans.

### ROAD ACCIDENT FUND (RAF) DIRECTIVE

In August 2022, the Road Accident Fund (RAF) announced that it would no longer pay third party-related medical bills for people who are members of medical schemes.

The Scheme's administrator, Discovery Health, and the Health Funders' Association disagreed with this approach and took the matter to Court. On 26 October 2022, the Court decided that the RAF's decision was not legal.

The RAF challenged the Court's ruling and on 6 November 2023, the High Court in Pretoria ruled that the RAF's decision to stop paying claims for medical scheme members, was unconstitutional, and therefore, not valid. The court also set aside some other rules the RAF had implemented.

On 10 November 2023, Discovery Health took legal action against the RAF and its CEO, Mr. Collins Letsoalo, as they were still not paying members' claims. This case was due to go to court in March 2024, but was postponed until June 2024.

## OTHER MATTERS

The issues below were mentioned in the Chairperson's report in 2022 and haven't progressed or changed much since then:

- Section 59 Investigation Panel brought together to investigate allegations of racism in practices and processes implemented by medical schemes and administrators to stop fraud, waste, and abuse.
- Court case lodged by the South African Society of Physiotherapy (SASP) against all medical schemes, their administrators, the Minister of Health, and the Council for Medical Schemes (CMS): The legal case is still open, and the lawyers for the medical schemes are awaiting a court date.
- Competition Commission complaint lodged by the Health Funder's Association: The Health Funders Association (HFA) instituted a complaint with the Competition Commission for suspected overcharging by certain pathology groups for PCR laboratory tests conducted for COVID-19 tests during 2020 and 2021. The Scheme, together with several other medical schemes in the industry, has joined the HFA in this action.

The Competition Commission has determined not to refer the complaint to the Competition Tribunal for adjudication. The Commission's decision was based on consent agreements, which were entered into with the respective pathology laboratories in December 2021.

This outcome was not unexpected and lodging the complaint with the Commission was a first, necessary step in the HFA pursuing this claim. Importantly, the Commission did not make any ruling on the merits of the complaint, paving the way for the HFA to self-refer the matter to the Competition Tribunal. As such, the HFA submitted their complaint to the Competition Tribunal on 5 October 2023. There have been no further updates.

- Routine Council for Medical Schemes inspection: The Council for Medical Schemes performed a routine inspection of the Scheme in 2020 and issued directives in terms of Section 6(2)(a) of the Financial Institutions (Protection of Funds) Act 28 of 2001, on 15 December 2020.

The Scheme took steps to comply with the Council's directives, except for three directives, against which the Scheme lodged appeals. No hearing dates have been set by the Council for Medical Schemes and the three directives appealed continue to remain suspended, pending the outcome of the hearing.

## CONCLUDING REMARKS

The Board of Trustees has worked hard to ensure the Scheme's benefits remain both affordable and appropriate to our members' health and wellbeing. At the same time, they have protected, through careful management, the future sustainability of the Scheme by applying prudent financial forecasts and ensuring that contributions are adequate and can fund claims liabilities.

In conjunction with the Scheme's administrator relevant risk management strategies were adopted, particularly managed care initiatives, provider tariff agreements, and the management of fraud waste and abuse, ensuring the Scheme's claims liabilities were considerably lower than the average costs in the industry.

The Trustees are committed to ensuring good governance and protecting all members' interests fairly and equitably.

## THANKS AND APPRECIATION

I extend thanks and appreciation to the following stakeholders for their dedicated efforts and valuable contributions:

- The Trustees and members of the Audit and Risk Committee for their service.
- All our members for their continued support.
- Our Principal Officer, André de Koker, and his staff.
- All our members' healthcare service providers.
- Our actuaries during the period, NMG Consultants and Actuaries.
- Our various third-party managed care providers through our administrator, Discovery Health.
- The Scheme's external auditors, KPMG Inc.
- The Registrar of Medical Schemes and his staff.

I wish to pay tribute and extend my heartfelt thanks to my fellow Trustees, some of them who have served with me on the Board for many years, for their dedication to the task of making LA Health the Scheme of choice in Local Government and for supporting me in my role as Chairperson.

I wish the Board, the Scheme and our members well into the future.

Sincerely



**Gawie Beukman**  
Chairperson

May 2024

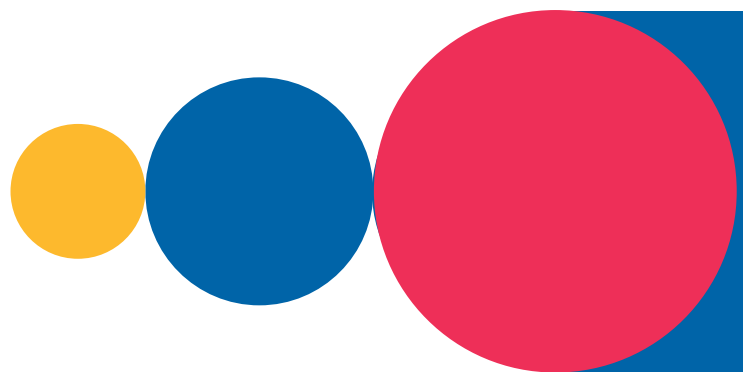
# Highlights of Financial Results for 2023



## Statement of financial position as at 31 December 2023

|  | 2023<br>R            | Restated*<br>2022<br>R | Restated*<br>1 January 2022<br>R |
|--|----------------------|------------------------|----------------------------------|
| <b>ASSETS</b>                                |                      |                        |                                  |
| Property and equipment                       | 4 014 250            | 4 068 115              | 5 275 540                        |
| Investments at amortised cost                | 2 889 672 086        | 2 337 710 184          | 2 276 151 957                    |
| Scheme Funds                                 | 2 304 672 086        | 2 202 710 184          | 2 141 151 957                    |
| MSA Funds                                    | 585 000 000          | 135 000 000            | 135 000 000                      |
| Financial assets at amortised cost           | 94 504 206           | 65 414 022             | 34 271 375                       |
| Cash and cash equivalents                    | 1 105 969 613        | 1 275 460 380          | 1 068 784 187                    |
| Scheme Funds                                 | 1 052 875 172        | 833 134 262            | 663 983 198                      |
| MSA Funds                                    | 53 094 441           | 442 326 118            | 404 800 989                      |
| <b>Total assets</b>                          | <b>4 094 160 155</b> | <b>3 682 652 701</b>   | <b>3 384 483 059</b>             |
| <b>LIABILITIES</b>                           |                      |                        |                                  |
| Total insurance contract liability           | 4 061 622 325        | 3 648 403 655          | 3 376 195 514                    |
| Insurance liability for current members      | 670 267 103          | 608 788 946            | 586 223 864                      |
| Insurance liability for future members       | 3 391 355 222        | 3 039 614 709          | 2 789 971 650                    |
| Post retirement healthcare funding liability | 2 603 000            | 2 589 000              | 2 530 000                        |
| Financial liabilities at amortised cost      | 29 934 830           | 31 660 046             | 5 757 545                        |
| <b>Total liabilities</b>                     | <b>4 094 160 155</b> | <b>3 682 652 701</b>   | <b>3 384 483 059</b>             |

Note: The new accounting standard IFRS 17 Insurance contracts was implemented retrospectively effective 1 January 2023.



# Highlights of Financial Results for 2023



## Statement of comprehensive income for the year ended 31 December 2023

|   | 2023<br>R            | Restated*<br>2022<br>R |
|---|----------------------|------------------------|
| Insurance revenue   | 5 080 477 583        | 4 511 039 114          |
| Insurance service expenses  | (5 231 640 644)      | (4 569 524 151)        |
| Net (expense)/income from reinsurance contracts held                            | (1 642 928)          | 1 107 250              |
| Premium paid  | (42 838 427)         | (36 245 032)           |
| Amounts recovered from the reinsurer  | 41 195 499           | 37 352 282             |
| <b>INSURANCE SERVICE RESULT</b>   | <b>(152 805 989)</b> | <b>(57 377 787)</b>    |
| Interest from cash and cash equivalents   | 3 821 767            | 3 239 624              |
| Interest from investments   | 304 007 286          | 189 408 883            |
| <b>NET INVESTMENT INCOME</b>  | <b>307 829 053</b>   | <b>192 648 507</b>     |
| Finance expenses on Medical Savings Account monies                              | (54 123 993)         | (30 366 146)           |
| <b>NET INSURANCE FINANCE EXPENSES</b>   | <b>(54 123 993)</b>  | <b>(30 366 146)</b>    |
| <b>NET INSURANCE AND INVESTMENT RESULT</b>                                      | <b>100 899 071</b>   | <b>104 904 574</b>     |
| Sundry income   | 485 716              | 1 695 564              |
| Other operating expenses  | (101 384 787)        | (106 600 138)          |
| <b>Net result*</b>  | <b>0</b>             | <b>0</b>               |
| Note: Amount transferred to Insurance liability for future members <sup>1</sup> | 351 740 514          | 249 643 059            |

\* The new accounting standard IFRS 17 Insurance contracts was implemented retrospectively effective 1 January 2023.



# Highlights of Financial Results for 2023



## Statement of cash flows for the year ended 31 December 2023

|   | 2023<br>R              | Restated*<br>2022<br>R |
|---|------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                        |                        |
| Cash receipts from members and providers  | <b>6 337 413 675</b>   | <b>5 653 133 177</b>   |
| - Cash receipts from members – contributions  | 6 340 314 542          | 5 623 713 065          |
| - Cash receipts from members and providers – other  | (2 900 867)            | 29 420 112             |
| Cash paid to providers, employees and members   | <b>(6 233 664 147)</b> | <b>(5 546 700 315)</b> |
| - Cash paid to members and providers – claims and other directly attributable expenses paid | (6 066 092 132)        | (5 372 367 258)        |
| - Cash paid to providers and employees – non-healthcare expenditure                         | (142 476 721)          | (143 696 490)          |
| - Cash paid to providers and employees – MSA refunds  | (25 095 294)           | (30 636 567)           |
| <b>Net cash flows from operating activities</b>   | <b>103 749 528</b>     | <b>106 432 863</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                        |                        |
| Additions to property and equipment   | (18 399)               | (59 157)               |
| Additions to investments at amortised cost  | (551 961 903)          | (61 558 227)           |
| Scheme funds  | (101 961 903)          | (61 558 227)           |
| Medical Savings Account trust funds   | (450 000 000)          | -                      |
| Investment income   | 278 740 007            | 161 860 714            |
| <b>Net cash flows from investing activities</b>   | <b>(273 240 295)</b>   | <b>100 243 330</b>     |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>                                 | <b>(169 490 767)</b>   | <b>206 676 193</b>     |
| Cash and cash equivalents at beginning of year  | 1 275 460 380          | 1 068 784 187          |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b>1 105 969 613</b>   | <b>1 275 460 380</b>   |
| Scheme funds  | 1 052 875 172          | 833 134 263            |
| Medical Savings Account trust funds   | 53 094 441             | 442 326 117            |

\* Certain prior year cash flows have been restated in line with IFRS 17 Insurance contracts. These restatements have not had an impact on the net cash flows in operating activities.

# Notes to the financial statements for the year ended 31 December 2023

## IMPLEMENTATION OF NEW STANDARDS

### IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and comprises guidance on Classification, Measurement, Impairment, Hedge Accounting and Derecognition. IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics.

The requirements for financial liabilities are mostly carried forward from IAS 39.

The standard changes the impairment model from an incurred loss model and introduces a single “expected credit loss” impairment model for the measurement of financial assets.

The introduction of the expected credit loss model and the requirement for the loss allowance to be measured at an amount equal to the lifetime expected credit losses has been assessed and deemed appropriate to be applied in determining impairment of financial assets at amortised costs. Insurance Receivables fall outside the scope of IFRS 9 and is taken into consideration of the cash flows to fulfill the insurance contracts and accounted for into IFRS 17.

This Standard applied for annual reporting periods beginning on or after 1 January 2018. The Scheme has applied this Standard with the effective date of 1 January 2023 as it applied the temporary exemption granted to insurers to defer the implementation of IFRS 9.

The Scheme used the exemption not to restate comparative periods. Differences in carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2023.

Accordingly the information presented for 2022 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2023 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Scheme has assumed that credit risk on the asset had not increased significantly since its initial recognition.

## IMPLEMENTATION OF NEW ACCOUNTING STANDARD: IFRS 17 INSURANCE CONTRACTS

### INTRODUCTION

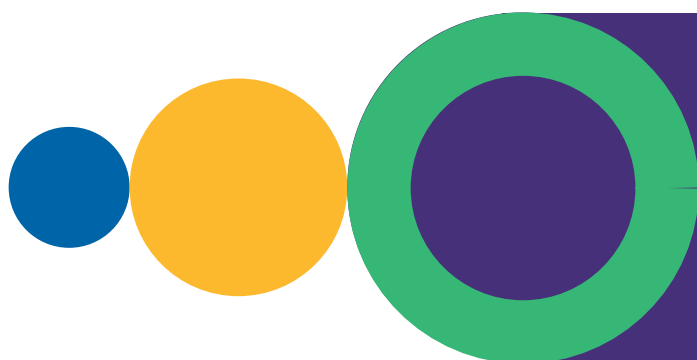
The effective date of IFRS 17 Insurance Contracts is for reporting periods beginning on or after 1 January 2023 and is mandatory for the Scheme, effective from 1 January 2023.

IFRS 17 is a new accounting standard for insurance contracts that provides guidelines on recognising, measuring, presenting, and disclosing insurance contracts. It was introduced by the International Accounting Standards Board (IASB) in May 2017. IFRS 17 replaces the previous standard, IFRS 4 Insurance Contracts, issued in 2005 as an interim standard, with limited prescribed changes to pre-existing insurance accounting practices applied by insurers.

IFRS 17 represents a positive step towards enhancing transparency, comparability, and understanding of how insurers earn profits from insurance contracts, namely insurance service result and financial results. The framework established by IFRS 17 outlines the specific requirements that entities must adhere to when reporting information related to both the insurance contracts they issue and the reinsurance contracts they hold. One of the noteworthy distinctions introduced by IFRS 17 pertains to the level of granularity at which insurance contracts are recognised and measured.

IFRS 17 is not limited to insurance companies but also applies to entities that issue any contract that results in transfer of significant insurance risk. Contracts issued by the Scheme fall within the scope of IFRS 17. These contracts are entirely aligned with those recognised under the previous standard IFRS 4.

Whilst the underlying contractual terms and economic risks and rewards of each insurance contract remain unaltered, IFRS 17 impacts the accounting treatment of insurance contracts and most notably the timing of recognition of insurance related profits and losses for accounting purposes. Importantly, it also separates the insurance related profit or losses between those arising from insurance service results and those arising from financial results.



## TRANSITION TO IFRS 17

Upon first-time adoption, IFRS 17 requires the standard to be applied fully retrospectively as if the standard always applied unless impracticable. If impracticable to do so, the entity can elect to either apply a modified retrospective approach or use the fair value approach.

The Scheme has determined that reasonable and supportable information was available for all contracts in force at the transition date that were issued within three years prior to the transition and is able to apply a fully retrospective restatement from inception for its groups of insurance contracts issued. The fully retrospective approach requires that the Scheme identify, recognise, and measure groups of insurance contracts as if IFRS 17 had always applied, de-recognising any existing balances that would not exist had IFRS 17 always applied and recognise any resulting net difference in the Insurance liability for future members.

The retrospective approach has limited impact on the Scheme, with the most significant impact being applying the treatment under IFRS 17 for mutual entities and a risk adjustment for non-financial risk to insurance cash flows. The purpose of the risk adjustment is to measure the effect of uncertainty in the fulfilment cash flows that arise from insurance contracts, other than uncertainty arising from financial risk.

The Scheme has applied the retrospective transition provision in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item.

## IMPACT OF TRANSITION TO IFRS 17

The Scheme considered its substantive rights and obligations arising from its insurance contracts in applying IFRS 17.

Medical schemes are not legally defined as mutual entities and the current regulatory and legislative requirements remain applicable to medical schemes. However, medical schemes have similar attributes as mutual entities. When applying IFRS 17, payments to members form part of the fulfilment cash flows regardless of whether those payments are expected to be made to current or future members. Thus, the fulfilment cash flows of an insurer that is a mutual entity generally include the rights of members to the whole of any surplus of assets over liabilities. This means that, for an insurer that is a mutual entity, there should, in principle, be no equity remaining and no net comprehensive income reported in any accounting period.

The Scheme does not have any contracts with specified embedded derivatives, however, does issue contracts which contain Medical Savings Accounts (MSA). Under IFRS 4 the criteria for unbundling were met and the MSAs were unbundled and accounted for as financial instruments.

The condition whereby the investment component (MSA) can be separated from the insurance component if tight interrelation is not met, and the MSA cannot be separated from the insurance component, therefore IFRS 17 is applied to the entire contract including the MSA.

The MSA is a non-distinct investment component with the balances included in Insurance Contract Liabilities in the Scheme's Statement of Financial Position.

The net impact of the retrospective application on the Scheme's accumulated funds and liability for future members is summarised as follows:

|   |                      |
|---|----------------------|
| <b>ACCUMULATED FUNDS AS AT 31 DECEMBER 2021</b><br><b>(AUDITED AND PREVIOUSLY REPORTED)</b> | <b>2 794 434 811</b> |
| <b>IFRS 17 adjustment</b>   |                      |
| Adjustment as a result of the risk adjustment for non-financial risk                        | (4 463 161)          |
| <b>Liability for future members as at 31 December 2021</b>                                  | <b>2 789 971 650</b> |
| <b>ACCUMULATED FUNDS AS AT 31 DECEMBER 2022</b><br><b>(AUDITED AND PREVIOUSLY REPORTED)</b> | <b>3 044 481 729</b> |
| <b>IFRS 17 adjustment</b>   |                      |
| Adjustment because of the risk adjustment for non-financial risk                            | (4 867 018)          |
| <b>Liability for future members as at 31 December 2022 (restated)</b>                       | <b>3 039 614 711</b> |

# Highlights of Financial Results for 2023



## Notes to the financial statements for the year ended 31 December 2023

|   | 2023<br>R            | 2022<br>R            |
|---|----------------------|----------------------|
| <b>CASH AND CASH EQUIVALENTS</b>  |                      |                      |
| <p>Cash and cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.</p> <p>In the Statement of Cash Flows, cash and cash equivalents comprise:</p> <ul style="list-style-type: none"> <li>• Current accounts</li> <li>• Money market instruments</li> </ul> <p>Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments, rather than for investing or other purposes, and are carried at amortised cost, which, due to their short-term nature, approximates fair value.</p> |                      |                      |
| <b>SCHEME FUNDS</b>   | <b>1 052 875 172</b> | <b>833 134 262</b>   |
| Current accounts  | 102 146 308          | 102 205 521          |
| Short-term money market instruments   | 950 728 864          | 730 928 741          |
| <b>MEDICAL SAVINGS ACCOUNT TRUST FUNDS</b>  | <b>53 094 441</b>    | <b>442 326 118</b>   |
| Current accounts  | 9 538                | 10 322               |
| Short-term money market instruments   | 53 084 903           | 442 315 796          |
|   | <b>1 105 969 613</b> | <b>1 275 460 380</b> |

The weighted average effective interest rate on cash and cash equivalents was 7.50% (2022 – 4.40%).





## Notes to the financial statements for the year ended 31 December 2023 (continued)

### INSURANCE CONTRACT LIABILITY 2023

| Insurance liability<br>for current members  | Liability for incurred claims (LIC)          |  |                  | Total                |
|---|--|--|------------------|----------------------|
|   | Liability for<br>remaining<br>coverage (LRC) | Present value<br>of future cash<br>flows | Risk adjustment  |                      |
| <b>NET OPENING BALANCE</b>  | <b>(226 836 003)</b>                         | <b>830 757 930</b>                       | <b>4 867 019</b> | <b>608 788 946</b>   |
| Insurance service result  | (5 080 477 583)                              | 4 880 541 168                            | (641 038)        | (200 577 453)        |
| Insurance revenue   | (5 080 477 583)                              | –  | –                | (5 080 477 583)      |
| Insurance service expense   | –  | 4 880 541 168                            | (641 038)        | 4 879 900 130        |
| Incurred claims   | –  | 4 205 748 990                            | –                | 4 205 748 990        |
| Other directly attributable expenses  | –  | 395 880 460                              | –                | 395 880 460          |
| Insurance acquisition cash flows  | –  | 127 702 995                              | –                | 127 702 995          |
| Changes in fulfilment cash flows relating<br>to the liability for incurred claims           | –  | 151 208 723                              | (641 038)        | 150 567 686          |
| Finance expense from insurance<br>contracts issued  | –  | 54 123 993                               | –                | 54 123 993           |
| Total amounts recognised<br>in comprehensive income   | (5 080 477 583)                              | 4 934 665 161                            | (641 038)        | (146 453 460)        |
| Investment component – Medical Savings<br>Accounts  | (1 288 016 797)                              | 1 288 016 797                            | –                | –                    |
| Medical Savings Accounts contributions<br>received  | (1 287 233 008)                              | 1 287 233 008                            | –                | –                    |
| Transfers received from other schemes   | (783 789)                                    | 783 789                                  | –                | –                    |
| <b>Total movement</b>   | <b>(6 368 494 380)</b>                       | <b>6 222 681 958</b>                     | <b>(641 038)</b> | <b>(146 453 460)</b> |
| <b>CASH FLOWS</b>   |  |  |                  |                      |
| Contributions received  | 6 340 314 542                                | –  | –                | 6 340 314 542        |
| Claims, Medical Savings Account refunds<br>and other directly attributable expenses<br>paid | –  | (6 091 187 426)                          | –                | (6 091 187 426)      |
| Claims related to recoveries from<br>reinsurance  | –  | (41 195 499)                             | –                | (41 195 499)         |
| <b>Total cash flows</b>   | <b>6 340 314 542</b>                         | <b>(6 132 382 925)</b>                   | <b>–</b>         | <b>207 931 617</b>   |
| <b>NET CLOSING BALANCE</b>  | <b>(255 015 841)</b>                         | <b>921 056 963</b>                       | <b>4 225 981</b> | <b>670 267 103</b>   |
| <b>Insurance liability for future members</b>   |  |  |                  |                      |
| Balance at the beginning of the year  |  |  |                  | 3 039 614 709        |
| Amounts attributable to future members  |  |  |                  | 351 740 514          |
| Balance at the end of the year  |  |  |                  | <b>3 391 355 222</b> |



## Notes to the financial statements for the year ended 31 December 2023 (continued)

### INSURANCE CONTRACT LIABILITY 2022

| Insurance liability<br>for current members  | Liability for incurred claims (LIC)          |  |                  | Total                |
|---|--|--|------------------|----------------------|
|   | Liability for<br>remaining<br>coverage (LRC) | Present value<br>of future cash<br>flows | Risk adjustment  |                      |
| <b>NET OPENING BALANCE</b>  | <b>(199 622 716)</b>                         | <b>781 383 419</b>                       | <b>4 463 161</b> | <b>586 223 864</b>   |
| Insurance service result  | (4 511 039 114)                              | 4 319 477 234                            | 403 858          | (191 158 022)        |
| Insurance revenue   | (4 511 039 114)                              | –  | –                | (4 511 039 114)      |
| Insurance service expense   | –  | 4 319 477 234                            | (403 858)        | 4 319 881 092        |
| Incurred claims   | –  | 3 660 373 881                            | –                | 3 660 373 881        |
| Other directly attributable expenses  | –  | 409 051 870                              | –                | 409 051 870          |
| Insurance acquisition cash flows  | –  | 114 314 673                              | –                | 114 314 673          |
| Changes in fulfilment cash flows relating<br>to the liability for incurred claims           | –  | 135 736 810                              | 403 858          | 136 140 668          |
| Finance expense from insurance<br>contracts issued  | –  | 30 366 146                               | –                | 30 366 146           |
| Total amounts recognised<br>in comprehensive income   | (4 511 039 114)                              | 4 349 843 380                            | 403 858          | (160 791 876)        |
| Investment component – Medical Savings<br>Accounts  | (1 139 887 238)                              | 1 139 887 238                            | –                | –                    |
| Medical Savings Accounts contributions<br>received  | (1 139 210 306)                              | 1 139 210 306                            | –                | –                    |
| Transfers received from other schemes   | (676 932)                                    | 676 932                                  | –                | –                    |
| <b>Total movement</b>   | <b>(5 650 926 352)</b>                       | <b>5 489 730 618</b>                     | <b>403 858</b>   | <b>(160 791 876)</b> |
| <b>CASH FLOWS</b>   |  |  |                  |                      |
| Contributions received  | 5 623 713 065                                | –  | –                | 5 623 713 065        |
| Claims, Medical Savings Account<br>refunds and other directly attributable<br>expenses paid | –  | (5 403 003 825)                          | –                | (5 403 003 825)      |
| Claims related to recoveries from<br>reinsurance  | –  | (37 352 282)                             | –                | (37 352 282)         |
| <b>Total cash flows</b>   | <b>5 623 713 065</b>                         | <b>(5 440 356 107)</b>                   | <b>–</b>         | <b>183 356 958</b>   |
| <b>NET CLOSING BALANCE</b>  | <b>(226 836 003)</b>                         | <b>830 757 930</b>                       | <b>4 867 019</b> | <b>608 788 946</b>   |
| <b>Insurance liability for future members</b>   |  |  |                  |                      |
| Balance at the beginning of the year  |  |  |                  | 2 789 971 650        |
| Amounts attributable to future members  |  |  |                  | 249 643 059          |
| Balance at the end of the year  |  |  |                  | <b>3 039 614 709</b> |



## Notes to the financial statements for the year ended 31 December 2023 (continued)

### MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

|   | 2023<br>R          | 2022<br>R          |
|---|--------------------|--------------------|
| <b>BALANCE ON MSA LIABILITY AT THE BEGINNING OF THE YEAR</b>        | <b>582 249 741</b> | <b>534 076 683</b> |
| <i>Add:</i>   |                    |                    |
| Medical Savings Account contributions received for the current year | 1 287 233 008      | 1 139 210 306      |
| Transfers received from other medical schemes                       | 783 789            | 676 932            |
| Return on medical savings account trust monies invested             | 54 123 993         | 30 366 146         |
| <i>Less:</i>  |                    |                    |
| Claims paid to or on behalf of members                              | (1 245 289 861)    | (1 091 443 759)    |
| Refunds on death or resignation                                     | (25 095 294)       | (30 636 567)       |
| <b>Balance on MSA liability at the end of the year</b>              | <b>654 005 376</b> | <b>582 249 741</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 Medical Savings Account must be taken as a cash benefit when the member terminates their membership of the Scheme or benefit option, and enrolls in another medical scheme or benefit option without a MSA, or does not enrol in another medical scheme.

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

At 31 December 2023 the carrying amount of the Medical Savings Accounts 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.

### SOLVENCY RATIO

|   |                      |                      |
|---|----------------------|----------------------|
| Insurance liability for future members                | 3 391 355 222        | 3 039 614 709        |
| <b>Accumulated funds per Regulation 29 of the Act</b> | <b>3 391 355 222</b> | <b>3 039 614 709</b> |
| <b>Gross annual contribution income</b>               | <b>6 367 710 591</b> | <b>5 650 249 420</b> |
| <b>Solvency margin</b>                                | <b>53.26%</b>        | <b>53.80%</b>        |



## Notes to the financial statements for the year ended 31 December 2023 (continued)

### NON-COMPLIANCE MATTERS

#### 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 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 late payments.

The Scheme follows certain procedures to collect any outstanding contributions.

#### Claims paid after 30 days

In exceptional cases, claims were paid later than 30 days after the date on which it was submitted to the Scheme. This usually resulted from members or providers submitting claims without the required details for payments to be made.

These are isolated cases that do not have a material effect on the Scheme.

The necessary assistance is provided to the affected members and healthcare providers to ensure that the impact of these cases is minimised.

#### 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 2023 two of the Scheme's benefit options did not comply with Section 33(2):

| Benefit Option   | 2023<br>Net healthcare deficit<br>R | 2022<br>Net healthcare surplus<br>R |
|------------------|-------------------------------------|-------------------------------------|
| LA Comprehensive | (5 566 440)                         | (254 804)                           |
| LA Core          | (28 051 587)                        | (27 962 736)                        |

The Board of Trustees addresses the sustainability of all Options during their annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in the Options for their registered beneficiaries, by taking into account investment income.

### SPECIAL NOTE

#### Routine council for medical schemes inspection

The Council for Medical Schemes performed a routine inspection in 2020 and issued the Scheme with directives in terms of Section 6(2) (a) of the Financial Institutions (Protection of Funds) Act 28 of 2021 on 15 December 2020. Since then the Scheme has complied with all, except for three of those directives. The Scheme has appealed the three directives in terms of Section 49 of the Medical Schemes Act. No date has been set for the appeal yet and therefore those directives remain suspended until a ruling is made by the Council for Medical Schemes' Appeals Committee.



## OPERATIONAL STATISTICS

| 2023   | LA COMP    | LA CORE    | LA ACTIVE  | LA FOCUS   | LA KEYPLUS | TOTAL      |
|--|------------|------------|------------|------------|------------|------------|
| Number of members at end of the accounting period                  | 1 075      | 3 409      | 68 004     | 23 124     | 6 232      | 101 844    |
| Average number of members or the accounting period                 | 1 119      | 3 489      | 67 586     | 22 587     | 6 153      | 100 935    |
| Average number of beneficiaries for the accounting period          | 1 399      | 4 974      | 178 688    | 57 583     | 14 395     | 257 041    |
| Beneficiaries per member   | 1.25       | 1.43       | 2.64       | 2.55       | 2.34       | 2.55       |
| Average age per beneficiary  | 69.89      | 67.26      | 28.88      | 26.77      | 28.41      | 29.49      |
| Pensioner ratio (beneficiaries >65 years old)                      | 71.53%     | 69.34%     | 3.28%      | 1.25%      | 0.71%      | 4.35%      |
| Average insurance revenue per member per month                     | R 8 597.65 | R 7 194.68 | R 4 438.26 | R 3 214.56 | R 2 613.30 | R 4 194.51 |
| Average insurance revenue per beneficiary per month                | R 6 874.02 | R 5 047.32 | R 1 678.71 | R 1 260.90 | R 1 117.10 | R 1 647.11 |
| Average insurance service expenditure per member per month         | R 9 008.46 | R 7 860.05 | R 4 259.46 | R 2 897.66 | R 2 572.11 | R 4 028.91 |
| Average insurance service expenditure per beneficiary per month    | R 7 202.47 | R 5 514.10 | R 1 611.08 | R 1 136.60 | R 1 099.50 | R 1 582.08 |
| Administration fee per member per month                            | R 303.56   | R 303.56   | R 303.56   | R 303.56   | R 186.16   | R 297.28   |
| Average other operating expenses per member per month              | R 85.29    | R 85.26    | R 85.22    | R 85.19    | R 60.49    | R 83.70    |
| Average broker fees per member per month                           | R 111.63   | R 75.09    | R 110.17   | R 103.58   | R 76.30    | R 105.43   |
| Managed care: management services per member per month             | R 89.01    | R 89.01    | R 89.01    | R 89.01    | R 89.01    | R 90.08    |
| Insurance service expenditure as a percentage of insurance revenue | 104.8%     | 109.2%     | 96.0%      | 90.1%      | 98.4%      | 96.1%      |
| Return on investments  |            |            |            |            |            | 8.09%      |
| Insurance liability for future members per member at 31 December   |            |            |            |            |            | R 33 300   |
| Average medical savings account balance per member at 31 December  |            |            |            |            |            | R 6 840    |



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# IFRS 17

ACCOUNTING STANDARD EXPLAINED

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## Background

IFRS, or International Financial Reporting Standards, are a set of accounting rules for how information should be gathered and presented in financial reports. The Standards ensure that information is consistent, comparable, and credible worldwide, using a common accounting language. IFRS 17 aims to improve the consistent application of these principles, enabling users of financial statements to meaningfully compare financial results of insurers and specifically sets out the principles of recognition, measurement, presentation, and disclosure of insurance contracts.

IFRS 17 is mandatory for annual reporting periods beginning on or after 1 January 2023, with re-statement of comparatives for the previous reporting period (that is, from 1 January 2022 for calendar year-ends). Implementation is to be done as if IFRS 17 always existed, thus opening balances for 2023 and comparative 2022 needs to be recalculated and reported in the 2023 Annual Financial Statements (AFS).

IFRS 17 applies to all insurance contracts (in a medical scheme each active membership is a contract), and reinsurance contracts (risk transfer arrangements) issued.

IFRS 17 requires a scheme to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. This requirement aims to provide transparent reporting about a scheme's financial position and risk.

Under IFRS 17, Insurance Contracts are measured as the expected fulfilment cash flows – representing the present value of current estimates of amounts the scheme/insurer expects to collect from contributions/premiums net of pay out for claims, benefits and directly-attributable expenses, including an adjustment for the risk of those cash flows.

This means that under IFRS 17, no profits are recognised when the member joins/at policy inception (contract is taken out). Instead, the contractual service margin (CSM) sets out the expected future profits for the contract, which are released, recognised and reported over its lifetime.

IFRS 17 requires the scheme to disclose information in the Notes to the Annual Financial Statements at a level of detail that, together with the primary financial statements, give members/investors a basis to assess the effects that insurance contracts have on a scheme's position, performance and cash flows.

# IFRS 17 changes the disclosures in the Annual Financial Statements

The implementation of IFRS 17 brings about changes to the Annual Financial Statements (AFS). The following outlines some of the changes and highlights the impacts to the AFS. Please note that a comprehensive note can be found in the full set of AFS that is available on the scheme website.

## A. MEDICAL SAVINGS ACCOUNT

From a reporting point of view, Medical Savings Accounts (MSA) form part of the insurance contracts as they cannot be held separately and are highly interrelated (the member is unable to benefit from the one component unless the other is present). Due to this, MSA is no longer separately reported on the Statement of Financial Position but included under the insurance contract liabilities.

## B. CASH FLOWS

The cash flows to fulfil an insurance contract include contributions, claims, acquisition cash flows, membership administration and maintenance cost, recoveries from past claims and any other costs specifically chargeable to the member under the terms of the contract.

Cash flows that are not incurred to fulfil insurance contracts include investment returns, cash flows that arise from reinsurance contracts and cash flows not directly attributable to portfolio of insurance contracts.

## C. REPORTING STRUCTURE

Schemes are required to make the following changes to their reporting structure.

- As a result of complying with IFRS 17, medical schemes are considered mutual entities. They are not for profit organisations, and the reserves are non-distributable and kept for future claims.
- Under IFRS 17 losses on onerous contracts, where claims are higher than contributions, are immediately recognised in profits or losses. It's important to understand that onerous contracts are not necessarily unprofitable throughout their lifespan; most of them are expected to be profitable but may not fully cover the conservative risk adjustment at initial recognition.
- The cost of fulfilling an insurance contract includes certain directly attributable administration expenses. Other administration expenses are reported separately.

- The *Liability for Incurred Claims (LIC)*, previously referred to as *Incurred But Not Received claims (IBNR)*, now includes a risk adjustment for non-financial risk that is applied to the present value of the estimated future cash flows. It reflects the compensation the scheme requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the scheme fulfils insurance contracts.
- Insurance receivables are reported with the Insurance Contract Liability to form one net Insurance Contract Liability.
- *Accumulated Funds*, now referred to as the *Liability for Future Members* are reported as part of the scheme's liabilities and not reserves.

## D. TERMINOLOGY CHANGES

| Old terminology   | New terminology                        |
|---|--|
| Risk contribution income  | Insurance revenue                      |
| Relevant healthcare expenditure   | Insurance service expense              |
| Incurred But Not Reported (IBNR) (claims) <i>Outstanding claims provision</i> | Liability for Incurred Claims (LIC)    |
| Accumulated Funds   | Insurance Liability for Future Members |
| Medical Savings Accounts liabilities  | Insurance contract liability           |
| Net healthcare result   | Insurance service result               |

## E. IMPACT

IFRS is a reporting standard and does not affect the actual business of a scheme. The value in the scheme stays largely the same after the implementation of the Standard.

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