

Exposition in respect of the proposed
Amalgamation of the Suremed Health and the
ThebeMed Medical Scheme in accordance with
Section 63 of the Medical Schemes Act of 1998,
as amended

This document has been prepared in accordance with the Guideline for such application published by the Council for Medical Schemes dated September 2009. For ease of reference, the document follows the outline and information requests in detail

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1. Executive Summary

1.1.1 Objective

The proposed amalgamation of the Suremed Health and ThebeMed Medical Schemes provides a solution to many of the strategic and financial challenges of both Schemes. In particular,

- The amalgamation will give Suremed Health access to a viable marketing and distribution infrastructure in its chosen target market
- The amalgamation will give ThebeMed access to new markets in the form of SMME's and options that meet the needs of those markets
- The amalgamation will ensure that the Amalgamated ThebeMed has more than 6000 members as required by law, while at the same having reserves in excess of the statutory minimum
- This will provide further impetus for growth from groups that were previously hesitant to join either Suremed or ThebeMed due to objections regarding size (Suremed) and solvency (ThebeMed) concerns
- The amalgamation and the associated processes have been designed in such a manner as to result in the minimal amount of disruption for members, while at the same time reducing the number of options on the new Scheme. This has been made possible due to the fact that the majority of the Schemes' membership bases are in very different markets

The proposed amalgamation follows a very extensive process embarked upon by the Trustees of Suremed Health in an effort to ensure the sustainability of the Scheme in the light of its low membership and marginal growth over the last three years.

The following advantages and disadvantages for members are expected to result from the proposed amalgamation:

Suremed

Advantages

- The increase in membership should result in better medium term sustainability as the claims experience is likely to be less volatile in the new environment
- Non-healthcare costs on a per member per month basis will be significantly reduced in the proposed Amalgamated ThebeMed as fixed costs are spread across a larger membership base
- The lower cost options are expected to be self-sustaining in terms of membership size which is not currently the case
- Members will have a greater choice of options in the proposed new Scheme
- Membership is likely to grow and thereby offset the ageing effect experienced in the higher cost (Challenger and Navigator) options as a result of the access to employer groups provided by the Thebe Group relationships

- While reserves will be diluted to some extent through the amalgamation, the impact will be less than if Suremed had recruited these members from other Schemes in the open market. New members joining the Scheme do not bring any reserves with them, while the ThebeMed members will bring some reserves even though these are less than the Suremed Health reserves on a percentage or a per member basis
- The overall chronic ratio of the Scheme will be lower than is currently the case with Suremed Health

Disadvantages

- The per member reserves will be diluted to some extent, but it can be argued that this is preferable to reserves being used to fund new members, distribution costs, volatile claims experience and the ageing risk pool which would be the case in the absence of an amalgamation
- The Explorer and Shuttle Options will be discontinued. Explorer members (140 members) will be offered a very similar option in the form of ThebeMed's Universal Option. The Shuttle Option (currently 133 members) has not proved to be very popular in terms of attracting new members and hence its demise should not have a significant impact on the Scheme

ThebeMed

Advantages

- The Amalgamated ThebeMed will have reserves in excess of the required statutory levels at the amalgamation date. This will facilitate and accelerate the growth of the scheme
- The Amalgamated ThebeMed will have a broader range of options which will make it more attractive to employer groups

Disadvantages

- The demographic profile of ThebeMed will be marginally affected. It is however not expected that these changes will impact the current ThebeMed membership as the adverse risk profile members are limited to the ex-Suremed options and these members are unlikely to migrate to the ex-ThebeMed options

1.2 Medical Scheme Summary

1.2.1 Background

- *Name, type and registration dates of the Schemes*

Suremed Health

Type of Scheme : Open

Registration Date : 1976

Previously known as : Erica Medical Aid Society

ThebeMed Medical Scheme

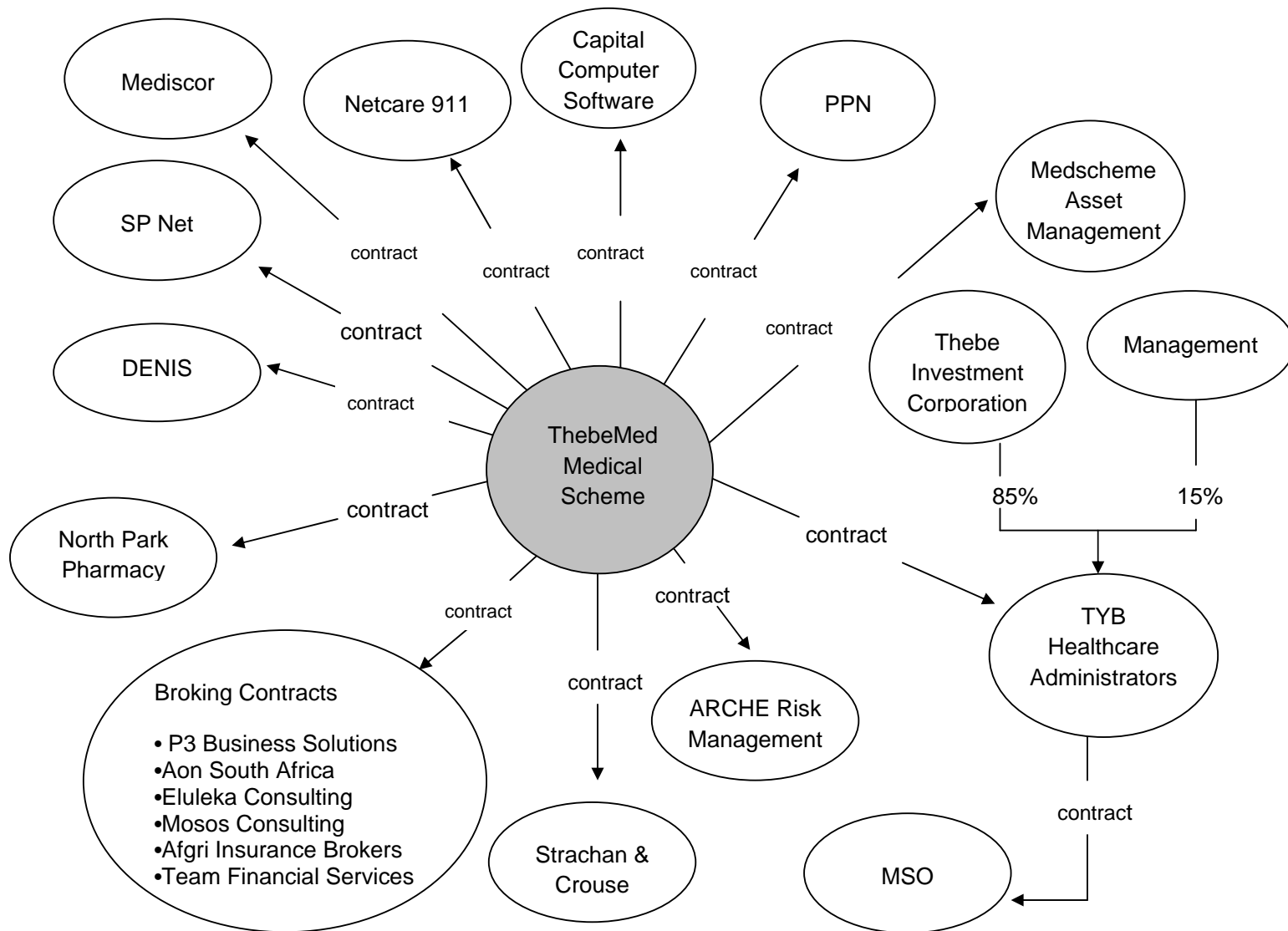
Type of Scheme : Open

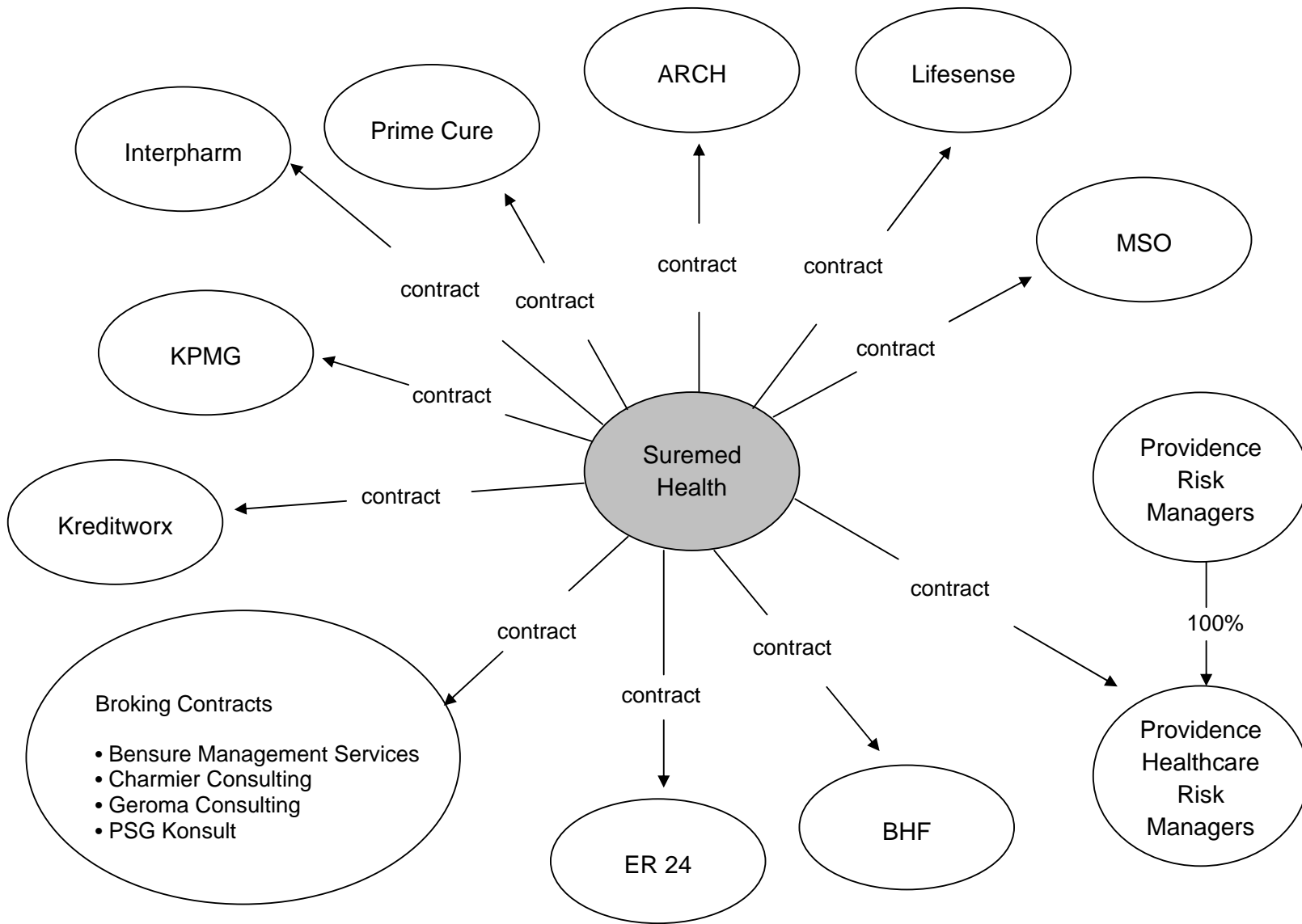
Registration Date : 12 September 2002

Previously known as Odyssey Medical Scheme

- *Names and relationships in respect of administrator and managed care providers*

The diagrams on the following pages reflect the key service providers to both schemes:





- *Disclosure of Interests*

It has been confirmed that none of the members of the respective Boards nor the Principal Officers hold any relevant interests in any of the parties depicted above.

- *Names and relationships of all related parties as well as details of the services delivered by these parties to the Medical Scheme*

The table on the following pages outlines all the contracted parties to the Medical Schemes, the Services provided by these parties, termination conditions, decisions regarding the future contracting status as well as any shareholding interest to illustrate related parties. It also considers whether there is financial risk transfer inherent in the current or proposed contractual arrangement.

#	Business Partner	Service	Contracted Entity	Action	Penalty	Notice Period	Shareholding /Interests	Risk Share /Transfer
1	TYB Healthcare Administrators	Administration, Managed Care and Marketing & Distribution Services	Thebemed	Continue	None	12 months	None	None
2	Arche Risk Management	Actuarial Consulting	Thebemed	Cancel	None	3 months	None	None
3	Dental Information Systems Pty (Ltd)	Dental Benefit Management Out of Hospital	Thebemed	Continue	None	3 months	None	Some Risk Transfer
4	MSO	Hospital Benefit Management	TYB Healthcare Administrators	Amend	N/A	N/A	None	None
5	Strachan & Crouse	Auditors	Thebemed	Continue	None	None	None	None
6	Calibre Clinical Consultants	Wellness Program	Thebemed	Continue	N/A	N/A	None	None
7	Capital Computer Software	Computer software servies for EFT's between Scheme and government paypoints	Thebemed	Continue	None	6 months	None	None
8	Standard Bank	Surety/ Guarantee to Registrar i.r.o. reserve levels	TYB Healthcare Administrators	Continue	None	6 months	None	None
9	Mediscor	Electronic claims processing; client support services; Chronic PMB medicine management	Thebemed	Continue	None	4 months	None	None
10	Medscheme Asset Management	Investment management of surplus funds	Thebemed	Continue	None	30 Days	None	None
11	Netcare 911/Trauma Link Pty (Ltd)	Emergency Medical Assistance	Thebemed	Continue	None	60 days	None	Some Risk Transfer
12	Preferred Provider Negoatiators (PPN)	Optometry Services	Thebemed	Continue	None	90 Days	None	Some Risk Transfer
13	Rent-a-Store Pty (Ltd)	Storage facility for medicine bags	Thebemed	Continue	None	1 month	None	None
14	SP Net	Peer Review & Provider Contracting	Thebemed	Continue	None	90 days	None	None

#	Business Partner	Service	Contracted Entity	Action	Penalty	Notice Period	Shareholding /Interests	Risk Share /Transfer
15	P3 Business Solutions	Broking Services	Thebemed	Continue	None	3 year contract	None	None
16	Aon South Africa (Pty) Ltd	Broking Services	Thebemed	Continue	None	3 year contract	None	None
17	Eluleka consulting	Broking Services	Thebemed	Continue	None	3 year contract	None	None
18	Mosos Consulting Services	Broking Services	Thebemed	Continue	None	3 year contract	None	None
19	Afgri Insurance Brokers	Broking Services	Thebemed	Continue	None	3 year contract	None	None
20	Team Financial Services	Broking Services	Thebemed	Continue	None	3 year contract	None	None
21	ER24	Emergency Medical Assistance	Suremed	Continue	None	1 month	None	Some Risk Transfer
22	Interpharm	Medicine Clearing House	Suremed	Continue	None	3 months	None	None
23	Lifesense Disease Management	Clinical HIV Management	Suremed	Continue	None	3 months	None	None
24	Primecure	Capitated Network Management	Suremed	Cancel	R 120,000	3 months	None	Complete Risk Transfer
25	Providence Healthcare Risk Managers	Administration	Suremed	Cancel	None	By negotiation	None	None
26	Providence Healthcare Risk Managers	Pharmacy Benefit Management	Suremed	Cancel	None	By negotiation	None	None
27	Bensure Management Services	Broking Services	Suremed	Continue	None	1 month	None	None

#	Business Partner	Service	Contracted Entity	Action	Penalty	Notice Period	Shareholding /Interests	Risk Share /Transfer
28	Charmier Consultants	Broking Services	Suremed	Continue	None	1 month	None	None
29	Geroma Consulting	Broking Services	Suremed	Continue	None	1 month	None	None
30	PSG Konsult	Broking Services	Suremed	Continue	None	1 month	None	None
31	BHF	Practice Code Numbering System	Suremed	Continue	None	3 months	None	None
32	Creditworx	Debt Collection	Suremed	Continue	None	3 months	None	Some Risk Transfer
33	ARCH Actuarial Consulting	Actuarial Services	Suremed	Continue	None	3 months	None	None
34	KPMG	Auditors	Suremed	Cancel	None	none	None	None
35	MSO	Hospital Benefit Management	Suremed	Amend	None	3 months	None	None

- *Details of any penalties payable for termination of contracts as well as termination process*

Addressed in the table above

- *Developments in Schemes – previous amalgamations*

None

- *Summary of membership profile per option*

The current membership profile of each of the Options in the two Schemes can be illustrated as follows

	Suremed				Thebemed		
	Challenger	Navigator	Explorer	Shuttle	Energy	Frontier	Universal
Number of members	603	725	126	123	3 283	901	1 646
Number of beneficiaries	1 431	1 789	293	215	11 354	3 047	2 389
Average age of beneficiaries	37.6	33.3	29.0	30.3	28.7	30.1	39.6
Pensioner ratio (65+ years)	11.9%	2.7%	1.4%	1.6%	0.1%	1.0%	0.5%
Chronic beneficiary ratio	24.8%	10.7%	0.0%	4.7%	12.0%	13.2%	1.6%
Family size	2.4	2.5	2.3	1.8	3.5	3.4	1.5
Membership mix on different income bands	0-10,000		0-3,500		0-4,000	0-5,000	0-3,500
	412		75		129	196	1 345
	>10,000		3,501-6,500		4,001-7,500	5,001-8,000	3,501-6,000
	191		37		2 960	532	238
			6,501-9,000		7,501-10,000	8,000-11,000	>6,000
			7		170	86	62
			>9,000		>10,000	>11,000	
			7		24	86	

The current membership and demographics of the two Schemes can be summarised as follows:

	Suremed	Thebemed	Combined
Number of members	1 576	5 830	7 406
Number of beneficiaries	3 728	16 790	20 518
Average age of beneficiaries	34.4	30.5	31.2
Pensioner ratio (65+ years)	6.1%	0.3%	1.3%
Chronic beneficiary ratio	15.0%	10.7%	11.5%
Family size	2.4	2.9	2.8

- *Description of Current Benefit Options*

The table below summarises the current benefit options of the two Schemes.

Network Products		Hospital Plan	Traditional/Savings Hybrid	Traditional		New Generation No Threshold	New Generation With Threshold
Suremed							
Explorer	-	Shuttle	Navigator	-	Challenger	-	-
Thebemed							
Universal	Energy	-	-	Frontier	-	-	-

Suremed

Explorer

This option is an entry level option with basic benefits offered within the PrimeCure network. Private Hospitalisation is offered with a limit of R 500 000 per annum per family within the contracted network (excluding PMB's). Chronic Medication is limited to CDL conditions. The contribution table is income based and designed mainly for people earning less than R 6 500 per month.

Shuttle

Shuttle is a Hospital Plan designed for young and healthy employees that do not believe that day-to-day cover should be insured. Chronic Medication is limited to CDL conditions. The contribution table is not income based.

Navigator

Navigator is a hybrid between the traditional and savings based options. Compulsory savings of 20% of the contributions is utilised for out of hospital costs. When the savings portion is exhausted, the option offers traditional benefits with sub-limits. Chronic Medication is limited to CDL conditions, but Private Hospital Benefits are unlimited. The contribution table is not income based. This option is designed for members that prefer an incentive to manage their own healthcare costs in the form of a savings account, but would also like to have some comfort that they have further out of hospital cover if their savings are exhausted.

Challenger

Challenger is a traditional option which offers extended day to day benefits, as well as Chronic Medicine benefits in excess of the CDL conditions and Unlimited Private Hospitalisation. The income table is income based in line with historical claims experience.

ThebeMed

Universal

This option is an entry level option with basic benefits offered within a contracted primary care network. Private Hospitalisation is offered with a limit of R 500 000 per annum per family within the contracted network (excluding PMB's). Chronic Medication is limited to CDL conditions. The contribution table is income based and designed mainly for members earning less than R 6 500 per month.

Energy

This option offers more comprehensive day to day benefits than the Universal option, but within a restricted network specifically created on a regional basis. Limited Specialist Benefits are provided, while Hospitalisation cover is unlimited. This option is ideally suited to members earning between R 3 500 and R 8 000 per month.

Frontier

This option provides similar primary care benefits to the Energy option, but in a less restrictive network of providers. The option also provides more Specialist Benefits, while Hospital cover is unlimited, subject to deductibles on certain elective procedures. This option is best suited to members earning between R 5 000 and R 11 000 per month.

- *Summary of Financial Position*

The table below reflects the audited financial position of the Schemes as at the end of December 2009 as well as a combined figure which is an indication of the combined financial position of the Amalgamated ThebeMed as at the end of December 2009 if the amalgamation had taken place on 31 December 2009.

	Suremed Health	%	Thebemed Medical Scheme	%	Combined	%
Gross Contribution Income	40 692 725		84 486 697		125 179 422	
Net Claims Incurred	33 124 299	81%	68 223 583	81%	101 347 882	81%
Gross Healthcare Result	4 874 513	12%	15 698 349	19%	20 572 862	16%
Non-Health Costs	6 872 957	17%	15 467 770	18%	22 340 727	18%
Net Healthcare Result	(1 998 444)	-5%	230 569	0%	-1 767 875	-1%
Investment Income	3 802 360	9%	1 236 423	1%	5 038 783	4%
Net Surplus	3 182 384	8%	1 425 863	2%	4 608 247	4%
Reserves	31 027 260	76%	12 085 704	14%	43 112 964	34%
Reserves per Principal Member	19 576		2 062		5 789	
Reserves per Beneficiary	8 243		740		2 146	

- *Full list of guarantees the Schemes have in place*

Suremed Health has no guarantees in place

Thebe Investment Corporation has provided Council with a guarantee on behalf of ThebeMed. This guarantee is expected to continue to remain in place subsequent to the amalgamation.

2. Operational Comparison

Names of service providers as well as reasons for choosing service providers for amalgamated Scheme

Service	Suremed	ThebeMed	Amalgamated ThebeMed
Administrator	Providence	TYB	TYB
Managed Care			
Hospital Benefit Management	MSO	TYB	MSO: Challenge, Navigator TYB: Universal, Energy, Frontier
Optical Benefit Management	None	PPN	PPN
Dental Benefit Management	None	DENIS	DENIS
Chronic Medicine Management	Providence	Mediscor	Shared
Chronic Electronic Claims Processing	Interpharm	Mediscor	Shared
HIV Program	Lifesense	TYB	Shared
Peer Review & Provider Contracting	None	SP Net	SP Net
Network Management	Prime Cure	TYB	TYB
Actuarial Services	ARCH Actuarial Consulting	ARCHE Risk Management	ARCH Actuarial Consulting
Distribution Channel	Providence	TYB	TYB
Investment Managers	Providence	Medscheme Asset Management	Medscheme Asset Management
Commercial Reinsurance	None	None	None
Auditors	KPMG	Strachan & Crous	Strachan & Crous

The selection of Service Providers to the Amalgamated ThebeMed was driven by a number of key considerations:

- Ensuring continuation of services to all members in an optimal manner, thereby minimising membership and financial losses arising from the amalgamation
- Positioning the Amalgamated ThebeMed to achieve its strategic growth objectives
- Optimising the risk management of the amalgamated Scheme
- Ensuring that good corporate governance principles are adhered to
- The service providers will be managed in terms of Service Level Agreements and reviewed on a regular basis with reference to their peers

Administration

TYB Healthcare Administrators (TYB) was selected as the Administrator to the Amalgamated ThebeMed, subject to the sub-contracting of member services in respect of the Challenger and Navigator Options to Providence Healthcare Risk Management (Providence). The Amalgamated ThebeMed will continue to pay administration fees on the same basis as prior to the amalgamation. After investigation it was found that the level of membership of the Amalgamated ThebeMed would not put the Trustees in a position to negotiate a lower administration fee. The membership levels of the Challenger and Navigator membership, together with the significantly different benefit designs of these options further implied that moving the administration of these options to TYB would not result in any significant commercial advantage for the Amalgamated ThebeMed. A survey of the total fees paid to administrators further revealed TYB's fees to be in the bottom quartile of total fees paid to administrators in the market.

The table below considers administration fees as per the Councils 2008 Report and compares TYB to other administrators in the open scheme market on a per beneficiary per month basis.

	2008
Highest	R 122
Average	R 87.70
Lowest	R 36.30
TYB	R 46.40
TYB Ranking (costs highest to lowest)	37 (out of 41)

Hospital Benefit Management

The Hospital Benefit Management for Suremed is currently with MSO, while TYB subcontracts a portion of its Hospital Benefit Management to MSO as well. The decision to retain MSO was therefore relatively simple as it also represents the largest independent Hospital Benefit Manager in the market.

Shared Services

Chronic Medicine Management as well as HIV Benefit Management will be performed by the current contracted parties for the relevant options in order to minimise the impact on members. This arrangement will be reviewed in the normal course of business.

Primary Network Management Services

The combination of the Suremed Explorer Option with the ThebeMed Universal Option means that this function will be managed by TYB, while the PrimeCure contract will be terminated accordingly. This decision was not only based on the small membership on the Suremed Explorer Option vis-à-vis the ThebeMed Universal Option, but also as the Trustees are of the opinion that an in-house network is preferable and that capitating these benefits does not enhance the risk management processes of the Amalgamated ThebeMed.

1.2.3 Details of Amalgamated Scheme

- *Name of Amalgamated Scheme* ThebeMed Medical Aid Scheme
- *Date of Amalgamation* 1 Sept 2010
- *Scheme physical and postal addresses*

Full names of Scheme.	ThebeMed Medical Aid Scheme
Registered address.	Cnr of Boundry & Carse O Gowrie Roads Old Trafford 4 Building Isle of Houghton, Ground floor Houghton JOHANNESBURG
Principal officer –Tel.	Ms. S Mamafha
Facsimile & Email address	Telephone : 011 544-8810 e-mail:mamafhas@tybhealth.co.za
Address	P O BOX 12 Mulbarton Johannesburg 2059

- *Names and Address Details of the Board Members*

Name	Position	Address	ID Number	Telephone	Fax
Mr Vusi Mazibuko	Chairman	21 Etosha Crescent Sandown SAndton	5607035237087	082 850 0042	0117280410
Ms Tholakele Mashazi	Trustee	13291 Tsomi Street Willowdale Spruitview	6511060352082	011 628 4254	011 358 3909
Ms Ntokozo Mogorosi	Trustee	54 Kyalami Hills Estates Robin Ave Vorna Valley Midrand	6012310702088	083 561 05507	011 571 0674
Mr Saleem Symallin	Trustee	4 Wilfred Ave Alan Manor Johannesburg	6902075058082	078 459 6042	0119412961
Dr Walter Mophosho	Trustee	26 Fairway Street Kelvin	5807195832082	082 447 0964	0114438708
Mr Lefty Mashego	Trustee	4197 Radebe St Ackerville Witbank	7109095911086	082 536 6792	0136562073
Mr Zomba Dlamini	Alternate Trustee	House 55 Greenside Village Witbank	6303295322087	073 230 7169	0136904389
Mr Chris K April	Trustee	Stand 4584 Ext 9, Embalenhle, Secunda	6109195841088	0795225408	0176146945
Mr Red Howell	Trustee	503B Portofino Island Club Century City Cape Town 7441	6406025114086	0849543958	0219394332
Mr Riaan Vermeulen	Trustee	Shop 3 200 Voortrekker Road Parrow 1500	7102105284084	0834543958	0219394332
Mr Johan Janse van Rensburg	Trustee	1 San Marco 39 St Michael Street New Redruth Alberton	7106115175083	0824651380	0866867586

- *Name and address of Administrator, incl Organogram of Administrator and Related Parties*

TYB Healthcare Administrators
Cnr of Boundry & Carse O Gowrie Roads
Old Trafford 4 Building
Isle of Houghton, Ground floor
Houghton
JOHANNESBURG

- *As above for all Managed Care providers*

TYB Healthcare Administrators
Cnr of Boundry & Carse O Gowrie Roads
Old Trafford 4 Building
Isle of Houghton, Ground floor
Houghton
JOHANNESBURG

- *Name and address of Auditors for the Amalgamated Scheme*

Strachan and Crouse
G01 Harrogate Park
1237 Pretorius Street
Hatfield
Pretoria

- *Names and Addresses of all related parties, incl organogram*

Please refer to table outlining all contracts for details.

- *Details of other possible amalgamations considered, including the reasons for selecting specific amalgamation*

The Board of Suremed Health conducted an extensive investigation into potential partners to resolve the strategic concerns arising from its low membership and lack of growth. This process included a Request for Information from interested parties which was published in the press and circulated to all Principal Officers of Open Medical Schemes listed on the Council for Medical Schemes website.

Following a review of the various proposals received, as well as an extensive financial and member impact analysis, the Board entered into discussions with all the Medical Schemes that showed an interest in a potential amalgamation. The Board resolved that an amalgamation would be more viable than any of the other proposed partnerships, mainly from distribution companies. The following Schemes were evaluated for suitability for an amalgamation.

- Liberty Health Medical Scheme
- Protea Medical Aid Society
- Topmed Medical Scheme
- Resolution Health Medical Scheme
- Pharos Medical Scheme
- ThebeMed Medical Scheme

The Board evaluated the proposals using a pre-determined scorecard according to the priorities and requirements of Suremed. The key issues addressed in the scorecard included the following:

- Strategic Sustainability of the Amalgamated Scheme
- Impact on Members in terms of Options, Rates and Benefits and Service
- Governance and Structures to ensure the best interests of the Suremed members are considered in future decisions

The proposal provided by ThebeMed best satisfied the criteria and hence it was selected as a preferred partner to Suremed Health.

- Summary of Membership Profile

ThebeMed

The latest available data (1 April 2010) for ThebeMed is outlined below

	Universal		Energy		Frontier		Total	
Members	1,600		3,276		899		5,775	
Average Age	29		24		30		26	
% Male	80%		53%		48%		55%	
Pensioner Ratio	1.13%		0.87%		2.20%		1.15%	
Regional presence	Mpumalanga 40%	Gauteng 25%	Mpumalanga 84%	Gauteng 6%	Gauteng 40%	KZN 25%	Mpumalanga 64%	Gauteng 14%
	Free State 9%	KZN 7%			Mpumalanga 8%	W Cape 7%	KZN 6%	
Type of Industries	Agriculture 87%	Transport 5%	Mining 98%	Manufacturing 2%	Retail 45%	Transport 39%		
Average Salaries	0 – R 3,500 90%	R 3,501 – R 5,000 3%	0 – R 3,500 0.6%	R 3,501 – R 5,000 35%	0 – R 3,500 6%	R 3,501 – R 5,000 15%	0 – R 3,500 26%	R 3,501 – R 5,000 23%
	R 5,000 – R 8,000 5%	R 8,001 + 2%	R 5,000 – R 8,000 60%	R 8,001 + 4.4%	R 5,000 – R 8,000 60%	R 8,001 + 19%	R 5,000 – R 8,000 45%	R 8,001 + 6%

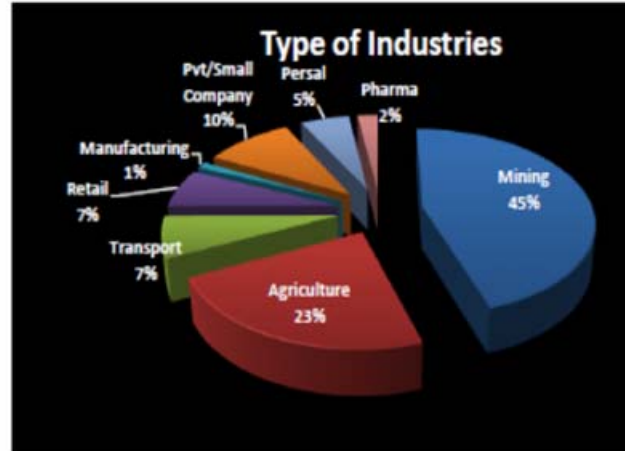
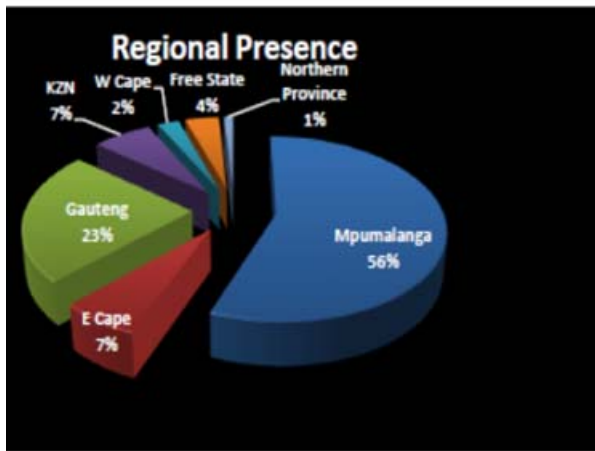
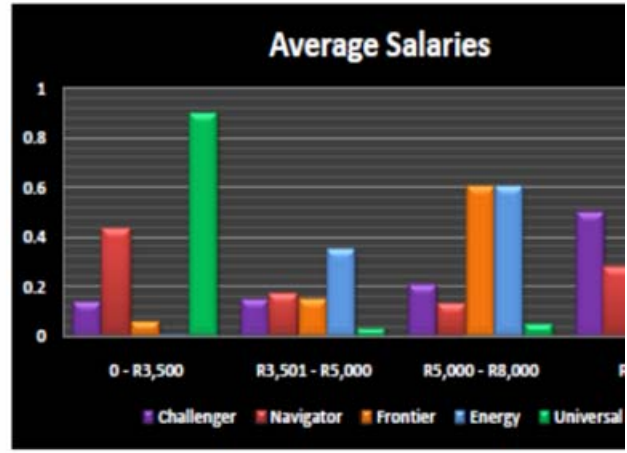
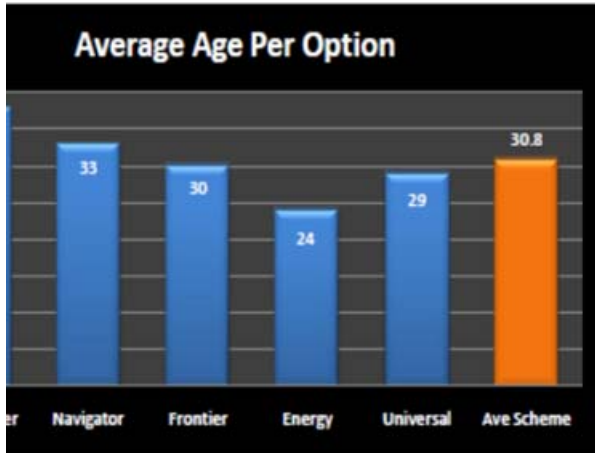
Current Suremed

The latest available data (1 April 2010) for Suremed Health is outlined below

	Challenger		Navigator		Shuttle		Explorer		Total	
Members	586		718		130		144		1,578	
Average Age	38		33		30		29		34	
% Male	45%		47%		52%		38%		46%	
Pensioner Ratio	13%		3%		2%		2%		7%	
Regional presence	Gauteng 32%	E Cape 23%	E Cape 37%	Gauteng 29%	Free State 39%	Gauteng 25%	E Cape 44%	Gauteng 22%	E Cape 29%	Gauteng 28%
	W Cape 15%	Northern Province 11%	Free State 13%	KZN 11%	N Cape 10%	E Cape 10%	Free State 18%	Free State 14%	KZN 9%	W Cape 7%
Type of Industries	Pvt/Small Company 57%	Persal 22%	Pvt/Small Company 36%	Persal 28%	Pvt/Small Company 41%	Agriculture 50%	Pvt/Small Company 70%	Agriculture 18%	Pvt/Small Company 46%	Persal 21%
	Pharma 6%		Agriculture 14%						Agriculture 12%	
Average Salaries	0 – R 3,500 14%	R 3,501 – R 5,000 15%	0 – R 3,500 43%	R 3,501 – R 5,000 17%	0 – R 3,500 82%	R 3,501 – R 5,000 2%	0 – R 3,500 36%	R 3,501 – R 5,000 22%	0 – R 3,500 35%	R 3,501 – R 5,000 15%
	R 5,000 – R 8,000 21%	R 8,001 + 50%	R 5,000 – R 8,000 13%	R 8,001 + 28%	R 5,000 – R 8,000 2%	R 8,001 + 14%	R 5,000 – R 8,000 36%	R 8,001 + 6%	R 5,000 – R 8,000 17%	R 8,001 + 33%

Amalgamated ThebeMed

COMBINED SCHEME



- Rules of Amalgamated Scheme

The proposed Rules of the Amalgamated ThebeMed Medical Scheme is enclosed as Annexure C

- *Mission and Objectives of Scheme*

The Amalgamated ThebeMed value proposition is based on the following core attributes:

- Affordable, quality care – value for money
- Lowest cost, efficient administration
- Outstanding customer service and communication – making it easy for members to access our benefits
- Commitment to and understanding of the communities we serve – consistency, accessibility and accountability
- One stop solutions for the entire employee complement
- Member for life – appeal to the aspirational needs of our members
- Premier empowerment brand

- *Availability of benefit options and default options for members who do not respond*

All the existing ThebeMed Options will remain in place. The Suremed Shuttle and Explorer members will be offered a choice of options, but will be defaulted to the ThebeMed Universal Option if no response is received.

- *Personnel strategy of transferring scheme*

Suremed Health does not employ any full-time staff. No retrenchments are envisaged at either administrator.

- *Compatibility of IT systems and full details of transfer of data*

The current IT infrastructure of both TYB and Providence will be utilised in order to administer the Amalgamated ThebeMed. A detailed Project Plan has been devised in order to ensure that the Business Processes and necessary interfaces are in place on the proposed amalgamation date. Both administrators are ISO 9001..2008 compliant which means that all changes will be appropriately documented.

A high level overview of the IT implications in respect of the Amalgamated ThebeMed is illustrated in the table below:

Category	Universal. Energy and Frontier	Navigator and Challenger
Hardware	TYB servers	Providence servers
Network Connectivity	Utilise current TYB network infrastructure	Utilise current Providence network infrastructure
Call Centre Call Flow	Amend TYB call flow to link to Providence Call centre	Amend Providence call flow to link to TYB Call centre
Providence Connection via Web	Setup link to Providence system utilising the WEB	Should providence link to TYB system via the Web
Applications Data Conversion		
Membership	Yes	Not required - managed on providence system
Claims	No	Not required - managed on providence system
CRM	No	Not required - managed on providence system
DM	Manual take on for Explorer and Shuttle members	Not required - managed on providence system
Finance	Yes	Not required - managed on providence system
System Setup	Not required , since Explorer and Shuttle options will be merged on Universal option	Not required - managed on providence system
Monthly IT report		
Performance Reporting	Standard reporting in line with SLA	Standard reporting in line with SLA

Category	Universal. Energy and Frontier	Navigator and Challenger
Regulatory Compliance		
Regulation 25	In line with Council requirement - report by external Auditors	In line with Council requirement - report by external Auditors - report to be forwarded to TYB.
Annual Statutory Returns	Annually by TYB	Annually by Providence , extract and Report forwarded to TYB
Quarterly Statutory Returns	Quarterly by TYB	Quarterly by Providence , extract and Report forwarded to TYB
REF	TYB to produce periodically as required by CMS	Providence to prepare as required by CMS, extract and Report forwarded to TYB

1.3 Strategy and Implementation

1.3.1 SWOT Analysis

Strengths & Opportunities	Weaknesses & Threats
<p>ThebeMed is a niche operator focusing on the entry level market where over 90% of the current ThebeMed membership are 1st time entrants.</p>	<p>Both schemes are currently small and given the consolidation currently underway in the market, smaller schemes will not be able to compete with the larger players in terms of marketing spend, broker support and general access to resources. However, a focused niche approach where available resources are properly leveraged in areas of strength can provide the amalgamated scheme with a viable alternative strategy.</p>
<p>ThebeMed and Suremed have different target markets with some overlap. The Suremed products Challenger and Navigator broaden the current ThebeMed product offering.</p>	<p>The reserves of the Amalgamated ThebeMed are likely to be just above the statutory minimum and growth can only be envisaged to the extent that the reserves can support it.</p>
<p>The ThebeMed brand is strong and will provide the amalgamated scheme with a brand identity in the chosen market segment.</p>	<p>Both schemes operate in the lower income segment of the private healthcare market. Appropriate pricing per income category will ensure that higher income members do not join an inappropriate option.</p>
<p>The combined scheme has sufficient reserves whereas ThebeMed was below statutory minimum prior to amalgamation.</p>	
<p>ThebeMed currently has strong union relationships with a strong empowerment identity which places it in a niche position in the market.</p>	
<p>The current ThebeMed infrastructure and relationships provides Suremed members with a viable distribution strategy.</p>	

1.4 Market Analysis

The Amalgamated ThebeMed has a clear focus on its primary target market – people earning between R 2, 500 and R 6, 000 per month. The vast majority of the current members of ThebeMed are first time entrants and are employees of larger companies in the following industries:

- Mining
- Energy
- Chemical
- Manufacturing / Engineering
- Transport

Although SME's may in some circumstances also be targeted, the above market is important in terms of economies of scale in reaching potential members, less exposure to adverse risk selection, pressures on larger employers to provide for the health of their workforce and relative affordability given the higher wage structures in these industries.

According to research conducted for the LIMS project in 2007 there were 8 million uncovered employed people in SA. It is not currently possible to provide an affordable solution for the majority of these members, but the research identified 1,2 million uncovered people with household income between R 3,500 and R 6,000 i.e. within the Thebe Med target range. Clearly ultimate affordability is related to the extent of employer subsidy and it is likely that the majority of these individuals would not have access to such support. Nevertheless, the research also shows that in established industries (with well organised labour) such as manufacturing, mining and transport there remains 1,7 million uncovered workers.

It is accordingly the Scheme's belief that a significant market of at least 250 000 workers who are sufficiently organised and who meet the requirements for affordability does exist.

However, access to this primary target market also provides the opportunity to target a secondary market i.e. that of the executive and other white collar workers in these companies. It is no secret that most of the larger employers would prefer to deal with only one medical scheme. The inclusion of the Challenger and Navigator options from Suremed, will allow the Amalgamated ThebeMed to now offer a full range of benefit options suitable from entry level worker to executive.

Importantly, providing this holistic solution will also provide some protection for ThebeMed in terms of the current reliance on trade unions and the associated instability that this sometimes implies. Companies where the executive are also on the scheme will be less likely to move membership (assuming good service levels) simply because of a change in the union leadership.

Finally it is worth noting, that entry level workers may over time progress within a company and experience changes in both needs and earning power; the two new options allow Thebemed to retain these members instead of losing them to competitors. The scheme can then effectively offer members a lifetime solution.

1.4.1 Membership Movement

- *Probability of Movement and Impact on members*

Because of the retention of all options, except Explorer and Shuttle, the likelihood of members moving between options is very limited and it is not expected to have an impact on the members of the Amalgamated ThebeMed.

The fact that more than 95% of members will remain on their current options means that it is unlikely that members will resign from the Schemes as a result of this amalgamation.

- *Communication Strategy incl Call Centre*

The Communication Strategy is outlined in Annexure D to this document

1.5 Contributions

1.5.1 Current Contribution Tables

ThebeMed

2010 Thebemed Contribution Rates			
Frontier			
Income Category	Member	Single member & Children	Family
0 - 5 000	1 503	2 065	2 191
5 001 - 8 000	1 590	2 169	2 312
8 001 - 11 000	2 083	2 848	3 033
> 11 000	2 287	3 019	3 213
Universal			
Income Category	Member	Adult Dep	Child Dep
0 - 3 500	432	383	214
3 501 - 6 000	512	440	240
> 6 000	720	680	280
Energy			
Income Category	Member	Family	
0 - 4 000	889	1 614	
4 001 - 7 500	1 224	1 833	
7 501 - 10 000	1 879	2 657	
> 10 000	2 049	2 784	

Suremed Health

2010 Suremed Contribution Rates			
Challenger			
Income Category	Member	Adult Dep	Child Dep
0 - 10 000	2 081	1 430	420
> 10 000	2 374	1 462	420
Navigator			
	Member	Adult Dep	Child Dep
Risk	1 061	849	320
Savings	216	171	66
Total Contribution	1 277	1 020	386
Explorer			
Income Category	Member	Adult Dep	Child Dep
0 - 4 500	390	390	202
4 501 - 6 000	485	485	202
6 001 - 9 000	685	685	202
> 9 000	1 020	1 020	250
Shuttle			
Income Category	Member	Adult Dep	Child Dep
Risk	696	497	215
Savings	174	124	54
Total Contribution	869	622	269

Amalgamated ThebeMed

2010 Amalgamated Scheme Contribution Rates			
Frontier			
Income Category	Member	Single member & Children	Family
0 - 5 000	1 503	2 065	2 191
5 001 - 8 000	1 590	2 169	2 312
8 001 - 11 000	2 083	2 848	3 033
> 11 000	2 287	3 019	3 213
Universal			
Income Category	Member	Adult Dep	Child Dep
0 - 3 500	432	383	214
3 501 - 6 000	512	440	240
> 6 000	720	680	280
Energy			
Income Category	Member	Family	
0 - 4 000	889	1 614	
4 001 - 7 500	1 224	1 833	
7 501 - 10 000	1 879	2 657	
> 10 000	2 049	2 784	
Challenger			
Income Category	Member	Adult Dep	Child Dep
0 - 10 000	2 081	1 430	420
> 10 000	2 374	1 462	420
Navigator			
	Member	Adult Dep	Child Dep
Risk	1 061	849	320
Savings	216	171	66
Total Contribution	1 277	1 020	386

1.5.2 Affordability of Contributions

Contribution Changes for Explorer and Shuttle members joining Universal				
Universal				
		Amalgamated Scheme Contributions (Universal)	Old Scheme (Suremed) Contributions	
	No. of members	Avg. Contribution	Avg. Contribution	% increase
Shuttle	125	807	1 422	-43%
Explorer	123	692	675	2%

1.6 Benefit Options

1.6.1 Current Benefit Structure

The current options offered by Suremed and ThebeMed, together with the proposed options to be offered by the Amalgamated ThebeMed can be represented as follows from a high level perspective:

Network Products	Hospital Plan	Traditional/Savings Hybrid	Traditional	New Generation No Threshold	New Generation With Threshold
Suremed					
Explorer	-	Shuttle	Navigator	-	Challenger
				-	-
Thebemed					
Universal	Energy	-	-	Frontier	-
				-	-
Amalgamated ThebeMed					
Universal	Energy	-	Navigator	Frontier	Challenger
				-	-

The table below is a summarised version of the current benefits offered by both Schemes.

BENEFITS	Suremed Explorer 2010	Suremed Shuttle 2010	Suremed Navigator 2010	Suremed Challenger 2010	Thebemed Universal 2010	Thebemed Energy 2010	Thebemed Frontier 2010
PLAN TYPE	Network	Hospital Plan	Traditional / Savings Hybrid	Traditional	Network	Traditional	Traditional
OVERALL ANNUAL LIMIT	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
HOSPITALISATION Limit	R500 000 per family at contracted facilities. PMB's unlimited.	Unlimited	Unlimited	Unlimited	R500 000 per family at contracted facilities. PMB's unlimited.	Unlimited Deductibles for listed planned conditions.	Unlimited Deductibles for listed planned conditions.
HOSPITALISATION Practitioners	100% negotiated tariff	100% negotiated tariff	100% negotiated tariff	100% negotiated tariff	100% negotiated tariff	100% of negotiated tariff.	100% of negotiated tariff.
CHRONIC BENEFIT	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	R12 000 per family per year for non CDLs.	R12 000 per family per year for non CDLs.
Formulary & DSP	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program
Chronic Conditions	CDL conditions only	CDL conditions only	CDL conditions only	CDL conditions plus 13 additional conditions	CDL conditions only	CDL conditions plus additional conditions	CDL conditions plus additional conditions
DAY-TO-DAY BENEFITS	Benefits provided via the Prime Cure network.	No out of hospital benefits	Claims paid from Savings first and then from the overall day to day benefit subject to sub-limits.	Claims paid from traditional benefit with category sub-limits.	Benefits provided via Scheme network of providers.	Claims paid from traditional benefit with category sub-limits.	Claims paid from traditional benefit with category sub-limits.
SAVINGS	N/A	Optional savings facility available at 20% of contributions	Compulsory savings at 20% of contributions	N/A	N/A	N/A	N/A
INCOME BANDS	R0 - R4 500 R4 501 - R6 000 R6 001 - R9 000 >R9 000	No income bands	No income bands	R0 - R10 000 >R10 000	R0 - R3 500 R3 501 - R6 000 >R6 000	R0 - R4 000 R4 001 - R7 500 R7 501 - R10 000 >R10 000	R0 - R5 000 R5 001 - R8 000 R8 001 - R11 000 >R11 000

1.6.2 Benefit Design of Amalgamated ThebeMed

	Challenger Plan	Navigator Plan	Frontier Plan	Energy Plan	Universal Plan
Objective	Very comprehensive cover	Comprehensive cover with personal responsibility through savings plan	Comprehensive cover, within a broad provider network	Comprehensive cover within a restricted provider network	Focus on essential needs through a tightly managed provider network
Delivery mechanism	Fee for service free choice	Fee for service free choice Use of savings plan for first costs	Broad provider network (discounted FFS). Co-payment out of network	Restricted provider network established to meet specific clients needs	Capitated provider network
Target Market	Small companies Executives / management at larger employers	Small companies Executives / management at larger employers	Larger employers - countrywide	Large employers with a concentrated workforce	Mining and Agriculture industries
Targeted Ave salaries	R 10,000 +	R 8,000 +	R 5,000 - R 8,000 (although 19% earn in excess of R 8,000)	R 4,000 – R 6,500	< R 4,000
Ave Premium (family)	R 3,290 (ave family size 2.4)	R 2,198 (ave family size 2.5)	R 2,300 (ave family size 3.4)	R 1,700 (ave family size 3.4)	R 420 (ave family size 1.2)
In-hospital benefits	Unlimited –any private hospital	Unlimited –any private hospital	Unlimited –any private hospital	Unlimited –any private hospital	R 600,000 family Any private hospital
Out of hospital benefits	Extensive major medical cover Comprehensive day to day benefits	Good major medical cover Comprehensive day to day benefits	Comprehensive day to day. Specialist and other benefits provided	Comprehensive cover for essential needs; Limited specialist and other	Comprehensive primary care through selected providers

The Benefit Design for the Amalgamated ThebeMed sees two changes from that outlined in 1.6.1 above. They are as follows:

- The Suremed Explorer Option will be discontinued and members transferred to the Universal Option
- The Suremed Shuttle Option will be discontinued and the members transferred to the Universal Option

1.6.3 Benefit Comparison if all options not incorporated

The comparison in the table below considers the impact on the Suremed members who are currently on the Explorer and Shuttle Options that are to be defaulted to the current ThebeMed Universal Option. All other members are to remain on their current options.

BENEFITS	Suremed Explorer 2010	Suremed Shuttle 2010	Thebemed Universal 2010	Impact
PLAN TYPE	Network	Hospital Plan	Network	Shuttle members moving from free choice of hospital to a network of hospitals
OVERALL ANNUAL LIMIT	Unlimited	Unlimited	Unlimited	No Change
HOSPITALISATION Limit	R500 000 per family at contracted facilities. PMB's unlimited.	Unlimited	R500 000 per family at contracted facilities. PMB's unlimited.	No change for Explorer members. Shuttle members have a R500 000 per family hospitalisation limit whereas previously unlimited.
HOSPITALISATION Practitioners	100% negotiated tariff	100% negotiated tariff	100% negotiated tariff	No Change
CHRONIC BENEFIT	Unlimited	Unlimited	Unlimited	No Change
Formulary & DSP	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	Scheme formulary, DSP and Disease Management Program	No Change
Chronic Conditions	CDL conditions only	CDL conditions only	CDL conditions only	No Change
DAY-TO-DAY BENEFITS	Benefits provided via the Prime Cure network.	No out of hospital benefits	Benefits provided via Scheme network of providers.	Shuttle members previously had no out of hospital benefits and now have access to out of hospital benefits provided via the Scheme network of providers.
SAVINGS	N/A	Optional savings facility available at 20% of contributions	N/A	No change for Explorer members. Shuttle members previously had access to a voluntary savings facility which will no longer be available.
GPs	Unlimited within network	No Benefit	Unlimited within network	No change for Explorer members. Shuttle members have access to network benefits out of hospital.
SPECIALISTS	8 Visits per family	No Benefit	3 Visits per family	Explorer members have access to less specialist visits. Shuttle members now have access to network benefits out of hospital.
MATERNITY	2 scans per pregnancy Ante natal visits within network.	2 scans per pregnancy 9 ante natal visits	2 scans per pregnancy 2 ante natal visits	Reduced ante natal visits on Shuttle.
DENTISTRY	Conservative dentistry unlimited at preferred provider. No benefit for specialised dentistry.	No Benefit	Conservative dentistry unlimited at preferred provider. No benefit for specialised dentistry.	No change for Explorer members. Shuttle members now have access to network benefits out of hospital.
RADIOLOGY & PATHOLOGY	Primary healthcare radiology and pathology benefits unlimited within network.	No Benefit	Primary healthcare radiology and pathology benefits unlimited within network.	No change for Explorer members. Shuttle members now have access to network benefits out of hospital.
ACUTE MEDICINES	Unlimited within network and when prescribed by network provider.	No Benefit	Unlimited within network and when prescribed by network provider.	No change for Explorer members. Shuttle members now have access to network benefits out of hospital.
DEDUCTIBLES	N/A	N/A	N/A	No Change
INCOME BANDS	R0 - R4 500 R4 501 - R6 000 R6 001 - R9 000 >R9 000	No income bands	R0 - R3 500 R3 501 - R6 000 >R6 000	Shuttle members were not previously subject to income bands and will now be. Explorer income bands are very similar to those of Universal.

1.6.4 Non-health Expenditure

The projected non-healthcare costs for the Scheme are illustrated below:

Total non-health costs	Suremed				ThebeMed				Amalgamated Thebemed				
	pmpm	% of GCI	pbpm	%of GCI	pmpm	% of GCI	pbpm	%of GCI	pmpm	% of GCI	pbpm	%of GCI	
Administration Expenditure													
	Administration Fees	138	5.8%	58	5.8%	139	9.8%	48	9.8%	129	10.0%	59	10.0%
	Other Administration Expenditure	175	7.3%	74	7.3%	43	3.0%	15	3.0%	32	2.5%	14	2.5%
Managed Care:Management Services		43	1.8%	18	1.8%	64	4.5%	22	4.5%	54	4.2%	24	4.2%
Broker Fees		61	2.5%	26	2.5%	41	2.9%	14	2.9%	39	3.0%	18	3.0%
Commercial Reinsurance		0	0.0%	0	0.0%	0	0.0%	0	0.0%	-	0.0%	-	0.0%
Impairment losses		0	0.0%	0	0.0%	0	0.0%	0	0.0%	-	0.0%	-	0.0%
Total		417	17.5%	176	17.5%	286	20.1%	99	20.1%	253	19.7%	115	19.7%

The above table assumes that the Scheme will grow as expected in the Business Plan. In the absence of growth, the projected non-healthcare costs can be illustrated as follows below:

Total non-health costs	Suremed				ThebeMed				Amalgamated Thebemed				
	pmpm	% of GCI	pbpm	%of GCI	pmpm	% of GCI	pbpm	%of GCI	pmpm	% of GCI	pbpm	%of GCI	
Administration Expenditure													
	Administration Fees	138	5.8%	58	5.8%	139	9.8%	48	9.8%	148	8.6%	51	8.6%
	Other Administration Expenditure	175	7.3%	74	7.3%	43	3.0%	15	3.0%	50	2.9%	17	2.9%
Managed Care:Management Services		43	1.8%	18	1.8%	64	4.5%	22	4.5%	62	3.6%	22	3.6%
Broker Fees		61	2.5%	26	2.5%	41	2.9%	14	2.9%	50	2.9%	18	2.9%
Commercial Reinsurance		0	0.0%	0	0.0%	0	0.0%	0	0.0%	-	0.0%	-	0.0%
Impairment losses		0	0.0%	0	0.0%	0	0.0%	0	0.0%	-	0.0%	-	0.0%
Total		417	17.5%	176	17.5%	286	20.1%	99	20.1%	311	18.2%	108	18.2%

1.6.5 Reserve Building Strategy

The Amalgamated Thebemed Medical Scheme is priced and managed to achieve two objectives

- Continued growth in order to ensure economies of scale and risk pool viability
- Maintaining solvency levels to provide members with sufficient financial security

The projections prepared for this report shows the following:

- The expected level of growth that can be maintained by the Scheme
- The contribution to reserves expected from new members and included in the pricing of the options

The Scheme's strategy is therefore to at least maintain statutory solvency as well as to ensure that each option is priced in such a manner that it contributes positively to reserves. This ensures that the growth is sustainable over the medium term.

1.7 Risk Management

The risk management strategy of the Amalgamated ThebeMed includes the following:

- The Primary Care network risk on Universal, Frontier and Energy Options are managed by a network of GP's that are contracted directly by the Scheme. While it may be possible to transfer this risk to a GP Network as in the case of the Suremed Explorer Option, the nature of the risk (high frequency, low per incidence cost) does not lend itself to effective risk management by outsourcing as long as the Scheme has a sufficient network of providers to service its own membership. The network is utilised by the Scheme to manage the referrals to Specialists and therefore the higher cost, low frequency claims
- Hospital claims risk is managed by applying leading protocols and benefit management practices. Negotiations with Hospital groups are conducted by Scheme management in consultation with MSO to maximise bargaining power while ensuring that specific issues are adequately addressed
- Medicine risk management is applied to all medicine claims in an on-line real time environment
- The relative financial strength of the Amalgamated ThebeMed, together with typical reinsurance pricing does not make reinsurance a viable proposition
- The demographic risk of the Amalgamated ThebeMed will be closely monitored on a regular basis and presents a significant risk to the Scheme
- The pricing of the Options of the Amalgamated ThebeMed, together with the marketing and distribution efforts will be optimised to ensure sustainable growth
- There is some risk sharing implicit in the Dental, Optical and Emergency Evacuation contracts, but these comprise a small portion of the overall claims risk

1.8 Financial Plan

The financial plan is outlined in Annexures A and B enclosed herewith (electronic version available).
The following assumptions were utilised to complete the projections.

Assumptions	
CPI	7%
Expense Increases	7%
Medical Inflation	9%
Claims Inflation	9%

X



Red Howell
Chairman, Suremed Health

X



Vusi Mazibuko
Chairman, Thebemed Medical Scheme

