Health Industry Forum

Overview of Discovery’s CDH Experience

Scott Spiker
President & CEO
Destiny Health
October 3, 2005
Agenda

- Overview of Discovery & Destiny Health
- The Drivers of Pre-Care Cost Containment
- 5 Key Questions About Consumer Cost Containment
Group Structure

Discovery

GUARDIAN

— Destiny Health™ — TUFTS Health Plan

No one does more to keep you healthy.
Overall Similarity of SA Private Sector to U.S. Market

From a selection of 39 countries across 5 continents, the South African private sector has been found to be the most similar market to the U.S.

Ranking of Countries by Similarity of Healthcare System to U.S. Market

Weightings Used In Ranking

- **Demand**: 20%
  - 5 variables, 4% each

- **Supply**: 20%
  - 4 variables, 5% each

- **Funding**: 20%
  - 9 variables, 2.2% each

- **Regulatory Environment**: 20%
  - 14 variables, 1.4% each

- **Outcomes**: 20%
  - 6 variables, 3.3% each

Source: Discovery Health Global Health Plan Markets Database; Monitor Analysis
Discovery Health Membership

As of 1 January
Discovery Industry Profile

CDHPs appeal to all industries

Ref: Discovery Health Data, 2003
Discovery Age Profile

% of members

Discovery

Industry

Destiny Health
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Destiny’s Consumer-Driven Model

- High cost, non-discretionary events
- Fully insured
- Manage quality and cost of care

Insurance

- “Use it or Keep it”
- First dollar coverage
- Annual amount available upfront
- Network discounts apply
- Interest bearing

Ownership

- Provide access to facilities for prevention and fitness
- Strong rewards and incentives for healthy lifestyle and disease management compliance

Behavior Change
The Vitality Cycle

1. Get Healthy
   - Fitness
   - Preventive care
   - Healthy lifestyle
   - Education

2. Earn Vitality Points
   - Bronze
   - Silver
   - Gold
   - Platinum

3. Get rewards
   - Financial
   - Lifestyle & leisure

Destiny Health
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- 5 Key Questions About Consumer Cost Containment
5 Key Questions About Consumer Cost Containment

1. Is It Good for the Healthy and Sick?
2. Do People Change Their Behavior?
3. Is There an Adverse Effect on Health?
4. Is It a Deterrent to Preventive Care?
5. Does It Create a Sustainable Model?
1

Is It Good For The Healthy And Sick?
Expenditure Analysis Demonstrates Comprehensive Structure of CDH Model

Cumulative Membership

- Healthy
- Transient
- Sick

EE Benefits

- $0
- $2,000
- $4,000
- $6,000
- $8,000
- $10,000

- Destiny
- Traditional Plan

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Impact on Transient Demonstrates Success of the Model

Longitudinal study of transient behavior

<table>
<thead>
<tr>
<th>Year</th>
<th>Healthy</th>
<th>Transient</th>
<th>Sick</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>55%</td>
<td>35%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

5% of initial group of 35% of members remain as “Transient” – 87% of initial group of members shift to position where they are better or no worse off than on traditional plans.
Do People Change Their Healthcare Spending Patterns?
Drug Costs Reduced by 22% When Funded From a CDHP

Comparison of Spending Patterns of Non-Chronic Prescription Drug Costs

- Avg. cost per Rx: Funded from HSA (7%)
- Avg. number of Rx pm: Funded from HSA (16%)
- Overall Rx cost per member per month: Funded from HSA (22%)
Discretionary Spending Decreases by Up To 66% When Funded by a CDHP

- Dermatologists: 21% reduction
- Dieticians: 30% reduction
- Homeopaths: 24% reduction
- Physical Therapists: 40% reduction

Relative costs per member per month

- Insured benefit
- Funded from HSA
Relative change in claims between day-to-day and managed benefits

64% Difference in 4 years
Relative change in claims between day-to-day and managed benefits by age band

### Average Out-of-Hospital Cost Per Member

<table>
<thead>
<tr>
<th>Age Band</th>
<th>Traditional</th>
<th>Consumer-Driven</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-35</td>
<td>100</td>
<td>55</td>
</tr>
<tr>
<td>36-50</td>
<td>100</td>
<td>51</td>
</tr>
<tr>
<td>51-65</td>
<td>100</td>
<td>51</td>
</tr>
<tr>
<td>66+</td>
<td>100</td>
<td>47</td>
</tr>
</tbody>
</table>

*Source: Analysis of MSA’s, 1999, Matisonn & Kallner*
Destiny Health Plan Members Have Changed Their Healthcare Behavior in a Positive Way

Analysis of Incidence of Physician Visit Frequency: HSA vs. Insured Benefits

The Health Plan experiences a 34% reduction in Physician visits when these are funded from the HSA compared to when these are insured and funded by the Health Plan.

Source: Destiny Health, based on members who exceed the annual deductible.
Impact on Rx Costs of Destiny Health Members

% of scripts in class

Months with Destiny

Discovery Health

Generic

Branded Drugs
3

Is There An Adverse Effect On Health?
No Increase in Hospitalization Incidence Rates Is Experienced Relative to Traditional Models

<table>
<thead>
<tr>
<th>Age band</th>
<th>Traditional</th>
<th>Consumer-driven</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-35</td>
<td>100</td>
<td>85</td>
</tr>
<tr>
<td>36-50</td>
<td>100</td>
<td>94</td>
</tr>
<tr>
<td>51-65</td>
<td>100</td>
<td>83</td>
</tr>
<tr>
<td>66+</td>
<td>100</td>
<td>108</td>
</tr>
</tbody>
</table>

Source: Analysis of MSA’s, 1999, Matisonn & Kallner
Analysis of Hospitalization Incidence by Duration of Discovery Membership Shows No Adverse Increase Over Time

<table>
<thead>
<tr>
<th>Duration (Years)</th>
<th>Hospitalization Incidence Rate Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18.48%</td>
</tr>
<tr>
<td>2</td>
<td>16.78%</td>
</tr>
<tr>
<td>3</td>
<td>17.47%</td>
</tr>
<tr>
<td>4</td>
<td>18.30%</td>
</tr>
<tr>
<td>5</td>
<td>18.10%</td>
</tr>
</tbody>
</table>

Avg. = 17.9%

Source: Discovery Health
4

Is It a Deterrent Against Preventive Care?
Utilization of Preventive Care

Index of Preventive Care Usage

- Prostate checks (men)
- Pap checks (women)
- Cholesterol screenings (both genders)
- Mammograms (women >45)

Source: Destiny Health Data, 2002
Incidence of Hospitalizations

Hospitalization Incidence by Duration

Year of membership

- 1
- 2
- 3
- 4
- 5+

Age band
- < 35
- 35-49
- 50-64
- 65+

%
Comparison of Preventive Care Usage: HMO vs. CDHP

Destiny Health vs. Tufts Health Plan Preventative Measure Usage

Note: Preventive care usage analysis excluded measures such as cholesterol screening where recommended testing frequency is less than once per year

Source: Destiny Health
Does It Create a Sustainable Model?
Finding 1: Vitality membership is attractive to the healthy and the sick

- Members under age 60 with chronic conditions are at least as likely to earn Bronze, Silver or Gold status as members without chronic conditions

Source: Milliman Study
Finding 2: Engaged Vitality members have lower claims

Average Loss Ratios by Vitality Status (2004) For Primary Members Under Age 60
(Singles and Member + 1 dependant)

Source: Milliman Study
Finding 3: Impact of Vitality increases over time

Claims as % of Premium:
Active Vitality Members vs Non-Vitality Over Time

15% improvement relative to non-engaged members over 3 years

Source: Adapted from Milliman Study

Enhance rewards to create even stronger incentives
Impact of Vitality Wellness Program on Healthcare Costs

Comparison of Healthcare Costs of Engaged Vitality Members vs. Non-Engaged Members

- Engaged Vitality members (Bronze, Silver, Gold status)
- Non-engaged members

Source: Discovery Health
Impact on Long-Term Medical Trend

Discovery Medical Trend vs. Industry

- Discovery
- Industry
- Salary

Years: 1993 to 2004
5 Key Questions About Consumer Cost Containment

1. CDHP is Good for the Healthy and Sick
2. People Do Change Their Behavior Using CDHP
3. There is No Apparent Adverse Effect on Health
4. There is No Apparent Deterrent to Preventive Care
5. CDHP Does Create a Sustainable Model
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