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PROPOSED AMALGAMATION OF
THE IBM SOUTH AFRICA MEDICAL SCHEME
WITH DISCOVERY HEALTH MEDICAL SCHEME

Proposed amalgamation of IBM(SA)MS with DHMS

BACKGROUND

- IBM South Africa Medical Scheme (IBM(SA)MS) approached Discovery Health Medical Scheme (DHMS) during 2012 to consider an amalgamation in 2013
- Proposed amalgamation date: 1 July 2013

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GOVERNANCE PROCESS RELATING TO THE AMALGAMATION

- ④ DHMS Trustees considered the IBM(SA)MS amalgamation request, following a detailed actuarial analysis. The DHMS Trustees agreed at a Board meeting on 13 November 2012 to proceed with the amalgamation, subject to specific amalgamation conditions.
- ④ An exposition document, signed by both Boards of Trustees, was submitted to the Council for Medical Schemes in December 2012 for preliminary assessment and analyses.
- ④ Following the preliminary assessment of the exposition document, the Council for Medical Schemes provided in principle support for the amalgamation in December 2012, subject to both schemes fulfilling all the provisions stipulated under Section 63 of the Act.
- ④ Both Schemes also agreed to submit a voluntary notification of the amalgamation to the Competition Commission.

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HIGH LEVEL STATISTICS

As at 31 December 2012*:	DHMS	IBM(SA)MS
Reserves per beneficiary (31 Dec 2012)	R3 297	R6 802
Average age	32.95	39.76
Number of beneficiaries	2 469 023	4 107

*Unaudited

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MERITS OF THE AMALGAMATION

- ☺ A detailed actuarial analysis of IBM(SA)MS was performed in the second quarter of 2012 to assess the merits of the proposed amalgamation

- ☺ The impact of the proposed amalgamation on DHMS has been modelled taking into account
 - Demographic factors
 - Plan mapping
 - Current claims experience

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MERITS OF THE AMALGAMATION

- ☺ The actuarial analysis estimated that DHMS requires reserves of R20 million to compensate for IBM(SA)MS's demographic profile
- ☺ The actual level of IBM(SA)MS's reserves as at 31 December 2012 stood at R27 million*
- ☺ The actual level of reserves as at 31 December 2012 exceeds the actuarially calculated requirement and compensates DHMS for the demographic profile of IBM(SA)MS
 - For at least 5 years
 - Depending on how long members remain on the default benefit options

*Unaudited

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RECOMMENDATION

It is recommended that DHMS members approve the amalgamation of IBM(SA)MS with DHMS, subject to the following conditions:

- ⊕ That the amalgamation takes place by no later than 1 July 2013. If delayed, the amalgamation conditions need to be re-evaluated;
- ⊕ That a minimum of R20 million of reserves be transferred to DHMS at the date of the amalgamation;
 - The actual reserve value of IBM(SA)MS will be evaluated by DHMS as at 31 December 2012 and again as at 28 February 2013 together with IBM(SA)MS's reserve projection until 30 June 2013 to confirm that the minimum reserve transfer condition will be met.
- ⊕ That an appropriate contribution increase for 2013 was considered and implemented by IBM(SA)MS.
 - DHMS is comfortable with the implemented contribution increase for 2013 of 13.3%.

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- ⊕ For those members who do not explicitly exercise a plan option choice, the default plan option for IBM(SA)MS members transferring to DHMS will be Essential Priority;
- ⊕ Existing late joiner penalties and waiting periods will be transferred to DHMS and applied;
- ⊕ Membership of DHMS will become a condition of employment for IBM South Africa employees;
- ⊕ There is no material corporate activity within the employer prior to the date of the proposed amalgamation.