

FEDHEALTH MEDICAL SCHEME (FH): DECEMBER 2015

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of FH as reviewed in May 2016 (in respect of 2015). Fedhealth a well-established player in the open medical scheme industry is administered by Medscheme and has an open market share of 3.1%. The rating of AA- is unchanged from 2014 and based on the following key factors:

- A sound reserve position of 36%.
- A solvency margin over the medium term of 30%-33% has been targeted.
- A balanced investment portfolio comprising 51% cash and equivalents supports liquidity at healthy levels.
- The average age profile continues to track above the peer group which caused increased levels of claims.
- Earnings capacity has been limited over the last 3 years

2. Membership Base

- Principal members decreased by 4.4% to 71 228 (which is still below the budget) owing to the above average increase in the Blue Door option's contribution which shed 2 506 members.
- Membership is expected to grow due to Sanlam's Reality awards program being offered to member's w.e.f. 2016.
- Individual members represents 59.7% to the risk pool and corporate membership stood at 30.5%. Government employee membership represents 9.8% of the risk pool.
- The average principal member's age equated to 49 years and beneficiaries' average age stood at 38 years.
- The single largest broker represents 15% of the risk pool and the three largest combined stood at 26%.
- Employer group membership is well diversified with the single largest accounting for 2% of total membership (10 largest combined equates to 12%).

3. Product Line

- There are 3 main options namely Ultima, Maxima and Blue Door.

In addition to risk benefits (hospitalisation and chronic disease benefits) most plans offer the following day to day benefits:

- (a) OHEB: Out of hospital benefits are covered to an initial level of cover before healthcare savings is utilised. Not available on lower tier plans except for Blue door.
- (b) HSA: a healthcare savings account is included (in most of the Ultima and Maxima plans) to supplement day to day cover.
- (c) Safety net benefit: covers members for certain day to day benefits once the OHEB and savings threshold has been reached and day to day medical expense claims have accumulated to a pre-determined level.(Not available on Ultima 200, the lower tier Maxima plans and Blue Door).

- The results of the most popular plans are summarised below

Plan	Membership growth (%)	Claims / NPI (%)	Net healthcare result (R'million)
Ultimax	-14.8	82.6	4.8
Ultima 200	-11.0	96.7	-10.4
Maxima Plus	-15.6	105.1	-16.5
Maxima Exec.	-8.2	120.6	-97.6
Maxima Standard	-6.6	85.9	37.8
Maxima Standard Elect	4.3	86.5	0.6
Maxima Basis	-12.1	84.0	10.8
Blue Door	-33.6	90.9	-5.3

NPI- Net Premium Income

- Fedhealth's overall claims ratio decreased slightly from 92.6 to 91.2% owing to a relative low increase in net claims of 4% (R2.5billion) and a 5.5% increase in NPI.
- According to management claims pressure stemmed from increased benefit utilisation and higher prevalence of non-communicable diseases.

4. Asset Management

This function is outsourced to external asset managers (mainly Sanlam and Truffle Investment Management).

The portfolio consists mainly of:

Cash and cash equivalent:	R	619.3m	(50.8%)
Fixed interest:	R	232.0m	(19.0%)
Listed equity:	R	312.7m	(25.7%)
Property:	R	51.7m	(4.2%)
Other:	R	3.1m	(0.3%)
	R	1 218.8m	

The total portfolio value retracted slightly to R 1.218 billion.

Gross cash coverage (of aggregate monthly contributions) remained unchanged at 3.0 months whilst net cash coverage increased from 2.0 months to 2.1 months.

The average investment yield excluding unrealised movements is stated at 6.4%

5. Financial Performance

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

	(R'millions)		
	2015	2014	2013
Gross premiums	2 913.6	2 760.7	2 621.1
Members' savings contributions	-163.3	-153.4	-147.0
Net premium income	2 750.3	2 607.3	2 474.1
Claims paid	-2 426.5	-2 364.3	-2 170.2
Transfer arrangements	-16.1	16.4	-13.4
Managed care***	-65.8	-66.3	-61.8
Gross underwriting surplus	241.9	193.1	228.7
Non healthcare expenditure	-309.7	-303.3	-283.6
Net healthcare result	-67.8	-110.2	-54.9
Investment income (and other)	78.4	85.7	73.3
Net surplus for the year	10.6	-24.5	18.4

BALANCE SHEET			
Members surplus	1099.7	1 105.2	1 136.9
Members savings account	187.5	217.3	226.7
Provisions for claims	91.5	75.5	91.8
Other liabilities	22.2	14.3	27.9
TOTAL LIABILITIES	1401.0	1 412.3	1 483.3
Investments	1 218.8	1 241.9	1 323.7
Debtors and prepayments	182.1	170.4	159.7
TOTAL ASSETS	1401.0	1 412.3	1 483.3

*** (The CMS changed the allocation of managed care fees from administration fees to healthcare expenditure, hence the change reflected above)

- The average annual contributions increased by 9%. The 4% loss in members however brought the gross contribution increase to a lower 5.5%.
- Total delivery costs increased by 2.1% to R 310 million and equated to 6.8% as a percentage of gross contributions. The industry average is 13% but the Council for Medical Schemes guideline is 10%. (These numbers are much lower reported in the past due to managed care fees taken out of the equation).
- Delivery costs per beneficiary per annum amounted to R 180 (2014 :R170)
- The net healthcare deficit declined from R 110 million to R 68 million.
- The net surplus (which included investments income) amounted to R 11 million compared to a net deficit of R 24.5 million in 2014.

6. **Solvency and Reserves**

The statutory reserve level of 35.7% (down from 37.2%) will be managed down to between 30% and 33% in terms of the adopted solvency strategy. Owing to this strategy members' reserves remained at approximately R 1.1bn.

The members' surplus to NPI (net premium income) ratio contracted to 42%.

Accumulated funds per principal member increased to R 14 583 (from R13 798), which is still above the open scheme average of R11 027.

Coverage of average monthly claims by accumulated funds remained sound at 5.1X to 5.0X.

7. **Future Prospects**

For 2016 a minimal net surplus of R 2 million is expected.

**SEPTEMBER 2016
HEALTHMAN**