



2007 Benefit edition

Dear Member

Members and the Society were not affected by many regulation changes, as was the case in 2005. The Society has been submitting quarterly returns in respect of the Risk Equalisation Fund (REF), which was expected to be introduced in 2007, but has been delayed. The Single Exit Pricing (SEP) on medicines appears to have settled down, with medical aids seeing the benefit of lower prices.

MEDICAL AID SAVINGS – 2006 BACKGROUND

The decision by the Council for Medical Schemes (CMS), to no longer allow variable savings has affected many of the Society's members. In an effort to assist the lower income membership, the Trustees introduced a minimum savings amount of R50 per principal member per month. The CMS also rejected this approach although they permitted the Society to continue on this basis for the remainder of the 2006 financial year. The CMS requires that if a medical aid offers a savings scheme it needs to be introduced as a percentage of contributions, with all members paying the same percentage. Despite the introduction of an Elective Services Fund, many members found their savings depleted within the first few months of the year.

The introduction of the same percentage on contributions for savings, if taken at the same level as those in the open market, would place an

even bigger burden on our lower income members. The Trustees, therefore, had to investigate an alternative.

What happens in 2007?

The Medical Savings Fund has been removed. In order to comply with the CMS's regulations to implement a savings percentage that would be a significant improvement on the R50 in 2006, would be too costly for the lower income members.

As a result of the above, in accordance with the Medical Schemes Act, all individual savings balances at the end of December 2006 will be refunded to members in May 2007, after the appropriate claims on savings have been accounted for.

Savings will be replaced by a day-to-day benefit in 2007. See page 4 for more detail on this benefit.



BENEFITS OFFERED TO MEMBERS ▶

Members have expressed the view that the Society, while offering good in-hospital and more than generous chronic benefits, does not cater for conservative and primary care.

In the late 1990s, medical aids worldwide realised that with medical aid inflation almost double normal inflation, they could no longer offer comprehensive cover – members would have to share the cost of certain insured risks. Failing this, the cost of membership would have become unaffordable for

Continued ▶

IN THIS

ISSUE

- Medical aid savings
- Benefits offered to members
- The company's medical aid strategy
- Life Healthcare Group (Pty) Ltd (LHG)
- The Society's finances
- Trustees
- Member communication
- Benefits and contributions for 2007

BENEFITS OFFERED TO MEMBERS (CONTINUED)

most members. Conservative medical care, primary care and acute medication were regarded as elective services, where the member could choose whether or not the treatment was necessary. Emergency and critical care are offered as an insured risk, covering the member for procedures that are very costly, prolonged treatment or hospitalisation.

Savings accounts were introduced to allow members to plan for those expenses no longer covered by medical aids, or by allowing members to contribute what they could afford towards a savings account. The CMS argued that by allowing variable savings, those members with specific ailments were “contributing more to their medical expenses than those who were healthy”.

Some large medical aids advertise that they offer benefits that would better suit some of our members’ requirements. This may be correct because large medical aids:

- ▶ have more than one option; and
- ▶ can offer more at an increased cost.

It is very difficult to compare one medical aid society to another, because they all offer different benefits for different contribution structures. The CMS is considering introducing basic benefits, which all medical aids have to offer for members to compare certain benefits. Investigations done internally and by external consultants have shown that on a cost-to-benefit basis, the Afrox Base Plan compares favourably with many other medical aids.

Some of these comparisons are summarised below:

Two open plan medical aids and seven options were selected with similar contribution structures to that of the Afrox Medical Aid Society.

Two options had a savings element. Five did not.

It is very difficult to compare one medical aid society to another, because they all offer different benefits for different contribution structures.

	AMAS	OTHER
IN HOSPITAL		
Overall limit	No limit	No limit
In hospital procedures	100% MA* rates	One paid 150%, others 100%
Procedure limits	All comparable to AMAS	
OUT OF HOSPITAL		
Specialists	Certain specialists	Savings or no benefit
General practitioners	Savings	Savings or no benefit
Over-the-counter medication	Savings	Savings or no benefit
Acute medication	Savings	Savings or no benefit
Optical	Savings	Savings or no benefit
In hospital dentistry	Yes	5 – yes or 2 – no benefit
Conservative dentistry	No benefit	5 – benefit after first R1 250 from savings
	2 – no benefit	
MRI	100% MA rates	5 – benefit after first R1 250 from savings
	2 – R12 000 per beneficiary	
Pregnancy scans	Two per annum	Two per annum
Radiology	100% MA rates	Savings or no benefit
Chronic	80 diseases	26 PMB diseases

*MA = Medical aid rates

Certainly other medical aids offered more comprehensive benefits. However, the contribution cost would have excluded many of the company’s lower income earners.



THE COMPANY'S MEDICAL AID STRATEGY

The company aims to provide medical insurance to all its employees to cover the cost of hospitalisation, treatment or medication, which would place the employee and his/her family in financial difficulty if he/she were not at least partly insured. This should be at the lowest possible cost to allow all employees and pensioners the opportunity of having critical care cover.



MEMBER COMMUNICATION

The Society is preparing a verbal communication for employees, which will include, inter alia:

- African language specialists;
- how to understand the benefit statements; and
- how to maximise the benefits offered.

The Trustees would like to take this opportunity to thank all those involved in the preparation of various scenarios, the numerous changes that had to be made for the collation and timeous submission to the CMS and to the company for its input and assistance.

LIFE HEALTHCARE GROUP (PTY) LTD (LHG)

As mentioned in last year's newsletter, LHG gave notice that their members would be leaving the Society as at the end of December 2005. These members have now left and at the end of August 2006, the Society had 2 800 principal members and 4 100 beneficiaries. The change-over was seamless, with all past members being paid the savings due to them by the end of May 2006.

WE WISH YOU GOOD HEALTH IN 2007!

THE SOCIETY'S FINANCES

With LHG leaving the Society it was difficult to budget the costs in relation to the risk profile of the members remaining in the Society, and whether or not this would have a material effect on the claims ratio. As at the end of August the financial status of the Society is summarised as follows:

	R000s
Contributions received	37 067
Benefits paid	32 610
	4 457
Managed care expenses	(627)
Administration expenses	(2 825)
Operating income	1 005



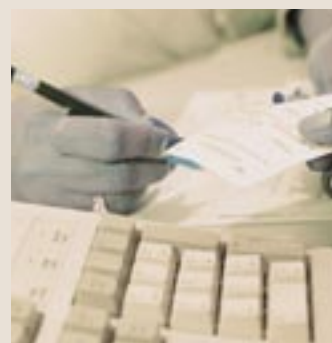
TRUSTEES

The current Trustees are:

Company appointed	Member elected
Cor van Zyl (Chairman)	Andries van den Heever
Michael Erasmus	Alan Cameron (Pensioner)
Brett Wheatcroft	Keith Bonyng (Pensioner)
Jan du Plessis	Theo Taylor

The Society is expected to break even or make a small operating deficit at year-end.

The reserve ratio (excluding savings) is a healthy 131.58%.



BENEFITS AND CONTRIBUTIONS FOR 2007

CONTRIBUTIONS

The effective increase to the Society will be 4.6%. Resulting from the cross subsidisation of higher income earner to lower income earner, (which commenced last year), some members will note either a lower or higher actual increase. In calculating the increase, please note that the savings amount of R50 needs to be added to the 2006 contribution.

The salary bands have been increased to include:
11 001 - 12 000
12 001 +

Company subsidy

The company has agreed to increase its subsidy by 5%. The subsidy is, therefore:

Principal member	R517
Spouse/partner	R361
Child (per child)	R207

BENEFITS

- ▶ Limits applied to specific procedures on the benefit schedule have been increased by 5%.
- ▶ The Society continues to provide for critical, high-cost care.
- ▶ The chronic disease list has not been reduced.
- ▶ There is no co-payment on designated service providers.
- ▶ Insured benefits have not been reduced.

What has changed from last year?

▶ SAVINGS

The Medical Savings Fund has been removed. In order to comply with the CMS's regulations to implement a savings percentage that would be a significant improvement on the R50 in 2006, would be too costly for our lower income members.

As a result of the above, in accordance with the Medical Schemes Act, all individual savings balances at the end of December 2006 will be refunded to members in May 2007, after the appropriate claims on savings have been accounted for.

▶ IMPLEMENTATION OF DAY-TO-DAY POOL

In line with other medical aids that no longer have a savings element, the following has been implemented:

	2006	2007
SAVINGS	R600	
DAY-TO-DAY		
M	R650	R2 750
M+1	R1 000	R3 500
M2+		R4 500

EXAMPLE:

A member with a family, who had a savings portion of R50 and received an ESF benefit of R1 000 = R1 600 per annum in 2006, will now receive a day-to-day benefit of R4 500 per annum. This equates to an **additional benefit** of R242 per month per principal member, at no additional cost.

The cost to the Society of introducing this benefit is R7 115 000 or 18% of total contributions received.

The Day-to-Day Pool may be used for:

General practitioners	Certain specialists
Acute medication	Alternative services
Optometry (including glasses)	Physiotherapists, biokinetics
Conservative dentistry	Over-the-counter medicines

Members need to assess their needs for the year to ensure that the amount allocated to this pool is spent conservatively, to cover their requirements for the year.

Note: Any unused balances in the Day-to-Day Pool will not be carried forward from year to year. Members are requested to make private arrangements for any additional savings, and once the balance on the savings accounts is paid in May 2007, to place these amounts in a savings account.

What have we not been able to do?

- ▶ Provide freedom of choice of hospitals - it is estimated that this would cost the Society an additional cost of 10% and members an increased contribution of 3%
- ▶ Increase in-hospital practitioner costs

Yours faithfully
THE BOARD OF TRUSTEES

We wish each and every member, his/her family and beneficiaries good health in 2007.