TRANSMED MEDICAL FUND (TMF): 2013

1. Introduction

GLOBAL CREDT RATING CO. (GCR) recently published its latest credit rating of TMF as reviewed in April 2014 (in respect of 2013). TMF which was established in 1992 is administered by Metropolitan Health Group and is a closed scheme for the employees of Transnet and its subsidiaries.
The rating of BB+ (unchanged from 2012) is based on the following key factors:

- Notable improvement in the scheme's financial performance over the last 3 years.
- The statutory solvency level was higher at 21%, compare to 9.5% in 2011 and management expects to reach the statutory level in 2017.
- The outflow of members to other accredited Schemes caused deterioration in the scheme's risk profile.
- A conservative investment mandate is evident, leaving liquidity measures at adequate levels.

The comprehensive restructuring of benefits and funding structure in 2010 changed the deteriorating financial performance from 2005.

2. Membership base

- Membership consist of former SATS pensioners and the Transnet Working Members and Pensioner (TWMP)
- Principal members decreased by 17% to 50 607 and beneficiaries decreased by 11 035 (2012) to 88 217
- Its market share of closed scheme membership is 3.2%.
- The average principal member equated to 55 years.
- The average age of the SATS pensioner segment stood at 69.
- The TWMP principal membership declined by 20%, (due to the availability of 4 accredited open schemes) to 37 736 and SATS membership shed 9% to 12 871.

3. Product line

There were 3 options in 2013: for the TWMP risk pool namely:

- State Plus Network: Covers day-to-day and chronic benefits through Universal Network. Hospital network is the state and then the Universal private network if the state facility is not accessible.
- 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. Hospital cover is the same as State Plus
- Private Network: Day-to-day benefits i.r.o dental + 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 exists.
- SATS members only have the Guardian option, which provides hospital cover for PMB conditions through the State only. Emergency admission where State facilities are inaccessible may be obtained, from the Private Hospital Network. Day-to-day benefits are subject to an annual limit – dental and optical benefits are available via the network.

- The results of the a plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
State Plus	8.1	53.9	18.3
State Plus Own Choice	54.1	96.0	(36.1)
Private Network	12.4	92.9	(3.3)
Sub Total	**74.6**	**92.0**	**(21.1)**
Guardian	25.4	85.8	6.3
TOTAL	**100**	**90.3**	**(14.8)**

*NPI- Net Premium Income

- The State Plus network's claims ratio improved from 92% to 54%
- The Private Networks claims ratio as a percentage of NPI came to 93% (2012: 94%)
- The total net healthcare result changed from a R84.8m surplus to a R15m deficit
- The State Plus Own Choice deteriorated from 86% to 96%, due to buy downs of members.

4. Asset management

	2013	2012
Cash and cash equivalent:	R293m (97%)	R383m
Bonds :	R 10m (3%)	R 12m

Reduction in cash was due to the refund of unexpended saving account balances to members. The gross average investment yield is stated at 5.19% (4.2%: 2012).

5. Financial performance

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

INCOME STATEMENT	**(R'millions)**		
	2013	**2012**	**2011**
Gross premiums	1183	1502	1526
Members' savings contributions		(84)	(90)
Net premium income	**1183**	**1418**	**1436**
Claims paid	(1067)	(1187)	(1334)
Transfer arrangements	(0,8)	(0.7)	(0,7)
Gross underwriting surplus	**115**	**230**	**101**
Non healthcare expenditure	130	146	(153)
Net healthcare result	**(15)**	**84**	**(52)**
Investment income(and other)	18	15	16
Net deficit/surplus for the year	**3,0**	**99**	**(36)**

BALANCE SHEET			
Members surplus	248	245	146
Members savings account	0	66	61
Provisions for claims	59	58	58
Other liabilities	8	39	50
TOTAL LIABILITIES	**315**	**408**	**315**
Investments	303	395	309
Debtors and prepayments	12	13	6
TOTAL ASSETS	**315**	**408**	**315**

- Gross premium income decreased by 21% to R1.2bn.
- Total claims declined by 10% to R1 067m which resulted in a claims ratio of 90%.
- This was due to a loss in members which also caused a premium decline of 21%.
- Total delivery cost ratio is 11% and amounts to R123 per beneficiary p.m. which is under the industry average of R172 for closed schemes.
- The healthcare deficit of R15m (2012: R84m) turned into a net surplus after realised investment income of R18m.

6. Solvency and reserves

The Scheme reported a reserve erosion of R800m between 2005 and 2011 which left the solvency ratio at 9.5%.
Due to various corrective measures post 2011 the statutory funding ratio stood at 21% which is below the statutory requirement of 25%.
Accumulated funds per principal member increased to R4895 (R4005 in 2012) and covered average monthly claims by 2.5 a which is lower than the 2.7 x reported in 2012.

7. Future prospects

- TMF budgeted for a further 10% decline in membership for 2014, causing an 8% contracting in premiums.
- The Claims ratio for 2014 is expected come in at 90%, leaving a net deficit of R3.0m.

HEALTHMAN
JUNE 2014