



Prepared by
NMG Consultants and Actuaries (Pty) Ltd
October 2020

Exposition Document
Amalgamation of Quantum Medical Aid
Society and Discovery Health Medical Scheme
with effect from 1 April 2021

A handwritten signature in black ink is located in the bottom right corner of the page. The signature is stylized and appears to be a single continuous stroke.

Table of Contents

1. Introduction	1
1.1 Purpose of document	1
1.2 Background to schemes	1
1.3 Reasons for amalgamation	2
1.4 Data	3
2. Amalgamation Detail	4
2.1 Transfer	4
2.2 Resolutions	4
2.3 Consent of members	4
2.4 Comments and objections	4
2.5 Governance	5
2.6 Declarations and Signatories	5
3. Scheme Information	6
3.1 Background of schemes	6
3.2 Operational comparison	8
4. Demographic Profile Comparison	9
4.1 Membership and demographic profile by benefit option	9
4.2 Combined membership and demographic profile	10
5. Impact Analysis	11
5.1 Benefit option mapping under an amalgamated scheme	11
5.2 Impact of Quantum members on DHMS benefit options	11
5.2.1 <i>Essential Comprehensive</i>	11
5.2.2 <i>Essential Saver</i>	13
5.2.3 <i>KeyCare Plus</i>	14
5.3 Overall financial impact of Quantum members on DHMS	15
6. Advantages and Disadvantages	17
7. Summary of Impact of Amalgamation	19



Appendix A : 2021 Contributions

20

Appendix B : 2021 Benefit Comparisons

21

A handwritten signature in black ink, appearing to be a stylized 'C' or similar character.

1. Introduction

1.1 Purpose of document

The purpose of this document is to provide an exposition of the proposed amalgamation of Quantum Medical Aid Society ('Quantum') and Discovery Health Medical Scheme ('DHMS') as required in terms of Section 63 of the Medical Schemes Act 131 of 1998, as amended ('the Act'). It is proposed that Quantum will amalgamate with DHMS, with DHMS continuing as the amalgamated scheme under its current registration.

Subject to regulatory approvals in terms of the Act and any other legislation, the proposed date of the amalgamation is 1 April 2021 (the 'Effective Date'), or the date on which all regulatory approvals for the amalgamation has been obtained, whichever is the later.

1.2 Background to schemes

Quantum Medical Aid Society

Quantum Medical Aid Society is a small restricted membership medical scheme whose participating employers are Bidvest and Sun International. Quantum has experienced a steady decline in membership over the last 10 years. The number of principal members has reduced from 7 078 in 2011 to 3 273 at the end of September 2020. At the same time the average age of the Scheme's beneficiaries has increased from 30.6 in 2011 to 37.6 in September 2020. The average beneficiary age of the medical scheme industry was 33.1 as at the end of December 2018 (the latest available industry information). The current average age of the Quantum beneficiaries is therefore 4.5 years older than the industry average age as at the end of 2018.

The Quantum projected 2020 Regulation 29 reserves are R145.6 million representing a solvency ratio of 92%.

Discovery Health Medical Scheme

Discovery Health Medical Scheme is by far the largest open medical scheme in the medical scheme industry with 1 326 639 principal members as at the end of September 2020. As at the end of December 2018 (the latest available industry information) DHMS represented 56.7% of the open medical scheme market. The average beneficiary age of DHMS as at the end of September 2020 was 35.8 years.

DHMS has achieved consistent and significant membership growth since its inception and is considered an extremely financially stable and sustainable scheme. DHMS has also been at the forefront of innovation in the medical scheme industry.

The DHMS projected 2020 Regulation 29 reserves are R27 546 million representing a solvency ratio of 37%.

1.3 Reasons for amalgamation

The main reasons for the schemes considering an amalgamation are:

1. The trustees of the Quantum Medical Aid Society are of the opinion that Quantum will not be sustainable scheme over the longer term as a result of the following:
 - The trend of decreasing membership and increasing age, as set out above, is expected to continue in future. The impact of COVID-19, especially on Sun International, is expected to exacerbate the current trend of membership losses.
 - While the Scheme has a relatively high projected 2020 solvency ratio of 92%, this is mainly due to the trend of membership losses since the Scheme has been experiencing operating losses for the past 5 years, with the operating losses being significantly large in certain years. The lower projected claims in 2020 as a result of COVID-19 has also resulted in the solvency ratio increasing in 2020.
2. Given that Quantum does not have a favourable demographic profile relative to the industry and that the demographic profile is expected to further worsen in future, Quantum is unlikely to be an attractive amalgamation partner for other schemes from a demographic profile perspective. The current projected 2020 solvency ratio of 92%, however, compensates for the unfavourable demographic profile since this can be used to subsidise the higher than expected claims of the Quantum members relative to the members of potential schemes that Quantum could amalgamate with. It is therefore important for Quantum to find an amalgamation partner before the solvency ratio reduces to a level that would no longer compensate for the Scheme's unattractive demographic profile.
3. Quantum considered numerous schemes as potential amalgamation partners and based on a detailed analysis of these schemes, Discovery Health Medical Scheme was considered the most appropriate scheme for Quantum to amalgamate with for the following reasons:
 - The DHMS benefit options are amongst the most competitive benefit options in the market.
 - Based on factors such as membership size, demographic profile, financial results, expertise and innovation, DHMS was considered an extremely stable and sustainable scheme and an amalgamation with DHMS would therefore ensure that the Quantum members will become members of a large, stable and sustainable medical scheme.
 - The Quantum benefit options very closely mirror the equivalent DHMS benefit options and the choice of benefit options under DHMS for the Quantum members would therefore be straightforward.
 - The transfer of the members to the Discovery Health Medical Scheme should be seamless since they are currently administered by the same administrator, namely Discovery Health (Pty) Ltd.

- Employees of Bidvest and Sun International are currently offered a choice between Quantum and an open scheme. DHMS is currently one of the open schemes offered to employees of Bidvest and Southern International, who elect not to join Quantum. These two employer groups would therefore not have to offer an additional open scheme to its employees, which would result in an increased administrative burden.

1.4 Data

The analyses in this report have been based on the following data:

1. The data and analyses in respect of Quantum has been provided and carried out by NMG Consultants and Actuaries (Pty) Ltd ('NMG') who provide independent actuarial services to Quantum. The Quantum data is provided to NMG by Quantum's administrator, namely Discovery Health (Pty) Ltd.
2. The data and analyses in respect of DHMS (including the expected impact on the DHMS benefit options) was provided and carried out by the Discovery Health actuaries who provide actuarial services to DHMS.

2. Amalgamation Detail

2.1 Transfer

1. It is proposed that with effect from the Effective Date, Quantum Medical Aid Society and Discovery Health Medical Scheme will amalgamate to form one medical scheme. The amalgamated scheme will be called the Discovery Health Medical Scheme and continue as a scheme under Discovery Health Medical Scheme's current registration.
2. With effect from the Effective Date all members of Quantum will become members of DHMS. For purposes of calculating the period of continuous membership of DHMS, all Quantum members shall be regarded as having been members of DHMS with effect from the date upon which they joined Quantum.
3. As at the Effective Date, DHMS shall take transfer of all assets belonging to or owned by Quantum and shall accept responsibility for all liabilities of Quantum, including the liability for medical claims that would have been valid against Quantum in terms of its Rules for services rendered to members prior to the transfer of assets and liabilities, as contemplated in section 63(14) of the Medical Schemes Act.
4. With effect from the Effective Date, and upon making due application to the Council for Medical Schemes, Quantum shall be deregistered as a medical scheme and cease to exist.

2.2 Resolutions

The Boards of Trustees of Quantum in terms of Rule 30 of its Rules and DHMS in terms of Rule 29 of its Rules have passed resolutions approving the amalgamation on 15 September 2020 and 19 November 2020 respectively, read with Section 63 of the Medical Schemes Act.

2.3 Consent of members

1. The members of both Schemes will be approached regarding this transaction.
2. In the instance of the Quantum members, the members through a ballot will be asked to vote in favour of the transaction.
3. In the instance of the DHMS members, through the holding of a special general meeting in February 2021, will be asked to vote in favour of the transaction.

2.4 Comments and objections

1. The parties to the exposition will comply with the provisions of section 63 of the Medical Schemes Act and ensure that the exposition of the proposed amalgamation will be made available for inspection for a period of 21 days as contemplated herein, from the date it is formally filed with the Registrar of Medical Schemes. A notice will be published in national newspapers.

2. Any representation concerning the proposed transaction by persons whose interests may be affected, must be submitted within 21 days after the expiry of the afore-mentioned 21-day period in writing to either:
- The Registrar of Medical Schemes at Private Bag X34, Hatfield, 0028.
 - The Principal Officer of Quantum at 2 Vista House, Randparkrif, 2195
 - The Principal Officer of DHMS at 1 Discovery Place, Sandton, 2146

2.5 Governance

The Board of Trustees of Quantum will be disbanded on the Effective Date of the amalgamation with DHMS, other than for the finalisation and approval of the 2020 annual financial statements. The Board of Trustees of the amalgamated scheme will comprise of the current DHMS Board of Trustees.

The Principal Officer of the amalgamated scheme will be the current Principal Officer of DHMS.


2.6 Declarations and Signatories

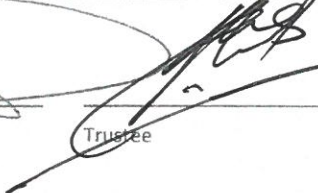
This exposition document has been prepared for Quantum and DHMS by the appointed independent actuaries for Quantum, namely NMG Benefits (Pty) Ltd ('NMG'). NMG does not have any financial interest in the operations of the administrator of the two schemes, namely Discovery Health (Pty) Ltd.


This exposition document outlines key factors considered when determining if an amalgamation between Quantum and DHMS would be in the best interest of the members. The Boards of Trustees of Quantum and DHMS have agreed that the amalgamation that will be in the best interest of members and the amalgamated scheme.

On behalf of Quantum Medical Aid Society

Signed at : Sandton on 14/01/2021


Chairman


Trustee


Principal Officer

On behalf of Discovery Health Medical Scheme

Signed at : Sandton on 14/01/2021


Chairman


Trustee


Principal Officer

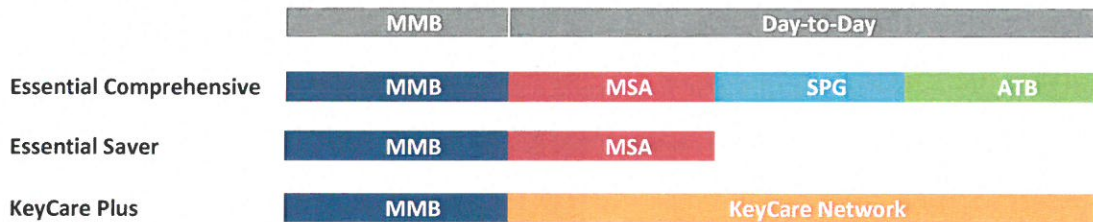
3. Scheme Information

3.1 Background of schemes

Quantum Medical Aid Society

Name of the Scheme	Quantum Medical Aid Society
Type of Scheme	Restricted medical scheme
Date of Registration	3 January 1983
Participating employer groups	Bidvest and Sun International
Administrator	Discovery Health (Pty) Ltd
Managed care providers	Discovery Health (Pty) Ltd Centre for Diabetes and Endocrinology (Pty) Ltd Dental Risk Company (Pty) Ltd Iso Leso Ltd

Quantum currently offers 3 benefit options. The diagram below provides an overview of the structure of each option.



MMB: Major Medical Benefit
 MSA: Medical Savings Account
 SPG : Self Payment Gap
 ATB : Above Threshold Benefit

Discovery Health Medical Scheme

Name of the Scheme	Discovery Health Medical Scheme
Type of Scheme	Open medical scheme
Date of Registration	10 August 1971
Administrator	Discovery Health (Pty) Ltd
Managed care providers	Discovery Health (Pty) Ltd Dental Risk Company (Pty) Ltd Iso Leso Ltd ICON (Pty) Ltd Pathway Services (Pty) Ltd Medical Services Organisation International Suncreed/Guidepost

Discovery Health Medical Scheme will offer 23 benefit options in 2021. The diagram below provides an overview of the structure of each benefit option.

	MMB	Day-to-Day		
Executive Plan	MMB	MSA	SPG	ATB
Classic Comprehensive	MMB	MSA	SPG	ATB
Classic Delta Comprehensive	MMB	MSA	SPG	ATB
Essential Comprehensive	MMB	MSA	SPG	ATB
Essential Delta Comprehensive	MMB	MSA	SPG	ATB
Classic Smart Comprehensive	MMB	MSA	SPG	ATB
Classic Priority	MMB	MSA	SPG	ATB
Essential Priority	MMB	MSA	SPG	ATB
Classic Saver	MMB	MSA		
Classic Delta Saver	MMB	MSA		
Essential Saver	MMB	MSA		
Essential Delta Saver	MMB	MSA		
Coastal Saver	MMB	MSA		
Classic Smart	MMB	Limited Insured Benefits		
Essential Smart	MMB	Limited Insured Benefits		
Classic Core	MMB			
Classic Delta Core	MMB			
Essential Core	MMB			
Essential Delta Core	MMB			
Coastal Core	MMB			
KeyCare Plus	MMB	KeyCare Network Insured Benefits		
KeyCare Core	MMB			
KeyCare Start	MMB	KeyCare Network Insured Benefits		

MMB: Major Medical Benefit
MSA: Medical Savings Account
SPG: Self Payment Gap
ATB: Above Threshold Benefit

3.2 Operational comparison

	Quantum	Discovery Health Medical Scheme	Amalgamated Scheme
Scheme Name	Quantum Medical Aid Society	Discovery Health Medical Scheme	Discovery Health Medical Scheme
Legal entity	Quantum Medical Aid Society	Discovery Health Medical Scheme	Discovery Health Medical Scheme
Administrator	Discovery Health (Pty) Ltd	Discovery Health (Pty) Ltd	Discovery Health (Pty) Ltd
Managed Care Service Providers	Discovery Health (Pty) Ltd, CDE, DRC, IsoLeso	Discovery Health (Pty) Ltd, DRC, Iso Leso ICON, Pathways Services (Pty) Ltd), MSOI, Suncreed/Guidepost	Discovery Health (Pty) Ltd, DRC, Iso Leso ICON, Pathways Services (Pty) Ltd), MSOI, Suncreed/Guidepost
Capitation arrangements	CDE, DRC, Iso Leso	DRC, Iso Leso, DCCN, KeyCare Capitation Network	DRC, Iso Leso, DCCN, KeyCare Capitation Network
Other third-party providers	-	Riscura Holdings (Pty) Ltd	Riscura Holdings (Pty) Ltd)
Actuarial services	NMG	Discovery Health (Pty) Ltd Insight Actuaries and Consultants (Pty) Ltd	Discovery Health (Pty) Ltd Insight Actuaries and Consultants (Pty) Ltd
Investment/Asset managers	Old Mutual Wealth	Abax, All Weather Capital, Stanlib, Allan Gray, Aluwani Capital Partners, Fairtree, Futuregrowth, Mazi, Ninety One, Taquanta, Brandywine Global Investment Management	Abax, All Weather Capital, Stanlib, Allan Gray, Aluwani Capital Partners, Fairtree, Futuregrowth, Mazi, Ninety One, Taquanta, Brandywine Global Investment Management
Auditors	PWC	PWC	PWC

DRC : Dental Risk Company

CDE : Centre for Diabetes and Endocrinology

ICON : Independent Clinical Oncology Network (Pty) Ltd)

MSOI : Medical Services Organisation International

4. Demographic Profile Comparison

4.1 Membership and demographic profile by benefit option

The number of principal members, number of beneficiaries, average age and average family size for the Quantum and DHMS options as at the end of September 2020 are set out below.

Quantum	Number of principal members	Ave age of principal members	Number of beneficiaries	Ave age of beneficiaries	Ave family size
Essential Comprehensive	202	69.4	315	60.9	1.56
Essential Saver	2 832	48.9	5 787	36.4	2.04
KeyCare Plus	239	47.8	449	36.1	1.88
Total	3 273	50.1	6 551	37.6	2.00

DHMS	Number of principal members	Average age of principal members	Number of beneficiaries	Average age of beneficiaries	Average family size
Executive Plan	8 311	60.1	17 319	46.5	2.08
Classic Comprehensive	108 796	57.6	234 788	43.8	2.16
Classic Delta Comprehensive	3 754	55.5	7 688	42.6	2.05
Essential Comprehensive	11 810	62.1	21 629	50.0	1.83
Essential Delta Comprehensive	1 054	51.8	1 996	40.8	1.89
Classic Smart Comprehensive	473	54.2	986	42.2	2.08
Classic Priority	79 034	52.3	175 345	40.2	2.22
Essential Priority	5 203	51.0	10 664	39.5	2.05
Classic Saver	229 788	46.6	512 970	34.9	2.23
Classic Delta Saver	80 137	42.8	169 549	32.4	2.12
Essential Saver	74 851	43.5	164 169	32.2	2.19
Essential Delta Saver	66 312	39.6	136 985	30.0	2.07
Coastal Saver	172 683	47.3	387 847	35.9	2.25
Classic Smart	46 607	39.4	92 273	31.6	1.98
Essential Smart	37 075	34.9	43 091	34.8	1.16
Classic Core	39 107	53.0	86 856	41.1	2.22
Classic Delta Core	8 606	48.0	16 539	39.2	1.92
Essential Core	24 359	48.8	54 358	38.2	2.23
Essential Delta Core	23 214	44.9	49 733	35.2	2.14
Coastal Core	75 987	51.3	171 274	39.8	2.25
KeyCare Plus	208 313	41.2	365 053	30.5	1.75
KeyCare Core	15 088	45.0	25 006	35.5	1.66
KeyCare Start	6 077	38.8	7 866	34.8	1.29
Total	1 326 639	46.4	2 753 982	35.7	2.08

The average beneficiary age of the equivalent DHMS benefit options is significantly lower than the average beneficiary age of the Quantum members, namely 50.0 vs 60.9 for Essential Comprehensive, 32.2 vs 36.4 for Essential Saver and 30.5 vs 36.1 for KeyCare Plus. Due to the size of the membership on the DHMS benefit options relative to the Quantum members the impact on the average age of the equivalent DHMS benefit options will be minimal.



4.2 Combined membership and demographic profile

The table below sets out the combined membership and demographic profile of Quantum and DHMS.

Scheme	Number of principal members	Average age of principal members	Number of beneficiaries	Average age of beneficiaries	Average family size
Quantum	3 273	50.1	6 551	37.6	2.00
DHMS	1 326 639	46.5	2 753 982	35.7	2.08
Combined (DHMS)	1 329 912	46.5	2 760 533	35.7	2.08

There will be a 0.25% increase in the number of principal members on DHMS with no change to the overall average age of the membership.

5. Impact Analysis

5.1 Benefit option mapping under an amalgamated scheme

The three Quantum benefit options, namely Essential Comprehensive, Essential Saver and KeyCare Plus, have the same names as the equivalent DHMS benefit options and the benefits are essentially the same as the equivalent DHMS benefit options. The 2021 Quantum and DHMS contributions is set out in Appendix A. A summary of the benefits of the three Quantum benefit options and the equivalent DHMS options is set out in Appendix B.

While Quantum members will be able to elect any of the 23 DHMS benefit options, it is reasonable to assume that most of the members will elect the equivalent DHMS benefit options. For purposes of the impact analysis it has therefore been assumed that the Quantum members will elect the equivalent DHMS benefit options. Should any of the Quantum members elect one of the other DHMS benefit options, the impact on these DHMS options is likely to be insignificant given the membership size on the various DHMS options relative to the number of Quantum members that would potentially move to one of the other DHMS benefit options. The mapping of the benefit options under the amalgamated scheme will therefore be as follows:

Quantum		DHMS		Amalgamated scheme (DHMS)	
Benefit Option	Principal members (Sep 2020)	Benefit Option	Principal members (Sep 2020)	Benefit Option	Principal members (Sep 2020)
Essential Comprehensive	202	Essential Comprehensive	11 810	Essential Comprehensive	12 012
Essential Saver	2 832	Essential Saver	74 851	Essential Saver	77 683
KeyCare Plus	239	KeyCare Plus	208 313	KeyCare Plus	208 552
-		All other DHMS benefit options	1 031 665	All other DHMS benefit options	1 031 665
Total	3 273	Total	1 326 639	Total	1 329 912

5.2 Impact of Quantum members on DHMS benefit options

To illustrate the expected impact on DHMS of combining the various benefit options, the impact has been based on the assumption that the benefit options will be combined for the full year in 2021.

5.2.1 Essential Comprehensive

Income and Expenditure

The expected impact of including the Quantum Essential Comprehensive members under the DHMS Essential Comprehensive option is set out in the table below. The impact has been calculated based on the 2021 budgeted figures for each option and assuming the options will be combined for the full year in 2021.

	DHMS Essential Comprehensive	DHMS Essential Comprehensive including Quantum members	Difference
Membership	10 626	10 792	166
Risk contributions pmpm	6 546	6 541	(5)
Risk benefits pmpm	6 671	6 705	34
Expenses pmpm	511	511	0
Operating surplus/(deficit) pmpm	(634)	(675)	(40)
Total operating surplus/ (deficit) Rm	(81.01)	(87.64)	(6.45)
Operating surplus/(deficit) as % of risk cons	(9.7%)	(10.3%)	(0.5%)

Contributions

The difference in contributions for the Essential Comprehensive members based on the 2021 contributions is set out below:

Family structure	Quantum Essential Comprehensive	DHMS Essential Comprehensive	Increase/ (Decrease) for Quantum members	Percentage increase/ (decrease) for Quantum members	Number of Quantum Families
P	5 875	5 003	(872)	(14.8%)	121
P+A	11 430	9 734	(1 696)	(14.8%)	53
P+A+C	12 612	10 742	(1 870)	(14.8%)	7
P+A+2C	13 794	11 750	(2 044)	(14.8%)	2
P+C	7 057	6 011	(1 046)	(14.8%)	5
P+2C	8 239	7 019	(1 220)	(14.8%)	4

Benefits

A comparison of the benefits is set out in Appendix B. The Quantum Essential Comprehensive benefits are similar to the DHMS Essential Comprehensive benefits with the following main differences:

- DHMS Essential Comprehensive provides cover for 23 chronic conditions in addition to the CDL conditions whereas Quantum Essential Comprehensive covers 15 additional conditions. There are three chronic conditions, namely Attention deficit hyperactivity disorder, Gastro-oesophageal reflux disease and Osteopenia that are covered under Quantum Essential Comprehensive which are not covered under DHMS Essential Comprehensive. There are currently 31 Quantum members who are registered for one these three conditions.
- Quantum Essential Comprehensive has a higher limit for oncology before the 20% co-payment becomes applicable, namely R604 500 vs R400 000 for DHMS Essential Comprehensive.
- Quantum Essential Comprehensive has a smaller self-payment gap than DHMS Essential Comprehensive.

5.2.2 Essential Saver

Income and Expenditure

The expected impact of including the Quantum Essential Saver members under the DHMS Essential Saver option is set out in the table below. The impact has been calculated based on the 2021 budgeted figures for each option and assuming the options will be combined for the full year in 2021.

	DHMS Essential Saver excluding Quantum members	DHMS Essential Saver including Quantum members	Difference
Membership	74 971	77 735	2 764
Risk contributions pmpm	3 786	3 778	(8)
Risk benefits pmpm	3 139	3 153	14
Expenses pmpm	507	507	0
Operating surplus/(deficit) pmpm	140	118	(22)
Total operating surplus/ (deficit) Rm	126.27	109.76	(16.51)
Operating surplus/(deficit) as % of risk cons	3.7%	3.1%	(0.6%)

Contributions

The difference in contributions for the Essential Saver members based on the 2021 contributions is set out below:

Family structure	Quantum Essential Saver	DHMS Essential Saver	Increase/ (Decrease) for Quantum members	Percentage increase/ (decrease) for Quantum members	Number of Quantum Families
P	2 482	2 615	133	5.4%	1 223
P+A	4 344	4 576	232	5.3%	438
P+A+C	5 339	5 624	285	5.3%	165
P+A+2C	6 334	6 672	338	5.3%	230
P+C	3 477	3 663	186	5.3%	378
P+2C	4 472	4 711	239	5.3%	167

Benefits

A comparison of the benefits is set out in Appendix B. The Quantum Essential Saver benefits are similar to the DHMS Essential Saver benefits with the following main differences :

- DHMS Essential Saver only provides cover for the CDL conditions whereas Quantum Essential Saver provides cover for 11 conditions in addition to the CDL conditions. There are currently 214 Quantum members who are registered for one the 11 additional conditions covered under Quantum Essential Saver.
- Quantum Essential Saver has a higher limit for oncology before the 20% co-payment becomes applicable, namely R302 000 vs R200 000 for DHMS Essential Comprehensive.
- Quantum Essential Saver provides cover for three GP visits for a single member and six visits for a family once a member's savings are depleted and a member is in his/her self-payment gap.

5.2.3 KeyCare Plus

Income and Expenditure

The expected impact of including the Quantum KeyCare Plus members under the DHMS KeyCare Plus option is set out in the table below. The impact has been calculated based on the 2021 budgeted figures for each option and assuming the options will be combined for the full year in 2021.

	DHMS KeyCare Plus excluding Quantum members	DHMS KeyCare Plus including Quantum members	Difference
Membership	201 352	201 553	201
Risk contributions pmpm	2 213	2 213	0
Risk benefits pmpm	2 459	2 459	0
Expenses pmpm	294	294	0
Operating surplus/(deficit) pmpm	(540)	(540)	0
Total operating surplus/ (deficit) Rm	(1 304.96)	(1 306.10)	(1.10)
Operating surplus/(deficit) as % of risk cons	(24.4%)	(24.4%)	0

Contributions

The difference in contributions for the KeyCare Plus members based on the 2021 contributions is set out below:

R0 – R 8 600

Family structure	Quantum KeyCare Plus	DHMS KeyCare Plus R0 – R8 550	Increase/ (Decrease) for Quantum members	Percentage increase/ (decrease) for Quantum members	Number of Quantum Families
P	1 282	1 207	(75)	(5.9%)	50
P+A	2 564	2 414	(150)	(5.9%)	16
P+A+C	3 029	2 853	(176)	(5.8%)	3
P+A+2C	3 494	3 292	(202)	(5.8%)	2
P+C	1 747	1 646	(101)	(5.8%)	9
P+2C	2 212	2 085	(127)	(5.7%)	8

R8 601 – R12 150

Family structure	Quantum KeyCare Plus	DHMS KeyCare Plus R8 551-R13 800	Increase/ (Decrease) for Quantum members	Percentage increase/ (decrease) for Quantum members	Number of Quantum Families
P	1 794	1 659	(135)	(7.5%)	23
P+A	3 588	3 318	(270)	(7.5%)	4
P+A+C	4 091	3 786	(305)	(7.5%)	4
P+A+2C	4 594	4 254	(340)	(7.4%)	3
P+C	2 297	2 127	(170)	(7.4%)	10
P+2C	2 800	2 595	(205)	(7.3%)	6

R12 151+

Family structure	Quantum KeyCare Plus	DHMS KeyCare Plus R13 801+	Increase/ (Decrease) for Quantum members	Percentage increase/ (decrease) for Quantum members	Number of Quantum Families
P	2 672	2 450	(222)	(8.3%)	42
P+A	5 344	4 900	(444)	(8.3%)	4
P+A+C	6 062	5 556	(506)	(8.3%)	12
P+A+2C	6 780	6 212	(568)	(8.4%)	7
P+C	3 390	3 106	(284)	(8.4%)	16
P+2C	4 108	3 762	(346)	(8.4%)	10

Benefits

A comparison of the benefits is set out in Appendix B. The benefits under the DHMS KeyCare Plus option are essentially the same.

5.3 Overall financial impact of Quantum members on DHMS

The budgeted 2021 income statements for Quantum, DHMS and the amalgamated scheme is set out in the table below. The impact on the amalgamated scheme has been calculated assuming that the options will be combined for the full year in 2021.

	Quantum		DHMS		Amalgamated scheme (DHMS)	
	Total (R000)	pmpm	Total (R000)	pmpm	Total (R000)	pmpm
Gross contributions	151 436	4 031	74 263 643	4 678	74 422 891	4 677
Net contributions	129 755	3 454	61 245 341	3 858	61 381 682	3 858
Benefit expenditure	141 665	3 771	59 611 540	3 755	59 753 180	3 755
Claims and MHC fees	140 008	3 727	59 356 285	3 739	59 496 268	3 739
Capitation fees	1 657	44	255 255	16	256 912	16
Expenses	11 050	294	7 407 114	467	7 425 872	467
Administration	9 405	250	5 544 506	350	5 558 653	350
Broker fees	-	-	1 558 578	98	1 562 260	98
Other	1 645	44	304 030	19	304 959	19
Surplus/(deficit) before inv income	(22 960)	(611)	(5 773 313)	(364)	(5 797 370)	(364)
Inv and other income	7 352	196	991 391	63	996 362	62
Surplus/(Deficit) after inv income	(15 608)	(415)	(4 781 922)	(301)	(4 801 008)	(302)
Reg 29 Funds at start of year	138.12		27 546.02		27 684.14	
Reg 29 Funds at end of year	121.04		22 764.10		22 883.13	
Solvency ratio	79.9%		30.7%		30.8%	
Budgeted 2021 membership	3 131		1 322 811		1 325 942	



The amalgamation with Quantum is expected to have a minimal overall impact on DHMS with the deficit after investment income increasing by R19.0m which is 0.03% of risk contributions. The DHMS reserves are expected to be R119.0m higher at the end of 2021 as a result of the transfer of the Quantum reserves to DHMS. The DHMS solvency ratio is expected to be 0.1 percentage point higher as a result of the higher reserves.

6. Advantages and Disadvantages

The advantages and disadvantages of the proposed amalgamation are as follows:

Quantum

Advantages

- The Quantum members will become members of an extremely large, financially stable and sustainable scheme.
- The Quantum benefit options very closely mirror the equivalent Discovery benefit options and the choice of benefit options under Discovery for the Quantum members would be straightforward.
- The Quantum members would have a range of 20 other benefit options to choose from should they not want to elect one of the three equivalent benefit options.
- The Quantum members can continue enjoying the benefits of the Vitality program
- The transfer of the Quantum members to the Discovery Medical Scheme should be seamless since they are currently administered by the same administrator
- The Essential Comprehensive members will initially experience a 14.8% decrease in contributions for all family compositions on the equivalent Discovery Essential Comprehensive option. The KeyCare Plus members will initially experience a decrease in contributions of between 5.7% and 8.4% depending on the family composition on the equivalent Discovery KeyCare Plus option. Given that Discovery have indicated that the maximum contribution increase on 1 July 2021 will be 5.9%, the members on the Essential Comprehensive and KeyCare Plus options will continue to have lower contributions on the equivalent Discovery options after the 1 July 2021 increase.

Disadvantages

- The Essential Saver members will initially experience a 5.3% increase in contributions on the equivalent DHMS Essential Saver option (for all family compositions). After the 1 July 2021 DHMS increase, the increase in contributions for the Quantum Essential Saver members could be up to 11.6% higher (based on a maximum DHMS increase of 5.9%).

It is important to note that the Quantum Essential Saver option has been operating at a deficit over the last two years and would have to incur relatively large contribution increases in future to reduce the operating deficit. Furthermore, the Essential Saver option has been averaging claims cost increases in excess of 10% and this is likely to continue or increase even further in future due the ageing membership on the option also requiring higher contribution increases in future. The operating deficit and the high claims cost increases will therefore together likely result in the Quantum Essential Saver contributions being higher than the equivalent DHMS Essential Saver contributions in the near future, should Quantum continue to operate. The Essential Saver members would be able to select one of the lower cost options if they do not want to experience an increase in contributions, e.g. Essential Delta Saver or Coastal Saver for the members residing in any of the coastal provinces.

- For the Essential Comprehensive and Essential Saver options, the equivalent DHMS benefit options do not cover all the chronic conditions that the Quantum benefit options cover. There are currently 31 Quantum Essential Comprehensive members and 214 Quantum Essential Saver members that will be impacted in this regard.

DHMS

Advantages

- DHMS will achieve growth of 3 273 members (based on the September 2020 membership) together with transfer of reserves.
- The reserves that will be transferred as part of the amalgamation has been actuarially calculated by Discovery Health to be sufficient to cover the expected higher claims costs of the Quantum members relative to the existing DHMS members on the equivalent benefit options.

Disadvantages

- There will be very slight increases in the average age of the DHMS Essential Comprehensive, Essential Saver and KeyCare Plus benefit options.
- There will be a minimal deterioration in surplus/(deficit) position of DHMS (0.03% of risk contributions). This is, however, offset by the transfer of the Quantum reserves.



7. Summary of Impact of Amalgamation

1. The DHMS membership would increase by 0.25% from 1 326 639 principal members to 1 329 912 principal members (based on the September 2020 membership figures).
2. The average beneficiary age of the DHMS Essential Comprehensive, Essential Saver and KeyCare Plus options is expected to increase by 0.18, 0.15 and 0.01 years respectively.
3. The DHMS budgeted deficit in 2021 is expected to increase by R16.8m. This represents 0.03% of risk contributions.
4. The DHMS budgeted 2021 Regulation 29 reserves are expected to increase by R119.03m at the end of 2021 from R22 764.10 m to R22 883.13m
5. The DHMS budgeted 2021 solvency ratio is expected to increase from 30.7% to 30.8%.



Appendix A : 2021 Contributions

Quantum 2021 Contributions

	Risk Contributions			Savings Contributions			Total Contributions		
	P	A	C	P	A	C	P	A	C
Essential Comp	4 994	4 722	1 005	881	833	177	5 875	5 555	1 182
Essential Saver	2 110	1 583	846	372	279	149	2 482	1 862	995
KeyCare Plus									
R0 – R8 600	1 282	1 282	465	-	-	-	1 282	1 282	465
R8 601 – R12 150	1 794	1 794	503	-	-	-	1 794	1 794	503
R12 151+	2 672	2 672	718	-	-	-	2 672	2 672	718

DHMS 2021 Contributions

	Risk Contributions			Savings Contributions			Total Contributions		
	P	A	C	P	A	C	P	A	C
Executive Plan	5 443	5 443	1 039	1 814	1 814	346	7 257	7 257	1 385
Classic Comp	4 466	4 255	891	1 488	1 408	297	5 954	5 633	1 188
Classic Delta Comp	4 022	3 808	802	1 340	1 269	267	5 362	5 077	1 069
Essential Comp	4 253	4 022	857	750	709	151	5 003	4 731	1 008
Essential Delta Comp	3 831	3 619	769	676	638	135	4 507	4 257	904
Classic Smart Comp	4 327	3 994	1 378	-	-	-	4 327	3 994	1 378
Classic Priority	2 861	2 256	1 145	953	752	381	3 814	3 008	1 526
Essential Priority	2 787	2 191	1 114	491	386	196	3 278	2 577	1 310
Classic Saver	2 468	1 947	989	822	649	329	3 290	2 596	1 318
Classic Delta Saver	1 971	1 557	792	657	519	264	2 628	2 076	1 056
Essential Saver	2 223	1 667	891	392	294	157	2 615	1 961	1 048
Essential Delta Saver	1 773	1 339	712	312	236	125	2 085	1 575	837
Coastal Saver	2 087	1 570	843	521	392	210	2 608	1 962	1 053
Classic Smart	1 954	1 542	781	-	-	-	1 954	1 542	781
Essential Smart	1 400	1 400	1 400	-	-	-	1 400	1 400	1 400
Classic Core	2 449	1 931	980	-	-	-	2 449	1 931	980
Classic Delta Core	1 960	1 545	784	-	-	-	1 960	1 545	784
Essential Core	2 104	1 577	846	-	-	-	2 104	1 577	846
Essential Delta Core	1 681	1 265	675	-	-	-	1 681	1 265	675
Coastal Core	1 946	1 462	774	-	-	-	1 946	1 462	774
KeyCare Plus									
R0 – R8 550	1 207	1 207	439	-	-	-	1 207	1 207	439
R8 551 - R13 800	1 659	1 659	468	-	-	-	1 659	1 659	468
R13 801+	2 450	2 450	656	-	-	-	2 450	2 450	656
KeyCare Core									
R0 – R8 550	949	949	245	-	-	-	949	949	245
R8 551 - R13 800	1 183	1 183	292	-	-	-	1 183	1 183	292
R13 801+	1 809	1 809	410	-	-	-	1 809	1 809	410
KeyCare Start									
R0 – R9 150	914	914	550	-	-	-	914	914	550
R9 151 - R13 800	1 538	1 538	601	-	-	-	1 538	1 538	601
R13 801+	2 394	2 394	650	-	-	-	2 394	2 394	650

= equivalent Discovery option

Appendix B : 2021 Benefit Comparisons

Quantum Essential Comprehensive vs DHMS Essential Comprehensive

		Quantum Essential Comprehensive	DHMS Essential Comprehensive
Overall	Type of option	New Generation with Threshold cover	New Generation with Threshold Cover
	Tariff : In-hospital	100%	100%
	Overall Annual Limit	Unlimited	Unlimited
Chronic	Conditions covered	CDL plus 11 other conditions	CDL plus 23 other conditions
	Designated Service Provider	List of defined pharmacies	MedXpress
In-hospital/MMB	Co-payments	Dentistry : Between R1 100 and R6 100 depending on age Scopes : R2 050	Dentistry : Between R1 240 and R7 050 depending on age Scopes : Between R3 650 and R6 600 for hospitals and day clinics
	Hospital network	None	None
	Oncology	Limit of R604 500 and 80% of cost thereafter	Limit of R400 000 and 80% of cost thereafter
	Dialysis	Unlimited and 100% at DSP 80% for non-DSP	Unlimited and 100% at DSP 80% for non-DSP
Day-to-Day	Savings	15% of gross contributions: P : R10 572 A : R9 996 C : R 2 124	15% of gross contributions: P : R9 000 A : R8 508 C : R 1 812
	Self-payment gap	P : R 7 168 A : R 7 744 C : R 1 206	P : R12 700 A : R13 192 C : R 2 338
	Threshold level	P : R17 740 A : R17 740 C : R 3 330	P : R21 700 A : R21 700 C : R 4 150
	Above-threshold benefit limit	Various limits per service category	Various limits per service category
	GPs and Specialists	MSA and ATB	MSA and ATB
	Prescribed medicine	MSA and ATB	MSA and ATB
	Radiology	MSA and ATB	MSA and ATB
	Pathology	MSA and ATB	MSA and ATB
	MRI & CT scans	First R1 950 from MSA with balance from MMB	First R3 130 from MSA with balance from MMB
	Conservative dentistry	MSA and ATB	MSA and ATB
Specialised dentistry	MSA and ATB	MSA and ATB	

Quantum Essential Saver vs DHMS Essential Saver

		Quantum Essential Saver	DHMS Essential Saver
Overall	Type of option	New Generation without Threshold cover	New Generation without Threshold Cover
	Tariff : In-hospital	100%	100%
	Overall Annual Limit	Unlimited	Unlimited
Chronic	Conditions covered	CDL plus 11 conditions	CDL
	Designated Service Provider	List of defined pharmacies	MedXpress
In-hospital/MMB	Co-payments	Dentistry : Between R1 100 and R6 100 depending on age Scopes : R2 050	Dentistry : Between R1 240 and R7 050 depending on age Scopes : Between R3 650 and R6 600 for hospitals and day clinics
	Hospital network	None	None
	Oncology	Limit of R302 000 and 80% of cost thereafter	Limit of R200 000 and 80% of cost thereafter
	Dialysis	Unlimited and 100% at DSP 80% for non-DSP	Unlimited and 100% at DSP 80% for non-DSP
Day-to-Day	Savings	15% of gross contributions: P : R4 464 A : R3 348 C : R 1 788	15% of gross contributions: P : R4 704 A : R3 528 C : R 1 884
	Self-payment gap	Not applicable	Not applicable
	Threshold level	Not applicable	Not applicable
	Above-threshold benefit limit	Not applicable	Not applicable
	GPs and Specialists	MSA	MSA
	Prescribed medicine	MSA	MSA
	Radiology	MSA	MSA
	Pathology	MSA	MSA
	MRI & CT scans	First R1 950 from MSA with balance from MMB	First R3 130 from MSA with balance from MMB
	Conservative dentistry	MSA	MSA
	Specialised dentistry	MSA	MSA



Quantum KeyCare Plus vs DHMS KeyCare Plus

		Quantum Essential KeyCare Plus	DHMS Essential KeyCare Plus
Overall	Type of option	Network	Network
	Tariff : In-hospital	100%	100%
	Overall Annual Limit	Unlimited	Unlimited
Chronic	Conditions covered	CDL	CDL
	Designated Service Provider	KeyCare Network	KeyCare Network
In-hospital/MMB	Co-payments	20% for non-PMBs if voluntarily use non-network provider	20% for non-PMBs if voluntarily use non-network provider
	Hospital network	KeyCare Network	KeyCare Network
	Oncology	PMB only 100% at network provider	PMB only 100% at network provider 80% at non-network provider
	Dialysis	Unlimited and 100% at DSP 80% for non-DSP	Unlimited and 100% at DSP 80% for non-DSP
Day-to-Day	Savings	Not applicable	Not applicable
	Self-payment gap	Not applicable	Not applicable
	Threshold level	Not applicable	Not applicable
	Above-threshold benefit limit	Not applicable	Not applicable
	GPs and Specialists	Unlimited at network provider Pre-authorization required after 15 th visit 4 out-of-network visits per beneficiary Specialist limit : R4 600 per person	Unlimited at network provider Pre-authorization required after 15 th visit 4 out-of-network visits per beneficiary Specialist limit : R4 530 per person
	Prescribed medicine	Unlimited at network pharmacy subject to formulary	Unlimited at network pharmacy subject to formulary
	Radiology	Specific list of black & white x-rays at network provider	Specific list of black & white x-rays at network provider
	Pathology	Specific list of tests at network provider	Specific list of tests at network provider
	MRI & CT scans	Specialist/GP referral required for trauma only Subject to Specialist limit of R4 600 per person	Specialist/GP referral required for trauma only Subject to Specialist limit of R4 530 per person
	Conservative dentistry	Unlimited at network provider	Unlimited at network provider
	Specialised dentistry	PMBs only	PMBs only