

TRANSMED MEDICAL FUND (Transmed): 2017

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of Transmed as reviewed in April 2018 (in respect of 2017). Since incorporation in 1982 Transmed operated as a close scheme for the employees of Transnet and its subsidiaries and continues to be administered by Metropolitan Health Group.

The rating of BB+ is based on the following key factors:

- A limited earnings capacity with fluctuating subsidies from the employer caused drop in the net healthcare margin to -7.1%.
- The statutory solvency level of 21% is basically unchanged and is expected to deviate from set targets caused by volatility in earnings and membership losses.
- The outflow of members to other Schemes brought about an average beneficiary age of 51.
- A conservative investment mandate is evident as cash and equivalents comprise 87% of the total portfolio.

2. Membership base

Membership consist of former SATS pensioners and the Transnet Working Members and Pensioner (TWMP)

Principal members decreased by 13.7% from 33 402 in 2016 to 28 811 in 2017.

Its market share of closed scheme membership is 0.7%.

- The SATS pool dropped by 10% to 8 500 members and the TWMP principal membership declined by 15% to 20 311.
- Total beneficiaries therefore declined from 54 082 (2016) to 45 775 (2017).
- Average member age was 59 in 2017.

3. Product line

There were 3 options in 2017 for the TWMP risk pool namely:

- State Plus Network: Covers day-to-day and chronic benefits through Universal Network. Hospital network is the state while maternity and other critical conditions are covered in private hospitals.
- State Plus Own Choice: Covers out-of-hospital benefits from a day-to-day limit but optical and dental benefits are provided by contracted providers. All hospitalisation services are covered through state hospitals.
- Private Network: Day-to-day benefits covered by any provider subject to annual limits. Dental and optical benefits are covered through contracted providers. Hospital cover for PMB conditions is unlimited and provided through a Private Hospital Network – otherwise a 30% co-payment exist.
- SATS members only have the Guardian option, which provides hospital cover for PMB conditions through the State only. Major procedures are undertaken in private hospitals via the Designated Orthopaedic Surgeon Network.

Transmed also partnered with Momentum to introduce their Multiply wellness and reward programmes.

- The results of the a plans are summarised below:

Plan	Membership growth (%)	Claims / *NPI (%)	Net healthcare result (R'million)
State Plus Network	(10.9)	67.4	12.8
State Plus Own Choice	(11.4)	88.2	45.1
Private Network	(41.0)	113.3	(17.6)
Sub Total	(15.3)	92.7	40.3
Guardian	(9.9)	108.1	(18.1)
TOTAL	(13.7)	97.2	22.2

* NPI- Net Premium Income

- The State Plus network's claims ratio increased from 62.6% to 67.4%
- The Private Networks claim ratio increased from 100.3% to 113.3%
- The State Plus Own Choice improved from 91.6% to 88.2%

4. Asset management

2017

Cash and cash equivalent : R 190.8 m (87%)
 Bonds : R 27.9 m (13 %)

The average investment yield is stated at 9% (8%: 2016)

5. Financial performance

A summary of the last three years financial performance is reflected below:

INCOME STATEMENT	(R'millions)		
	2017	2016	2015
Gross premiums	778.7	962.6	850.7
Members' savings contributions	0	0	0
Net premium income	778.7	962.6	850.7
*Claims paid	(756.5)	(820.0)	(896.7)
Gross underwriting surplus	22.2	142.6	(46.0)
Non- healthcare expenditure	(77.2)	(78.2)	(86.0)
Net healthcare result	(55.0)	64.4	(132.0)
Investment income (and other)	20.6	15.7	14.7
Net deficit for the year	(34.4)	80.1	(117.3)
BALANCE SHEET			
Members surplus	165.4	199.8	119.7
Members savings account	0	0	0
Provisions for claims	38.0	24.0	39.5
Other liabilities	25.5	4.4	5.2
TOTAL LIABILITIES	229.0	228.1	164.3
Investments	218.8	219.5	154.2
Debtors and prepayments/other	10.2	8.6	10.1
TOTAL ASSETS	229.0	228.1	164.3

*Claims paid includes managed care fees

- Gross premium income decreased by 4% to R 779 million.
- Total claims declined by 7.7% to R 757 million which resulted in a claims ratio of 97%.
- This was mainly due to the claims ratios of the Private Network and Guardian options.
- Total delivery cost ratio is 10% compared to 8% in 2016.
- The healthcare deficit of R 55 million is dis-encouraging compared to the surplus of R 64 million in 2016.
- A net deficit of R 34 million was recorded compared to a net surplus of R 80 million in 2016.

6. Solvency and reserves

The Scheme reported a solvency ratio of 21% which is very similar to the previous year. Management's business plan indicates that the regulatory statutory funding ratio of 25% will be reached in 2020.

Accumulated funds per principal member decreased to R 5 742 from R 5 979 in 2016.

"The accelerated pace of scaling back SATS reserves is viewed with concern by GCR" as it plays an important role in the survival of Transmed over the medium term.

7. Future prospects

- Transmed budgeted for a further 11% decline in membership for 2018, causing a 3% contracting in premiums.
- The Claims ratio for 2018 is expected come in at 93%, leaving a net deficit of R 6.3 million

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