

LIBERTY MEDICAL SCHEME (LMS): 2013

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of LMS as reviewed in April 2014 (in respect of 2013). LMS is administered by VMed Administrators (PTY) Ltd which is part of the greater Liberty group.

The rating of A+ is a down grade from the previous year's AA- and was based on the following key factors:

- Despite improved claims patterns the Scheme's solvency level dipped below the required 25% level.
- A conservative investment stance saw liquidity measures falling behind industry norms.
- Delivery cost ratio has trended upwards.
- A loss in state employee members resulted in an aged risk pool and organic growth in new members remain a challenge

The CMS also instructed LMS to hold new trustee elections in 2014, due to the nomination process of the 2013 election.

A former trustee was paid a severance package which the CMS deemed to be unlawful and a subsequent court ruling forced the trustee to repay the amount.

2. Membership base

- After the Medcover amalgamation principal members stood at 72 186 (end of 2010) but declined to 56 555 at end of 2013.
- The decrease was due to members moving to GEMS, which leaves persal membership at 15%. Individuals comprise 63% and employer groups 22% of total membership.
- Average member age profile stood at 50 years and that of beneficiaries 38 years. (Industry average for the latter is 34).
- No employer group accounts for more than 2.2% of principal members.
- LMS 'market share is 2.1% of open scheme membership.
- Certain initiatives (e.g. Loyalty programme) proved somewhat successful as membership losses slowed down to 2%.

3. Product line

There are 8 benefit options namely:

- **Prestige** : This flagship option was only introduced in 2013 and provides extensive hospital cover and specialist consultations at 300% in and out of hospital.
- **Platinum Complete** : This comprehensive option provides extensive hospital cover at 200% and day-to-day benefits and chronic illness cover.
- **Platinum Saver** : Provides extensive hospital cover at 200% to in hospital specialist hospital procedures. Day-to-day benefits are covered via a savings account and an "extender benefit" which is via the risk pool.
- ***Platinum Focus** : Provides generous in hospital cover and management of an extended list of chronic illnesses.
- ***Titan** : Provides high level of cover at scheme rate and day-to-day benefits are funded from savings account.
- **Gold Saver** : Designed for young families with a comprehensive range of child specific benefits and a savings facility.

- *Gold Focus : Provides unlimited cover in case of an accident for in hospital benefits and basic cover for chronic conditions. No day-to-day benefits are provided.
- Bona Plus : Low cost option which provides primary care through the Care Cross network.
- Gateway : Another low cost option designed for employer groups.

* These plans offer an Efficiency Discount Option through which a member pays a lower contribution should he opt to obtain chronic medication through state facilities.

Bona Plus lost 30% of its members and comprises 11% of the total membership.
Gold Saver and Gold Focus reported membership increases of 12% and 10% respectively.

- The results of the most popular plans are summarised below

Plan	Membership (%)	Claims / NPI (%)	Net healthcare result (R'million)
Platinum Complete	9.7	90.6	(1.1)
Platinum Saver	2.3	101.2	(9.1)
Platinum Focus	11.5	88.0	(9.5)
Titan	34.9	88.5	(38.0)
Gold Saver	11.2	81.6	(7.4)
Gold Focus	17.6	76.1	1.9
Bona Plus	10.7	76.4	6.4
Gateway	1.9	89.5	(0.4)
Prestige	0.2	102.0	(0.5)
Total	100,00	86.1	(57.7)

NPI- Net Premium Income

- An overall net healthcare deficit of R58m was registered which is lower than the R86m deficit registered in 2012.
- The Titan option deteriorated by recording a R38m deficit (60% of the total deficit) compared to R33m in 2011.
- The Bona plus improved from a R 19m deficit to R 6m surplus

4. Asset management

The portfolio consists mainly of:

Cash and cash equivalent:	R 434.9m	(57.0%)
Fixed interest:	R 229.5m	(30.0%)
Listed equity:	R 17.1m	(2.2%)
Life policies:	R 15.8m	(2.1%)
Unit trusts:	R 22.5m	(2.9%)
Other:	<u>R 27.5m</u>	(5.7%)
TOTAL	<u>R 831,7m</u>	

- Cash declined by 3% from R448m in 2012 to R435m in 2013.
- Gross cash coverage remained at 3.1 months.
- Investment yield (excluding unrealised movements) remained at 6% due to the increased exposure to low yielding cash investments.

5. Financial performance

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

	(R'millions)		
	2013	2012	2011
Gross premiums	1932.4	1855.0	1876.5
Members' savings contributions	(192.8)	(182.3)	(186.3)
Net premium income	1739.6	1672.7	1690.2
Claims paid	(1496.0)	(1490.8)	(1538.6)
Transfer arrangements	(2.5)	6.1	28.4
Gross underwriting surplus	241	188.0	180
Non healthcare expenditure	(298.8)	(274.0)	(253.4)
Net healthcare result	(57.7)	(86.0)	(73.4)
Investment income(and other)	39.8	41.9	82.8
Net deficit/surplus for the year	(17.9)	(44.1)	9.4

BALANCE SHEET

Members surplus	483.0	503	523.4
Members savings account	203.3	210.7	152.5
Provisions for claims	62.2	59.6	65.7
Other liabilities	50.0	39.6	128.7
TOTAL LIABILITIES	798.5	813.0	870.3
Investments	763.3	780.8	831.7
Debtors and prepayments	35.7	32.2	38.6
*TOTAL ASSETS	798.5	813.0	870.3

* Figures as per GCR's report

- Gross contributions increased to R1 932.4m by 4% and claims expenditure remained flat at R1 498m.
- A gross underwriting surplus of R241m and a net healthcare deficit of R57.7m were posted.
- Claims ratio stood at 86% which is in line with the industry average.
- Total non-healthcare costs increased by 9%, resulting in a cost of R211 per beneficiary per month which is above the industry average estimate of R173. It represents 15.5% of gross premium income.

6. Solvency and reserves

The Net Healthcare deficit declined from a deficit of R86m to a deficit of R57m. The net deficit (after investment income) amounted to R17.9m which decreased accumulated funds to R483m.

The members' surplus to NPI (net premium income) declined from 30% to 27.7%.

The statutory funding ratio declined from 26% to 24%, which is slightly under the statutory requirement of 25%.

Accumulated funds per principal member declined to R8 540 (R8 680 in 2012) and covered average monthly claims by 3.9 times.

7. **Future prospects**

- Future mergers are still being explored.
- No increase in principal members is budgeted for 2014.
- Contribution increases for 2014 are in the region of 9.5% which should result in a budgeted net deficit of R64m and R16.9 m after investment income.

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