

NOTICE IS HEREBY GIVEN THAT THE 21<sup>ST</sup> ANNUAL GENERAL MEETING OF



**Medical scheme**

**WILL BE HELD ON THURSDAY, 25 MAY 2017, AT 13:00 IN THE MAIN BOARDROOM, SECOND FLOOR,  
CORPORATE BUILDING, PICK N PAY OFFICE PARK, 101 ROSMEAD AVENUE, KENILWORTH**

**VIDEO-CONFERENCING FACILITIES WILL ALSO BE AVAILABLE AT THE FOLLOWING VENUES:**

- **MAIN BOARDROOM, KENSINGTON**
- **REGIONAL VC ROOM, DURBAN**

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**AGENDA**

1. Notice convening the Annual General Meeting
2. Minutes of the Annual General Meeting held on Thursday, 9 June 2016
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2016
4. Adoption of the annual summarised financial statements for the year ended 31 December 2016
5. Confirmation of the Disputes Committee  
The current Disputes Committee comprises:  
Mr G Jones  
Ms M Mannion  
Mr M Magnussen  
Mr M Marsden
6. To note the appointment of the external auditor for the ensuing year  
Current external auditor: KPMG Inc
7. Any other business of which due notice has been given on or before Thursday, 25 May 2017

By order of the Board of Trustees

**AMILE VISSER**  
PRINCIPAL OFFICER

## **PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT**

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As Chairperson of the Board of Trustees, I have pleasure in presenting the Board's report for the year ended 31 December 2016.

Despite it having been quite a tumultuous year for all players in the medical scheme industry, with ever-increasing pressure being placed on the Board of Trustees to ensure that all aspects of legislation and governance are adhered to, Pick n Pay Medical Scheme has managed to maintain a strong financial position, whilst continuing to offer members a competitive product in respect of benefit enhancements, a new cost-effective option choice for employees in 2017 and keeping contribution increases to a minimum.

The past year has not been without its challenges and the impact of these have been felt by our members, service providers and my colleagues on the Board of Trustees.

Having noted all of this, the various Sub-Committees, which include Risk and Audit, Investment, Clinical and Ex Gratia have continued to provide expert insight and guidance on the issues relating to the running of the Scheme, whilst keeping the best interests of the members at heart.

The Scheme remains financially sound, with a solvency ratio of 99.2% as at 31 December 2016. These reserves are well in excess of the legislated targets, but appropriate for the long-term sustainability of our Scheme.

The Trustees are committed to ensuring the financial viability of the Scheme and will continue their efforts to keep costs to a minimum without compromising the high standard of healthcare. Legislative developments will be monitored closely on an ongoing basis to pre-empt and minimise the impact on the Scheme and its members.

### **Financial performance**

During 2016, the Scheme paid out R217 365 146 in claims and claims-related expenses. This was R5.6 million less than in 2015. This may be attributed to the restructuring of some of the benefits on the Scheme. The Trustees, as well as the contracted parties, are keeping a close watch on this expenditure.

The reserve ratio of 99.2% is still much higher than the required statutory 25%.

Contribution income for 2016 amounted to R248 239 021. After claims and healthcare expenses were deducted, the Scheme showed a net healthcare result of R9 676 892. This is substantially better than the deficit reported at the end of 2015.

Due to the higher investment returns and other income earned due to realised gains on disinvestments made during the year, the Scheme is able to report a net surplus for the year of R27 021 433. The Scheme remains financially sound and is more than able to meet its commitments in terms of the payment of claims.

### **Investments**

As a point of clarity for members in respect of this important area, we would like to remind you once again of the following:

In managing the Scheme's investments, the Board of Trustees has an Investment Committee, constituted of five suitably qualified Trustees. The Committee is assisted by representatives from the Scheme's Administrator, our Actuarial Consultants and Willis Towers Watson as the investment consultants. The actions of the Committee are governed by the Investment Committee Charter and the Statement of Investment Principles (SIP) and any changes to these two documents require approval by the Board of Trustees.

The SIP outlines rules regarding what the Scheme can and cannot invest in, including asset classes, etc. In addition to the SIP, the Scheme's investments are governed by Regulation B of the Medical Schemes Act of 1998 that details specific limitations on certain asset classes.

The Scheme's investment strategy is to maximise the return on its investments on a long-term basis at an appropriate level of risk. The investment strategy takes into consideration constraints imposed both by legislation and by the Board of Trustees. This policy is reviewed annually, taking into consideration compliance with the Act, the risk returns of the various investment instruments and surplus available funds.

Thanks to Gary Lea for being so dedicated in leading this committee.

Please note that a report providing more information on the investment performance for the past year has been included as a separate addendum to the AGM notice.

## **PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT (CONTINUED)**

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### **Membership**

Membership of the Scheme has increased by 0.27% over the period January to December 2016. The total number of members at the end of December 2016 was 7 732 compared to 7 711 at the end of December 2015. The average age of beneficiaries is 29.9 and the pensioner ratio is 3.9%.

### **Benefit changes and introduction of a new option**

Following the 2016 benefit changes and the positive outcomes that flowed from changing these benefits, there was no further need to change any other benefits for 2017. The Board will continue to monitor the costs going forward.

The focus of the Board for 2017 was the introduction of a new cost-effective option, namely the Primary Option. This was created upon request from you, the members.

This option is one that has been created to provide all members with basic healthcare needs at a lower contribution rate.

The number of members joining the Primary Option has been low and we anticipate that in 2018 the number of members joining the option will increase, given that employees may make option choices each year.

MMI Health, formerly known as Metropolitan Health Corporate (Pty) Ltd, has been appointed as the Hospital Risk Managers from 1 January 2017 and we look forward to a mutually beneficial partnership.

MMI Health has moved to a new operating platform and this has led to some issues in terms of claims payments, the issuing of statements and incorrect membership cards, to name just a few.

MMI Health is committed to resolving these and any other issues identified during the system migration and they wish to take this opportunity to apologise for any inconvenience caused during this transition. They have assured us that things will be back to normal very shortly.

### **Contribution increases**

Every year we increase the income bands to prevent those members who are currently at the top of their income bands from being pushed into a higher bracket where they will have to pay higher contributions when the salary increases come into effect in the following year. With effect from 1 January 2017, the Scheme's contributions were increased by 8.5% across all income bands on the Plus Option. This was well below the average contribution increases across the industry and also well below healthcare cost inflation.

While the reserve ratio may appear to be more than adequate to keep contribution increases low, we need to factor in the unpredictability of the ever-changing healthcare market and the volatility of year-on-year claims experience, which is evident just looking back at 2015 and 2016.

### **Changes to the Board of Trustees**

Penny Gerber, an employer-appointed Trustee requested to step down from her position on the Board due to work commitments. She has offered to act in an advisory capacity and to still be involved on the Investment Committee.

On behalf of all the Trustees, Committee members and Scheme members, I would like to thank Penny sincerely for her contribution, passion and dedication to the Scheme and its members.

Kashiefa Martin, the Deputy Principal Officer, has unfortunately also left the Company and we would like to thank her for the contribution she made during the past year.

### **Vote of appreciation**

On behalf of the Pick n Pay Medical Scheme, we would like to express our thanks to the following people and/or organisations:

- the Company for its active support
- our colleagues on the Board of Trustees for their commitment to leadership

**PICK N PAY MEDICAL SCHEME  
CHAIRPERSON'S REPORT (CONTINUED)**

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**Vote of appreciation (continued)**

- the management and staff at MMI Health (formerly Metropolitan Health Corporate (Pty) Ltd) for the efficient manner in which they have managed the day-to-day affairs of the Scheme
- the management and staff of our managed care providers, PHA and MediKredit, for the efficient manner in which they have managed the managed care programmes
- the management and staff of the Centre for Diabetes and Endocrinology (Pty) Ltd for the efficient manner in which they have managed the Diabetes Management Programme
- the management and staff of ER24 EMS (Pty) Ltd for the efficient manner in which they have managed the emergency medical services
- the Medical Advisor, Dr Martin Bailey, for his dedication and commitment to the Scheme
- the external auditor, KPMG Inc, for the competent manner in which they conducted their audit
- our actuarial consultants, NMG Consultants and Actuaries, for their invaluable contributions
- Willis Towers Watson Actuaries and Consultants (Pty) Ltd for their assistance during this year
- the Registrar of Medical Schemes and his staff for their assistance during the year
- all other service providers.

Most importantly, we would like to thank members for their continued efforts in proactively managing their health and wellness, thereby ensuring the financial wellbeing of the Pick n Pay Medical Scheme.



**HELEN DE LIGHT**  
CHAIRPERSON

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016**

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The Board of Trustees hereby presents its report for the year ended 31 December 2016.

**Registration number: 1563**

**1. MANAGEMENT**

**1.1 BOARD OF TRUSTEES**

The names of the Trustees in office during the year under review and up to the date of signing this report are:

**Employer appointed**

P Gerber	(Resigned 31 January 2017)
G Lea	
P Maphoshe	(Appointed 11 February 2016)
V Ramakuela	

**Member elected**

K Black (Alternate member)	
H de Light	Chairperson
R Johnson	
I Motaung	
V Pierce (Alternate member)	
E Vause	

**1.2a PRINCIPAL OFFICER**

**A Visser**

Pick n Pay Office Park	PO Box 23087
Corporate Building	Claremont
101 Rosmead Avenue	7735
Kenilworth	
7700	

**1.2b DEPUTY PRINCIPAL OFFICER**

**K Martin** (Resigned 31 March 2017)

Pick n Pay Office Park	PO Box 23087
Corporate Building	Claremont
101 Rosmead Avenue	7735
Kenilworth	
7700	

**1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS**

**Pick n Pay Medical Scheme**

Parc du Cap	PO Box 4313
Mispel Road	Cape Town
Bellville	8000
7530	

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016 (continued)**

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**1. MANAGEMENT (CONTINUED)**

**1.4 MEDICAL SCHEME ADMINISTRATOR**

**Metropolitan Health Corporate (Pty) Ltd**

Parc du Cap	PO Box 4313
Mispel Road	Cape Town
Bellville	8000
7530	

Accreditation number: 17

**1.5 INVESTMENT MANAGERS**

**Allan Gray Life Limited**

Granger Bay Court	PO Box 51318
Beach Road	V&A Waterfront
V&A Waterfront	8002
Cape Town	
8002	

**Investec Asset Management (Pty) Ltd**

100 Grayston Drive	PO Box 785700
Sandown	Sandton
Sandton	2146
2196	

**Coronation Fund Managers Ltd**

7 <sup>th</sup> Floor Montclare Place	PO Box 44684
C/o Campground and Main Roads	Claremont
Claremont	7735
7708	

**Abax Investments (Pty) Ltd**

Ground Floor Coronation House	PO Box 23851
The Oval	Claremont
1 Oakdale Road	7735
Newlands	
7700	

**Stanlib Asset Management Ltd (Brandywine)**

17 Melrose Boulevard	PO Box 202
Sanlamhof	Melrose Arch
Johannesburg	2076
2196	

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016 (continued)**

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**1. MANAGEMENT (CONTINUED)**

**1.5 INVESTMENT MANAGERS (CONTINUED)**

**Sesfikile Capital**

1 <sup>st</sup> Floor, 30 Melrose Boulevard	Private Bag X1
Melrose Arch	Johannesburg
Johannesburg	2076
2076	

**Visio Capital Management (Pty) Ltd**

The Place, Ground Floor, South Wing	PO Box 3625
1 Sandton Drive	Tygervalley
Sandton	7536
2146	

**1.6 AUDITOR**

**KPMG Inc**

MSC House	PO Box 4609
1 Mediterranean Street	Cape Town
Foreshore	8000
Cape Town	
8001	

**1.7 ACTUARIAL CONSULTANTS**

**NMG Consultants and Actuaries (Pty) Ltd**

NMG House	PO Box 3075
411 Main Avenue	Randburg
Randburg	2125
2125	

**1.8 INVESTMENT CONSULTANTS**

**Willis Towers Watson Actuaries and Consultants (Pty) Ltd**

Level 4, Montclare Place	Private Bag X30
23 Main Road	Rondebosch
Claremont	7701
7700	

**1.9 CAPITATION PROVIDERS**

**Centre for Diabetes & Endocrinology (Pty) Ltd**

81 Central Street	PO Box 2900
Houghton	Saxonwold
2198	2132

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016 (continued)**

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**1. MANAGEMENT (CONTINUED)**

**1.9 CAPITATION PROVIDERS (CONTINUED)**

**ER24 EMS (Pty) Ltd**

Manor 1, Cambridge Manor	PO Box 242
C/o Witkoppen and Stonehaven Streets	Paulshof
Paulshof	2056
2056	

**1.10 MANAGED CARE SERVICES PROVIDERS**

**Medical Services Organisation (Pty) Ltd**

Building 14, Healthcare Park	PO Box 1578
Woodlands Drive	Gallo Manor
Woodmead	2052
2052	

Contract ended 31 December 2016

**MediKredit Integrated Healthcare Solutions (Pty) Ltd  
(A subsidiary of Performance Health (Pty) Ltd)**

10 Kikuyu Road	PO Box 692
Sunninghill	Johannesburg
Sandton	2193
2157	

**Private Healthcare Administrators <sup>TM</sup>**

70 Buckingham Terrace	PO Box 343
Pharos House Building	Westville
Westville	3630
Durban	
3630	

**2. DESCRIPTION OF THE MEDICAL SCHEME**

The Scheme is a not-for-profit, restricted membership medical scheme, registered in terms of the Medical Schemes Act 131 of 1998, as amended (the Act).

**2.1 BENEFITS**

The Scheme offers only one option to its members.

**2.2 PERSONAL MEDICAL SAVINGS ACCOUNT**

In order to provide a facility for members of the Scheme to set funds aside to meet future healthcare costs that are not covered by the benefit option, the Trustees have made a personal medical savings account available.

20% (2015: 25%) of total contributions are allocated to a personal medical savings account to cover members' day-to-day medical expenses that are not paid from risk.

Unexpended savings amounts are accumulated for the long-term benefit of members and interest is paid on credit balances at an interest rate that is determined by the Board of Trustees annually.



## **2. DESCRIPTION OF THE MEDICAL SCHEME (CONTINUED)**

### **2.2 PERSONAL MEDICAL SAVINGS ACCOUNT (CONTINUED)**

The liability to the members in respect of the personal medical savings account is reflected as a current liability in the summarised financial statements, repayable in terms of Regulation 10 of the Act.

In terms of the rules of the Scheme, the savings account is underwritten by the Scheme. Members are allowed to use their savings balances at any time during the year even though contributions are paid monthly. The Scheme carries the risk that contributions are not recovered even though annual savings have been spent.

Unexpended savings balances are refundable when a member leaves the Scheme.

As from December 2012 the Scheme ring fenced the investment of the personal medical savings account funds in a separate Investec Stable Money Fund. As from 1 January 2013 actual interest earned on the investment has been allocated on a member level.

## **3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME**

The Scheme's investment strategy is to maximise the return on its investments on a long-term basis at an appropriate level of risk. The investment strategy takes into consideration constraints imposed both by legislation and by the Board of Trustees. This policy is reviewed annually, taking into consideration compliance with the Act, the risk returns of the various investment instruments and surplus available funds.

The Board of Trustees is responsible for all the investment decisions, and part of its strategy is to ensure that:

- the Scheme remains liquid;
- investments are placed so as to be exposed to appropriate risk to earn the best possible rate of return;
- investments are in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Scheme invested in market linked policies, collective investment schemes and cash instruments during the year.

The Scheme's Investment Committee, which comprises Trustees, meets regularly to consider the Scheme's investment strategy and to monitor investment performance and compliance. The committee's decisions are considered and approved by the Board of Trustees. The committee receives guidance from external consultants (Willis Towers Watson) to assist them with investment strategies.

## **4. MANAGEMENT OF INSURANCE RISK**

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation, case management and service provider profiling. These methods for mitigating insurance risk are reviewed annually and amended for changes in the Act and/or changes in the Scheme's ability to accept insurance risk.

With the assistance of the Scheme's actuarial consultants the Board of Trustees frequently assesses the necessity to enter into risk transfer arrangements.

The Scheme uses several methods to assess and monitor insurance risk exposures, both for individual types of risks insured and overall risks. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016 (continued)**

**5. REVIEW OF OPERATIONS**

**5.1 OPERATIONAL STATISTICS**

The results of the Scheme's operations for the year under review at 31 December 2016 are set out in the summarised financial statements, and the Trustees believe that no further clarification is required.

	<b>2016</b>	<b>2015</b>
Number of members at year end	7 732	7 711
Average number of members for the year	7 680	7 683
Number of beneficiaries at year end	16 137	16 223
Average number of beneficiaries for the year	16 062	16 123
Proportion of dependants at year end	1.09	1.10
Average age of beneficiaries	29.9	29.7
Pensioner ratio	3.9%	3.8%
Average contributions net of savings per member per month	R2 694	R2 327
Average contributions net of savings per beneficiary per month	R1 288	R1 109
Average claims net of savings incurred per member per month	R2 357	R2 413
Average claims net of savings incurred per beneficiary per month	R1 127	R1 150
Average administration costs per member per month	R231	R217
Average managed care: Managed services per member per month	R86	R81
Average members' funds per member at year end	R48 982	R45 394
Relevant healthcare expenditure as a percentage of net contributions	87.5%	103.7%
Relevant healthcare expenditure per average beneficiary per month	R1 127	R1 150
Managed care: Management services as a percentage of net contributions	3.2%	3.5%
Non-healthcare expenses as a percentage of gross contributions	6.9%	9.6%
Non-healthcare expenditure per beneficiary per month	R111	R142
Amount paid to the Administrator: - Administration fees	R16 721 158	R15 798 514
Average return on investments and cash	5.8%	7.2%

**5.2 ACCUMULATED FUNDS RATIO**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per summarised statement of financial position	378 732 399	350 029 741
Less: Revaluation reserve	(71 288 252)	(69 607 027)
Accumulated funds per Regulation 29 of the Act	<u>307 444 147</u>	<u>280 422 714</u>
Gross contributions	310 030 288	285 725 428
Accumulated funds ratio:		
Accumulated funds/gross contributions X 100%	<u>99.2%</u>	<u>98.1%</u>

**5. REVIEW OF OPERATIONS (CONTINUED)**

**5.3 REVALUATION RESERVE**

The revaluation reserve in the summarised statement of financial position reflects the unrealised gains on the Scheme's investment portfolios with Allan Gray, Coronation, Abax, Sesfikile, Stanlib and Visio.

There was no unusual movement in the revaluation reserve, and the Trustees believe that no further clarification is required.

**5.4 OUTSTANDING CLAIMS**

Movements in the outstanding claims provision are set out in note 5 to the summarised financial statements. The accuracy of the provision was tested against subsequent settlements.

**6. INVESTMENTS IN AND LOANS TO THE EMPLOYER OR MEMBERS OF THE SCHEME AND TO OTHER RELATED PARTIES**

The Scheme holds investments indirectly with, and has granted no loans to the participating employer of the Scheme or any other related parties. Refer to note 9 to the summarised financial statements for related party disclosures and note 12.1 to this report.

**7. FIDELITY COVER**

The Scheme has a fidelity policy, placed through Alexander Forbes, with Guardrisk Insurance Company. The sum insured is R120 million (2015: R60 million) (with a single claim not exceeding R60 million 2015: R30 million) and extends to the Trustees, independent committee members, Principal Officer and Deputy Principal Officer of the Scheme.

**8. ACTUARIAL SERVICES**

The Scheme's actuaries, NMG Consultants and Actuaries (Pty) Ltd, have been consulted in the determination of the contribution and benefit levels.

**9. COMMITTEES OF THE BOARD OF TRUSTEES**

The following committees are mandated by the Board of Trustees by means of written terms of reference as to their membership, authority and duties. These committees meet on a regular basis and when the need arises.

**9.1 RISK AND AUDIT COMMITTEE**

The Risk and Audit Committee operates in accordance with the provisions of the Act. The committee consists of five members of whom two are members of the Board of Trustees.

The committee met on the following three occasions during the course of the year:

24 March 2016;  
14 July 2016 and  
3 November 2016.

The Administrator, its internal auditors and the external auditor of the Scheme are invited to attend all committee meetings and have unrestricted access to the Chairperson of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. Further objectives include ensuring that all material risks to which the Scheme is exposed, as identified by the Board of Trustees, are adequately managed. The external auditor formally reports to the committee on findings arising from the audit.

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016 (continued)**

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**9. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)**

**9.1 RISK AND AUDIT COMMITTEE (CONTINUED)**

The members of the committee are:

P Gerber	Trustee (Resigned 31 January 2017)
R Livingstone	Chairperson /Non-Trustee
V Pierce	Alternate Trustee
G Lea	Trustee
M Pienaar	Non-Trustee
L Clayton	Non-Trustee

A Visser attends in his capacity as Principal Officer  
K Martin attends in her capacity as Deputy Principal Officer

**9.2 INVESTMENT COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the investment strategy of the Scheme.

The committee met on the following four occasions during the course of the year:

4 February 2016;  
12 May 2016;  
18 August 2016; and  
10 November 2016.

The members of the committee are:

P Gerber	Trustee (Resigned 31 January 2017)
E Vause	Trustee
G Lea	Trustee/Chairperson
R Johnson	Trustee
V Ramakuela	Trustee

A Visser attends in his capacity as Principal Officer  
K Martin attends in her capacity as Deputy Principal Officer

**9.3 CLINICAL COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in its responsibility to oversee the Scheme's various managed care programmes and to ensure that all clinical risks to which the Scheme is exposed are identified and adequately managed.

The committee met on the following four occasions during the course of the year:

28 January 2016;  
5 May 2016;  
21 July 2016; and  
13 October 2016.

The members of the committee are:

M Bailey	Independent member/Medical Advisor (Chairperson)
E Vause	Trustee
K Black	Alternate Trustee
V Pierce	Alternate Trustee
I Jordaan	Independent member/Occupational Health Practitioner
V Ramakuela	Trustee

A Visser attends in his capacity as Principal Officer  
K Martin attends in her capacity as Deputy Principal Officer

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2016 (continued)**

**9. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)**

**9.4 EX GRATIA COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in awarding additional benefits where pre-determined criteria have been met and the need is warranted.

The committee met monthly from January to November during the course of the year.

The members of the committee are:

M Bailey Independent member/Medical Advisor (Chairperson)  
E Vause Trustee  
H de Light Trustee

A Visser attends in his capacity as Principal Officer  
K Martin attends in her capacity as Deputy Principal Officer

**10. MEETING ATTENDANCES**

The following schedule sets out meeting attendances by members of the Board of Trustees and committees.

Trustee/Sub-Committee member	Board meetings		Risk and Audit Committee meetings		Investment Committee meetings		Clinical Committee meetings		Ex Gratia Committee meetings	
	A	B	A	B	A	B	A	B	A	B
H de Light	5	4			4	4	4	2	11	9
P Gerber	5	5	3	2	4	3				
A Visser (Principal Officer)*	5	5	3	3	4	4	4	4	11	8
K Martin#	5	5	3	3	4	4	4	4	11	11
G Lea	5	5	3	2	4	3				
I Motaung	5	2								
E Vause	5	5			4	4	4	4	11	10
M Pienaar			3	3						
R Livingstone			3	3						
M Bailey	5	4					4	4	11	9
R Johnson	5	4			4	3				
V Pierce	5	3	3	2			4	2		
L Clayton			3	3						
I Jordaan							4	3		
V Ramakuela	5	4			4	3				
K Black	5	3					4	4		

A Total possible number of meetings could have attended

B Actual number of meetings attended

\* A Visser attends in his capacity as Principal Officer

# K Martin attends in her capacity as Deputy Principal Officer

**11. RISK TRANSFER ARRANGEMENTS**

The Scheme entered into an agreement with the Centre for Diabetes and Endocrinology (Pty) Ltd (CDE) during 2008. In terms of the arrangement, CDE provides a comprehensive programme to members of the Scheme with diabetes at a fixed monthly rate per beneficiary on the programme.

The Scheme also entered into a risk transfer arrangement with ER24 EMS (Pty) Ltd (ER24). In terms of the arrangement, ER24 provides ambulance services to the beneficiaries of the Scheme at a fixed rate per member per month.

## **12. NON-COMPLIANCE MATTERS**

### ***Contraventions for which exemption was obtained from the Council for Medical Schemes (CMS)***

#### **12.1 CONTRAVENTION OF SECTION 35(8)(A) AND SECTION 35(8)(C)**

##### **Nature and impact**

The Scheme holds an indirect investment in the participating employer via investments placed with Allan Gray and Visio. This is in contravention of Section 35(8)(a) of the Act, as the Scheme is not allowed to hold investments in any participating employer.

The Scheme holds an indirect investment in MMI Holdings Ltd and Liberty Holdings Ltd via an investment placed with Allan Gray. This is in contravention of Section 35(8)(c) of the Act, as the Scheme is not allowed to hold shares in the holding company of an administrator.

##### **Causes of the non-compliance**

The holding of these shares in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

##### **Corrective course of action**

A motivation was sent to the Council for Medical Schemes during October 2016 to renew the exemption granted to the Scheme from complying with Section 35(8)(a) and Section 35(8)(c) of the Act. An exemption was granted by the Council for Medical Schemes from complying with Section 35(8)(a) and Section 35(8)(c) of the Act until December 2017, subject to renewal.

#### **12.2 NON COMPLIANCE WITH S8(H) OF THE ACT INVESTMENT IN DERIVATIVES**

##### **Nature and impact**

The Scheme has an investment in Stanlib Brandywine which has an underlying investment in the Stanlib Global Bond Fund. The Stanlib Global Bond Fund makes use of foreign derivatives as part of its investment strategy. This is in contravention of Section 8(h) of the Act as well as Regulation 30.

##### **Causes of the non-compliance**

The holding of these derivatives in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

##### **Corrective course of action**

During May 2015 the Council for Medical Schemes granted the Scheme an exemption from complying with Section 8(h) of the Act up until 31 December 2016, subject to certain conditions. A motivation was sent to the Council for Medical Schemes during October 2016 to renew the exemption granted to the Scheme from complying with Section 8(h) of the Act as well as Regulation 30. The Scheme is waiting on a response from the Council for Medical Schemes.

### ***Contraventions for which exemption was not applied for the Council for Medical Schemes (CMS)***

#### **12.3 NON-COMPLIANCE WITH REGULATION 8(1) OF THE MEDICAL SCHEME ACT**

##### **Nature and impact**

Section 8(1) of the Act states that "subject to the provisions of this regulation, any benefit option that is offered by the medical scheme pays in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit (PMB) conditions." There were five cases noted during the year where the Scheme did not pay PMB benefits in full but the claims were paid from members savings accounts.

**12.3 NON-COMPLIANCE WITH REGULATION 8(1) OF THE MEDICAL SCHEME ACT (CONTINUED)**

**Causes of the non-compliance**

The correct ICD-10 tariff code was not linked to the PMBs. Thus these claims were not paid in full but were paid from savings.

**Corrective action**

As a result of a subsequent investigation exercise there were five claims that were reprocessed.

**13. EVENTS AFTER REPORTING DATE**

An additional low-cost benefit option was introduced by the Scheme, effective 1 January 2017. As a result, members are able to select either the existing Plus Option or the newly introduced Primary low-cost benefit option.

**PICK N PAY MEDICAL SCHEME  
INDEPENDENT AUDITOR'S REPORT ON THE SUMMARISED FINANCIAL STATEMENTS**

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To the Members of the Pick n Pay Medical Scheme

***Opinion***

The summarised financial statements, as set out on pages 17 to 29, which comprise the summarised statement of financial position as at 31 December 2016, and the summarised statement of comprehensive income, summarised statement of changes in members' funds and summarised cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of Pick n Pay Medical Scheme (the Scheme) for the year ended 31 December 2016.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

***Summarised Financial Statements***

The summarised financial statements do not contain all the disclosures required by International Financial Reporting Standards and the Medical Schemes Act of South Africa. Reading the summarised financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summarised financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

***The Audited Financial Statements and Our Report Thereon***

We expressed an unmodified audit opinion on the audited financial statements in our report dated 26 April 2017. That report also included the communication of key audit matters.

***Trustees' Responsibility for the Summarised Financial Statements***

The trustees are responsible for the preparation of the summarised financial statements in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

***Auditor's Responsibility***

Our responsibility is to express an opinion on whether the summarised financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance International Standards on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

**KPMG Inc**

Registered Auditor

**Per T Carrim**

Chartered Accountant (SA)

Registered Auditor

Director

9 May 2017

1 Mediterranean Street

Foreshore

Cape Town

8000



**PICK N PAY MEDICAL SCHEME  
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF FINANCIAL POSITION  
as at 31 December 2016**

	Notes	2016 R	2015 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Available-for-sale investments	2	241 604 306	232 232 677
<b>Current assets</b>			
Insurance and other receivables		335 807	194 724
Cash and cash equivalents		241 641 408	214 975 747
Scheme cash and cash equivalents		157 101 381	129 805 103
Personal medical savings account trust investment	4	84 540 027	85 170 644
<b>Total assets</b>		<b>483 581 521</b>	<b>447 403 148</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		307 444 147	280 422 714
Revaluation reserve: Available-for-sale investments		71 288 252	69 607 027
<b>Current liabilities</b>			
Personal medical savings account trust liability	3	86 054 927	86 215 985
Insurance and financial liabilities		2 349 660	1 143 863
Outstanding risk claims provision	5	16 444 535	10 013 559
<b>Total funds and liabilities</b>		<b>483 581 521</b>	<b>447 403 148</b>

**PICK N PAY MEDICAL SCHEME  
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2016**

	Notes	2016 R	2015 R
<b>Risk contribution income</b>	6	248 239 021	214 522 918
<b>Relevant healthcare expenditure</b>		(217 186 819)	(222 427 466)
Net claims incurred		(217 365 146)	(2221 251)
Risk claims incurred	7	(209 577 635)	(2157 796)
Accredited managed healthcare services		(7 928 803)	(7 502 236)
Third-party claim recoveries		141 292	368 781
Net income on risk transfer arrangements	7	178 327	513 785
Risk transfer arrangements premiums paid		(12 917 569)	(12 051 263)
Recoveries from risk transfer arrangements		13 095 896	12 565 048
<b>Gross healthcare result</b>		31 052 202	(7 904 548)
Administration fees and other operative expenses		(21 322 103)	(19 967 710)
Net impairment losses on healthcare receivables		(53 207)	(324 827)
<b>Net healthcare result</b>		9 676 892	(28 197 085)
<b>Other income</b>		26 315 597	54 137 233
Investment income		26 291 663	54 20 838
Sundry income		23 934	16 395
<b>Other expenditure</b>		(8 971 056)	(6 249 413)
Asset management fees		(2 041 452)	(681 722)
Interest paid on personal medical savings account	3	(6 929 604)	(5 567 691)
<b>Net surplus for the year</b>		27 021 433	19 690 735
<b>Other comprehensive income</b>			
Fair value adjustment on available-for-sale investments		3 095 341	13 454 453
Less: Reclassification adjustment on realised gains		(1 414 116)	(36 581 854)
<b>Total comprehensive income/(deficit) for the year</b>		28 702 658	(3 436 666)

**PICK N PAY MEDICAL SCHEME  
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>Accumulated funds</b>		
Balance at the beginning of the year	280 422 714	260 731 979
Net surplus for the year	27 021 433	19 690 735
Balance at the end of the year	<u>307 444 147</u>	<u>280 422 714</u>
<b>Revaluation reserve: Available-for-sale investments</b>		
Balance at the beginning of the year	69 607 027	92 734 428
Unrealised gains on revaluation of available-for-sale investments	3 095 341	13 454 453
Realised gains on disposal of available-for-sale investments	(1 414 116)	(36 581 854)
Balance at the end of the year	<u>71 288 252</u>	<u>69 607 027</u>
<b>Members' funds</b>	<u>378 732 399</u>	<u>350 029 741</u>

**PICK N PAY MEDICAL SCHEME  
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF CASH FLOWS  
for the year ended 31 December 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net surplus for the year	27 021 433	19 690 735
- Realised gain on disposal of available-for-sale investments	(1 414 116)	(36 581 854)
- Investment income	(18 856 440)	(14 161 410)
- Capitalised interest and dividends	(4 339 882)	(3 377 574)
- Interest expense on personal medical savings accounts	6 929 604	5 567 691
Cash flows generated/(utilised) in operations before working capital changes	9 340 599	(28 862 412)
<b>Working capital changes</b>	7 334 632	9 757 490
- (Increase)/decrease in insurance and other receivables	(141 083)	309 605
- Increase in insurance and financial liabilities	1 205 797	277 764
- (Decrease)/increase in personal medical savings accounts trust liability	(161 058)	8 506 604
- Increase in outstanding risk claims provision	6 430 976	663 517
Cash generated/(utilised) in operations	16 675 231	(19 104 922)
Interest and dividends received	16 814 988	14 331 786
Interest paid on personal medical savings accounts	(6 929 604)	(5 567 691)
<b>Net cash flow generated/(utilised) in operating activities</b>	26 560 615	(10 340 827)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	105 046	23 901 642
Proceeds on disposal of available-for-sale investments	484 923	98 943 516
Additions to available-for-sale investments	(379 877)	(75 041 874)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	26 665 661	13 560 815
Cash and cash equivalents at the beginning of the year	214 975 747	201 414 932
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	241 641 408	214 975 747

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2016**

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**1. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the summarised financial statements are set out below. The policies applied are consistent with the prior year.

**Statement of compliance**

The summarised financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the requirements of the Medical Schemes Act of South Africa. In addition the summarised statement of comprehensive income is prepared in accordance with Circular 41 of 2012 issued by the Council for Medical Schemes that set out their interpretation of IFRS as it relates to the summarised statement of comprehensive income for Medical Schemes in South Africa.

**1.1 BASIS OF PREPARATION**

The summarised financial statements provide information about the financial position, results of operations and changes in the financial position of the Scheme. These have been prepared under the historical cost convention, except for available-for-sale financial assets, which are measured at fair value.

The summarised financial statements are prepared:

- in accordance with the recognition and measurement requirements of IFRS;
- in the manner required by the Act; and
- in accordance with the presentation and disclosure requirements of International Financial Reporting Standards IAS 34, *Interim Financial Reporting*.

The Scheme's functional and presentation currency is South African rands.

**Use of estimates**

The preparation of the summarised financial statements necessitates the use of estimates and assumptions including the outstanding claims provision. These estimates and assumptions affect the reported amount of assets, liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenditure for the year. The actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments refer to note 5.

**1.2 STANDARDS AND INTERPRETATIONS**

**Standards and interpretations applicable to the Scheme that are not yet effective**

The following new standards and amendments to IFRS are not yet effective for the current financial year. The Scheme will comply with the new standards and interpretations from the various effective dates.

**IFRS 9 financial instruments**

IFRS 9 Financial Instruments (effective 1 January 2018) On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will have an impact on the Scheme, which will include changes in the measurement bases of the Scheme's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model in IAS 39 to an "expected credit loss" model. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

**IFRS 15 revenue from contracts with customers**

IFRS 15 Revenue from contracts with customers (effective 1 January 2018) Establishes principles for accounting the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. The FASB and IASB issued their converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.

**PICK N PAY MEDICAL SCHEME**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2016**

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**1.3 COMPARATIVES**

Where appropriate, adjustments have been made to comparative information to conform to changes in the current year's disclosure.

**2. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Fair value at the beginning of the year	232 232 677	239 472 668
Additions	379 877	75 041 874
Capitalised interest and dividends	4 339 882	3 377 574
Disposals	(484 923)	(98 943 516)
Unrealised gains on revaluation of available-for-sale investments	3 095 341	13 454 453
Investment expenses	2 041 452	(170 376)
Fair value at the end of the year	<u>241 604 306</u>	<u>232 232 677</u>

The investments included above represent investments in:

Allan Gray Equity Fund	60 493 893	54 264 515
Sesfikile Property Fund	17 323 155	15 808 054
Abax Prescient Equity Fund	61 160 485	62 309 845
Stanlib Brandywine	25 784 927	27 988 142
Visio Capital Fund	38 089 182	38 622 658
Coronation Strategic Bond Fund	38 752 664	33 239 463
	<u>241 604 306</u>	<u>232 232 677</u>

A register of investments is available for inspection at the registered office of the Scheme.

**3. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Balance of personal medical savings account trust liability at the beginning of the year	86 215 985	77 709 381
Less: Prior year advances on personal medical savings account	(1 059)	(927)
Adjusted balance on personal medical savings account at the beginning of the year	86 214 926	77 708 454
Add:		
Savings account contributions received or receivable	61 791 267	71 202 510
Interest earned on trust monies invested	6 929 604	5 567 691
Less:		
Claims paid out of savings (note 7)	(64 512 832)	(63 598 677)
Refunds on death or resignation in terms of Regulation 10(4)	(4 372 318)	(4 665 052)
Add:		
Advance on personal medical savings account	4 280	1 059
Balance on personal medical savings account at the end of the year	<u>86 054 927</u>	<u>86 215 985</u>

In accordance with the rules of the Scheme, the personal medical savings account is underwritten by the Scheme.

**PICK N PAY MEDICAL SCHEME**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2016 (continued)**

**3. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS (CONTINUED)**

Per the rules of the Scheme, interest on personal medical savings accounts only accrues to members on a monthly basis on positive balances existing at that date.

The personal medical savings account contains a demand feature in terms of Regulation 10 of the Act which requires that any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme, and then registers on another medical scheme without a personal medical savings account or does not register on another medical scheme.

It is estimated that claims that are to be paid out of members' personal medical savings accounts in respect of claims incurred in 2016 but not yet reported will amount to R961 690 (2015: R1 004 175) (note 5).

As from December 2012 the Scheme had ring fenced the investment of the personal medical savings account funds in a separate Investec Stable Money Fund. As from 1 January 2013 actual interest earned on the investment has been allocated on a member level. Advances on personal medical savings accounts are funded by the Scheme and are included in insurance receivables. The Scheme does not charge interest on advances on personal medical savings accounts. Advances on personal medical savings accounts are funded by the Scheme and are included in insurance receivables. The Scheme does not charge interest on advances on personal medical savings accounts.

As at year-end the carrying amount of the members' personal medical savings accounts were deemed to be equal to their fair values, which is of a short-term nature. The personal medical savings accounts were invested on behalf of members, as disclosed in note 4. The difference between the investment and the liability is due to timing differences.

**4. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST INVESTMENT MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Investec Stable Money Fund	<u>84 540 027</u>	<u>85 170 644</u>

The personal medical savings account trust monies were invested on behalf of the members in a market-linked policy. The effective interest rate on the personal medical savings accounts was 7.80% (2015: 6.49%). The total interest earned was R6 959 585 (2015: R5 648 796). The investment is aligned in the following month after the month-end claims run has occurred and when interest earned for the month has been received.

**5. OUTSTANDING RISK CLAIMS PROVISION**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>Analysis of movements in outstanding risk claims</b>		
Balance at the beginning of the year	10 013 559	9 350 042
Payments in respect of the prior year	<u>(10 845 105)</u>	<u>(7 927 548)</u>
(Under)/over provision in the prior year	(831 546)	1 422 494
Adjustment for the current year	<u>17 276 081</u>	<u>8 591 065</u>
Balance at the end of the year	<u>16 444 535</u>	<u>10 013 559</u>
<b>Analysis of outstanding risk claims provision</b>		
Estimated gross claims	17 406 225	11 017 734
Less: Estimated recoveries from personal medical savings account	(961 690)	(1 004 175)
	<u>16 444 535</u>	<u>10 013 559</u>

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2016 (continued)**

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**5. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)**

The provision for outstanding claims in terms of risk transfer arrangements for the year ended 31 December 2016 was Rnil (2015: Rnil).

**Process used to determine the assumptions made in respect of claims provisioning**

The process used to determine the assumptions made in respect of claims provisioning is intended to result in realistic estimates of the most likely or expected outcome. The sources of data used as inputs for the claims run-off assumptions are internal, using detailed studies that are carried out on a regular basis. More emphasis is placed on current trends.

The actual method or blend of methods used varies by category of claims and observed historical claims development. To the extent that the historical claims development method is used, we assume that the historical pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in claims submission mechanisms;
- changes in composition of members and their dependants;
- random fluctuations; and
- legislative changes.

Notified claims are assessed with due regard to the claim circumstances, category, anticipated development, expected seasonal fluctuations and information available from managed care management services (specifically hospital pre-authorisation). The provisions are best estimates based on the most recent information available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. hospital [major medical benefit], chronic medication and day-to-day) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

Independent actuaries perform separate calculations of the outstanding claims provision, which is compared to the estimates, as prepared by management. Where variances arise, an understanding thereof is sought and any applicable adjustments catered for.

**Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale.

**Sensitivity of outstanding claims provision**

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages, and the impact on the Scheme's liabilities if an incorrect assumption is used.

**Other assumptions**

- The actual demographics of the Scheme were used including all membership movements for the period.
- The effect of ageing of the population on the utilisation of health services is automatically incorporated.
- Utilisation escalation incorporates the impact of HIV/AIDS.

The assumed percentages of claims outstanding at the end of the period are as follows:

	<b>2016</b>	<b>2015</b>
	%	%
Claims outstanding for services rendered in:		
- December	83.5	52.3
- November	4.8	5.4
- October	2.5	5.3
- September	0.8	0.4
- August and prior	0.5	0.2



**PICK N PAY MEDICAL SCHEME**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2016 (continued)**

**5. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)**

**Other assumptions (continued)**

The higher increase in the claims outstanding percentage in December is due to the much lower claims that were paid in December when compared to prior year settlements.

The impact of the sensitivity of these percentages is set out below:

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Effect of a 1% change in assumptions	1 776 539	809 494
Effect of a 2% change in assumptions	3 739 544	1 636 182
Effect of a 3% change in assumptions	5 916 447	2 480 730

The Scheme believes that the liability for claims reported in the summarised statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

**6. RISK CONTRIBUTION INCOME**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Gross contributions per registered rules	310 030 288	285 725 428
Less: Personal medical savings contributions received (note 3)	<u>(61 791 267)</u>	<u>(71 202 510)</u>
Risk contribution income per summarised statement of comprehensive income	<u>248 239 021</u>	<u>214 522 918</u>

The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered rules and held in trust on behalf of its members. Refer to note 3 to the summarised financial statements for more detail on how these monies were utilised.

**7. RISK CLAIMS INCURRED**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>Claims incurred excluding claims incurred in respect of risk transfer arrangements</b>		
Current year claims per registered rules	244 550 036	256 827 866
Movement in outstanding risk claims provision	16 444 535	10 013 559
(Under)/over provision in the prior year (note 5)	<u>(831 546)</u>	<u>1 422 494</u>
Adjustment for current year (note 5)	<u>17 276 081</u>	<u>8 591 065</u>
	260 994 571	266 841 425
Less:		
Claims paid from personal medical savings accounts (note 3)	<u>(64 512 832)</u>	<u>(63 598 677)</u>
<b>Total claims incurred excluding risk transfer arrangements</b>	<u>196 481 739</u>	<u>203 242 748</u>
<b>Claims incurred in respect of risk transfer arrangements</b>		
Current year claims	13 095 896	12 565 048
Claims incurred per the summarised statement of comprehensive income	<u>209 577 635</u>	<u>215 807 796</u>
<b>Net income on risk transfer arrangements</b>		
Premiums paid	(12 917 569)	(12 051 263)
Recoveries received	<u>13 095 896</u>	<u>12 565 048</u>
Net income on risk transfer arrangements	<u>178 327</u>	<u>513 785</u>

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2016 (continued)**

**7. RISK CLAIMS INCURRED (CONTINUED)**

The Scheme entered into a risk transfer arrangement with the Centre for Diabetes & Endocrinology (Pty) Ltd (CDE) during 2008. In terms of the arrangement, CDE provides a comprehensive programme for members of the Scheme with diabetes at a fixed monthly rate per beneficiary on the programme.

The Scheme also entered into a risk transfer arrangement with ER24. In terms of the arrangement, ER24 provides ambulance services to the beneficiaries of the Scheme at a fixed rate per member per month.

**8. RELATED PARTY DISCLOSURES**

**Parties with significant influence over the Scheme**

Metropolitan Health Corporate (Pty) Ltd (MHC) has significant influence over the Scheme, as it provides financial and operational information on which policy decisions are based, but does not control the Scheme. MHC provides administration services.

NMG Consultants and Actuaries (Pty) Ltd (NMG) has significant influence over the Scheme, as they provide operational information on which policy decisions are based, but do not control the Scheme. NMG provides consulting and actuarial services.

Willis Towers Watson Actuaries and Consultants (Pty) Ltd (WTW) has significant influence over the Scheme, as they provide operational information on which policy decisions are based, but do not control the Scheme. WTW provides investment consulting services.

Pick n Pay Employer Group has significant influence over the Scheme, as they can appoint 50% of the Board of Trustees.

**Key management personnel and their close family members**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer, Deputy Principal Officer and members of committees.

Close family members include family members of the Board of Trustees, Principal Officer, Deputy Principal Officer and members of the committees.

**Transactions and balances with related parties and parties with significant influence over the Scheme**

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>Summarised statement of comprehensive income</b>		
Gross contributions received (key management personnel)	631 170	560 052
Claims incurred (key management personnel)	547 697	552 004
Interest paid on personal medical savings account (key management personnel)	30 325	26 091
Compensation (key management personnel)		
- Medical advisor	700 988	661 303
Administrator's fee (MHC)	16 721 158	15 798 514
Consulting fee (NMG)	2 552 280	2 407 800
Investment consulting fee (WTW)	105 365	100 235
<b>Summarised statement of financial position</b>		
Personal medical savings account liability (key management personnel)	388 093	381 582
Investment consulting fee (WTW) (included in accrued expenses)	27 560	25 935
Reimbursement of postage/printing cost payable to MHC (included in accrued expenses)	62 477	-

**8. RELATED PARTY DISCLOSURES (CONTINUED)**

**The terms and conditions of the related party transactions and transactions with those who have significant influence over the Scheme were as follows:**

**Contributions received (key management personnel)**

This constitutes the contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions were at the same terms as applicable to third parties.

**Claims incurred (key management personnel)**

This constitutes amounts claimed by the related parties, in their individual capacities as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to third parties.

**Compensation (key management personnel)**

This constitutes payments to the Scheme's Medical Advisor in terms of the contract with the Scheme. The Trustees and the Principal Officer are not remunerated by the Scheme.

**Administration fees**

The administration agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than three months' notice. The outstanding balance bears no interest and is due within 30 days.

**Personal medical savings account balances**

The amounts owing to the related parties relate to personal medical savings account balances which are held and managed on their behalf. In line with the terms applied to third parties, the balances earn interest at the effective interest rate which accrues to members. The amounts are all current, and are payable on demand should an appropriate claim be issued, or the member exit the Scheme.

**Actuarial and consulting fees**

The agreement with NMG is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months' notice. The outstanding balance bears no interest and is due within 30 days.

**Investment consulting fees**

The agreement with WTW is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than a month's notice. The outstanding balance bears no interest and is due within 30 days.

**9. CONTINGENT ASSET**

At 31 December 2016 the Scheme had pending motor vehicle accident recoveries submitted to the Road Accident Fund (RAF) for assessment. These recoveries will only be accounted for when an amount is virtually certain to be received from the RAF. The value of pending claims at year-end amounted to R1 662 807 (2015: R1 665 085).

## **10. NON-COMPLIANCE MATTERS**

### ***Contraventions for which exemption was obtained from the Council for Medical Schemes (CMS)***

#### **10.1 CONTRAVENTION OF SECTION 35(8)(A) AND SECTION 35(8)(C)**

##### **Nature and impact**

The Scheme holds an indirect investment in the participating employer via an investment placed with Allan Gray. This is in contravention of Section 35(8)(a) of the Act, as the Scheme is not allowed to hold investments in any participating employer.

The Scheme holds an indirect investment in MMI Holdings Ltd and Liberty Holdings Ltd via an investment placed with Allan Gray. This is in contravention of Section 35(8)(c) of the Act, as the Scheme is not allowed to hold shares in the holding company of an administrator.

##### **Causes of the non-compliance**

The holding of these shares in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

##### **Corrective course of action**

A motivation was sent to the Council for Medical Schemes during October 2016 to renew the exemption granted to the Scheme from complying with Section 35(8)(a) and Section 35(8)(c) of the Act. An exemption was granted by the Council for Medical Schemes from complying with Section 35(8)(a) and Section 35(8)(c) of the Act until December 2017, subject to renewal.

#### **10.2 NON COMPLIANCE WITH SECTION 8(H) OF THE ACT INVESTMENT IN DERIVATIVES**

##### **Nature and impact**

The Scheme has an investment in Stanlib Brandywine which has an underlying investment in the Stanlib Global Bond Fund. The Stanlib Global Bond Fund makes use of foreign derivatives as part of its investment strategy. This is in contravention of Section 8(h) of the Act as well as Regulation 30.

##### **Causes of the non-compliance**

The holding of these derivatives in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

##### **Corrective course of action**

During May 2015 the Council for Medical Schemes granted the Scheme an exemption from complying with category 8(h) of Annexure B of the Act up until 31 December 2016 subject to certain conditions. A motivation was sent to the Council for Medical Schemes during October 2016 to renew the exemption granted to the Scheme from complying with Section 8(h) of the Act as well as Regulation 30. The Scheme is waiting on a response from the Council for Medical Schemes.

### ***Contraventions for which exemption was not applied for from the Council for Medical Schemes (CMS)***

#### **10.3 NON-COMPLIANCE WITH REGULATION 8(1) OF THE MEDICAL SCHEME**

##### **Nature and impact**

Section 8(1) of the Act states that "subject to the provisions of this regulation, any benefit option that is offered by the medical scheme pays in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit (PMB) conditions." There were five cases noted during the year where the Scheme did not pay PMB benefits in full but the claims were paid from members savings accounts.

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2016 (continued)**

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**10. NON-COMPLIANCE MATTERS (CONTINUED)**

**10.3 NON-COMPLIANCE WITH REGULATION 8(1) OF THE MEDICAL SCHEME (CONTINUED)**

**Causes of the non-compliance**

The correct ICD-10 tariff code was not linked to the PMBs. Thus these claims were not paid in full but were paid from savings.

**Corrective action**

As a result of a subsequent investigation exercise there were five claims that were reprocessed.

**11. EVENTS AFTER REPORTING DATE**

An additional low-cost benefit option was introduced by the Scheme, effective 1 January 2017. As a result, members are able to select either the existing Plus Option or the newly introduced Primary low-cost benefit option.

**12. COMPLETE SET OF AUDITED FINANCIAL STATEMENTS**

A complete set of audited financial statements can be obtained from the following address:

Registered office address:

Pick n Pay Medical Scheme  
Parc du Cap  
7 Mispel Road  
Bellville  
7530







Medical scheme