

ANNUAL GENERAL MEETING 2021



You are invited to attend a virtual Annual General Meeting of members of LA Health Medical Scheme on Wednesday 11 August at 14:00



PLEASE USE THIS LINK TO REGISTER TO PARTICIPATE IN THE ANNUAL GENERAL MEETING:

<https://www.connectbylumi.com/eXKgOP>.

We have also published the details of the Meeting on the Scheme's website at www.lahealth.co.za

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 at least 7 days before the date of the meeting of any motions for discussion – by not later than 12:00 on Wednesday 4 August 2021.

Email to rdutoit@lahealth.co.za, or post to
PO Box 652509, Benmore, 2010

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

The 2020 Annual Report, including the audited Annual Financial Statements and the Trustees' Report, as well as the Minutes of the previous Annual General Meeting, are available on the Scheme's website www.lahealth.co.za. It may also be requested from the Scheme's call centre at **0860 103 933**.

Agenda for the Meeting

1. Welcome and quorum
2. To note and approve the Minutes of the Annual General Meeting held on 26 November 2020
3. Annual Financial Statements and Auditor's Report for the year ended 31 December 2020
4. Board of Trustees' Annual Report (as per Section 37[1] of the Medical Schemes Act [1998])
5. Confirmation of the Board's appointment of KPMG as the Scheme's external auditors for 2021
6. Consideration:
 - 6.1. Notices of Motion for referral to the Board of Trustees for final decision.
 - 6.2. Trustee Remuneration.
 - 6.3. Proposed Rule Amendments
7. Introduction of the Chairperson's Report
8. Confirmation of the outcome of the 2021 Trustee Election and introduction of the new Trustees



KEY FINANCIAL AND SERVICE METRICS

	2019	2020
Members' funds	R1 806 238 136	R2 397 265 544
Solvency ratio	42.71%	49.10%
Gross contribution income	R4 229 521 847	R4 881 952 663
Risk contribution income	R3 403 469 859	R3 918 483 585
Accumulated funds per member	R21 553	R26 923

2020	LA COMP	LA CORE	LA ACTIVE	LA FOCUS	LA KEYPLUS	TOTAL
Number of members at the end of the accounting period	1 400	4 104	57 886	18 635	7 016	89 041
Average number of beneficiaries for the accounting period	1 861	6 214	150 782	45 054	15 814	219 725
Average age per beneficiary	69.39	66.24	28.39	26.65	27.69	27.58
Pensioner ratio (beneficiaries 65 years and older)	69.26%	65.74%	3.18%	1.34%	1.07%	5.59%
Average risk contribution per member per month	R7 496.81	R6 372.54	R3 878.46	R2 773.71	R2 271.37	R3 704.56
Average relevant healthcare expenditure per member per month	R5 606.89	R5 398.24	R2 962.96	R1 938.64	R1 742.28	R2 816.59
Relevant healthcare expenditure as a percentage of risk contributions	74.8%	84.7%	76.4%	69.9%	76.7%	76.0%
Administration fee per member per month	R332.86	R332.86	R332.86	R332.86	R166.46	R316.18
Non-healthcare expenditure as a percentage of risk contributions	6.1%	6.7%	11.9%	16.3%	11.4%	11.8%

CHAIRPERSON'S REPORT

During 2020 the Scheme was affected by the COVID-19 pandemic and resulting restrictions, which prevailed throughout 2020 and into 2021. South Africa is now in the grip of a 3rd wave of infections.

To ensure the Scheme will be able to hold an Annual General Meeting in 2021, the Board of Trustees registered appropriate Rule changes to hold the Meeting via a virtual platform.

We believe the virtual format of the Meeting will encourage attendance and we look forward to a very successful Annual General Meeting.

Trustees

In February 2021 the Scheme initiated a Trustee election by calling for nominations to fill 8 positions on the Board. The election and the required Trustee Vetting processes have been concluded to ensure all persons elected are fit and proper to serve on the Board.

The results of the election will be confirmed at the Annual General Meeting and in communication to all members thereafter.

Appointment of the Auditor

The Board or Trustees confirmed KPMG Inc. will, in terms of their current appointment, conduct the Scheme's audit for the financial year ending 31 December 2021.

Risk management

Risk is defined as the possibility of an event materialising, which 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. Through this comprehensive process, the Board has identified a number of key risks and implemented mitigation measures to manage and control these risks.

Ultimately the Board of Trustees have to manage these risks with oversight being provided by the Audit and Risk Committee.

The Scheme's financial performance










LA Health Medical Scheme experienced a good 2020 and the Scheme's financial performance was better than the budget.

This was brought about by lower than expected utilisation of healthcare services, mainly as a result of the COVID-19 lockdown restrictions. The impact was most severe in April and May 2020, when only emergency and COVID-related care were available in-hospital.

The Scheme is still experiencing lower than expected claims costs in 2021.

Financial performance overview

In 2020 the Scheme delivered well on most of its key metrics:

METRIC	2020 VS 2019 ACTUALS	CURRENT STATUS
Membership	5 238 members 	Membership increased from 83 803 in 2019 to 89 041 principal members at the end of 2020
Average age of beneficiaries	-1.79 years 	The average age of the members improved to 27.58 years in December 2020 from 29.37 years in 2019. This is lower than the industry average of 32.5 (CMS:2019)
Proportion of lives over the age of 65	0.37% 	The pensioner ratio of 5.59% was marginally higher than the 5.22% in 2019 but still lower than the industry average of 7.9% (CMS:2019)
Reserve Ratio	6.39% 	The reserve ratio increased to 49.10% (R2.397bn) in 2020 vs 42.71% (R1.806bn) in 2019. These reserves exceed the required 25% level. The increase is largely due to the low claims experienced in 2020.
Accumulated funds per member	R5 370 	The accumulated funds per member increased to R26 923 at the end of 2020 from R21 553 in 2019
Operating surplus (before investment income)	R319.5m 	The operating surplus was R473.5 at the end of 2020 vs R118.0m in 2019
Investment income	-R5.7m 	The investment income was lower: R116.1m in 2020 vs R121.8m in 2019 due to poor market conditions in February and March 2020, at the outbreak of the COVID-19 pandemic.
Claims ratio	-8.3% 	The claims ratio decreased to 76.0% from 84.3% in 2019, and was better than the industry average of 90.58% (CMS:2019)
Non-healthcare costs	0.40% 	Non-healthcare costs were lower at 11.8% at the end of the year vs 12.2% in 2019, which is higher than the industry average of 8.87% (CMS:2019)

COVID-19 pandemic

During 2020, treatment and care for COVID-19 were included in the definition guidelines for Prescribed Minimum Benefits. These guidelines have been updated several times to set out requirements for the screening, diagnosis, treatment and care of individuals with suspected and confirmed COVID-19, as per World Health Organisation case definitions. The latest enhancements to the guidelines were made on 4 February 2021, and include guidelines for:

- the funding of COVID-19 vaccines;
- antigen testing for diagnosis of COVID-19;
- the funding of pulse oximeters, subject to clinical protocols; and
- clarification of the funding of positive PCR tests when the patient is not referred by a healthcare provider.

Due to the lockdown measures and the seriousness of the virus outbreak, people avoided healthcare facilities and delayed treatment during 2020. This behaviour caused the Scheme's claims experience to be lower than anticipated, with a savings of R501.2m on the expected claims expenditure for 2020.

It is however expected that members who postponed medical procedures during 2020, will still undergo these procedures and that the Scheme will have to use the savings achieved in 2020, to in future pay for these delayed procedures. The Trustees further expect substantial costs to be incurred during the second and third quarters of 2021, to pay for COVID-19 testing, treatment, care and the vaccines.

The Scheme is in a strong financial position with a reserve ratio of 49.1% and the costs for delayed medical procedures and COVID-19 will not negatively impact the Scheme's position as a going concern.

The COVID-19 pandemic impacted financial markets world-wide, specifically in February and March 2020, and also the investment income of the Fund.

Through its relationship with the Administrator, Discovery Health (Pty) Ltd, the Scheme continues to benefit from the work of an industry working group's input to the National Department of Health's vaccine access framework. This includes work on regulatory concerns, logistics of distribution and administration, clinical protocols and guidelines, information and record-keeping, funding options and central co-ordination and leadership.

After registration, LA Health members are able to be vaccinated at sites made available through the Discovery vaccine distribution process and from other private sector providers, subject to scheduling through the Department of Health's EVDS system.

In the 12-months since the outbreak of the pandemic in March 2020, the Scheme has paid COVID-19 related claims amounting to R283.6m. In that period 4.75% of the Scheme's beneficiaries tested positive for the virus.

It is with sadness that the Scheme notes the death of 480 beneficiaries as a result of COVID-19. The Trustees extend their heartfelt condolences to the affected families and also other members who may have been affected in these unprecedented times.

We urge all members and their families to continue to take all the necessary precautions to ensure the spread of the virus is contained and lives are protected. It remains important to adhere to safe distancing, wear a mask and sanitise, irrespective of whether you have already been vaccinated or not. And to vaccinate when you are given the opportunity to do so.

Other industry issues

National Health Insurance: The Portfolio Committee of Health has heard over 50 oral submissions on the NHI Bill, about 42% of total oral submissions. Almost all stakeholders suggest that some elements of the Bill should be revised – mostly with respect to governance, the role of medical schemes and what implementation will actually entail. Provider associations are concerned about the lack of clarity on covered services, the proposed contracting models and provider capacity in the country.

Discovery Health (Pty) Ltd represents the Scheme's interests and awaits its invitation to appear before the Portfolio Committee and has participated in preparation of the presentations for BUSA and HFA.

Section 59 Inquiry: During May 2019, allegations of racial bias and discrimination in the management of fraud, waste and billing abuse (FWA) were made by groups of Black African, Indian and Coloured healthcare professionals by Medical Schemes and their Administrators. Then Minister of Health, Dr. Aaron Motsoaledi, instructed the Council for Medical Schemes (CMS) to investigate these allegations, and an independent Investigation Panel was convened to carry out the investigations and to act as an advisory panel to the CMS and the Minister of Health. An interim report was released and comments were made by stakeholders in the industry.

At the time of compiling this Report, the final Section 59 Report has not been published.

Depending on the outcomes in the Report, the Scheme will take the necessary steps to ensure fairness in the processes deployed to manage fraud, waste and abuse, should any be necessary.

Protection of Personal Information Act (POPIA): The Information Regulator has published several guidelines and Regulations for the implementation of the Protection of Personal Information Act (POPIA) in July 2021. This will assist the medical scheme industry to draft its own Code of Conduct under the leadership of the Council for Medical Schemes.

Mr. André de Koker, the Principal Officer, has been appointed as the Scheme's Information Officer and the Administrator has implemented secure communication processes, whereby communication sent to members that contain personal and health information, can only be accessed through the member's own unique PIN. In addition, only third party persons to whom a member or a beneficiary has formally given consent, will in future be able to obtain information, or deal with the Scheme on their behalf.

Summary

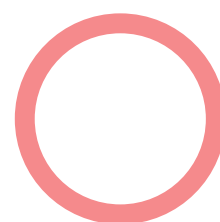
The threats to our members' health and the financial burdens brought about by the COVID-19 pandemic has gripped the attention of the Board of Trustees and have kept us focused on ensuring our members' healthcare funding needs can be met over a broad spectrum, including those related to the global pandemic.

Whilst we are keeping a close eye on the Scheme's financial performance, the Trustees are comfortable that the Scheme continues to be sustainable, offering excellent value. Our focus is on ensuring peace of mind to our members for appropriate major medical expenses, at affordable contribution rates.

We thank you for your support to the Scheme and the Trustees in 2020 and now.



Gawie Beukman
Chairperson



HIGHLIGHTS OF LA HEALTH MEDICAL SCHEME'S FINANCIAL RESULTS FOR 2020

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

	2019 R	2020 R
ASSETS		
<i>Non-current assets</i>	5 317 829	5 254 633
Property and equipment	5 317 829	5 254 633
<i>Current assets</i>	2 350 726 087	3 104 370 026
Trade and other receivables	199 301 085	105 571 339
Held-to-maturity investments	729 000 000	706 500 000
Scheme funds	504 000 000	504 000 000
Medical savings account <i>trust</i> funds	225 000 000	202 500 000
Cash and cash equivalents	1 422 425 002	2 292 298 687
Scheme funds	1 302 391 660	2 044 342 395
Medical savings account <i>trust</i> funds	120 033 342	247 956 292
Total assets	2 356 043 916	3 109 624 659
FUNDS AND LIABILITIES		
<i>Members' funds</i>	1 806 238 136	2 397 265 544
Accumulated funds	1 806 238 136	2 397 265 544
<i>Non-current liability</i>	3 102 000	2 246 000
Post-retirement healthcare funding liability	3 102 000	2 246 000
<i>Current liabilities</i>	546 703 780	710 113 115
Outstanding risk claims provision	104 591 348	133 350 000
Medical savings account <i>trust</i> liability	360 545 976	460 579 945
Trade and other payables	81 566 456	116 183 170
Total funds and liabilities	2 356 043 916	3 109 624 659

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	2019 R	2020 R
RISK CONTRIBUTION INCOME	3 403 469 859	3 918 483 585
RELEVANT HEALTHCARE EXPENDITURE	(2 870 294 827)	(2 979 235 514)
Net claims incurred	(2 789 308 687)	(2 886 799 460)
Risk claims incurred	(2 800 557 685)	(2 907 070 814)
Third party claims recoveries	11 248 998	20 271 354
Net expense on risk transfer arrangements	(2 827 418)	(4 894 423)
Risk transfer arrangement fees/premiums paid	(23 563 247)	(25 048 093)
Recoveries from risk transfer arrangements	20 735 829	20 153 670
Managed care: management services	(78 158 722)	(87 541 631)
GROSS HEALTHCARE RESULTS	533 175 032	939 248 071
Broker services fees	(86 598 026)	(98 954 357)
Administration fees	(300 343 261)	(337 834 753)
Sundry expenses	(18 503 811)	(18 273 335)
Impairment losses on healthcare receivables	(9 729 757)	(10 628 907)
Net healthcare results	118 000 177	473 556 719
OTHER INCOME	146 504 527	140 503 868
Investment income	146 502 296	140 322 137
Scheme	121 829 467	116 166 958
Return on Medical Savings Account trust monies invested	24 672 829	24 155 179
Sundry income	(2 231)	181 731
OTHER EXPENDITURE	(24 672 829)	(24 155 179)
Interest paid on medical savings accounts	(24 672 829)	(24 155 179)
NET SURPLUS FOR THE YEAR	239 831 875	589 905 408
OTHER COMPREHENSIVE INCOME	1 147 000	1 122 000
Actuarial gain on post-retirement healthcare funding liability	1 147 000	1 122 000
Total comprehensive income for the year	240 978 875	591 027 408

STATEMENT OF CHANGES IN FUNDS AND RESERVES

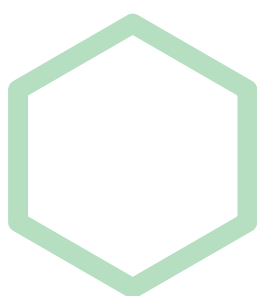
for the year ended 31 December 2020

	2019 R	2020 R
	Accumulated funds	Accumulated funds
BALANCE AT 1 JANUARY	1 565 259 261	1 806 238 136
CHANGES IN FUNDS AND RESERVES	1 147 000	1 122 000
Actuarial gain on post retirement healthcare funding liability	1 147 000	1 122 000
NET SURPLUS FOR THE YEAR	239 831 875	589 905 408
Balance at 31 December	1 806 238 136	2 397 265 544

STATEMENT OF CASHFLOWS

for the year ended 31 December 2020

	2019 R	2020 R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operations before working capital changes	118 330 604	474 067 646
Working capital changes		
• (Increase)/Decrease in trade and other receivables	(39 561 862)	83 419 114
• Increase in medical savings account trust liability	58 217 519	100 033 969
• Increase in outstanding claims provision	13 091 348	28 758 652
• (Decrease)/Increase in trade and other payables	(7 897 734)	34 616 714
Net cash flows from operating activities	142 179 875	720 896 095
CASH FLOWS FROM INVESTING ACTIVITIES		
(Additions)/Disposals to held-to-maturity investments		
Medical Savings Account <i>trust</i> funds	(60 000 000)	22 500 000
Interest income		
Scheme	121 829 467	126 477 590
Return on medical savings account <i>trust</i> monies invested	24 672 829	24 155 179
Interest paid	(24 672 829)	(24 155 179)
Net cash flows from investing activities	61 829 467	148 977 590
Net increase in cash and cash equivalents	204 009 342	869 873 685
Cash and cash equivalents at beginning of year	1 218 415 660	1 422 425 002
Cash and cash equivalents at end of year	1 422 425 002	2 292 298 687
Scheme funds	1 302 391 660	2 044 342 395
Medical savings account <i>trust</i> funds	120 033 342	247 956 292



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2019 R	2020 R
Cash and cash equivalents		
SCHEME FUNDS		
Current accounts	149 969 012	278 499 767
Money market instruments	1 152 422 648	1 765 842 628
Total current, call and fixed accounts	1 302 391 660	2 044 342 395

The weighted average effective interest rate on cash and cash equivalents was 4.14% (2019 – 7.29%). These short term funds have an average maturity of 1 day (2019 – 1 day).

At 31 December 2020, 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	19 260	20 605
Money market instruments	120 014 082	247 935 687
Total Medical Savings Account trust funds invested	120 033 342	247 956 292

The weighted average effective interest rate on the Medical Savings Account funds was 4.05% (2019 – 7.64%). These short term deposits have an average maturity of 1 day (2019 – 1 day).

At 31 December 2020, the carrying amounts of the Medical Savings Account trust funds approximate their fair values due to the short-term maturities of these assets.

Total cash and cash equivalents	1 422 425 002	2 292 298 687
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MEDICAL SAVINGS ACCOUNT TRUST LIABILITY		
Balance on Medical Savings Account liability at the beginning of the year	302 328 457	360 545 976
Add:		
Medical Savings Account contributions received for the current year	826 051 988	963 469 078
Transfers received from other medical schemes	860 092	699 442
Interest earned on Medical Savings Account <i>trust</i> funds	24 672 829	24 155 179
Less:		
Claims paid to or on behalf of members	(779 456 987)	(871 312 584)
Refunds on death or resignation	(13 910 403)	(16 977 146)
Balance on Medical Savings Account liability at the end of the year	360 545 976	460 579 945

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 2020 but not reported:	6 346 095	7 947 431
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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 2020, 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

Total members' funds per statement of financial position	1 806 238 136	2 397 265 544
Accumulated funds per Regulation 29	1 806 238 136	2 397 265 544
Annualised gross contributions	4 229 521 847	4 881 952 663

SOLVENCY MARGIN

Accumulated funds/annualised gross contribution income x 100%	42.71%	49.10%
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The required solvency has been maintained throughout the year.

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 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.

Claims paid more than 30 days from date of receipt

In terms of Section 59(2) of the Act, a medical scheme shall pay to a member or a supplier of a healthcare service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme.

In exceptional cases claims were paid later than 30 days after date of receipt. This usually resulted from members or providers submitting claims without the necessary details required for these payments to be made. Assistance is provided to the affected members and providers to ensure that these incidences are minimised.

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

Prescribed minimum benefits

Section 29(1)(o) and Regulation 8 provide the scope and level of Minimum Benefits that the Scheme must provide to members and dependants.

During the year under review, due to complexities and differences in interpretation, there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of Minimum Benefits.

The Scheme has aligned its interpretation of Prescribed Minimum Benefits with the Council for Medical Scheme's interpretation and affected claims have been reprocessed and correct payment made, where applicable.

Council for medical schemes' routine inspection

The Council for Medical Schemes performed a routine inspection at the Scheme and on 15 December 2020 issued the Scheme with directives in terms of Section 6(2)(a) of the Financial Institutions (Protection of Funds) Act 28 of 2021. The Scheme was given 30 days to submit a compliance plan to the Council for Medical Schemes in response to these directives.

The Scheme applied for extension until 28 February 2021, which was granted. Since then the Board of Trustees have taken steps to address the matters raised by the Inspection.

● Client Services 0860 103 933 ● Fax 011 539 7276 ● www.lahealth.co.za
● service@discovery.co.za ● Report fraud anonymously on 0800 004 500

