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Ministry of Health

# Maccabi Healthcare Services and Related Corporations – Financial Aspects

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## Background

Maccabi Healthcare Services (“Maccabi HMO” or “the HMO”) owns, inter alia, Assuta Medical Centers Ltd. (“Assuta”) and Assuta Ashdod Ltd. (jointly: “Maccabi”). The Maccabi Fund NPO (“the Fund”) operates alongside with the HMO, and it owns several subsidiaries providing services mainly to members of Maccabi HMO and to the HMO, inter alia, in the following fields: dentistry, complementary medicine, supportive care hospitalization and management of physician centers. Maccabi and the Fund are collectively the “Maccabi Group”.

## Key figures

**NIS 18.1 billion**

Maccabi's consolidated operating turnover in 2019.

**approximately 26%**

Of the residents of the State of Israel are members of Maccabi HMO.

**48%**

Of Assuta's revenues in 2019 (excluding Assuta Ashdod) were received from Maccabi HMO.

**NIS 1.2 billion**

The Fund's operating turnover in 2019, deriving largely from activities carried out with the HMO.

**3.65X**

Increase in the Fund's operating turnover in the years 2004–2019.

**NIS 15.6 billion**

The total cumulative deficit in net assets for operating use held by the four national HMOs on 31.12.19. NIS 2.8 billion of the said sum were in respect of Maccabi's financial operations.

**NIS 22 million**

The discount that Maccabi HMO received from the Fund's subsidiaries in 2016, which enabled it to present an improved financial position in its financial statements and receive financial support from the State.

**NIS 57 million**

Maccabi Group's marketing and advertising expenses in 2019.

## Audit actions

From January to September 2020, the State Comptroller intermittently audited financial and other matters relating to Maccabi HMO. Within this framework, the State Comptroller audited issues relating to the HMO's financial statements, its financial reciprocities with companies in the Maccabi Group and the implications deriving from the Group's unique structure. The audits were performed in the Ministry of Health (in the Supervision of HMOs and Complementary Healthcare Services Division), in the Maccabi HMO, in the Registrar of Non-profit Organizations (NPO's) and in the Ministry of Finance.

# Key findings

- **The cumulative deficit in net assets for operating use –** On 31.12.19, Maccabi's deficit in net operating assets was approximately NIS 2.8 billion. The aggregate cumulative deficit of Israel's four HMOs' totaled approximately NIS 15.6 billion on 31.12.2019. This deficit amount is obfuscated by the manner in which items are presented in the financial position statement. The accounting alternative allows the current mode of presentation, but essentially it conceals the amount of the deficit. This may affect the HMO's decisions and decisions by the Ministry of Health and the Ministry of Finance, which regulate the HMO.

- **Compliance with the Ministry of Health directive restricting marketing and advertising expenses –** A directive was issued to restate marketing and advertising expenses, and to include them in the cost of contacting consumers who are not members of the HMO. Consequently, all the HMOs reported a cumulative deviation, from the total expenditure allowed in the regulations, of approximately NIS 100 million in 2019. The aggregate expenditure permitted in 2019 for all the HMOs was NIS 18 million. Maccabi HMO's allowable share was NIS 3.4 million. Maccabi HMO's over-expenditure in 2019 totaled NIS 35 million.

- **Working capital –** All of the HMOs have a deficit in working capital. This deficit for 2019 ranges between NIS 1,052 million for the Leumit Healthcare Services to NIS 5,371 million for the Clalit Healthcare Services. Maccabi's working capital deficit on December 31, 2017, 2018 and 2019 was NIS 1,765 million, NIS 1,434 million and 1,506 million, respectively. As part of the stabilization agreements, the government reaches financial arrangements with the HMOs, which enables them to continue their routine operating activities.

- **Internal control over financial reporting –** Maccabi implements the provisions of the circular requiring proper internal control over financial reporting only in relation to the HMO's financial statements, but not in relation to its consolidated financial statements, which also include Assuta Medical Centers and its subsidiaries. Indeed, the circular's provisions apply solely to the HMOs and not to subsidiaries, but the fact that the other HMOs opted to apply the internal control provisions to subsidiaries indicates that they consider the implementation of proper internal control important and beneficial.

- **Regulation of the status of the Maccabi Fund –** The issue of the reciprocal relations between the Maccabi HMO and the Maccabi Fund has been a topic of dispute for nearly 15 years between the professional authorities in the Ministry of Health (Supervision of HMOs Division, its legal counsel and its independent accountant) and the Maccabi HMO.

Under the current circumstances, Maccabi HMO is the only HMO with a corporation working in affiliation with it that is not fully supervised by the Ministry of Health. The total income of the Maccabi Fund and its subsidiaries totaled approximately NIS 1.2 billion per annum.

**Diversion of surgical procedures to Assuta within the framework of the "Shortening of Appointment Waiting Times Initiative" –** Maccabi HMO's financial statements show that the surpluses from Additional Health Services in the years 2018–2019 totaled approximately NIS 86 million and NIS 256 million, respectively. The summary report of the Supervision of HMOs Division shows that these surpluses derived mainly from the initiative for diverting medical services from private funding to public funding and from the Shortening of Appointment Waiting Times Initiative. Although the objective of this initiative was, inter alia, to divert medical services from private funding to public funding and to strengthen the public healthcare sector, including at public hospitals (such as Hadassah), government hospitals and hospitals of Clalit HMO, the audit found that approximately 50% of the surgeries performed by Maccabi HMO in 2019, within the framework of the initiative, were done at Assuta, a private hospital owned by the HMO.

**Outlying areas' participation rate in Maccabi HMO's Additional Healthcare Services –** In 2019, outlying areas participation rate in Additional Healthcare Services programs (78% in Maccabi HMO and 65% in all HMOs) was lower than in other areas of Israel (87% in Maccabi HMO and 79% in all HMOs). The non-Jewish sector's participation rate in Additional Healthcare Services (49% in the Maccabi HMO and 44% in all HMOs) was significantly lower than the participation rate by all insureds (87% in Maccabi HMO and 77% in all HMOs).

**Financial interfaces between Maccabi HMO and the Maccabi Fund –** The audit found financial transfers between the HMO and the Fund and its subsidiaries in the years 2016–2020. Such transfers totaled approximately NIS 75 million. The audit also found additional reciprocal actions that affected the HMO's financial statements and the presentation of its financial position at the time it received funds from the State (national healthcare basket funds and stabilization agreement funds).

- In 2016, the HMO received an additional discount from the Fund that totaled NIS 22 million, which enabled it to present an improved financial position in its financial statements and to receive stabilization agreement funds from the State, which are contingent upon the achievement of deficit targets.
- The price that Maccabi HMO paid to "Company A," which is a subsidiary of the Fund, for complex supportive care hospitalization was higher than the average price paid by the HMO in 2019 to the suppliers of this service, and was also higher than the price paid by the other HMOs to "Company A."

- The Maccabi HMO signed annual royalty agreements with three companies. In 2019, the HMO received royalties totaling approximately NIS 16.5 million. No agreement was signed with the Maccabi Fund, which operates the complementary medicine services for the HMO under the trade name "Maccabi Natural".

**Maccabi HMO's financial position compared to the other HMOs –** The analysis of the financial ratios (cash to operating costs, operating capital, current and quick ratios, days of supplier credit and per capita administrative and general expenses) found that the HMO's financial position is better than that of the other HMOs. It should be noted that the Maccabi HMO (like all of the HMOs) is highly dependent upon the cash flow arrangements with the State that guarantee its continued operations.

**Investments in startup companies –** The Maccabi Group utilizes acquired knowledge to promote technological developments. It invests in relevant startup companies either through a technological incubator or through venture capital funds.

## Key recommendations

- The Office of the State Comptroller draws the attention of the Ministry of Health and the Ministry of Finance to the four HMOs' total cumulative deficit in net assets for operating activities, including the Maccabi HMO's cumulative deficit in net assets, so that the ministries can formulate an orderly multi-year plan for them and with them for covering the deficit.

- It is recommended that the Ministry of Health complete its dialogue with the Maccabi HMO to formalize the Maccabi Fund's legal status in relation to the HMO and in relation to the mechanisms for supervising the activities of the Fund and its subsidiaries.

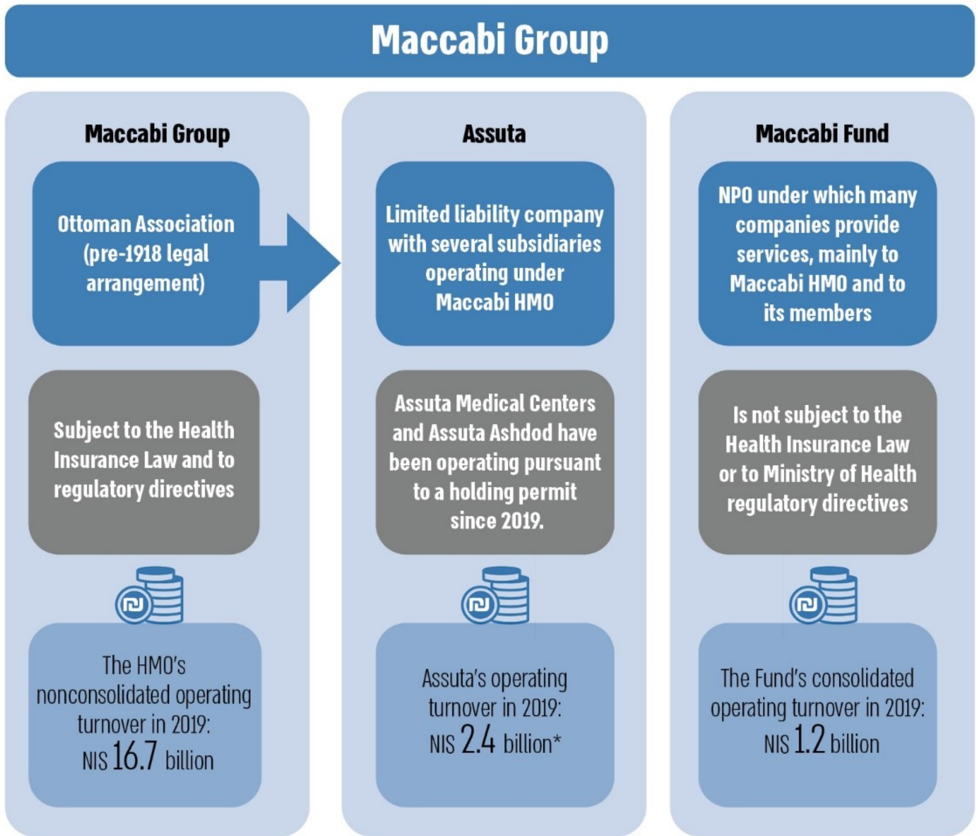
- It is recommended that the Ministry of Health analyze the possibilities for activating a monitoring and control mechanism on funds being transferred from Maccabi HMO to its suppliers in the Maccabi Group, whether within the framework of purchasing of services or in any other way. It is also recommended that Maccabi HMO and its audit committee update the HMO's Conflict of Interests Procedure in order to regulate the approval process relating to material agreements between the HMO and the Fund's subsidiaries. It should ensure that agreements are regularly submitted in advance for approval by the HMO.

- It is recommended that Maccabi HMO also implement the provisions of the Ministry of Health circular regarding proper internal control over financial reporting in relation to its consolidated subsidiaries, Assuta Medical Centers and its subsidiaries, as all other HMOs are doing. It is further recommended that the Ministry of Health consider defining a series of appropriate provisions regarding internal control over financial reporting that would apply to HMOs' consolidated companies and subsidiaries.

- The Ministry of Health and the Ministry of Finance and the HMOs should analyze the reasons for the lower participation rate in the Additional Healthcare Services plans by residents of northern Israel (outlying area). It should also consider designing suitable regulations that would ensure that the Additional Healthcare Services plans would not result in the HMOs allocating fewer resources to the outlying area, thereby causing a market imbalance. It is also recommended that the HMOs should initiate actions to make information accessible about insureds' rights to Additional Healthcare Services, particularly to populations who are barely exercising their rights.

- It is recommended that the Ministry of Health analyze the checks and balances required to improve the financial support tests relating to the Shortening of Appointment Waiting Times Initiative in the coming years and to reduce the membership fees for Additional Healthcare Services while taking into account the initiative's objectives, including the strengthening of the public healthcare sector.

## Maccabi Group's Structure




* Assuta's operating turnover includes the transactions between Assuta and the HMO, which are eliminated in the consolidated financial statements, according to Maccabi's 2019 financial statements.


## Summary

Maccabi HMO is the second largest HMO. approximately 26% of the residents of Israel were members of Maccabi HMO at the end of 2019. Since it is an entity operating by virtue of the National Health Law and the public good, it is important to maintain its financial resilience and its proper and optimal operation for members benefit. Consequently, it is recommended that the Ministry of Health and Maccabi HMO take action to rectify the deficiencies reported in this report and to consider implementing the recommendations specified in this report.