

Member communication on the
proposed amalgamation of
Fedhealth Medical Scheme
and Topmed Medical Scheme
with effect from 1 May 2019

January 2019



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1. Introduction

1.1 Purpose of this document

Fedhealth Medical Scheme ('Fedhealth') and Topmed Medical Scheme ('Topmed') have decided to merge with effect from 1 May 2019. Discussions that have taken place between the two schemes has resulted in what both Boards consider to be an amalgamation that will be in the best interests of members of both schemes.

In terms of the Rules of both Schemes, members are required to approve the amalgamation through a voting process. This report provides members with key information on the proposed merger and the expected impact following the merger. The full exposition document is available for viewing should this be required. Members should contact their respective medical scheme for further information.

The amalgamation is subject to regulatory approval in terms of the Act.

1.2 Overview

The South African health care industry faces a number of challenges. From a medical scheme perspective, the key considerations that form part of the benefit design process relate to:

- Affordability of the product range
- Current and future sustainability of the product range and ultimately the Scheme
- The target market for the product range
- Attracting new lives into the market.

As part of Topmed's strategy, the Scheme has been looking to grow its membership base by attracting younger lives by offering attractive benefits on entry level options within the Scheme. The majority of the growth has been through direct marketing initiatives.

Topmed has been unable to grow its membership over the past 2 years. The Scheme has a higher age profile than the industry average, but is in the fortunate position where it has a large amount of assets. This has meant that it can look to amalgamate with a scheme where it may worsen the claims profile in the short-term but this can be covered by the scheme assets. The assets can thereafter be used to protect against other potential risks facing the amalgamated scheme going forward.

2018 has been a very difficult year for Topmed, with a number of high costing cases and a general increase in the claiming profile of the Scheme. The Board of Trustees of the Scheme agreed to actively pursue an amalgamation with a suitable scheme in order to protect the long-term interests of the members of the Scheme.

Fedhealth introduced entry level options in 2014 that have resulted in positive membership growth for the Scheme. These members have contributed favourably towards net health care results.

Fedhealth has launched a compelling benefit offering for 2019, following feedback from an extensive research project that was commissioned by the Board of Trustees in 2018. The Scheme has focussed on addressing the four key industry challenges noted above.

Both Schemes have had discussions with a number of potential merger partners over the last few years.

The Board of Trustees of both Schemes undertook a review of the potential amalgamation and have agreed that the benefit mapping between Topmed and Fedhealth provides a good opportunity to combine the Schemes for the benefit of all members going forward.

The proposed amalgamated Scheme will continue to be financially sound.

1.3 Advantages and disadvantages for members

The table below highlights the advantages and disadvantages of amalgamating Topmed and Fedhealth.

Advantages	Disadvantages
The combined scheme will benefit from a larger membership base that is expected to reduce the overall volatility of claims, reduce non-health care expenses per member and assist with provider negotiations due to increased volumes.	Loss of identity for Topmed members. Topmed members will also experience a change in administration and scheme processes.
Due to the fact that the Fedhealth options will be retained, 80.2% of total members will remain on their current option. A further 6.5% of total members will experience a reduction in contributions using the default option mapping that has been proposed.	A relatively small number of members will experience large contribution increases. Members that find the contribution rates unaffordable will, for a period following the amalgamation date, have the option to buy down to a lower cost option.
The Fedhealth solvency ratio will increase following the amalgamation due to the transfer of the Topmed reserves.	Topmed is bringing in additional reserves/assets. However, the membership profile is also expected to be worse on average compared to the Fedhealth profile. This will need to be managed by Fedhealth going forward.
The 2019 benefit design for Fedhealth will provide Topmed members with a broader range of options in terms of benefit and contribution levels. The options will also provide greater flexibility in terms of how members want to fund their day-to-day health care expenses given the Medivault savings facility structure.	Certain options will have an increase in expected claims following the amalgamation, due mainly to the profile differences on these options. The transfer of reserves from Topmed will assist with this impact over the medium term.
There is a favourable membership profile match in terms of options that are being combined.	
Topmed Trustees will join the Fedhealth Board of Trustees until the expiry of their term. This will assist with ensuring a smooth transition.	
Topmed members will have access to the Sanlam Reality Rewards programme for an additional fee.	

2. Scheme information

Topmed Medical Scheme (registration number 1422) was registered on 24 April 1972. The Scheme offers seven options to members and is an open scheme.

Fedhealth Medical Scheme (registration number 1202) was registered on 26 November 1969. The Scheme offers fifteen options and is an open scheme.

	Topmed	Fedhealth
Registration number	1422	1202
Registration date	24/04/1972	26/11/1969
Principal Officer	Mrs Barbara Duffy	Mr Jeremy Yatt
Physical address:	3 rd floor 70 Buckingham Terrace Westville 3629	Medscheme Office Park 37 Conrad Drive Florida North Roodepoort 1709
Postal address:	Topmed Medical Scheme PO Box 1462 Durban 4000	Fedhealth Medical Scheme PO Box X3045 Randburg 2125

3. 2019 contributions

3.1 2019 Fedhealth contributions

The 2019 Fedhealth contribution rates are summarised in the table below.

Fedhealth 2018 option	Fedhealth 2019 option	Principal member			Adult dependant			Child dependant		
		Risk	Savings	Total	Risk	Savings	Total	Risk	Savings	Total
Ultimax + Maxima Plus	MaxiFed 2	R7,894	R460	R8,354	R6,808	R396	R7,204	R2,466	R144	R2,610
Maxima Exec	MaxiFed 1	R4,584	R752	R5,336	R3,973	R652	R4,625	R1,431	R235	R1,666
NA	MaxiFed 1 Grid	R4,080	R670	R4,750	R3,536	R580	R4,116	R1,273	R209	R1,482
Maxima Standard + Maxima Advanced	FlexiFed 4	R3,006	R25	R3,031	R2,662	R22	R2,684	R919	R8	R927
NA	FlexiFed 4 Grid	R2,676	R22	R2,698	R2,369	R20	R2,389	R818	R7	R825
Maxima Standard Elect	FlexiFed 4 Elect	R2,255	R19	R2,274	R2,035	R17	R2,052	R703	R6	R709
Maxima Core + Maxima Basis	FlexiFed 3	R2,269	R25	R2,294	R1,996	R22	R2,018	R809	R9	R818
Maxima Core Grid + Maxima Basis Grid	FlexiFed 3 Grid	R2,019	R22	R2,041	R1,777	R20	R1,797	R720	R8	R728
NA	FlexiFed 3 Elect	R1,702	R19	R1,721	R1,497	R16	R1,513	R607	R7	R614
Maxima Saver	FlexiFed 2	R2,061	R25	R2,086	R1,747	R21	R1,768	R608	R7	R615
Maxima Saver Grid	FlexiFed 2 Grid	R1,834	R22	R1,856	R1,555	R19	R1,574	R541	R7	R548
NA	FlexiFed 2 Elect	R1,546	R19	R1,565	R1,311	R16	R1,327	R456	R6	R462
Maxima EntrySaver + Maxima EntryZone	FlexiFed 1	R1,586	R25	R1,611	R1,188	R19	R1,207	R517	R8	R525
NA	FlexiFed 1 Elect	R1,189	R19	R1,208	R891	R14	R905	R388	R6	R394

Fedhealth 2019 option		Principal member			Adult dependant			Child dependant		
		Risk	Savings	Total	Risk	Savings	Total	Risk	Savings	Total
MyFed	R0 - R5,953	R916	R0	R916	R784	R0	R784	R440	R0	R440
	R5,954 - R9,732	R1,161	R0	R1,161	R989	R0	R989	R567	R0	R567
	R9,733 - R12,021	R1,627	R0	R1,627	R1,393	R0	R1,393	R624	R0	R624
	R12,022 - R13,739	R2,068	R0	R2,068	R1,672	R0	R1,672	R808	R0	R808
	R13,740+	R2,804	R0	R2,804	R2,506	R0	R2,506	R1,068	R0	R1,068

The Fedhealth MyFed option is income-rated.

3.2 2019 Topmed contributions

The 2019 Topmed contribution rates are summarised in the table below.

Topmed 2019 option	Principal member			Adult dependant			Child dependant		
	Risk	Savings	Total	Risk	Savings	Total	Risk	Savings	Total
Comprehensive	R7,306	R0	R7,306	R6,029	R0	R6,029	R1,715	R0	R1,715
Executive	R4,020	R1,339	R5,359	R3,208	R1,069	R4,277	R1,224	R405	R1,629
Family	R3,359	R841	R4,200	R2,686	R671	R3,357	R919	R229	R1,148
Savings	R2,320	R443	R2,763	R1,853	R353	R2,206	R699	R133	R832
Active Saver	R1,537	R293	R1,830	R1,342	R256	R1,598	R500	R95	R595
Essential	R1,739	R0	R1,739	R1,399	R0	R1,399	R706	R0	R706

Topmed 2019 option		Principal member			Adult dependant			Child dependant		
		Risk	Savings	Total	Risk	Savings	Total	Risk	Savings	Total
Network	R0 - R1,000	R381	R0	R381	R381	R0	R381	R381	R0	R381
	R1,001 - R11,000	R1,530	R0	R1,530	R1,530	R0	R1,530	R428	R0	R428
	R11,001+	R2,068	R0	R2,068	R2,068	R0	R2,068	R554	R0	R554

The Topmed Network option is income-rated.

4. Amalgamated Scheme

The name of the Scheme will remain “Fedhealth Medical Scheme” and the Fedhealth 2019 option names will remain unchanged. Topmed members will be required to join an existing Fedhealth option on 1 May 2019, the proposed effective date of the amalgamation.

4.1 Demographic information

The table below shows the Topmed and Fedhealth membership as at 1 September 2018 as well as the amalgamated Scheme based on this membership.

	Topmed	Fedhealth	Amalgamated Scheme (Fedhealth)
Number of members	18,788	73,117	91,905
Number of beneficiaries (including principal members)	35,988	145,368	181,356
Family size	1.92	1.99	1.97
Average principal member age	48.61	50.37	50.01
Average beneficiary age	39.30	39.32	39.31
Pensioner ratio (65+ years)	16.8%	15.2%	15.5%
Percentage of chronic beneficiaries	29.6%	24.7%	25.7%

The average beneficiary ages of the Schemes are very similar. Topmed has a higher chronic prevalence than Fedhealth. The combined scheme will be in excess of 90,000 principal members.

4.2 Solvency ratio impact

The total forecasted reserves as at 31 December 2018¹ are shown in the table below, along with the forecasted solvency position for the combined scheme.

	Topmed	Fedhealth	Combined scheme
Accumulated funds	R521,988,125	R1,211,697,000	R1,733,685,125
Solvency ratio	66.1%	33.9%	39.7%
Forecasted membership*	18,492	71,471	89,963
Reserves per member	R28,228	R16,954	R19,271

* Both schemes forecasted membership losses to year end.

Topmed is forecasted to add approximately R522 million to the R1,212 million accumulated funds held by Fedhealth. The solvency ratio of the combined scheme allowing for a full year of contributions from the combined membership would be approximately 39.7%.

The combined scheme will continue to be well in excess of the 25% legislated minimum solvency ratio. Appendix A shows the financial projections of Fedhealth for the next 5 years.

4.3 Scheme Rules

Fedhealth has agreed to appoint the current Topmed Trustees until the date that their terms of office would have expired. This will assist with some continuity in terms of background to Topmed and its membership.

In terms of other rule changes required, the Boards of Trustees do not envisage any additional rule changes being required to effect the amalgamation.

¹ As provided in the 2019 CMS pricing report submissions by both schemes

4.4 Default options

Fedhealth has significantly redesigned its option range for 2019. The usual concept of a medical savings account allocated in advance to members that is then “paid off” as part of the monthly contribution has been largely removed on all but the top 3 options. The savings allocation has been reduced significantly and replaced with an interest-free loan facility that is available to members to fund day-to-day claims. Members therefore request an allocation that is stored in the Fedhealth Medivault. Members repay the allocation over the next 12 months in equal instalments.

In addition to the above, a number of smaller loss-making options have been combined, and new Efficiency Discounted Options (‘EDOs’) introduced.

The table below shows the 2018 Fedhealth options mapped to the 2019 Fedhealth options as well as to the 2019 Topmed options (which remained largely unchanged other than the closing of the Limited option on 31 December 2018). The new Efficiency Discounted Options (‘EDOs’) introduced by Fedhealth in 2019 have also been shown.

2018 Fedhealth option	2019 Fedhealth option	Principal membership 1 Sept 2018	2019 Topmed option	Principal membership 1 Sept 2018	Combined membership on retained Fedhealth option
Ultimax	MaxiFed 2	171	Comprehensive	606	1,983
Maxima Plus		1,206			
Maxima Exec	MaxiFed 1	4,060	Executive	999	5,059
N/A	MaxiFed 1 Grid*	-			-
Maxima Standard	FlexiFed 4	21,038	Family	854	24,188
Maxima Advanced		2,296			
N/A	FlexiFed 4 Grid*	-			-
Maxima Standard Net	FlexiFed 4 Elect	592			592
Maxima Core	FlexiFed 3	7,127	Savings	4,622	17,837
Maxima Basis		6,088			
Maxima Core Grid	FlexiFed 3 Grid	384			384
Maxima Basis Grid		514			514
N/A	FlexiFed 3 Elect*	-			-
Maxima Saver	FlexiFed 2	5,246			5,246
Maxima Saver Grid	FlexiFed 2 Grid	2,111	Essential	2,597	4,708
N/A	FlexiFed 2 Elect*	-			-
Maxima Entrysaver	FlexiFed 1	13,721	Active Saver	6,899	24,813
Maxima Entryzone		4,193			
N/A	FlexiFed 1 Elect*	-			-
Blue Door Plus	MyFed	4,370	Network	2,211	6,581
Total		73,117	Total	18,788	91,905

* New option for 2019

The Board of Trustees of both Schemes have considered if there is a possible way in which any of the current Topmed options can be retained as part of the benefit offering going forward.

When reviewing the option structure, it is evident that the Fedhealth option range provides a product for every stage of life for a member. Retaining a Topmed option is likely to be short-term because it would be out of line with the remainder of the new Fedhealth option tiering and benefit structure. The size of the Topmed options are also in most instances the smaller of the two groups that are looking to be combined.

Following deliberation it was agreed that the Topmed options will be collapsed into the Fedhealth options on 1 May 2019.

High-level benefit and contribution impacts of the default mapping are provided overleaf.

4.4.1 Topmed Comprehensive and Fedhealth MaxiFed 2

Topmed Comprehensive will be merged into Fedhealth MaxiFed 2. The table below provides an overview of the 2019 benefits offered on both options.

Benefits	Topmed Comprehensive (to be discontinued)	Fedhealth MaxiFed 2 (to be retained)
Option type	Yearly limit with unlimited threshold (co-payments apply)	Savings and OHEB with unlimited threshold (sub-limits apply)
Reimbursement rate	300%	200%
Hospital network	No	No
Oncology	R628,848 per beneficiary thereafter 20% co-payment Specialised medicine: Sub-limit of R355,944 with 20% co-payment	Unlimited at ICON preferred provider network (subject to level 3 protocols) Specialised medicine: Sub-limit of R347,900
Chronic conditions	26 CDL conditions plus all other non- CDL conditions are covered Unlimited - covered at 80% in threshold	26 CDL conditions plus 40 non-CDL conditions covered up to a limit of R15,000 per beneficiary and R28,000 per family
Out-of-hospital benefits	<u>Yearly limit</u> P: R10,344 A: R8,760 C: R2,292 <u>Self-payment gap</u> P: R3,396 A: R2,544 C: R852 <u>Threshold benefit</u> Unlimited - Benefits reimbursed at 80% of tariff in threshold	<u>Savings and OHEB</u> P: R14,243 A: R11,047 C: R3,662 <u>Self-payment gap</u> P: R1,575 A: R1,119 C: R557 <u>Threshold benefit</u> Unlimited - subject to various sub-limits per benefit category
Number of children charged for	Maximum of 3	Maximum of 3

MaxiFed 2 is the most comprehensive option on Fedhealth. It provides a 200% reimbursement rate (Comprehensive: 300%) for in-hospital specialist cover. The outpatient benefit limits are higher on MaxiFed 2 than on Topmed Comprehensive, with a lower self-payment gap before reaching threshold benefits. This increased benefit is reflected in the higher contribution rates. Benefits whilst in threshold are fully covered by Fedhealth until sub-limits are reached. Topmed Comprehensive provided unlimited threshold benefits at an 80% reimbursement. MaxiFed 2 provides unlimited oncology benefits, with comparable specialised medicine sub-limits.

The table below on the left shows the overall contribution impact for Topmed Comprehensive members. The table on the right shows the average increases for different family sizes.

Topmed Comprehensive	Percentage increase
Average increase	15.9%
Minimum increase	14.3%
Maximum increase	30.0%

* P: Principal, A: Adult, C: Child

Different family sizes*	Percentage increase
P	14.3%
P + 1A	16.7%
P + 1C	21.5%
P + 2A	17.5%
P + 1A + 1C	20.7%
P + 1A + 2C	23.9%
P + 3C	30.0%

The Topmed Comprehensive members will have large contribution increases following the merger. The majority of members are Principal and Principal + 1 Adult. Their contribution increase will be 14.3% and 16.7% respectively.

There will be no contribution impact for members already participating on Fedhealth MaxiFed 2.

4.4.2 Topmed Executive and Fedhealth MaxiFed 1

Topmed Executive will be merged into Fedhealth MaxiFed 1. The table below provides an overview of the 2019 benefits offered on both options.

Benefits	Topmed Executive (to be discontinued)	Fedhealth MaxiFed 1 (to be retained)
Option type	Savings (25%) with limited threshold	Savings (14.1%) with threshold (10% co-payment in threshold)
Reimbursement rate	200%	200%
Hospital network	No	No
Oncology	R510,180 per beneficiary Specialised medicine: Sub-limit of R296,628 with 20% co-payment	R555,900 per beneficiary Specialised medicine: Sub-limit of R173,400
Chronic conditions	CDL and non-CDL conditions accrue to limit of R10,128 per beneficiary R20,616 per family. Thereafter CDL/PMB unlimited	26 CDL conditions plus 26 non-CDL conditions covered up to a limit of R7,100 per beneficiary and R13,100 per family. Thereafter CDL/PMB unlimited
Out-of-hospital benefits	<u>Annual savings</u> P: R16,068 A: R12,828 C: R4,860 <u>Self-payment gap</u> P: R3,120 A: R3,120 C: R1,236 <u>Threshold benefit</u> Unlimited - various sub-limits per benefit category	<u>Annual savings</u> P: R9,024 A: R7,824 C: R2,820 <u>Self-payment gap</u> P: R4,627 A: R2,658 C: R691 <u>Threshold benefit</u> Unlimited - subject to 10% co-payment and various sub-limits per benefit category
Number of children charged for	Maximum of 3	Maximum of 3

MaxiFed 1 provides a 200% reimbursement rate for in-hospital specialist cover, which is the same as Topmed Executive. Whilst both options offer a threshold benefit after a self-payment gap, MaxiFed 1 has a 14.1% savings benefit whilst Executive has a 25.0% savings benefit.

Members will therefore reach threshold benefits sooner on Fedhealth MaxiFed 1 and then pay a 10% co-payment on benefits used.

The table below on the left shows the overall contribution impact for Topmed Executive members. The table on the right shows the average increases for different family sizes.

Topmed Executive	Percentage increase
Average increase	1.7%
Minimum increase	(0.4%)
Maximum increase	6.1%

* P: Principal, A: Adult, C: Child

Different family sizes*	Percentage increase
P	(0.4%)
P + 1A	3.4%
P + 1C	0.2%
P + 2A	4.8%
P + 1A + 1C	3.2%
P + 1A + 2C	3.1%
P + 4A	6.1%

Approximately 42% of the Topmed Executive members will experience a small reduction in contributions. The majority of the remaining members will have small increases of approximately 3.4%.

There will be no contribution impact for members already participating on Fedhealth MaxiFed 1.

4.4.3 Topmed Family and Fedhealth FlexiFed 4

Topmed Family will be merged into Fedhealth FlexiFed 4. The table below provides an overview of the 2019 benefits offered on both options.

Benefits	Topmed Family (to be discontinued)	Fedhealth FlexiFed 4 (to be retained)																								
Option type	Savings (20%) with Limited threshold	Savings (up to 20.0%) with threshold (20% co-payment in threshold)																								
Reimbursement rate	150%	100%																								
Hospital network	No	No																								
Oncology	R379,008 per beneficiary	R444,700 per beneficiary																								
Chronic conditions	26 CDL conditions plus 8 other non-CDL conditions are covered from chronic medicine sub- limit of R11,976 per family	26 CDL conditions plus 14 non-CDL conditions covered up to a limit of R5,680 per beneficiary and R11,350 per family																								
Out-of-hospital benefits	<p><u>Allocated annual savings</u> P: R10,092 A: R8,052 C: R2,748</p> <p><u>Self-payment gap</u> P: R3,132 A: R3,132 C: R1,668</p> <p><u>Threshold benefit limit</u> P: R13,152 A: R9,492 C: R2,784</p> <p>Various sub-limits by benefit category apply</p>	<table border="0"> <tr> <td><u>Allocated annual savings</u></td> <td><u>Maximum additional annual savings</u></td> </tr> <tr> <td>P: R300</td> <td>M: R7,500</td> </tr> <tr> <td>A: R264</td> <td>M+1: R14,100</td> </tr> <tr> <td>C: R96</td> <td>M+2: R16,200</td> </tr> <tr> <td></td> <td>M+2+: R19,500</td> </tr> <tr> <td colspan="2"><u>Self-payment gap</u></td> </tr> <tr> <td></td> <td>M: R6,150</td> </tr> <tr> <td></td> <td>M+1: R10,050</td> </tr> <tr> <td></td> <td>M+2: R11,460</td> </tr> <tr> <td></td> <td>M+2+: R12,000</td> </tr> <tr> <td colspan="2"><u>Threshold benefit</u></td> </tr> <tr> <td colspan="2">Various sub-limits per benefit category apply - subject to 20% co-payment</td> </tr> </table>	<u>Allocated annual savings</u>	<u>Maximum additional annual savings</u>	P: R300	M: R7,500	A: R264	M+1: R14,100	C: R96	M+2: R16,200		M+2+: R19,500	<u>Self-payment gap</u>			M: R6,150		M+1: R10,050		M+2: R11,460		M+2+: R12,000	<u>Threshold benefit</u>		Various sub-limits per benefit category apply - subject to 20% co-payment	
<u>Allocated annual savings</u>	<u>Maximum additional annual savings</u>																									
P: R300	M: R7,500																									
A: R264	M+1: R14,100																									
C: R96	M+2: R16,200																									
	M+2+: R19,500																									
<u>Self-payment gap</u>																										
	M: R6,150																									
	M+1: R10,050																									
	M+2: R11,460																									
	M+2+: R12,000																									
<u>Threshold benefit</u>																										
Various sub-limits per benefit category apply - subject to 20% co-payment																										
Number of children charged for	Maximum of 3	Maximum of 3																								

FlexiFed 4 provides a 100% reimbursement rate (Family: 150%) for in-hospital specialist cover. The option has a 0.8% savings level with an option to include additional savings through the Medivault facility of approximately 20.0% (Family: 20% savings). Once this has been exhausted there is a limited threshold benefit (Family: limited threshold) after a self-payment gap.

The Fedhealth self-payment gap shown in the table above has not been reduced to take account of the 0.8% savings level. Therefore, depending on the family composition for each member, the self-payment gap will reduce by the allocated annual savings amount. These are small amounts and therefore do not significantly impact the comparison shown.

The Oncology benefit on Fedhealth FlexiFed 4 is higher than on Topmed Family.

The table below on the left shows the overall risk contribution impact by family size for the Topmed Family members. Risk contributions have been compared below as members have flexibility on the level of savings that is accessed through the Medivault facility. The table on the right shows the average increases for different family sizes.

Topmed Family	Percentage increase
Average increase	(7.9%)
Minimum increase	(10.5%)
Maximum increase	(3.5%)

* P: Principal, A: Adult, C: Child

Different family sizes*	Percentage increase
P	(10.5%)
P + 1A	(6.2%)
P + 1C	(8.3%)
P + 2A	(4.6%)
P + 1A + 1C	(5.4%)
P + 1A + 2C	(4.8%)
P + 2A + 4C	(3.5%)

All Topmed Family members will have a reduction in risk contributions. There will be no contribution impact for members already participating on Fedhealth FlexiFed 4.

4.4.5 Topmed Active Saver and Fedhealth FlexiFed 1

Topmed Active Saver will be merged into Fedhealth FlexiFed 1. The table below provides an overview of the 2019 benefits offered on both options.

Benefits	Topmed Active Saver (to be discontinued)	Fedhealth FlexiFed 1 (to be retained)
Option type	Savings (16%)	Savings (up to 18.5%)
Reimbursement rate	100%	100%
Hospital network	No	Yes
Oncology	PMB only	PMB only
Chronic conditions	26 CDL conditions	26 CDL conditions
Out-of-hospital benefits	<p><u>Annual savings</u> P: R3,516 A: R3,072 C: R1,140</p> <p>Additional benefit once savings have been exhausted. Unlimited doctor's visits at a network doctor and a basic dental benefit. Maternity benefit package with consults and scans.</p>	<p><u>Allocated annual savings</u> <u>Maximum additional annual savings</u> P: R300 M: R3,600 A: R228 M+1: R6,000 C: R96 M+2: R7,200 M+2+: R8,700</p> <p>Additional benefit once savings have been exhausted. Unlimited doctor's visits at a network doctor and a basic dental benefit.</p>
Benefit limitations	<p>Extensive list of co-payments and deductibles for in-hospital procedures</p> <p>No hospital benefit for the following: Hip and knee replacements (only covered in the event of trauma), musculoskeletal conditions, nissen surgery, various mouth and throat surgeries, gauchers</p>	<p>Extensive list of co-payments and deductibles for in-hospital procedures</p> <p>No hospital benefit for the following: Dental admissions, arthroscopic procedures of the hip, balloon sinuplasty, total ankle replacement</p>
Number of children charged for	All children	Maximum of 3

Both options provide a 100% reimbursement rate for in-hospital specialist cover. Hospital cover on FlexiFed 1 is provided through a hospital network. Members can opt to pay a R6,400 voluntary co-payment should they wish to use a non-network hospital. Active Saver has no hospital network.

FlexiFed 1 has a 1.6% savings level with an option to include additional savings through the Medivault facility of approximately 18.5% (Active Saver: 16% savings). Both options cover additional out of hospital benefits including GP visits through a network doctor.

Fedhealth FlexiFed 1 charges for a maximum of 3 children. All children are charged on Active Saver. Therefore, Active Saver members with a large number of children will experience contribution decreases but will be limited by the level of savings they can contribute towards.

The table below on the left shows the overall risk contribution impact by family size for the Topmed Active Saver members. Risk contributions have been compared below as members have flexibility on the level of savings that is accessed through the Medivault facility. The table on the right shows the average increases for different family sizes.

Topmed Active Saver	Percentage increase
Average increase	1.4%
Minimum increase	(32.2%)
Maximum increase	3.3%

* P: Principal, A: Adult, C: Child

Different family sizes*	Percentage increase
P	3.2%
P + 1A	(3.6%)
P + 1C	3.2%
P + 2A	(6.1%)
P + 1A + 1C	(2.6%)
P + 1A + 2C	(1.8%)

Approximately 29% of Topmed Active Saver members will have a reduction in risk contributions. The remaining 71% of members will have a contribution increase of between 3.2% and 3.3%. There will be no contribution impact for members already participating on Fedhealth FlexiFed 1.

4.4.6 Topmed Essential and Fedhealth FlexiFed 2 GRID

Topmed Essential members will be merged into Fedhealth FlexiFed 2 GRID. The table below provides an overview of the 2019 benefits offered on both options.

Benefits	Topmed Essential (to be discontinued)	Fedhealth FlexiFed 2 GRID (to be retained)
Option type	Hospital	Savings (up to 18.0%)
Reimbursement rate	100%	100%
Hospital network	Yes	Yes
Oncology	R314,436 per beneficiary	R277,900 per beneficiary
Chronic conditions	26 CDL conditions	26 CDL conditions
Out-of-hospital benefits	No benefit	<u>Maximum annual Medivault savings</u> M: R3,600 M+1: R6,900 M+2: R8,100 M+2+: R9,600
Number of children charged for	Maximum of 3	Maximum of 3

Given the age profile of the Essential members, they are expected to struggle with the benefit limits and restrictions placed on FlexiFed 1 members. However, members who cannot afford the FlexiFed 2 GRID contributions still have the option to move to FlexiFed 1 at a lower contribution level.

The table below on the left shows the overall risk contribution impact by family size for the Topmed Essential members. Risk contributions have been compared below as members have flexibility on the level of savings that is accessed through the Medivault facility. The table on the right shows the average increases for different family sizes.

Topmed Essential	Percentage increase
Average increase	4.7%
Minimum increase	(10.4%)
Maximum increase	9.5%

* P: Principal, A: Adult, C: Child

Different family sizes*	Percentage increase
P	5.5%
P + 1A	8.0%
P + 1C	(2.9%)
P + 2A	9.0%
P + 1A + 1C	2.2%
P + 1A + 2C	(1.7%)
P + 3A	9.5%

Approximately 51% of Topmed Essential members will have a contribution increase of 5.5% or less, with approximately 33% of members experiencing an increase between 5.6% and 9.5%. The remaining 16% of members will have a reduction in contributions. There will be no contribution impact for members already participating on Fedhealth FlexiFed 2 GRID.

4.4.7 Topmed Network and Fedhealth MyFed

Topmed Network members will be merged into Fedhealth MyFed. The table below provides an overview of the 2019 benefits offered on both options.

Benefits	Topmed Network (to be discontinued)	Fedhealth MyFed (to be retained)
Option type	Network	Network
Reimbursement rate	100%	100%
Hospital network	Yes Hospitalisation cover restricted to PMB only	Yes
Oncology	PMB only	PMB only
Chronic conditions	26 CDL conditions	26 CDL conditions
Out-of-hospital benefits	Network of specialists for treatment of PMB and non-PMB conditions Limited to 2 GP consultations per beneficiary per annum Additional consultations subject to clinical protocols and pre-authorisation.	Network of specialists for treatment of PMB and non-PMB conditions Unlimited visits to nominated and contracted GP. Monitoring after 6 visits.
Number of children charged for	All children	Maximum of 3

MyFed provides a 100% reimbursement rate for in-hospital specialist cover through a hospital network, which is the same as the Topmed Network option. Both options provide out of hospital cover through capitation arrangements with providers. MyFed provides PMB and non-PMB in and out of hospital cover whilst the Network option only covers PMBs. The MyFed out of hospital benefit offering is more comprehensive than that offered by Topmed Network.

The table below summarises the contribution impact by family size for the Topmed Network members. The contribution impact has been split by income level.

Contribution impact

Income level	Family size*						
	P	P+1A	P+1A+1C	P+1A+2C	P+1C	P+2C	Other
R0 - R999	140.4%	123.1%	87.2%	N/A	78.0%	57.1%	58.5%
R1,000 - R1,999	(30.5%)	(44.4%)	(7.6%)	N/A	22.9%	15.3%	N/A
R2,000 - R4,999	(40.1%)	(44.4%)	(38.6%)	(34.1%)	(30.7%)	(24.7%)	(35.7%)
R5,000 - R5,999	(39.3%)	(44.4%)	(38.6%)	(34.1%)	(30.7%)	(14.3%)	(25.5%)
R6,000 - R8,999	(24.1%)	(29.7%)	(22.1%)	(16.1%)	(11.7%)	(3.8%)	(26.0%)
R9,000 - R9,999	(23.1%)	(29.7%)	(22.1%)	N/A	(11.7%)	(3.8%)	N/A
R10,000 - R10,999	6.3%	(1.3%)	4.5%	9.0%	15.0%	20.5%	24.3%
R11,000 - R11,999	(20.7%)	(27.0%)	(22.3%)	(11.1%)	(14.1%)	(9.5%)	(16.7%)
R12,000 - R12,999	(5.9%)	(9.6%)	(3.0%)	2.1%	9.7%	16.0%	6.3%
R13,000 - R13,999	5.9%	(9.6%)	N/A	42.0%	23.9%	16.0%	N/A
R14,000+	35.6%	28.4%	36.0%	42.0%	47.7%	55.5%	45.6%
Total	87.1%	(20.9%)	(7.9%)	(6.0%)	16.0%	17.8%	1.1%

* P: Principal, A: Adult, C: Child

Topmed members currently on the R0 - R1,000 income band will have significant contribution increases.

The majority of members earning between R1,000 and R13,000 will have a reduction in contributions. Members earning R14,000 or more will have large contribution increases but have a number of alternative benefit options to choose from.

There will be no contribution impact for members already participating on Fedhealth MyFed.

5. Conclusion

The benefit structure of the amalgamated scheme will provide members with a wide range of options at various contribution levels.

Unfortunately, as with all amalgamations, some members will experience contribution increases and/or benefit reductions, whilst others will experience contribution decreases and/or benefit increases. Overall, the benefits and contributions of the two Schemes are a good match and most members will experience small impacts following the move. Where the impacts are large, members have the option to choose alternative plans that better suit their needs.

It is also important to note that higher contribution increases and further benefit reductions would have been required going forward on Topmed in order to ensure sustainability had the amalgamation not been considered.

The amalgamated scheme is expected to be in a financially sound position following the amalgamation.

Appendix A

This Appendix shows the projected results for Fedhealth following the amalgamation for 2019 to 2024.

FEDHEALTH	2019	2020	2021	2022	2023	2024
Gross Contributions	3,912,702,631	4,668,019,736	5,292,138,372	5,999,262,323	6,801,181,748	7,725,709,962
Net Contributions	3,806,530,333	4,540,137,806	5,145,697,760	5,831,402,997	6,608,609,145	7,504,310,129
- Benefits	3,320,040,885	3,967,028,453	4,486,213,950	5,073,841,730	5,739,163,900	6,504,271,984
- Capitation Fee	3,920,661	4,488,873	4,865,469	5,271,969	5,711,609	6,201,760
+ Other Income	10,719,196	12,079,390	13,088,596	14,182,578	15,372,921	16,711,420
- Expenses	577,779,998	645,729,874	699,802,858	758,464,020	822,335,926	894,204,563
Admin Fee	291,223,411	328,693,762	356,404,202	386,482,102	419,259,578	456,177,045
MHRS Fee	97,182,494	109,423,242	118,548,084	128,454,515	139,249,971	151,400,746
Broker Commission	74,975,504	83,973,855	90,887,959	98,373,637	106,495,681	115,603,940
Other Expenses	114,398,590	123,639,016	133,962,613	145,153,766	157,330,696	171,022,831
= Underwriting surplus/(deficit)	- 84,492,015	- 65,030,004	- 32,095,921	8,007,855	56,770,632	116,343,242
+ Investment Income	99,070,009	131,553,666	128,992,223	136,460,506	147,636,479	163,860,505
Surplus/(Deficit)	14,577,994	66,523,662	96,896,301	144,468,361	204,407,111	280,203,746
Membership projection						
Accumulated Funds	1,608,059,313	1,674,582,975	1,771,479,277	1,915,947,637	2,120,354,748	2,400,558,494
Solvency ratio	41.1%	35.9%	33.5%	31.9%	31.2%	31.1%

Notes