

## PROPOSED AMALGAMATION OF WITSMED WITH DISCOVERY HEALTH MEDICAL SCHEME

### 1. Purpose of this letter

This letter serves to communicate the proposed amalgamation of the University of Witwatersrand Medical Scheme (“WitsMed”) with Discovery Health Medical Scheme (“DHMS”) and the processes involved in the transaction. An amalgamation of medical schemes means that one medical scheme (i.e. WitsMed) becomes part of another (in this case, DHMS).

### 2. Context

WitsMed which is considered a small scheme with just under 5,000 members has performed well for many years with good financial metrics including healthy reserves in excess of R140 million. With recent changes to their policies, Witsmed has been independently advised to amalgamate with a larger scheme.

A detailed actuarial evaluation of the impact of the proposed amalgamation confirmed that the Witsmed reserves (in excess R140 million) will be adequate to ensure that the amalgamation is in the best interests of DHMS members. Accordingly the Board of Trustees (“Board”) of DHMS has agreed to proceed with the amalgamation process. The amalgamation process means that DHMS will acquire the reserves of WitsMed which would not be the case if the members joined DHMS individually. This enables the Board to protect DHMS members by growing both members and reserves.

The proposed date for the amalgamation is 01 January 2018. This is subject to approval of the proposed amalgamation by vote at the Special General Meeting of DHMS members as well as the approval thereof by WitsMed members in terms of their rules. In addition, the proposed amalgamation must be approved by the Council for Medical Schemes in terms of Section 63 of the Medical Schemes Act 131 of 1998 and the approval of the transaction is also required by the Competition Commission.

The conditions of the proposed amalgamation are as follows:

- a. The amalgamation is to take place by no later than 01 January 2018. In the case that this date is postponed, the proposed amalgamation would need to be re-evaluated.
- b. The full reserves (i.e. assets minus liabilities including any unrealised gains) of WitsMed must be transferred to DHMS on the date of the merger. If the projected reserves reduce to below R140 million the amalgamation may be reconsidered by DHMS.
- c. All WitsMed members who have not selected a DHMS benefit plan option by 08 December 2017 (the exact date to be confirmed in due course) will be defaulted to a DHMS benefit plan option per an agreed default mapping between DHMS and WitsMed.
- d. WitsMed members can change benefit plan options for a period of up to three months after the date of the amalgamation.

- e. WitsMed members who join DHMS on 01 January 2018 will be accepted by DHMS without any underwriting. WitsMed members who do not join DHMS by 01 January 2018 will be subject to underwriting if they decide to join at a later date. For new employees of the University of the Witwatersrand, there will be a three month window period, between 01 January 2018 and 30 March 2018, to join DHMS without underwriting, but any new employees joining DHMS after 30 March 2018 will be subject to underwriting.

In order to provide some context underwriting is when DHMS asks questions about any pre-existing conditions or health events, and about a member's prior membership of other medical schemes. In some cases, DHMS would have the right to impose waiting periods of up to twelve months before a member can claim from the Scheme, or impose a late joiner penalty if an individual has not been a member of a medical scheme for an extended period.

- f. The existing late joiner penalties and waiting periods (general and condition-specific) of members will be transferred to DHMS and applied.

### **3. Member's responsibility: voting on the amalgamation**

As a Principal Member of DHMS you have a right to exercise your vote on the proposed amalgamation at the Special General Meeting to be held on 07 September 2017 at 10:00.

Yours sincerely



Dr Nozipho Sangweni

**Principal Officer**

**Discovery Health Medical Scheme**