

NOTICE IS HEREBY GIVEN THAT THE 23<sup>rd</sup> ANNUAL GENERAL MEETING OF



**Medical scheme**

**WILL BE HELD ON THURSDAY, 11 JULY 2019, AT 13:00 IN THE CORPORATE FIRST FLOOR MEETING ROOMS 1 AND 2, FIRST FLOOR, CORPORATE BUILDING, PICK N PAY OFFICE PARK, 101 ROSMEAD AVENUE, KENILWORTH**

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

- IR SMALL BOARDROOM, KENSINGTON, JOHANNESBURG
- REGIONAL VC ROOM, DURBAN HYPER
- VC ROOM, PORT ELIZABETH

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**AGENDA**

1. Notice convening the Annual General Meeting
2. Minutes of the Annual General Meeting held on Thursday, 21 June 2018
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2018
4. Adoption of the annual financial statements for the year ended 31 December 2018
5. Confirmation of the Disputes Committee  
The current Disputes Committee comprises:  
Mr C Vlok  
Ms M Magnussen  
Ms M Mannion  
Mr M Marsden
6. To note the appointment of the external auditor for the ensuing year: Ernst & Young
7. Any other business of which due notice has been given on or before Thursday, 11 July 2019

By order of the Board of Trustees

A handwritten signature in blue ink, appearing to read 'Amile Visser'.

**AMILE VISSER**  
PRINCIPAL OFFICER

**PICK N PAY MEDICAL SCHEME  
MINUTES OF THE TWENTY-SECOND ANNUAL GENERAL MEETING  
HELD ON THURSDAY, 21 JUNE 2018 AT 13:00 IN ROOM 1, CONFERENCE CENTRE, PICK N PAY OFFICE  
PARK, 101 ROSMEAD AVENUE, KENILWORTH**

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**MEMBERS IN ATTENDANCE:** 25 (including at video conferencing venues in Johannesburg and Durban); two proxies were received

**PRESENT**

Helen de Light	Member-elected Trustee (Chairperson)
Vaughan Pierce	Employer-appointed Trustee (Vice-Chairperson)
Erna Vause	Member-elected Trustee (via video conference)
Vusani Ramakuela	Employer-appointed Trustee (via video conference)
Ryan Johnson	Member-elected Trustee (via video conference)
Amile Visser	Principal Officer
Pam Botha	Deputy Principal Officer

**BY INVITATION**

Rod Leerkamp	NMG
Henri Dowling	NMG
Badrodin Hamdulay	MMI Health
Alison Brandes	MMI Health
Sabier Martinus	MMI Health
Frances Herbst	MMI Health

**APOLOGIES**

Gary Lea	Employer-appointed Trustee
Mpoleleng Mahlaba	Member
Mike Marsden	Member

**1. OPENING AND WELCOME**

The Chairperson opened the meeting, welcomed all present in person, and those joining by way of video conference.

The Chairperson confirmed that a quorum was present.

The Chairperson confirmed that there were no further additions to the meeting agenda.

**2. MINUTES OF THE ANNUAL GENERAL MEETING HELD ON 23 MAY 2017**

Ms Botha proposed that the minutes of the 2017 AGM, as distributed to members prior to the AGM, be approved and adopted. This proposal was seconded by Mr Pierce. The minutes were subsequently adopted and signed by the Chairperson.

**3. ANNUAL REPORT OF THE CHAIRPERSON OF THE BOARD OF TRUSTEES**

The Chairperson presented the annual report, which had been circulated to members prior to the AGM as part of the meeting pack, drawing specific attention to various items, which included:

- the Trustees' ongoing commitment to ensuring the financial viability of the Scheme, while members continued to receive appropriate healthcare funding;
- membership had decreased by 9.49% from January to December 2017 due to the voluntary severance packages that were offered by the employer mid-year;
- that the Primary Option had been introduced at the request of the members as from 1 January 2017 – this provided all members with access to basic healthcare at a lower rate; uptake to date had been very low and over the next two years the Board would be required to consider whether to continue offering this option;
- that the unpredictability of the ever-changing healthcare market and the volatility of year-on-year claims needed to be factored in when considering annual contribution increases and benefit design;
- as a result of the very favourable financial results in 2017, the Board had been able to 'give back' to members by introducing some benefit enhancements; these enhancements had been defined in the Chairperson's Report, which had been distributed to members prior to the AGM.

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**3. ANNUAL REPORT OF THE CHAIRPERSON OF THE BOARD OF TRUSTEES (CONTINUED)**

Following a request by the Chairperson, the Principal Officer presented an overview of the annual financial statements for the year ended 31 December 2017.

The Principal Officer referred to the two-page report on investments that had been circulated to members prior to the meeting. The following salient points in the report were noted:

- The Scheme had paid out R205 845 151 in claims and claims-related expenses during 2017. This was R11.5 million less than the amount paid out in 2016.
- The decline in claims expenses could be attributed in part to the restructuring of some of the Scheme's benefits and also in part to a good claims experience.
- The Scheme had remained financially sound with a solvency ratio of 112.2% as at 31 December 2017.
- Contribution income for 2017 amounted to R252 157 326 and, after the deduction of claims and healthcare expenses, the Scheme had shown a net healthcare profit of R25 063 735.
- Financial statements are received from the Administrator on a monthly basis and are reviewed by the actuarial consultants, as well as the Board, to ensure that the Scheme remains financially viable and to monitor expenses incurred by the Scheme.
- Early indicators for 2018 showed that claims were considerably higher than had been budgeted for, but the Scheme remained hopeful that claims costs would settle during the latter half of the year.

Following an enquiry by Mr Ramakuella, the Principal Officer advised that 'healthcare profits' is a term used to describe the net profit that the Scheme achieved excluding investment returns. All net profit is reinvested.

The Principal Officer advised that the Medical Schemes Act required all medical schemes to invest in very specific investment vehicles with limitations and requirements. The Investment Committee is governed by the Investment Committee Charter and the Statement of Investment Principles. With the assistance of the Scheme's Administrator, Actuarial Consultants and Investment Consultants, the Committee served to monitor the investment performance and risk management of the Scheme's investments.

The Chairperson expressed sincere appreciation to the Trustees who had stepped down from their positions, these being Ms Vause, Mr Motaung and Ms Black, noting that their terms of office ended on 21 June 2018. Both Mr Motaung and Ms Vause had served for periods in excess of 10 years. On behalf of the Board, the Chairperson thanked Ms Vause for having served as Chairperson and Deputy Chairperson and for the valuable mentoring that she had provided. The Chairperson stated that the input and valuable guidance of these Trustees would be sorely missed.

**4. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

Having confirmed that the annual financial statements had been accepted by the Board of Trustees, the Chairperson invited members to pose questions regarding the financial statements for consideration and discussion, as per the recommendation from the Audit Committee and external auditors.

No questions were posed or any concerns raised by members regarding the annual financial statements for the year ended 31 December 2017.

Mr Pierce proposed that the annual financial statements be accepted. The proposal was seconded by Ms Olivier and Ms Ameeroedien.

**5. RESULTS OF THE MEMBER TRUSTEE ELECTION**

At the request of the Chairperson, the Principal Officer provided feedback regarding the election of Trustees and the election results.

The Principal Officer expressed appreciation to all who had participated in the election process, whether as nominees or as voters. A total of 522 votes had been received. This exceeded the number of votes received in prior years.

The Principal Officer reminded members that Trustees are elected once every three years and may serve two three-year terms. Thirteen members had stood as nominees in the election.

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**5. RESULTS OF THE MEMBER TRUSTEE ELECTION (CONTINUED)**

The following six nominees had achieved the highest number of votes and would serve, as indicated below:

- Helen de Light	Member-elected Trustee
- Ryan Johnson	Member-elected Trustee
- Evah Rakgogo	Member-elected Trustee
- Mpoleleng Mahlaba	Member-elected Trustee
- Zahirah Ameerodien	Alternate Member-elected Trustee
- Radhia Sattar	Alternate Member-elected Trustee.

The Chairperson welcomed the new Trustees and alternate Trustees to the Board and reminded all those present that this was a valuable task.

**6. CONFIRMATION OF THE DISPUTES COMMITTEE**

The Chairperson explained the responsibilities of Disputes Committee members. The Disputes Committee members were re-appointed without change, as follows:

- Ms M Mannion;
- Mr M Marsden;
- Mr C Vlok; and
- Ms M Magnussen.

**7. APPOINTMENT OF THE EXTERNAL AUDITORS**

The appointment of Ernst & Young as the External Auditors for the 2018/2019 financial year was noted.

**8. GENERAL**

The Chairperson advised that questions had been received by the Principal Officer prior to the meeting. The questions were read out and answered as follows:

**Enquiry/question:** Could the Scheme reconsider the manner in which retiree members' contributions are calculated?

**Response:** The Principal Officer advised that the retiree members' contributions are currently calculated according to the Scheme's income bands, using only 60% of the final salaries. The Principal Officer stated that the Scheme did not have the capacity or ability to determine each retiree member's financial circumstance as had been proposed by the enquirer. The Chairperson requested that NMG calculate the impact on the Scheme should the calculation of retiree members' contributions be based on 50% of their final salaries.

Mr Johnson asked whether research could be undertaken regarding the manner in which other schemes calculate retiree members' contributions for comparative purposes. The Chairperson confirmed that this matter would be discussed at the November 2018 Board of Trustee meeting.

**Enquiry/question:** Noting the 45% increase in the profit made by the Scheme and with the solvency ratio being 125%, why was it necessary to put through a 4% increase in contributions?

**Response:** The Principal Officer stated that there would always be an inflationary increase, with medical inflation having been higher than general inflation for several years. Considering the financial position of the Scheme, the Board had elected to offer enhanced benefits to members rather than apply a zero increase.

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**8. GENERAL (CONTINUED)**

**Enquiry/question:** Why was the Disputes Committee not called upon during a recent incident where a member had been required to make a co-payment on a claim that caused considerable discomfort? Do members know how the Disputes Committee functions? Are disputes regarding non-payment of claims or non-authorisation of benefits referred to the Disputes Committee timeously and correctly?

**Response:**

The Deputy Principal Officer advised that the following process is followed:

- Claims are referred to the Claims Department of the Administrator.
- Should the member not be happy, he or she may escalate the matter to the Principal Officer or Deputy Principal Officer.
- If the Principal Officer or Deputy Principal Officer fails to provide an adequate response, the member may refer the matter to the Board of Trustees;
- Should the member still not be satisfied with the response, the matter may be referred to the Disputes Committee or a complaint may be lodged with the Council for Medical Schemes;

The Deputy Principal Officer undertook to include an article about the Disputes Committee in the next newsletter.

The Deputy Principal Officer stated that it was important to remember that members were unlikely to always be satisfied and that the Scheme would always endeavour to ensure that members are treated fairly and that they receive the benefits to which they are entitled.

The Chairperson thanked the Deputy Principal Officer for the response and stated that disputes should follow this process, with matters only being referred to the Disputes Committee as a last resort.

**9. CLOSURE**

There being no further questions from members and no further business for discussion, the Chairperson thanked all present for their attendance and participation and declared the meeting closed at 14:03.

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**H DE LIGHT**  
CHAIRPERSON

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**DATE**

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

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As Chairperson of the Board of Trustees, I have pleasure in presenting my report for the year ended 31 December 2018.

It remains the Board of Trustees' priority to ensure that, whilst continuing to provide our members with a comprehensive and competitive benefit offering, the Scheme remains financially viable, thereby ensuring its long-term sustainability. Pick n Pay Medical Scheme remains committed to ensuring that its contributions are competitive, without compromising on the quality of care that you and your families receive.

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 holding the best interests of the members at heart.

Despite a tough year, with higher-than-normal claims experience, the Scheme remains financially sound with a solvency ratio of 114.4% as at 31 December 2018. These reserves are well in excess of the legislated targets, but appropriate for the long-term sustainability of our Scheme.

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 2018, the Scheme paid out R250 782 195 in claims and claims-related expenses. This was R44,9 million more than in 2017. This can be attributed in part to the restructuring of some of the Scheme's benefits and also in part to a number of high-cost cases during the course of the year. The Trustees, as well as the managed care providers and actuaries, continue to keep a close eye on claims expenditure.

The reserve ratio of 114.4% is still much higher than the required statutory 25%. This is a further safeguard that will guarantee the financial viability of the Scheme for many years to come.

Due to lower investment returns during the year, together with higher-than-expected claims expenditure, the Scheme made a net deficit of R15 962 611 for the year ended 31 December 2018. The Scheme does, however, remain financially sound and is able to meet its commitments in terms of the payment of claims.

### **Investments**

More detailed information regarding the Scheme's investment performance for 2018 is provided after this report. We would, however, like to remind you of the following at this point:

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, the Scheme's 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 from the Board of Trustees.

The SIP outlines rules regarding what the Scheme can and cannot invest in, including asset classes, amongst others. 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 cognisance of compliance with the Act, the risk returns of the various investment instruments and surplus available funds that ideally should be invested elsewhere so as to maximise the investment return.

### **Membership**

Membership of the Scheme has increased by 417 principal members from January to December 2018. The average age of beneficiaries was 30.6 and the pensioner ratio was 4.2%.

### **Benefit changes**

Benefit changes to the Plus Option for 2018 included:

- A dental benefit of R2 000 per family per year was introduced and paid from insured benefits instead of medical savings.
- The co-payment for MRI and CT scans was reduced from R1 500 to R500.

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

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### **Benefit changes (continued)**

- The R2 000 co-payment for admissions to a Netcare facility was removed.
- Three additional chronic conditions were added on the Plus Option.
- A R15 000 post-oncology insured benefit was introduced for members in remission.
- The pneumococcal vaccine Pneumovax was paid from the preventative care benefit.
- Depression medication was increased to R299 per month.

The Primary Option continued to grow slightly during 2018, with a growth of 363 principal members from 1 January 2018 to 31 December 2018. With the pending regulation changes in the medical scheme industry, the Board may need to make a decision with regard to the sustainability of this option within the next year or two.

Despite the unfavourable financial results in 2018, the Board was still able to enhance a few of the benefits on the Plus Option for 2019, which we hoped would benefit the majority of the members of the Scheme. These enhancements were:

- Emergency treatment in a trauma or casualty facility of a hospital and all associated costs, where the treatment resulted in a hospital admission or prevented a hospital admission, and where the treatment could not be rendered in a general practitioner (GP)'s rooms, would be paid from the in-hospital benefit at 100% of the agreed rate and/or 150% of the Scheme rate, whichever is applicable.
- The maternity programme was enhanced to allow for two additional GP or specialist visits for children under one year of age and one additional specialist visit for a mother within 12 months of giving birth, to be paid from the maternity benefit and not from medical savings.

The emergency treatment benefit was extended to the Primary Option in 2019 and members on this option would be entitled to emergency room treatment in emergencies.

### **Contribution increases**

The Trustees tried very hard to keep contribution increases as low as possible; however, given the Scheme's unfavourable financial performance, as well as increased medical inflation, the Trustees needed to ensure that the Scheme remained financially viable for years to come. The contributions were increased by 6.5% on the Plus Option and 5% on the Primary Option for 2019. These increases were well below the average increases announced by other medical schemes.

To further ease the burden on household budgets, each 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 contribution increases come into effect. The income bands were increased by 6.5% on both options.

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.

### **A moment of appreciation**

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

- the Company for its continued support
- the management and staff at MMI Health 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 – Private Health Administrators, MediKredit, ER24 Emergency Medical Services and the Centre for Diabetes and Endocrinology – for the efficient manner in which they have managed the various managed care programmes
- our Medical Advisor, Dr Martin Bailey, for his dedication and commitment to the Scheme
- our Principal Officer, Mr Amile Visser and Deputy Principal Officer, Ms Pamela Botha, for the daily management of the Scheme and for the assistance and sound advice they provide to our members
- our Actuarial Consultants, NMG Consultants and Actuaries, for their invaluable contributions throughout the year
- Willis Towers Watson for their assistance and guidance in managing our investments
- the External Auditor, Ernst & Young Inc., for the manner in which they conducted their audit
- the Registrar of Medical Schemes and his staff for their assistance during the year

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

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**A moment of appreciation (continued)**

- all other service providers.
- last but by no means least, the Trustees and our colleagues who serve on sub-committees, who over and above their 'day jobs' have taken on this very important role.

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



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**HELEN DE LIGHT**  
CHAIRPERSON



## Pick n Pay Medical Scheme

### Annual Summary of Results for year ended 31 December 2018

#### Mandate of the Investment Committee

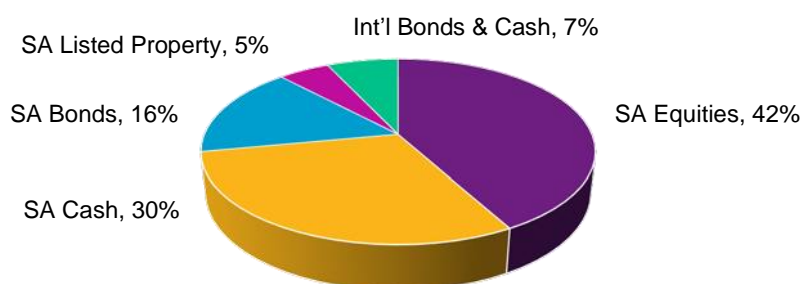
- The Board of Trustees has mandated the Investment Committee to monitor the investment performance and risk management of the Scheme's investments.
- The Board of Trustees has appointed Willis Towers Watson as their investment consultants to advise the Investment Committee and Board of Trustees on matters related to the Scheme's investments, including investment performance monitoring, asset allocation decisions and investment manager selection.
- The Investment Committee is chaired by Gary Lea and the Investment Committee meets on a quarterly basis.
- The Investment Committee receives a feedback presentation from the appointed investment management firms at each quarterly meeting.

#### Investment Philosophy and investment strategy

- The Scheme's investments consists of two broad categories:
  1. Liquidity assets – these assets are invested in cash or money market instruments and are used to meet the short term cash flow needs of the Scheme
  2. Long Term assets – these assets are invested in a mixture of SA Equities, SA Listed Property, SA Bonds & Cash and Int'l Bonds & Cash where the aim is to grow the investments of the Scheme by 4% per annum above inflation over the long term. (Based on a review of the Scheme's investments and strategic asset allocation in 2018, the investment return target above inflation has changed from 5% per annum to 4% per annum.)
- With respect to the Long Term assets, the Trustees believe that over long measurement periods (typically 5 years and longer) investment markets are efficient and so the price of a traded asset is the most accurate indication of its underlying value. However, over shorter time frames investment markets may be materially inefficient resulting in big and non-random disparities which cause the price of an asset to deviate from its underlying value.
- If markets are indeed efficient over the long term then it follows that an intelligent and patient investor can earn superior returns over the long term by exploiting these short-term mispricings. Therefore the Trustees have appointed active investment managers who primarily follow a valuation investment approach i.e. on SA equities, the investment managers look to assess the intrinsic value of a company and buy companies whose share price is well below their assessed intrinsic value.
- The Trustees believe in the benefits of diversification and that the risk of poor investment outcomes can be mitigated by allocating the investments of the Scheme's Long-Term assets between different asset classes. Further diversification is also achieved within a more risky asset class by allocating the assets to more than one investment manager.
- The Personal Member Savings Accounts (PMSA) are invested mainly in cash and money market investments, separately from Liquidity assets and Long Term assets.

#### Strategic Asset Allocation (Long Term assets)

The Strategic Asset Allocation for the Long Term assets is as follows:



- Following the investment strategy review in 2018, the Trustees decreased the Strategic Asset Allocation for SA equities from 48% to 42% and increased SA Bonds from 10% to 16% in October 2018.

#### Benchmarks

- SA Equities FTSE/JSE Capped All Share Index to 31 March 2018, and FTSE/JSE Capped Shareholder Weighted Index (Capped SWIX) from 1 April 2018
- SA Cash STEFI Composite Index
- SA Listed Property FTSE/JSE listed property index to 30 June 2018, and FTSE/JSE All Property Index from 1 July 2018.
- SA Bonds BEASSA All Bond Index
- International Bonds Bloomberg Barclays Global Aggregate Index

Investment analysis for the year ended 31 December 2018

Asset Class	Opening Market value (R'm)	Cashflow (R'm)	Investment (R'm)	Closing Market value (R'm)	Portfolio	Calculated 12 Month	Index
	<u>01-Jan-18</u>	<u>Nett</u>	<u>Returns</u>	<u>31-Dec-18</u>	<u>%</u>	<u>Return</u>	<u>Return</u>
<b>SA Equity</b>	<b>183.3</b>	<b>-8.8</b>	<b>-16.5</b>	<b>158.0</b>	<b>35.3%</b>	<b>-9.1%</b>	<b>-10.9%</b>
Allan Gray	69.4	-5.5	-5.1	58.7	13.1%	-7.4%	
Visio	41.7	-0.7	-3.2	37.8	8.4%	-7.7%	-10.9%
ABAX	72.2	-2.6	-8.2	61.5	13.7%	-11.3%	
<b>SA Cash</b>	<b>185.9</b>	<b>-10.7</b>	<b>14.5</b>	<b>189.7</b>	<b>42.4%</b>	<b>8.2%</b>	<b>7.2%</b>
Investec Stable Money Fund	59.6	-	5.0	64.6	14.4%	8.3%	
Coronation Medical Cash Fund	59.6	-	4.9	64.5	14.4%	8.3%	7.2%
Investec Corporate Money Fund	39.8	-17.2	3.3	26.0	5.8%	8.3%	
Standard Bank Current	26.9	6.5	1.3	34.7	7.7%	4.8%	
<b>SA Listed Property</b>	<b>20.6</b>	<b>-</b>	<b>-4.2</b>	<b>16.5</b>	<b>3.7%</b>	<b>-20.2%</b>	<b>-27.3%</b>
Sesfikile Property Fund	20.6	-	-4.2	16.5	3.7%	-20.2%	-27.3%
<b>SA Bonds</b>	<b>42.9</b>	<b>8.8</b>	<b>3.3</b>	<b>55.0</b>	<b>12.3%</b>	<b>7.0%</b>	<b>7.7%</b>
Coronation Strategic Bond Fund	42.9	8.8	3.3	55.0	12.3%	7.0%	7.7%
<b>International Bonds</b>	<b>25.9</b>	<b>-</b>	<b>3.0</b>	<b>28.8</b>	<b>6.4%</b>	<b>11.5%</b>	<b>15.0%</b>
Stanlib Global Bond Fund	25.9	-	3.0	28.8	6.4%	11.5%	15.0%
<b>SUB-TOTAL (Excluding PMSA)</b>	<b>458.6</b>	<b>-10.7</b>	<b>0.0</b>	<b>448.0</b>	<b>100.0%</b>	<b>0.0%</b>	
Investec PMSA Fund	<b>79.4</b>	<b>-1.5</b>	<b>6.5</b>	<b>84.4</b>		<b>8.2%</b>	
<b>TOTAL</b>	<b>538.0</b>	<b>-12.2</b>	<b>6.5</b>	<b>532.3</b>		<b>1.2%</b>	

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**PICK N PAY MEDICAL SCHEME  
SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2018**

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**PICK N PAY MEDICAL SCHEME  
BOARD OF TRUSTEES' RESPONSIBILITY STATEMENT**

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The Trustees are responsible for the preparation and fair presentation of the summarised financial statements of Pick n Pay Medical Scheme, comprising the summarised statement of financial position as at 31 December 2018, summarised statement of comprehensive income, summarised statement of changes in equity and summarised statement of cash flows for the year then ended, and the notes to the summarised financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees are also responsible for such internal control as the Trustees determine is necessary to enable the preparation of summarised financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Trustees have made an assessment of the ability of the Scheme to continue as a going concern and have no reason to believe the Scheme will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the summarised financial statements are fairly presented in accordance with the applicable financial reporting framework.

**APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Trustees on 23 April 2019. The summarised financial statements have been derived from information contained in the financial statements.



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**HELEN DE LIGHT**  
CHAIRPERSON



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**VAUGHAN PIERCE**  
VICE-CHAIRPERSON



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**AMILE VISSER**  
PRINCIPAL OFFICER

30 May 2019

**PICK N PAY MEDICAL SCHEME  
STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES**

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Pick n Pay Medical Scheme (the Scheme) is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Board of Trustees presently comprises eight Trustees of whom four are proposed and elected by the members of the Scheme and four are nominated by the Employer, as well as two alternate Trustees proposed and elected by the members.

**BOARD OF TRUSTEES**

The Trustees meet regularly and monitor the performance of all service providers. They address a range of key issues and ensure that discussion on items of policy, strategy and performance is critical, informed and constructive.

All Trustees have access to the advice and services of the Principal Officer and deputy Principal Officer, where appropriate, may seek independent professional advice at the expense of the Scheme.

**INTERNAL CONTROLS**

The Administrator of the Scheme maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.



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**HELEN DE LIGHT**  
CHAIRPERSON



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**VAUGHAN PIERCE**  
VICE-CHAIRPERSON



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**AMILE VISSER**  
PRINCIPAL OFFICER

30 May 2019

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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The Board of Trustees hereby presents its report for the year ended 31 December 2018.

**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:

<b>Employer appointed</b>		<b>Date of appointment</b>	<b>Date of resignation</b>
G Lea		11 June 2015	
P Maphoshe		11 June 2015	31 October 2018
V Pierce	Vice-Chairperson	3 August 2017	
V Ramakuella		11 June 2015	
J Dube		1 November 2018	

<b>Member elected</b>		<b>Date of appointment</b>	<b>Date of resignation</b>
H de Light	Chairperson	11 June 2015	
R Johnson		11 June 2015	
I Motaung		11 June 2015	21 June 2018
E Vause		11 June 2015	21 June 2018
K Black	Alternate member elected	11 June 2015	21 June 2018
E Rakgogo		21 June 2018	
M Mahlaba		21 June 2018	
Z Ameerodien	Alternate member elected	21 June 2018	
R Sattar	Alternate member elected	21 June 2018	

**1.2(a) PRINCIPAL OFFICER**

**A Visser**

Pick n Pay Office Park  
Corporate Building  
101 Rosmead Avenue  
Kenilworth  
7700

PO Box 23087  
Claremont  
7735

**1.2(b) DEPUTY PRINCIPAL OFFICER**

**P Botha**

Pick n Pay Office Park  
Corporate Building  
101 Rosmead Avenue  
Kenilworth  
7700

PO Box 23087  
Claremont  
7735

**1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS**

**Pick n Pay Medical Scheme**

Parc du Cap  
Mispel Road  
Bellville  
7530

PO Box 4313  
Cape Town  
8000

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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**1. MANAGEMENT (CONTINUED)**

**1.4 MEDICAL SCHEME ADMINISTRATOR**

**MMI Health (Pty) Ltd**

268 West Avenue  
Centurion  
Gauteng  
0157

PO Box 7400  
Centurion  
0046

**1.5 INVESTMENT MANAGERS**

**Allan Gray Life Limited**

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

P O Box 51318  
V&A Waterfront  
8002

**Investec Asset Management (Pty) Ltd**

100 Grayston Drive  
Sandown  
Sandton  
2196

PO Box 785700  
Sandton  
2146

**Coronation Fund Managers Ltd**

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

PO Box 44684  
Claremont  
7735

**Abax Investments (Pty) Ltd**

Ground Floor Coronation House  
The Oval  
1 Oakdale Road  
Newlands  
7700

PO Box 23851  
Claremont  
7735

**Stanlib Asset Management Ltd**

17 Melrose Boulevard  
Sanlamhof  
Johannesburg  
2196

PO Box 202  
Melrose Arch  
2076

**Sesfikile Capital (Pty) Ltd**

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

Private Bag X1  
Johannesburg,  
2076

**Visio Capital Management (Pty) Ltd**

The Place, Ground Floor, South Wing  
1 Sandton Drive  
Sandton  
2146

PO Box 3625  
Tygervalley  
7536

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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**1. MANAGEMENT (CONTINUED)**

**1.6 AUDITOR**

**Ernst & Young Inc.**

3<sup>rd</sup> Floor, Waterway House  
3 Dock Road  
V&A Waterfront  
Cape Town  
8001

PO Box 656  
Cape Town  
8000

**1.7 ACTUARIAL CONSULTANTS**

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

NMG House  
411 Main Avenue  
Randburg  
2125

PO Box 3075  
Randburg  
2125

**1.8 INVESTMENT CONSULTANTS**

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

Level 4, Montclare Place  
23 Main Road  
Claremont  
7708

Private Bag X30  
Rondebosch  
7701

**1.9 CAPITATION PROVIDERS**

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

81 Central Street  
Houghton  
2198

PO Box 2900  
Saxonwold  
2132

**ER24 EMS (Pty) Ltd**

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

P O Box 242  
Paulshof  
2056

**MMI Health (Pty) Ltd (for the provision of services on the Primary Option)**

268 West Avenue  
Centurion  
Gauteng  
0157

PO Box 7400  
Centurion  
0046

**1.10 MANAGED CARE SERVICES PROVIDERS**

**MMI Health (Pty) Ltd**

268 West Avenue  
Centurion  
Gauteng  
0157

PO Box 7400  
Centurion  
0046



**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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**1. MANAGEMENT (CONTINUED)**

**1.10 MANAGED CARE SERVICES PROVIDERS (CONTINUED)**

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

10 Kikuyu Road  
Sunninghill  
Sandton  
2157

PO Box 692  
Johannesburg  
2193

**Private Health Administrators (Pty) Ltd**

70 Buckingham Terrace  
Pharos House Building  
Westville  
Durban  
3630

PO Box 343  
Westville  
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 BENEFIT OPTIONS WITHIN THE SCHEME**

The Scheme offers the following two options to its members:

- Plus Option (includes a personal medical savings account); and
- Primary Option (capitated, low-cost benefit option as from 1 January 2017).

**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 options, the Trustees have made a personal medical savings account available on the Plus Option.

On the Plus Option 20% of the 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.

The liability to the members in respect of the personal medical savings account is reflected as a current liability in the financial statements.

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.

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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**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.

**5. REVIEW OF OPERATIONS**

**5.1 OPERATIONAL STATISTICS**

The results of the Scheme's operations for the year under review at 31 December 2018 are set out in the financial statements, and the Trustees believe that no further clarification is required.

<b>2018</b>	<b>Plus</b>	<b>Primary</b>	<b>Total</b>
Number of members at year end	6 847	568	7 415
Average number of members for the year	6 807	397	7 204
Number of beneficiaries at year end	14 481	895	15 376
Average number of beneficiaries for the year	14 335	633	14 968
Proportion of dependants at year end	1.1	0.6	1.1
Average age of beneficiaries	30.8	27.4	30.6

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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

**5.1 OPERATIONAL STATISTICS (CONTINUED)**

<b>2018 (continued)</b>	<b>Plus</b>	<b>Primary</b>	<b>Total</b>
Pensioner ratio	4.4%	0.6%	4.2%
Average contributions net of savings per member per month	R3 042	R1 610	R2 963
Average contributions net of savings per beneficiary per month	R1 444	R1 009	R1 426
Average claims net of savings incurred per member per month	R3 018	R894	R2 901
Average claims net of savings incurred per beneficiary per month	R1 433	R561	R1 396
Average administration costs per member per month	R260	R262	R260
Average managed care: Managed services per member per month	R92	R92	R92
Average members' funds per member at year-end	n/a	n/a	R59 890
Relevant healthcare expenditure as a percentage of net contributions	97.9%	61.6%	96.8%
Relevant healthcare expenditure per average beneficiary per month	R1 414	R622	R1 380
Managed care: Management services as a percentage of net contributions	3.0%	5.7%	3.1%
Non-healthcare expenses as a percentage of gross contributions	7.0%	16.3%	7.2%
Non-healthcare expenditure per beneficiary per month	R125	R116	R124
Administration fees paid to the Administrator	R16 335 149	R1 355 099	R17 690 248
Average return on investments and cash	n/a	n/a	1.2%

<b>2017</b>	<b>Plus</b>	<b>Primary</b>	<b>Total</b>
Number of members at year end	6 793	205	6 998
Average number of members for the year	7 131	143	7 274
Number of beneficiaries at year end	14 276	347	14 623
Average number of beneficiaries for the year	14 964	107	15 071
Proportion of dependants at year-end	1.10	0.69	1.09
Average age of beneficiaries	30.7	26.9	30.6
Pensioner ratio	4.5%	0.6%	4.4%
Average contributions net of savings per member per month	R2 912	R1 721	R2 889
Average contributions net of savings per beneficiary per month	R1 388	R2 314	R1 382
Average claims net of savings incurred per member per month	R2 377	R769	R2 345
Average claims net of savings incurred per beneficiary per month	R1 133	R1 033	R1 122
Average administration costs per member per month	R249	R249	R249
Average managed care: Managed services per member per month	R 86	R85	R86
Average members' funds per member at year end	n/a	n/a	R63 934
Relevant healthcare expenditure as a percentage of net contributions	81.6%	44.7%	81.2%
Relevant healthcare expenditure per average beneficiary per month	R1 133	R1 033	R1 122

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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

**5.1 OPERATIONAL STATISTICS (CONTINUED)**

<b>2017 (continued)</b>	<b>Plus</b>	<b>Primary</b>	<b>Total</b>
Managed care: Management services as a percentage of net contributions	2.9%	5.0%	3.0%
Non-healthcare expenses as a percentage of gross contributions	7.0%	0.1%	7.1%
Non-healthcare expenditure per beneficiary per month	R122	R335	R123
Administration fees paid to the Administrator	R16 751 711	R215 297	R16 967 008
Average return on investments and cash	n/a	n/a	10.7%

**5.2 ACCUMULATED FUNDS RATIO**

**2018**  
**R**

**2017**  
**R**

The accumulated funds ratio is calculated on the following basis:

Total members' funds per statement of financial position	431 444 826	447 407 437
Less: Revaluation reserve	-	(94 770 617)
	<u>431 444 826</u>	<u>352 636 820</u>
Less: Cumulative unrealised gains on investments at fair value through profit or loss	(67 660 747)	-
Accumulated funds per Regulation 29 of the Act	<u>363 784 079</u>	<u>352 636 820</u>
Gross contributions	318 040 188	314 215 980
Accumulated funds ratio:		
Accumulated funds/gross contributions X 100%	<u>114.4%</u>	<u>112.2%</u>

**5.3 REVALUATION RESERVE**

Movements in the reserves are set out in the summarised statement of changes in funds and reserves.

The Scheme adopted IFRS 9 during 2018. As a result thereof, the Scheme's investments were classified as financial assets at fair value through profit or loss. The revaluation reserve was reclassified to accumulated funds and any unrealised gains on the Scheme's investments were disclosed as part of net surplus or loss.

There have been no other unusual movements 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 the employer, but has granted no loans to the participating employer of the Scheme or any other related parties. Refer to note 8 to the financial statements for related party disclosures and note 9 of this report.

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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**7. FIDELITY COVER**

The Scheme has a fidelity policy, placed through Alexander Forbes, with Guardrisk Insurance Company. The sum insured is R120 million (2017: R120 million) (with a single claim not exceeding R60 million - 2017: R60 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 which two are members of the Board of Trustees.

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

5 April 2018;  
19 July 2018; and  
25 October 2018.

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.

The members of the committee are:

<b>Name</b>	<b>Designation</b>	<b>Date of appointment</b>	<b>Date of resignation</b>
C Cowley	Independent member/Chairperson	23 November 2017	
M Pienaar	Independent member	11 June 2015	30 April 2019
L Clayton	Independent member	1 November 2015	
R Johnson	Member-elected Trustee	11 June 2015	
G Lea	Employer-appointed Trustee	11 June 2015	
V Pierce	By invitation (Vice-Chairperson of the Board of Trustees)	3 August 2017	
H de Light	By invitation (Chairperson of the Board of Trustees)	11 June 2015	

A Visser attends in his capacity as Principal Officer  
P Botha 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.

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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

**9.2 INVESTMENT COMMITTEE (CONTINUED)**

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

15 February 2018;  
17 May 2018;  
16 August 2018; and  
8 November 2018.

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
G Lea	Employer-appointed Trustee/Chairperson	11 June 2015	
V Ramakuela	Employer-appointed Trustee	11 June 2015	
R Johnson	Member-elected Trustee	11 June 2015	
E Vause	Member-elected Trustee	11 June 2015	21 June 2018
P Gerber	Independent member	3 August 2017	
H de Light	Invitee	11 June 2015	

A Visser attends in his capacity as Principal Officer  
P Botha 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:

1 February 2018;  
3 May 2018;  
2 August 2018; and  
1 November 2018.

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
M Bailey	Medical Advisor/Chairperson	11 June 2015	
E Vause	Member-elected Trustee	11 June 2015	21 June 2018
V Pierce	Employer-appointed Trustee	3 August 2017	
V Ramakuela	Employer-appointed Trustee	11 June 2015	31 December 2018
K Black	Alternate member-elected Trustee	11 June 2015	21 June 2018
I Jordaan	Independent member	1 September 2014	31 December 2018
H de Light	Invitee	11 June 2015	

A Visser attends in his capacity as Principal Officer  
P Botha attends in her capacity as Deputy Principal Officer

**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.

**PICK N PAY MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2018**

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

**9.4 EX GRATIA COMMITTEE (CONTINUED)**

The committee met during the course of the year.

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
M Bailey	Medical Advisor/Chairperson	11 June 2015	
E Vause	Member-elected Trustee	11 June 2015	21 June 2018
H de Light	Member-elected Trustee	11 June 2015	
V Pierce	Employer-appointed Trustee	1 January 2019	

A Visser attends in his capacity as Principal Officer

P Botha 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
Ms H de Light	5	5	3	2	4	1	4	3	11	8
Mr V Pierce	5	5	3	3	-	-	4	4	-	-
Mr G Lea	5	2	3	2	4	4	-	-	-	-
Ms E Vause	2	2	-	-	2	-	2	1	5	5
Ms K Black	2	-	-	-	-	-	2	1	-	-
Mr I Motaung	2	-	-	-	-	-	-	-	-	-
Ms P Maphoshe	2	-	-	-	-	-	-	-	-	-
Mr R Johnson	5	4	3	2	4	4	-	-	-	-
Mr V Ramakuella	5	1	-	-	4	4	-	-	-	-
Ms P Gerber	-	-	-	-	4	4	-	-	-	-
Mr C Cowley	-	-	3	3	-	-	-	-	-	-
Mr M Pienaar	-	-	3	2	-	-	-	-	-	-
Mr L Clayton	-	-	3	3	-	-	-	-	-	-
Ms I Jordaan	-	-	-	-	-	-	4	2	-	-
Mr A Visser*	5	5	3	3	4	3	4	3	11	10
Ms P Botha#	5	5	3	3	4	4	4	4	11	11
Dr M Bailey	5	3	-	-	-	-	4	4	11	11
Ms E Mhlari	3	1	-	-	-	-	-	-	-	-
Ms M Mahlaba	3	2	-	-	-	-	-	-	-	-
Ms Z Ameeroedien	3	1	-	-	-	-	-	-	-	-
Ms R Sattar	3	3	-	-	-	-	-	-	-	-
Mr J Dube	-	-	-	-	-	-	-	-	-	-

A – Total possible number of meetings could have attended

B – Actual number of meetings attended

\* – A Visser attends in his capacity as Principal Officer

# – P Botha attends in her capacity as Deputy Principal Officer

## **11. RISK TRANSFER ARRANGEMENTS**

The Scheme entered into risk transfer arrangements with the following service providers:

- Centre for Diabetes and Endocrinology (Pty) Ltd (CDE) – 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.
- 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.
- MMI Health (Pty) Ltd (MMI Health) – in terms of the arrangement, MMI Health provides defined primary care services for the Primary Option at a fixed rate per beneficiary per month.

## **12. EVENTS AFTER THE END OF THE ACCOUNTING PERIOD**

There have been no events that have occurred between the end of the accounting period and the date of the approval of these summarised financial statements that the Trustees consider should be brought to the attention of the members of the Scheme.

## **13. NON-COMPLIANCE MATTERS**

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

### **13.1 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**

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 13 December 2017, subject to renewal. The Scheme applied for an exemption renewal on 27 March 2018 and received confirmation of application during January 2019.

### **13.2 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**

An exemption was granted by the Council for Medical Schemes from complying with Section 8(h) of the Act until December 2018, subject to renewal. The Scheme applied for an exemption renewal during July 2018 with confirmation or receipt of application during February 2019. The Scheme has followed up with the Council for Medical Schemes regularly regarding the formal exemption approval.



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

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

**13.3 CONTRAVENTION OF SECTION 59(2)**

**Nature and Impact**

Section 59(2) of the Medical Schemes Act states that a medical scheme shall pay a member or supplier of service, any benefit owing to that member or supplier within 30 days of receipt of the medical claim. One instance was noted where a claim line was settled for the first time outside the statutory 30-day timeframe, resulting in non-compliance with the Medical Schemes Act.

**Causes for the failure**

The claim was submitted by a third party with an irregular error code.

**Corrective action**

A system change was implemented to pick up any unmapped error codes submitted by providers and reject them with a default error message. This will allow for the claim to be processed automatically, timeously and without human intervention.

**13.4 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT**

**Nature and Impact**

In terms of Section 26(7) of the Act, contributions should be received at the latest three days after it is due. An amount of R302 660 was still outstanding more than three days after it was due, as at 31 December 2018.

**Causes for the failure**

The non-compliance relates to one instance during the year when contributions were received more than three days after the due date.

**Corrective action**

Management continues to communicate to employer groups to emphasise the importance of prompt payment.

**13.5 NON-COMPLIANCE WITH SECTION 33(2) OF THE ACT – OPTION OPERATING LOSS**

**Nature and impact**

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and will be financially sound. As at 31 December 2018, the Plus Option was in a net healthcare deficit position, thereby contravening Section 33(2) of the Act. The net healthcare deficit amounted to R16 441 480 (2017 surplus: R23 854 607).

**Causes of the non-compliance**

The Scheme experienced higher than anticipated high-cost claims during the year which resulted in claims incurred being greater than the budgeted amount.

**Corrective course of action**

The Trustees continue to monitor the performance of the Scheme and they will make appropriate interventions during the annual benefit review process. As the solvency ratio at reporting date was 114.4% (2017: 112.2%), the Board of Trustees are comfortable that the Scheme would remain compliant with the minimum solvency ratio prescribed by the Medical Schemes Act.



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## **Independent Auditor's Report on summarised financial statements to the Members of the Pick n Pay Medical Aid**

### **Report on the summarised financial statements**

#### **Opinion**

The summarised financial statements, as set out on pages 28 to 45, which comprise the summarised statement of financial position as at 31 December 2018, the summarised statement of comprehensive income, the summarised statement of changes in funds and reserves and the summarised statement of cash flow for the year then ended, and related notes, are derived from the audited Financial Statements of the Pick n Pay Medical Aid for the year ended 31 December 2018.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the 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 23 April 2019.

#### **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*.



### Report on Other Legal and Regulatory Requirements

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that Ernst & Young Inc. firm has been the auditor of the Pick n Pay Medical Aid for one year (1).

The engagement partner, David Christian, has been responsible for the Pick n Pay Medical Aid's audit for one year (1).

A handwritten signature in black ink that reads 'Ernst &amp; Young Inc.' with a horizontal line underneath the signature.

**Ernst & Young Inc.**

Director: David Christian

Registered Auditor

Chartered Accountant (SA)

30 May 2019

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

**SUMMARISED STATEMENT OF FINANCIAL POSITION  
as at 31 December 2018**

	Notes	2018 R	2017 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value*	2	258 238 113	272 704 995
<b>Current assets</b>			
Insurance and other receivables		2 894 881	830 567
Cash and cash equivalents		274 092 623	265 280 419
Scheme cash and cash equivalents		189 727 674	185 904 645
Personal medical savings account investment	4	84 364 949	79 375 774
<b>Total assets</b>		<b>535 225 617</b>	<b>538 815 981</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		431 444 826	447 407 437
Revaluation reserve		-	94 770 617
<b>Current liabilities</b>			
Personal medical savings account liability	3	86 138 364	78 049 057
Insurance and financial liabilities		8 726 008	7 348 978
Outstanding risk claims provision	5	8 916 419	6 010 509
<b>Total funds and liabilities</b>		<b>535 225 617</b>	<b>538 815 981</b>

\*Prior year reported as available-for-sale financial instruments under IAS 39.

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

**SUMMARISED STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2018**

	Notes	2018 R	2017 R
<b>Risk contribution income</b>	6	256 142 449	252 157 326
<b>Relevant healthcare expenditure</b>		(247 955 148)	(204 711 148)
Net claims incurred		(250 782 195)	(205 845 151)
Risk claims incurred	7	(243 835 681)	(198 585 765)
Accredited managed healthcare services		(7 971 305)	(7 475 048)
Third-party claim recoveries		1 024 791	215 662
Net income on risk transfer arrangements	7	2 827 047	1 134 003
Risk transfer arrangements premiums paid		(14 903 392)	(13 157 433)
Recoveries from risk transfer arrangements		17 730 439	14 291 436
<b>Gross healthcare result</b>		8 187 301	47 446 178
Administration fees and other operative expenses		(22 503 296)	(21 730 489)
Expected credit losses on receivables		(432 887)	(651 954)
<b>Net healthcare result</b>		(14 748 882)	25 063 735
<b>Other income</b>		6 216 098	27 767 368
Investment income		28 493 229	27 743 567
Realised gains on financial assets at fair value through profit or loss		4 699 255	-
Unrealised losses on financial assets at fair value through profit or loss		(27 109 870)	-
Sundry income		133 484	23 801
<b>Other expenditure</b>		(7 429 827)	(7 638 430)
Asset management fees		(855 449)	(605 721)
Interest paid on personal medical savings account	3	(6 574 378)	(7 032 709)
<b>Net (loss)/surplus for the year</b>		(15 962 611)	45 192 673
<b>Other comprehensive income</b>			
Fair value adjustment on available-for-sale investments		-	25 147 425
Less: Reclassification adjustment on realised gains		-	(1 665 060)
<b>Total comprehensive (loss)/income for the year</b>		(15 962 611)	68 675 038

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

**SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2018**

	<b>R</b> <b>Accumulated funds</b>	<b>R</b> <b>Revaluation reserve</b>	<b>R</b> <b>Members' funds</b>
Balance at 1 January 2017	307 444 147	71 288 252	378 732 399
Net surplus for the year	45 192 673	-	45 192 673
Unrealised gains on revaluation of available-for-sale investments		25 147 425	25 147 425
Realised gains on disposal of available-for-sale investments	-	(1 665 060)	(1 665 060)
Balance at 1 January 2018	352 636 820	94 770 617	447 407 437
IFRS 9 transitional adjustment*	94 770 617	(94 770 617)	-
Net loss for the year	(15 962 611)	-	(15 962 611)
Balance at 31 December 2018	431 444 826	-	431 444 826

\*During the year IFRS 9 – Financial Instruments was adopted. Refer to note 1.2 for more information.

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

**SUMMARISED STATEMENT OF CASH FLOWS  
for the year ended 31 December 2018**

	Notes	2018 R	2017 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net (loss)/surplus for the year		(15 962 611)	45 192 673
- Realised gain on disposal of financial assets at fair value *		(4 699 255)	(1 665 060)
- Investment income		(21 918 851)	(17 853 317)
- Capitalised interest and dividends		(7 943 733)	(7 619 469)
- Unrealised losses on financial assets at fair value *	2	27 109 870	-
- Interest expense on personal medical savings accounts	3	6 574 378	7 032 709
Cash flows (utilised in)/generated from operations before working capital changes		(16 840 202)	25 087 536
<b>Working capital changes</b>		10 304 899	(13 864 549)
- Increase in insurance and other receivables		(2 067 348)	(423 971)
- Increase in insurance and financial liabilities		1 377 030	4 999 318
- Increase/(decrease) in personal medical savings accounts trust liability		8 089 307	(8 005 870)
- Increase/(decrease)/increase in outstanding risk claims provision		2 905 910	(10 434 026)
Cash (utilised in)/generated from operations		(6 535 303)	11 222 987
Interest and dividends received		21 921 885	17 782 528
Interest paid on personal medical savings accounts	3	(6 574 378)	(7 032 709)
<b>Net cash flow generated in operating activities</b>		8 812 204	21 972 806
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Disposals of financial assets at fair value through profit or loss	2	8 800 000	1 666 205
Additions to financial assets at fair value through profit or loss	2	(8 800 000)	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		8 812 204	23 639 011
Cash and cash equivalents at the beginning of the year		265 280 419	241 641 408
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<u>274 092 623</u>	<u>265 280 419</u>

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2018**

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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, except for changes thereto resulting from the adoption of accounting standards that became effective during the 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 131 of 1998. 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 financial assets at fair value through profit or loss.

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 the rand, rounded to the nearest rand.

**1.2 STANDARDS ADOPTED IN THE CURRENT YEAR**

IFRS 15 revenue from contracts with customers has become effective in the current year. The impact has been assessed as immaterial and therefore no further disclosures required by IFRS 15 are made.

In the current year, the company adopted the following standards that are effective for the current financial year and are relevant to its operations:

**IFRS 9 financial instruments**

This standard includes changes in the measurement basis of a Scheme's financial assets to either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A key consideration for determining if a financial asset is classified as amortised cost, fair value through other comprehensive income or fair value through profit or loss is whether:

- the contractual terms of the financial asset give rise to cash flows of the asset using the solely payment of principal and interest test (SPPI); and
- the business model within which the asset is held (the business model test).

The Scheme's non-equity financial assets of trade and other receivables were considered and it is concluded they are held to obtain contractual cash flows and they are all held SPPI and as such it is appropriate to classify as amortised cost financial assets.

Pooled investment vehicles failed the SPPI test resulting in mandatory classification as fair value through profit or loss financial assets. This is a change from the classification under IAS 39 in terms of which available-for-sale investments were carried at fair value through other comprehensive income.

With IFRS 9, a new method of assessing impairment of financial assets is applied. Under IAS 39, an entity only considered those impairments that arise as a result of 'incurred loss' events. The effects of possible future loss events cannot be considered, even when they are expected whereas the IFRS 9 impairment model has been changed to an 'expected credit loss' (ECL) model and led to consideration in the Scheme relating to the provision for bad debts. The Scheme assessed the nature of receivables and impact of a move to an ECL model. The move to an ECL model did not have a material impact on the Scheme.



**PICK N PAY MEDICAL SCHEME**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2018**

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

**1.2 STANDARDS ADOPTED IN THE CURRENT YEAR (CONTINUED)**

**IFRS 9 financial instruments (continued)**

The standard has been applied prospectively. The only impact on the Scheme on initial adoption of IFRS 9 has been that available-for-sale investments carried at fair value through other comprehensive income under IAS 39 have been classified as financial assets at fair value through profit or loss under IFRS 9. This has resulted in the revaluation reserve previously carried under IAS 39 being reclassified to the accumulated funds on the date of adoption of IFRS 9 being 1 January 2018.

There is no change in the carrying amounts on financial assets on the basis of their measurement categories as a result of the transition from IAS 39 to IFRS 9.

**2. FINANCIAL ASSET AT FAIR VALUE**

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
Fair value at the beginning of the year	272 704 995	241 604 306
Additions	8 800 000	-
Capitalised interest and dividends	8 296 333	8 225 190
Disposals	(8 800 000)	(1 666 205)
Realised gain on disposal of financial assets at fair value through profit or loss	4 699 255	-
Unrealised (loss)/gain on revaluation of financial assets at fair value	(27 109 870)	25 147 425
Investment expenses	<u>(352 600)</u>	<u>(605 721)</u>
Fair value at the end of the year	<u>258 238 113</u>	<u>272 704 995</u>

The investments included above represent investments in:

Allan Gray Equity Fund	58 733 301	69 381 442
Sesfikile Property Fund	16 481 266	20 645 188
Abax Prescient Equity Fund	61 463 696	72 225 155
Stanlib Brandywine	28 834 008	25 864 346
Visio Capital Fund	37 768 252	41 684 518
Coronation Strategic Bond Fund	<u>54 957 590</u>	<u>42 904 346</u>
	<u>258 238 113</u>	<u>272 704 995</u>

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

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2018**

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

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
Balance of personal medical savings account trust liability at the beginning of the year	78 049 057	86 054 927
Less: Prior year advances on personal medical savings account	<u>(125 722)</u>	<u>(4 280)</u>
Adjusted balance on personal medical savings account at the beginning of the year	77 923 335	86 050 647
Add:		
Savings account contributions received or receivable (note 6)	61 897 739	62 058 654
Interest earned on trust monies invested	6 574 378	7 032 709
Less:		
Claims paid out of savings (note 7)	(56 238 492)	(63 574 322)
Refunds on death or resignation in terms of Regulation 10(4)	(4 085 981)	(13 644 353)
Add:		
Advance on personal medical savings account (note 3)	<u>67 385</u>	<u>125 722</u>
Balance of personal medical savings account at the end of the year	<u>86 138 364</u>	<u>78 049 057</u>

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

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 2018 but not yet reported will amount to R1,416,631 (2017: R1,394,109) (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.

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>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
Investec Stable Money Fund	<u>84 364 949</u>	<u>79 375 774</u>

**PICK N PAY MEDICAL SCHEME**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2018**

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

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 8.63% (2017: 8.89%). The total interest earned was R6 574 378 (2017: R7 032 709). 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>Covered by risk transfer arrangements</b>	<b>Not covered by risk transfer arrangements</b>
	<b>R</b>	<b>R</b>
<b>2018</b>		
Outstanding claims provision	171 097	8 745 322
Provision arising from liability adequacy test	-	-
	<u>171 097</u>	<u>8 745 322</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	139 500	6 010 509
Payments in respect of prior year	<u>(139 500)</u>	<u>(6 456 446)</u>
Under provision in respect of prior year	-	(445 937)
Adjustment for current year	<u>171 097</u>	<u>9 191 259</u>
Balance at end of year	<u>171 097</u>	<u>8 745 322</u>
Total outstanding claims provision at end of year		<u>8 916 419</u>
<b>2017</b>		
Outstanding claims provision	<u>-</u>	<u>6 010 509</u>
	<u>-</u>	<u>6 010 509</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	-	16 444 535
Payments in respect of prior year	<u>-</u>	<u>(11 146 987)</u>
Over provision in respect of prior year	-	5 297 548
Adjustment for current year	<u>-</u>	<u>712 961</u>
Balance at end of year	<u>-</u>	<u>6 010 509</u>
Total outstanding claims provision at end of year		<u>6 010 509</u>
<b>Analysis of outstanding risk claims provision</b>	<b>2018</b>	<b>2017</b>
Estimated gross claims	10 161 953	7 404 618
Less: Estimated recoveries from personal medical savings account (note 5)	(1 416 631)	(1 394 109)
IBNR covered by risk transfer arrangements	<u>171 097</u>	-
	<u>8 916 419</u>	<u>6 010 509</u>

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

The provision for outstanding claims in terms of risk transfer arrangements for the year ended 31 December 2017 was assessed as immaterial.

The provision for outstanding claims (also referred to as claims incurred but not reported (IBNR)) is determined according to the following assumptions and methodologies:

**Assumptions and sensitivities**

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out monthly. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care, management services and historical evidence of the size of similar claims. The provision is based on information currently 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 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.

The cost of outstanding claims is estimated using statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratios. Run off triangles are used in situations where it takes time after the treatment date until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The method used is consistent with that used in prior years and considers categories of claims and observes historical claims developments. To the extent that these methods use historical claims development information they assume that the historical claims development 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 processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures)
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided)
- changes in composition of membership and their dependents; and
- random fluctuations, including the impact of large losses.

**Sensitivity of outstanding claims provision**

The table overleaf 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; and
- Utilisation escalation incorporates the impact of HIV/AIDS.

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2018**

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

**Other assumptions (continued)**

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

	<b>2018</b>	<b>2017</b>
	%	%
Claims outstanding for services rendered in:		
- December	12.0	15.6
- November	5.0	7.5
- October	3.0	3.1
- September	2.0	1.7
- August and prior	1.0	0.8

The decrease in the claims outstanding percentage in December 2018 is due to the much higher claims that were paid in December 2018 when compared to prior year settlements.

The impact of the sensitivity of a change in the assumed claims outstanding assumption, resulting in an increase in the provision, is set out below:

	<b>2018</b>	<b>2017</b>
	R	R
Effect of a 1% increase	932 289	755 203
Effect of a 2% increase	1 884 707	1 527 104
Effect of a 3% increase	2 208 104	2 315 999

The Scheme believes that the liability for claims reported in the 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>2018</b>	<b>2017</b>
	R	R
Gross contributions per registered rules	318 040 188	314 215 980
Less: Personal medical savings contributions received (note 3)	<u>(61 897 739)</u>	<u>(62 058 654)</u>
Risk contribution income per statement of comprehensive income	<u>256 142 449</u>	<u>252 157 326</u>

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

**7. RISK CLAIMS INCURRED**

**Claims incurred excluding claims incurred in respect of risk transfer arrangements**

	<b>2018</b>	<b>2017</b>
	R	R
Current year claims per registered rules	273 598 412	241 858 142
Movement in outstanding risk claims provision	8 745 322	6 010 509
Over/(under) provision in the prior year (note 5)	<u>(445 937)</u>	<u>5 297 548</u>
Adjustment for current year (note 5)	<u>9 191 259</u>	<u>712 961</u>
	282 343 734	247 868 651
Less:		
Claims paid from personal medical savings accounts (note 3)	<u>(56 238 492)</u>	<u>(63 574 322)</u>
Risk claims incurred	<u>226 105 242</u>	<u>184 294 329</u>

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS  
for the year ended 31 December 2018**

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

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
<b>Total claims incurred excluding risk transfer arrangements</b>	226 105 242	184 294 329
<b>Claims incurred in respect of risk transfer arrangements</b>		
Current year claims	17 730 439	14 291 436
Claims incurred per the statement of comprehensive income	<u>243 835 681</u>	<u>198 585 765</u>
<b>Net income on risk transfer arrangements</b>		
Premiums paid	(14 903 392)	(13 157 433)
Recoveries received	<u>17 730 439</u>	<u>14 291 436</u>
Net income on risk transfer arrangements	<u>2 827 047</u>	<u>1 134 003</u>

The Scheme entered into a risk transfer arrangement with the Centre for Diabetes & Endocrinology (Pty) Ltd (CDE). 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.

The Scheme also entered into a risk transfer arrangement with MMI Health (Pty) Ltd (MMI Health). In terms of the arrangement, MMI Health provides defined primary care services for the Primary Option at a fixed rate per beneficiary per month.

Claims paid on behalf of members from their personal medical savings accounts are in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 3 for a breakdown of the movement in these balances.

**8. RELATED PARTY DISCLOSURES**

**Parties with significant influence over the Scheme**

MMI Health (Pty) Ltd (MMI Health) 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. MMI Health provides administration services and risk transfer arrangements to the Scheme.

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.

These entities do not have significant influence for the purposes of accounting for associates under IFRS.

**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.

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

**Key management personnel and their close family members (continued)**

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>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
<b>Summarised statement of comprehensive income</b>		
Gross contributions received (key management personnel)	731 144	602 400
Claims incurred (key management personnel)	919 492	2 276 380
Interest paid on personal medical savings account (key management personnel)	13 121	32 691
Compensation (key management personnel)		
- Medical Advisor	787 751	743 107
Administrator's fee (MMI Health)	17 690 248	16 967 008
Risk transfer arrangement fee (MMI Health)	1 729 695	581 060
Consulting fee (NMG)	2 862 095	2 705 417
Investment consulting fee (WTW)	116 586	111 635
<b>Summarised statement of financial position</b>		
Personal medical savings account liability (key management personnel)	173 581	413 105
Investment consulting fee (WTW) (included in accrued expenses)	29 210	28 956
Reimbursement of postage/printing cost payable to MMI Health (included in accrued expenses)	49 159	-

**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, Principal Officer and Deputy 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 90 days' notice. The outstanding balance bears no interest and is due within 30 days.

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

**Risk transfer arrangement**

The risk transfer agreement with MMI Health (Pty) Ltd 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 one month's notice. The outstanding balance bears no interest and is due within 30 days.

**Personal medical savings account balances and related interest**

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. FAIR VALUE ESTIMATION**

The fair value of financial assets at fair value through profit or loss investments is based on quoted published prices at the reporting date. The financial instruments noted overleaf, while valued on quoted prices, are not sufficiently actively traded to be classified as level 1 financial instruments.

The tables below illustrate the fair values of financial assets by hierarchy level.

<b>At 31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Financial assets at fair value through profit or loss			
Collective investment schemes	-	144 547 222	-
Market linked policies	-	113 690 891	-
Cash and cash equivalents			
Collective investment schemes	-	26 007 652	-
Market linked policies	-	213 416 793	-
Current accounts	-	34 668 178	-
<b>Total</b>	-	<b>532 330 736</b>	-



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**9. FAIR VALUE ESTIMATION (CONTINUED)**

<b>At 31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Available-for sale-financial assets			
Collective investment schemes	-	160 419 207	-
Market linked policies	-	112 285 788	-
Cash and cash equivalents			
Collective investment schemes	-	39 833 308	-
Market linked policies	-	198 537 914	-
Current accounts	-	26 909 197	-
<b>Total</b>	-	<b>537 985 414</b>	-

The hierarchy levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Scheme for similar financial instruments.

**10. CONTINGENT ASSET**

At 31 December 2018 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 R3 874 144 (2017: R3 202 835).

**11. NON-COMPLIANCE MATTERS**

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

**11.1 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.

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

***Contraventions for which exemption was applied for from the Council for Medical Schemes (CMS)  
(continued)***

**11.1 CONTRAVENTION OF SECTION 35(8)(a) AND SECTION 35(8)(c) (CONTINUED)**

**Corrective course of action**

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 13 December 2017, subject to renewal. The Scheme has applied for an exemption renewal on 27 March 2018 and received confirmation of application during January 2019.

**11.2 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**

An exemption was granted by the Council for Medical Schemes from complying with Section 8(h) of the Act until December 2018, subject to renewal. The Scheme applied for an exemption renewal during July 2018 with confirmation or receipt of application during February 2019. The Scheme has followed up with the Council for Medical Schemes regularly regarding the formal exemption approval.

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

**11.3 CONTRAVENTION OF SECTION 59(2)**

**Nature and Impact**

Section 59 (2) of the Medical Schemes Act states that a medical scheme shall pay a member or supplier of service, any benefit owing to that member or supplier within 30 days of receipt of the medical claim. One instance was noted where a claim was settled outside the statutory 30-day timeframe of, resulting in non-compliance with the Medical Schemes Act.

**Causes for the failure**

The claim was submitted by a third party with an irregular error code.

**Corrective action**

A system change was implemented to pick up any unmapped error codes submitted by providers and reject them with a default error message. This will allow for the claim to be processed automatically, timeously and without human intervention.

**11.4 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT**

**Nature and Impact**

In terms of Section 26(7) of the Act, contributions should be received at the latest three days after it is due. An amount of R302 660 was still outstanding by more than three days after it was due, as at 31 December 2018. The amount was received on 4 January 2019.

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

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

**11.4 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT (CONTINUED)**

**Causes for the failure**

The non-compliance relates to one instance during the year when contributions were received more than three days after the due date.

**Corrective action**

Management continues to communicate to employer groups to emphasise the importance of prompt payment.

**11.5 NON-COMPLIANCE WITH SECTION 33(2) OF THE ACT - OPTION OPERATING LOSS**

**Nature and impact**

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and will be financially sound. As at the 31 December 2018, the Plus Option was in a net healthcare deficit position, thereby contravening Section 33(2) of the Act. The net healthcare deficit amounted to R16 441 480 (2017 surplus: R23 854 607).

**Causes of the non-compliance**

The Scheme experienced higher than anticipated high-cost claims during the year which resulted in claims incurred being greater than the budgeted amount.

**Corrective course of action**

The Trustees continue to monitor the performance of the Scheme and they will make appropriate interventions during the annual benefit review process. As the solvency ratio at reporting date was 114.4% (2017: 112.2%), the Board of Trustees are comfortable that the Scheme would remain compliant with the minimum solvency ratio prescribed by the Medical Schemes Act.

**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

**PICK N PAY MEDICAL SCHEME**  
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**13. SURPLUS PER BENEFIT OPTION**

2018	<b>Plus</b>	<b>Primary</b>	<b>Total</b>
	R	R	R
<b>Risk contribution income</b>	248 474 648	7 667 801	256 142 449
<b>Relevant healthcare expenditure</b>	(243 228 844)	(4 726 304)	(247 955 148)
Net claims incurred	(246 521 494)	(4 260 701)	(250 782 195)
Risk claims incurred	(240 013 968)	(3 821 713)	(243 835 681)
Accredited managed healthcare services	(7 532 317)	(438 988)	(7 971 305)
Third-party claim recoveries	1 024 791	-	1 024 791
Net income/(expense) on risk transfer arrangement	3 292 650	(465 603)	2 827 047
Risk transfer arrangements premiums paid	(13 079 611)	(1 823 781)	(14 903 392)
Recoveries from risk transfer arrangements	16 372 261	1 358 178	17 730 439
<b>Gross healthcare result</b>	5 245 804	2 941 497	8 187 301
Administration fees and other operative expenses	(21 254 397)	(1 248 899)	(22 503 296)
Net impairment losses on healthcare receivables	(432 887)	-	(432 887)
<b>Net healthcare result</b>	16 441 480	1 692 598	(14 748 882)
<b>Other income</b>	5 750 160	465 938	6 216 098
Investment income	26 310 605	2 182 624	28 493 229
Net realised losses on financial assets at fair value through profit or loss	4 339 285	359 970	4 699 255
Unrealised losses on financial assets at fair value through profit or loss	(25 033 214)	(2 076 656)	(27 109 870)
Other income	133 484	-	133 484
<b>Other expenditure</b>	(7 379 178)	(50 649)	(7 429 827)
Asset management fees	(804 800)	(50 649)	(855 449)
Interest paid on personal medical savings account	(6 574 378)	-	(6 574 378)
<b>Net (deficit)/surplus for the year</b>	<u>(18 070 498)</u>	<u>2 107 887</u>	<u>(15 962 611)</u>

**PICK N PAY MEDICAL SCHEME**  
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**13. SURPLUS PER BENEFIT OPTION (CONTINUED)**

2017	<b>Plus</b>	<b>Primary</b>	<b>Total</b>
	R	R	R
<b>Risk contribution income</b>	249 200 040	2 957 286	252 157 326
<b>Relevant healthcare expenditure</b>	(203 390 568)	(1 320 580)	(204 711 148)
Net claims incurred	(204 762 563)	(1 082 588)	(205 845 151)
Risk claims incurred	(197 649 659)	(936 106)	(198 585 765)
Accredited managed healthcare services	(7 328 566)	(146 482)	(7 475 048)
Third-party claim recoveries	215 662	-	215 662
Net income/(expense) on risk transfer arrangement	1 371 995	(237 992)	1 134 003
Risk transfer arrangements premiums paid	(12 544 504)	(612 929)	(13 157 433)
Recoveries from risk transfer arrangements	13 916 499	374 937	14 291 436
<b>Gross healthcare result</b>	45 809 472	1 636 706	47 446 178
Administration fees and other operative expenses	(21 302 911)	(427 578)	(21 730 489)
Net impairment losses on healthcare receivables	(651 954)	-	(651 954)
Net healthcare result	23 854 607	1 209 128	25 063 735
<b>Other income</b>	27 216 676	550 692	27 767 368
Investment income	25 567 613	510 894	26 078 507
Realised gain on available-for-sale investments	1 625 262	39 798	1 665 060
Other income	23 801	-	23 801
<b>Other expenditure</b>	(7 627 389)	(11 041)	(7 638 430)
Asset management fees	(594 680)	(11 041)	(605 721)
Interest paid on personal medical savings account	(7 032 709)	-	(7 032 709)
<b>Net surplus for the year</b>	<u>43 443 894</u>	<u>1 748 779</u>	<u>45 192 673</u>

All items of income or expenditure that do not relate directly to a specific option are allocated across all options on a proportional basis with reference to membership of each option.





**Pick n Play**

**Medical scheme**