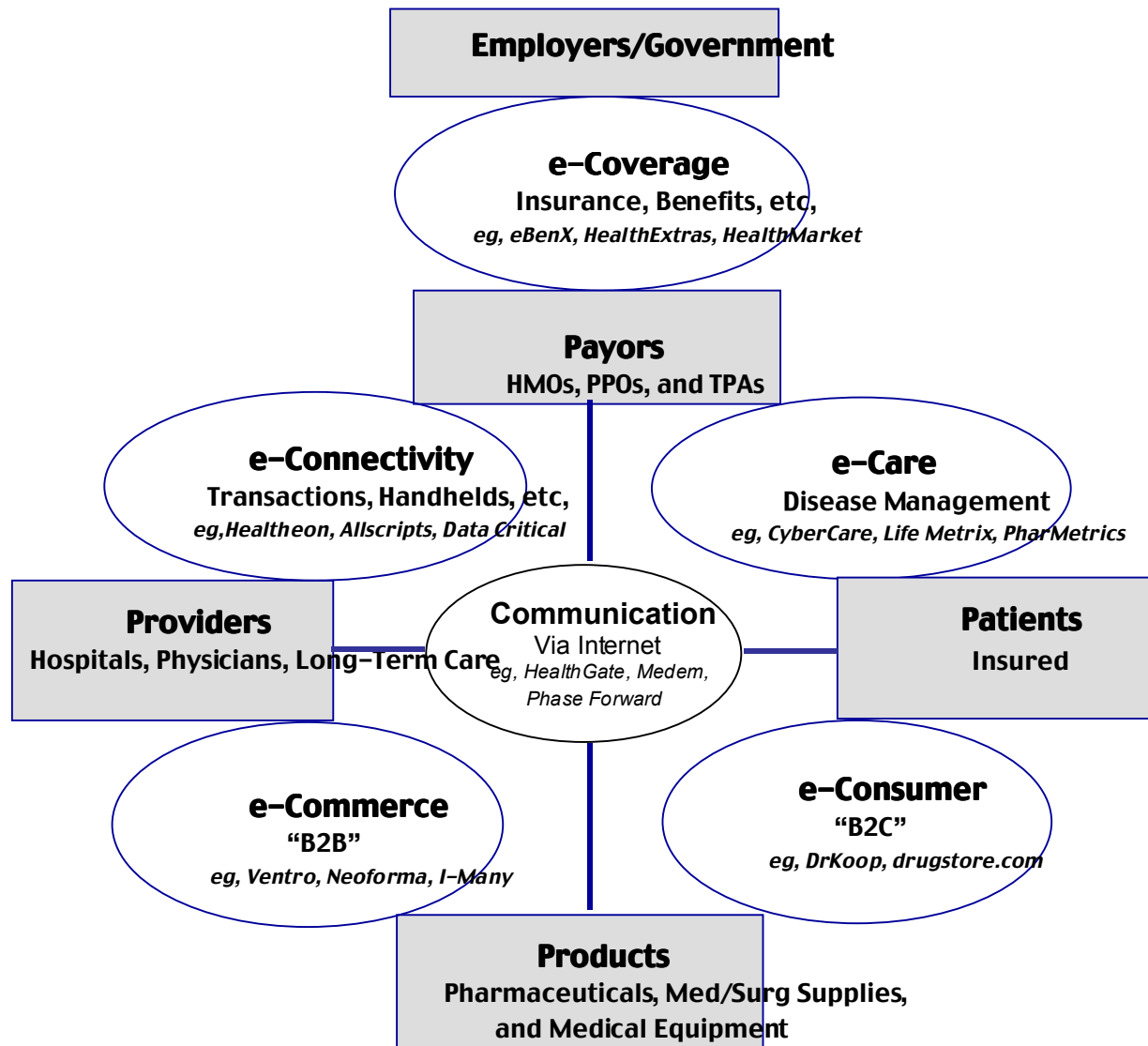


# HealthMarket Inc.

**June 2000**

# The E-Health Opportunity



Source: UBS Warburg LLC

# HealthMarket

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- ◆ New forms of benefit plans as an alternative to managed care
  - manage financial exposure, not behavior
  - returns control to patients and physicians
- ◆ Operating system for the next generation of health care
  - efficient market for health care services
  - new contracting paradigm with providers
  - infrastructure for a defined contribution program
- ◆ On-line exchange for finding, evaluating, purchasing and financing healthcare services
  - quality information
  - price transparency

# HealthMarket

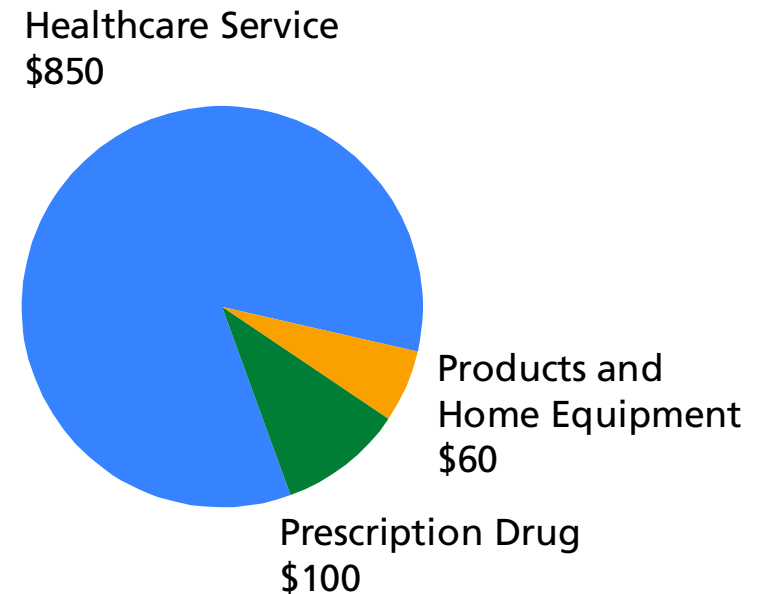
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- ◆ Raised \$56 million in first round capital
  - Chase Capital Partners
  - General Atlantic Partners
  - J.H. Whitney
  - Fleet Equity
  - Acacia Venture Partners
  
- ◆ Establishing strategic partner relationships
  - providers
  - employers
  - reinsurers
  - payors
  - distributors
  
- ◆ Timeline
  - initial launch this summer
  - commence employer sales and marketing in September
  - initial enrollment in January

# The Opportunity

**Services represents the majority of the \$1.0 trillion US health care industry**

- ◆ Largest segment of the US economy
- ◆ Nearly 85% or of health care spending is for services
  - \$230 billion is out-of-pocket
- ◆ Managed care has had a dramatic impact



Source: Raymond James & Associates

# The Opportunity

## The marketplace wants alternatives to managed care



- ◆ Employers, consumers and providers are frustrated
  - costs are rising
  - limits on coverage and access
  - complaints/legal action increasing
- ◆ 79% of Americans feel there is something seriously wrong with the US healthcare system

# The Opportunity

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<b>Users</b>	<b>Concerns</b>
Consumers	<ul style="list-style-type: none"><li>← Distrustful of system and underlying incentives</li><li>← Frustrated over limited choice of providers</li><li>← Rising out-of-pocket expenses</li><li>← Searching for information on treatment options</li><li>← Seeking greater control over health care dollars</li></ul>
Employers	<ul style="list-style-type: none"><li>≡ Facing rising costs and dissatisfied employees</li><li>← Concerns about fiduciary liability</li><li>← More than 60% of employers are expected to move to a defined contribution system by 2010</li></ul>
Providers	<ul style="list-style-type: none"><li>≡ Not succeeding financially</li><li>← Loss of control of patients to managed care</li><li>← Experiencing significant delays in reimbursement</li><li>← Recognizing patient frustration</li><li>← Administrative burdens</li></ul>

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# **The HealthMarket Solution**

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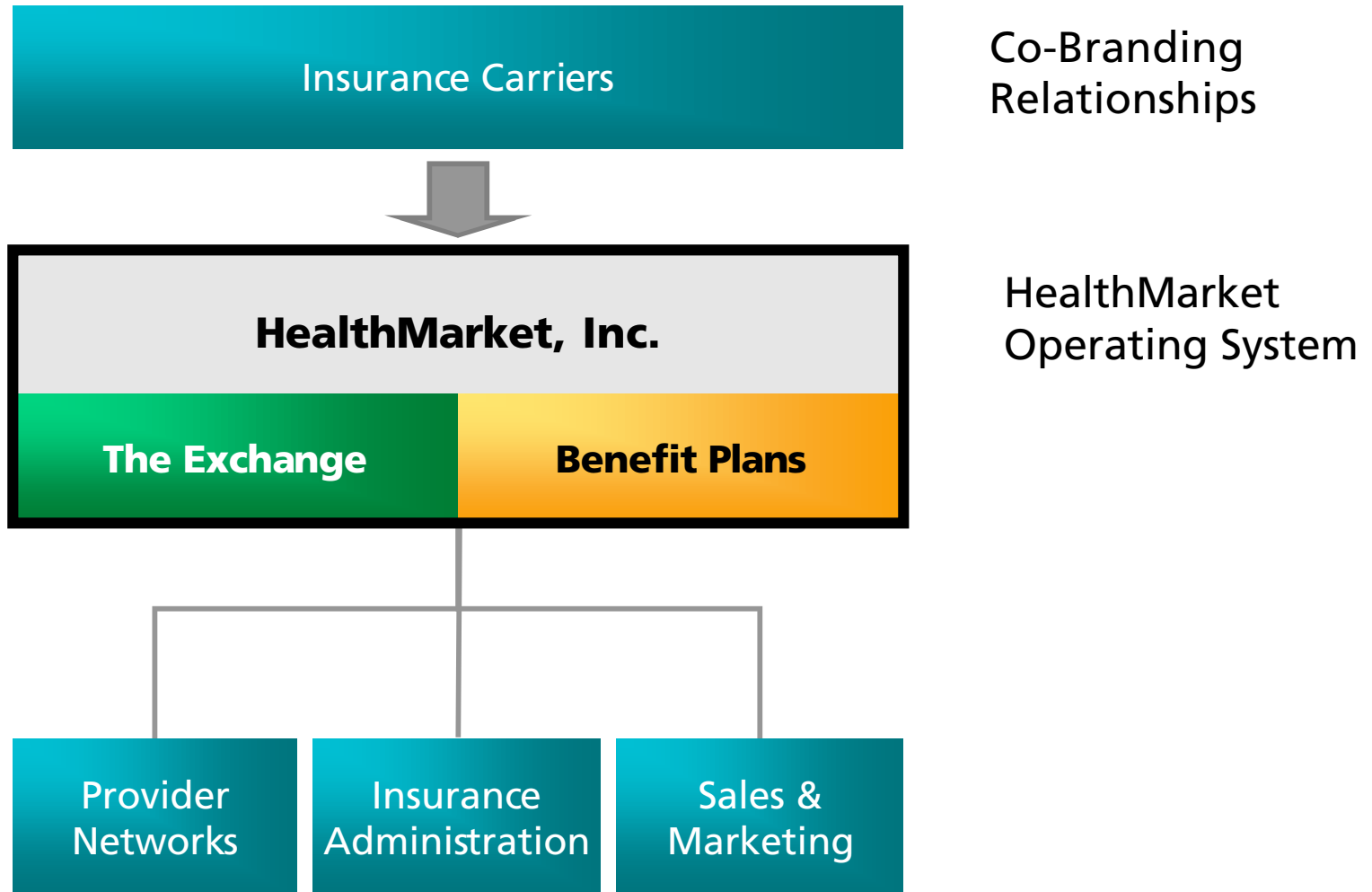
# The HealthMarket Solution

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HealthMarket's is creating the alternative to managed care



# The HealthMarket Solution





# The HealthMarket Exchange

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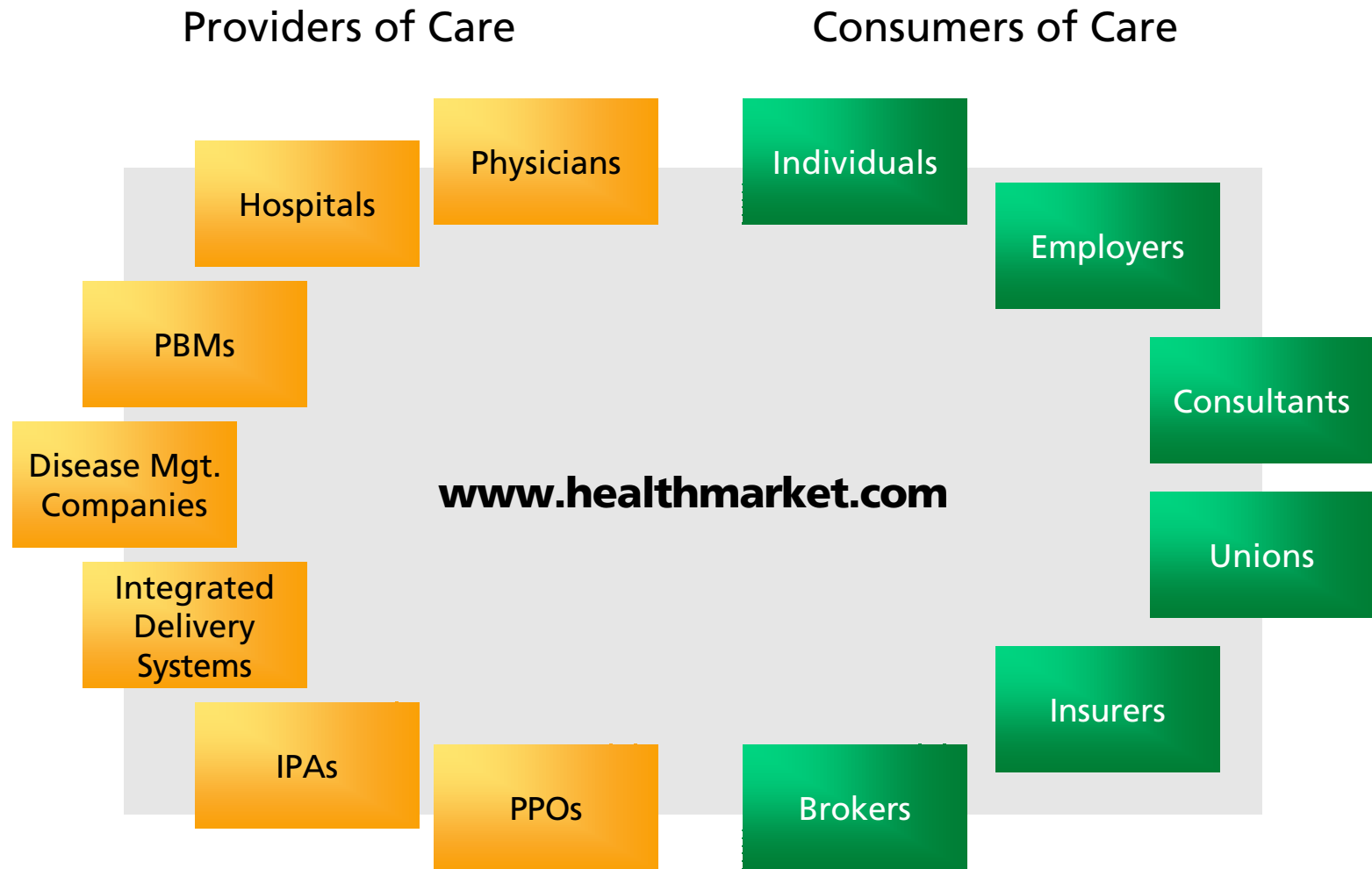
# HealthMarket Exchange

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- ◆ Online exchange for the purchase, delivery and administration of health care services
  - all health care services
  - price transparency
  - quality and outcomes information
  - Condition and treatment information
- ◆ Broadens the reach of providers
  - [www.healthmarket.com](http://www.healthmarket.com)
  - corporate Intranets
  - Internet portals
  - health care content and e-commerce sites
  - insurance company web sites
- ◆ Ultimately provides for the dynamic pricing of health care services

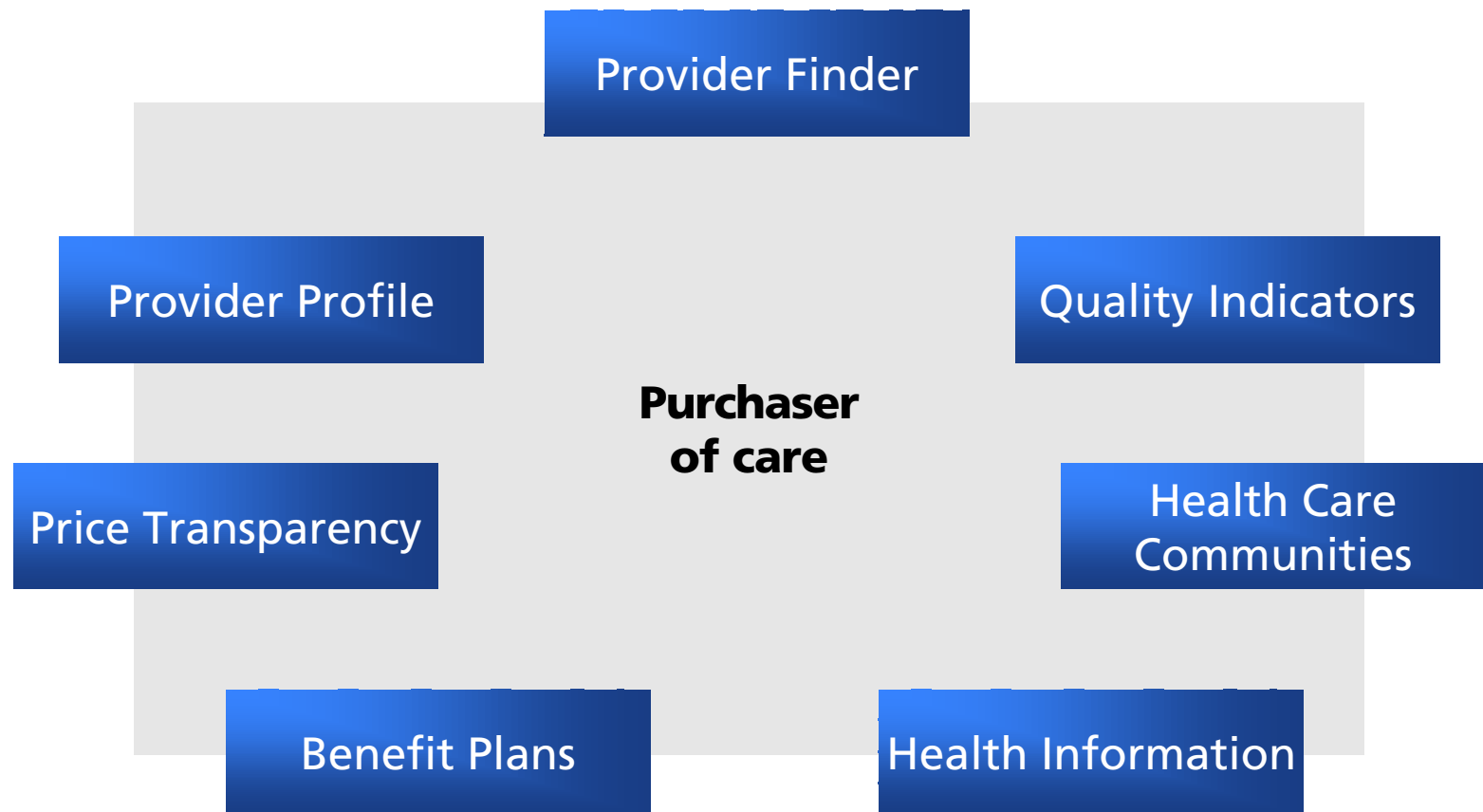
# The HealthMarket Exchange

HealthMarket links buyers and sellers to establish an efficient market for health care services



# The HealthMarket Exchange

The Exchange helps purchasers navigate the complex process of purchasing health care services



# The HealthMarket Exchange

## The Exchange delivers powerful benefits to all participants

<b>Users</b>	<b>Benefits</b>
Consumers	<ul style="list-style-type: none"><li>← Centralizes quality and pricing information</li><li>← Empowerment to navigate health care industry</li><li>← Expands access to providers</li><li>← Provides condition and treatment information</li></ul>
Providers	<ul style="list-style-type: none"><li>⇐ Broadens reach to buyers</li><li>← Lowers marketing costs</li><li>← Permits immediate pricing and new product introduction</li><li>← Accelerates reimbursement</li><li>← Reduces administrative burden</li></ul>
Employers	<ul style="list-style-type: none"><li>⇐ Creates employee incentive to manage costs</li><li>← Expands benefit offering to employees</li><li>← Creates alternative to HMO coverage</li><li>← Creates infrastructure for defined contribution</li></ul>



# HealthMarket Benefit Plans

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# HealthMarket Benefit Plans

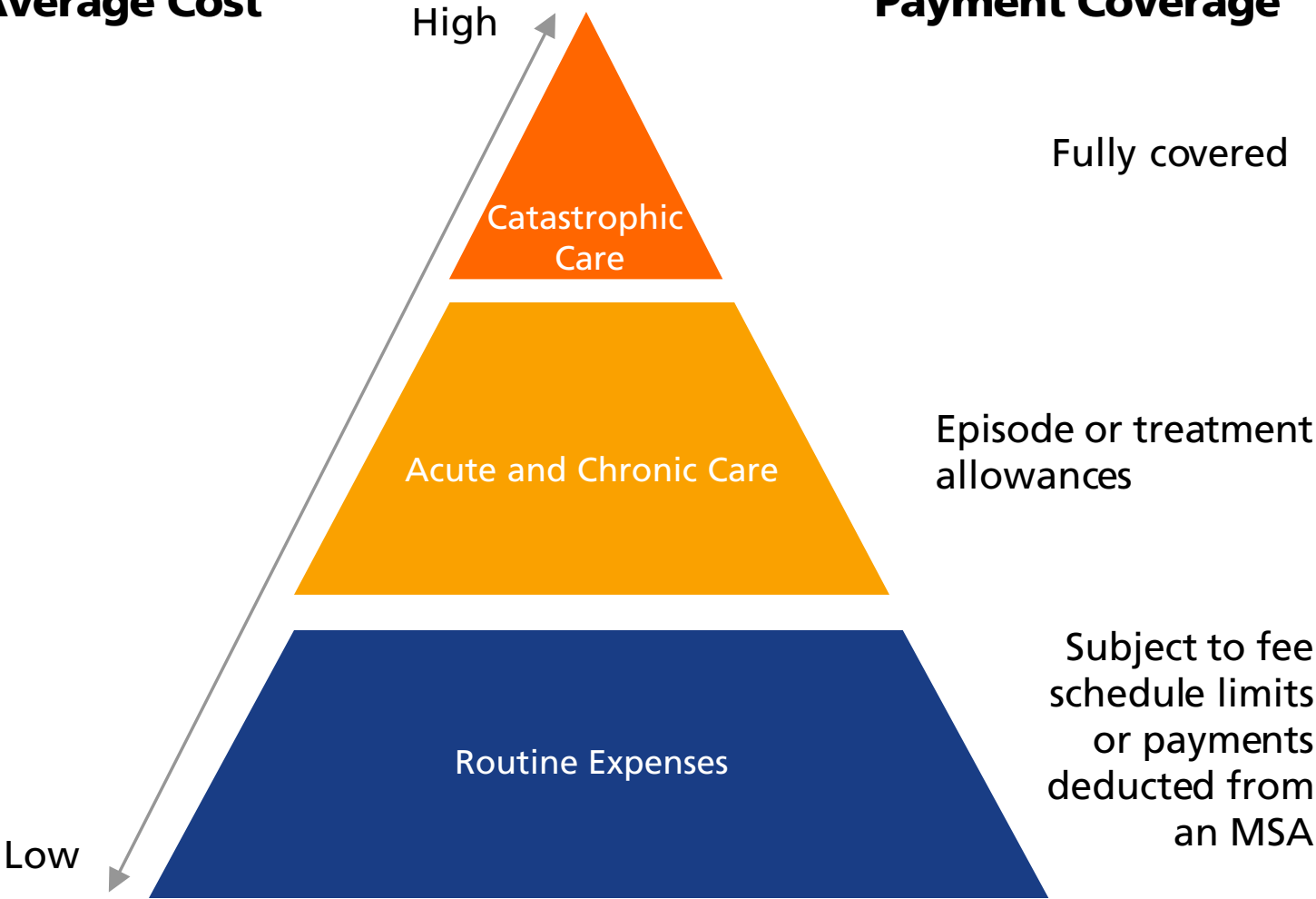
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- ◆ An alternative to managed care
  - freedom of provider choice
  - manages financial exposure and not behavior
  - creates greater cost awareness among all participants
  - aligns interests of all participants
  - patient advocacy system
  
- ◆ Organizing care into three categories
  - routine expenses
  - acute and chronic care
  - catastrophic care

# HealthMarket Benefit Plans

**Average Cost**

**Payment Coverage**



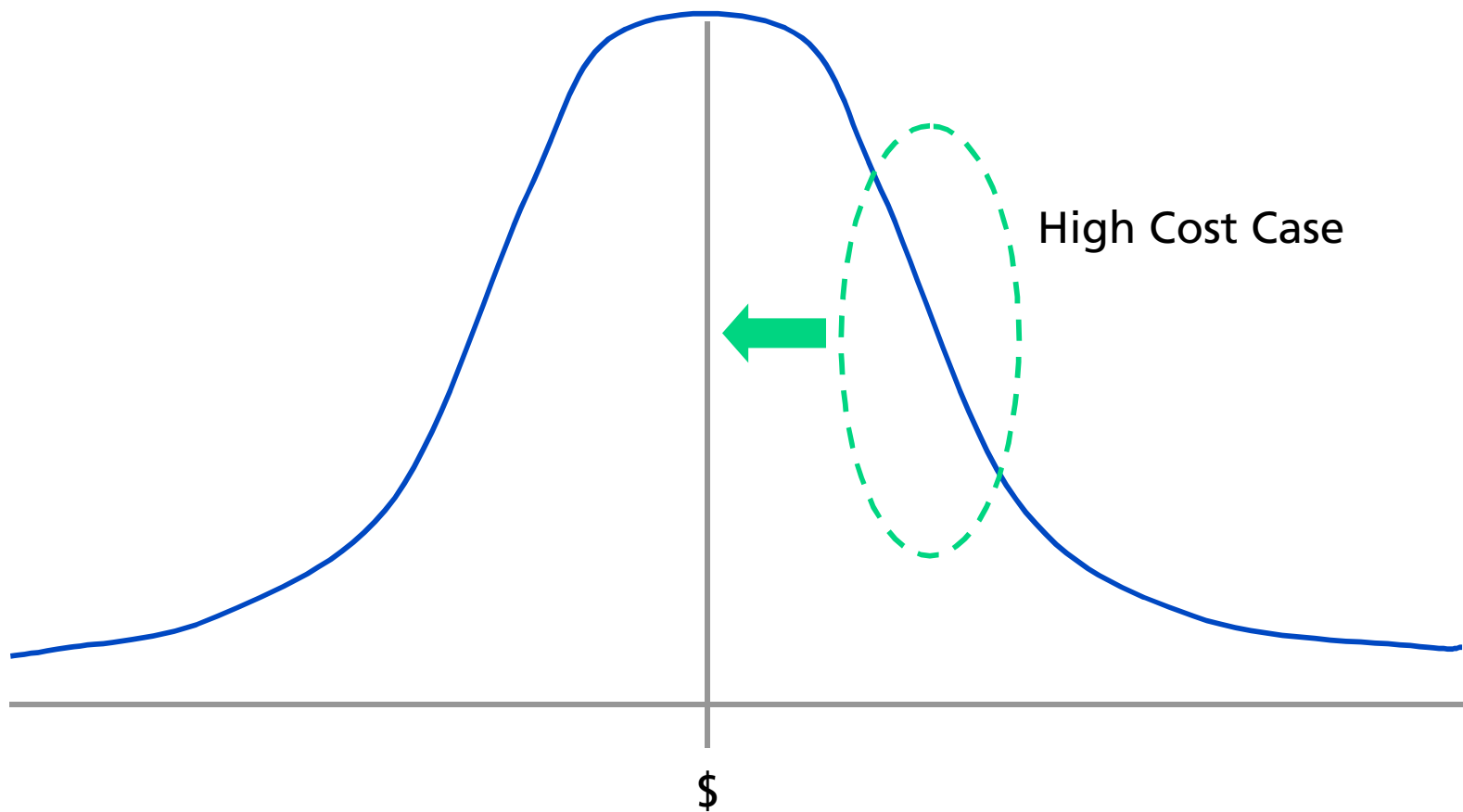
# HealthMarket Benefit Plans

## Episode allowances are integral components of the benefit plans

- ◆ Initially identified 60 episodes of care
  - supported by independent actuarial review
  - approximately 45% of total medical expenditures
  - HealthMarket expects to double this number by 2001
  
- ◆ Developed more refined methodology for allocating risk
  - Episode of Care - clinical integration of all care factors required to address a patient's disease state
  - Episode Allowance – discrete budget allowance across a spectrum of care matched to a clinical outcome
  
- ◆ Episode of care methodology has significant benefits
  - increases actuarial predictability
  - providers only at risk for costs that they can control
  - reduces costs

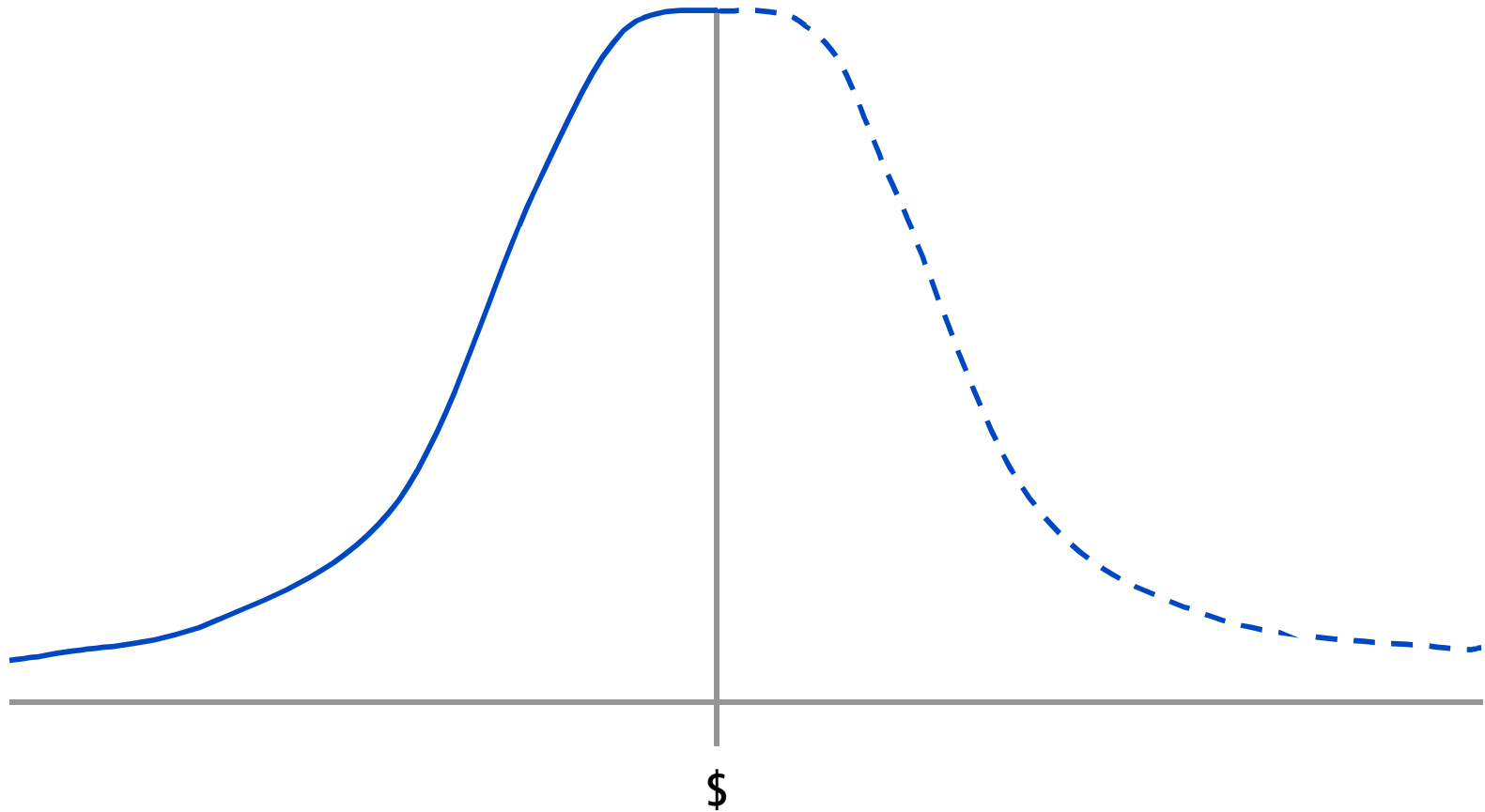
# HealthMarket Benefit Plans

Managed care currently seeks to control provider behavior



# HealthMarket Benefit Plans

## Elimination of high cost outliers



# HealthMarket Benefit Plans

## Medical Services



## The HealthMarket Exchange

Step 1

### Determine Category of Service

- ◆ Routine Care
- ◆ Acute & Chronic Care
- ◆ Catastrophic Care

Step 2

### Understand Coverage

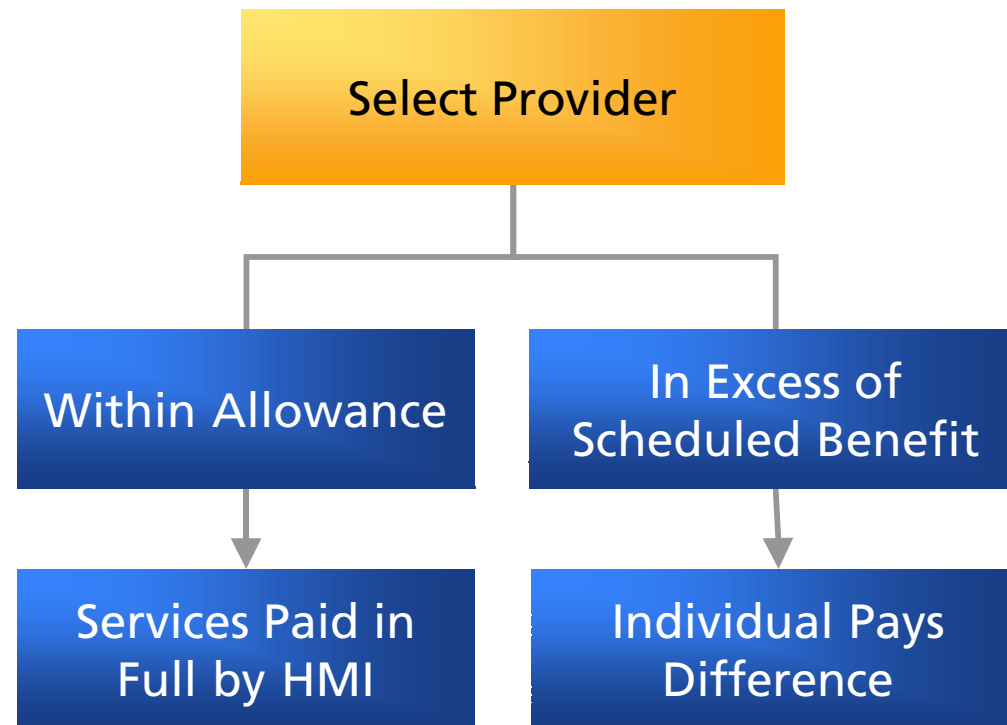
- ◆ Scheduled Benefit
- ◆ Episode Allowance
- ◆ Event Allowance

Step 3

### Select a Provider

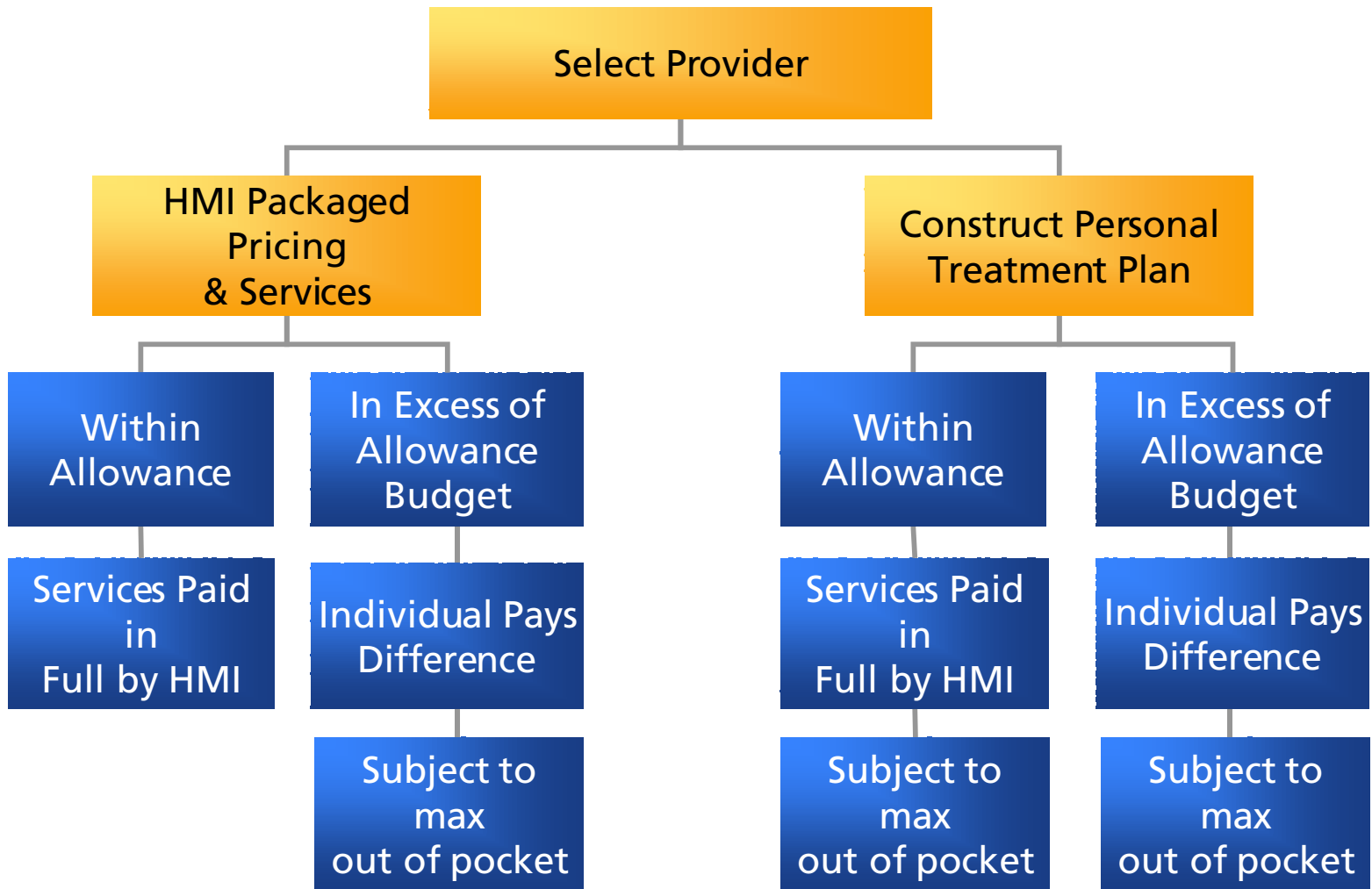
# HealthMarket Benefit Plans

**Routine medical care: No gatekeeper or pre-approval process**



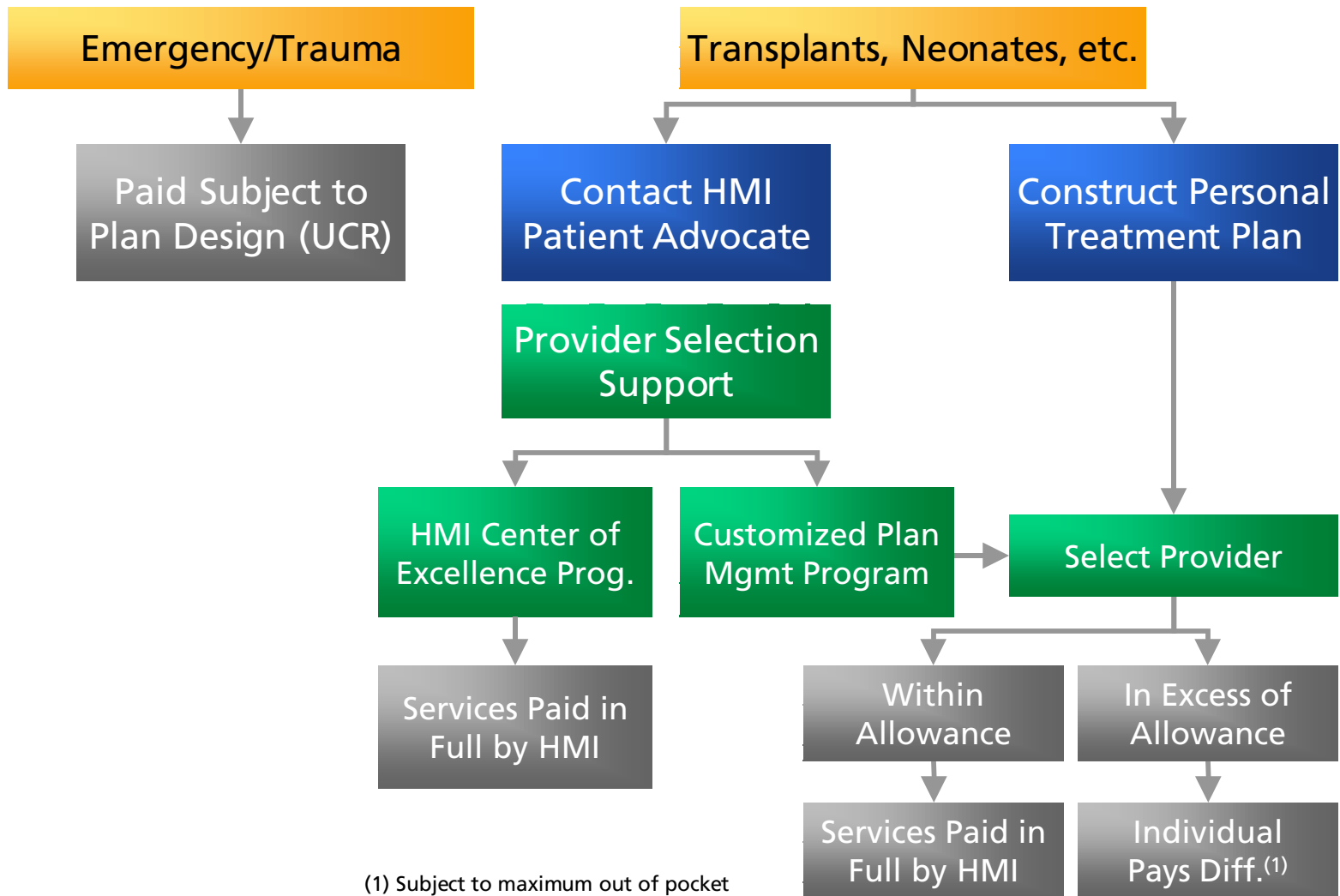
# HealthMarket Benefit Plans

**Chronic and acute care: Introduce episode allowance with no clinical mandates**



# HealthMarket Benefit Plans

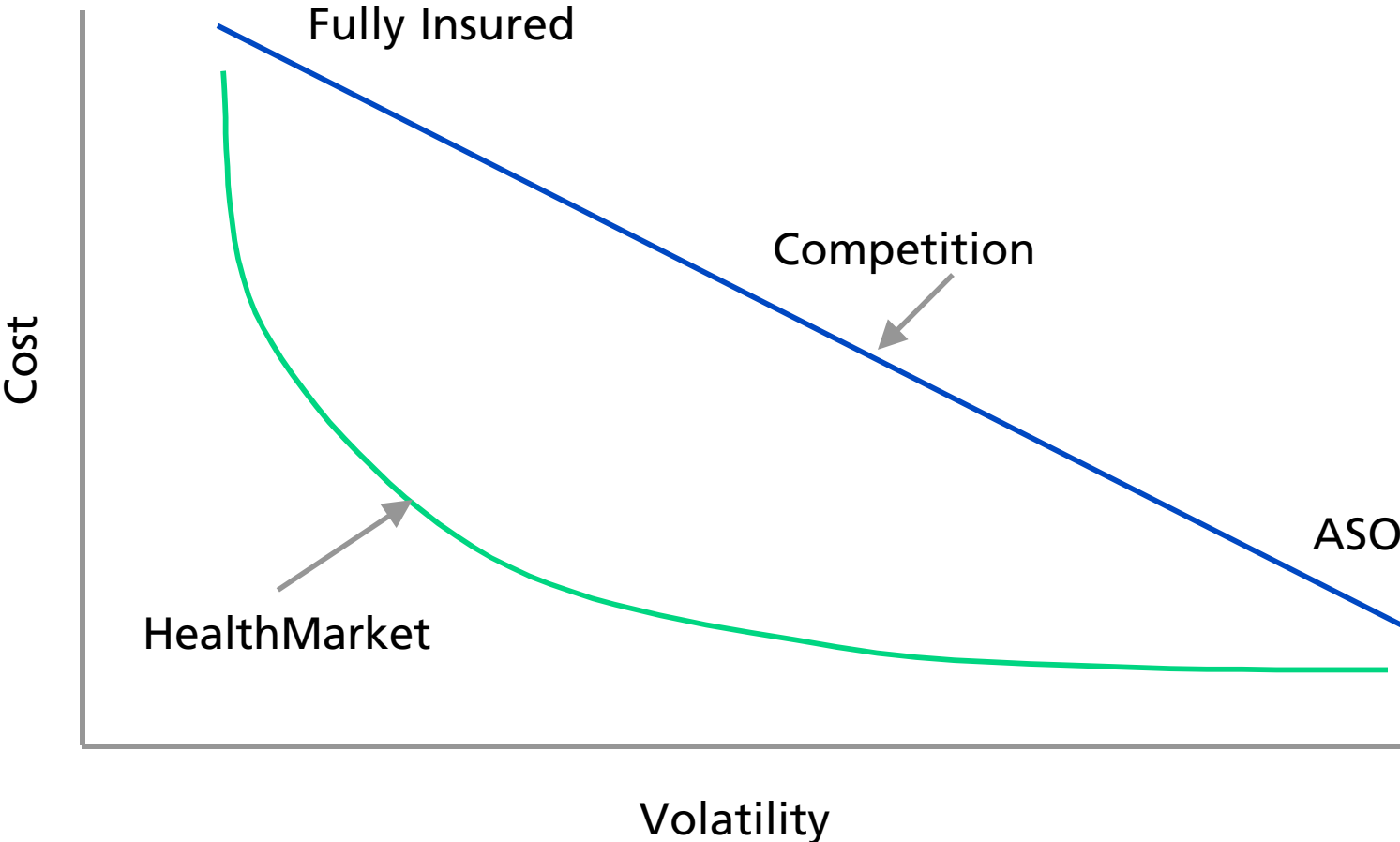
**Catastrophic services: Provide patient education and advocacy**



(1) Subject to maximum out of pocket

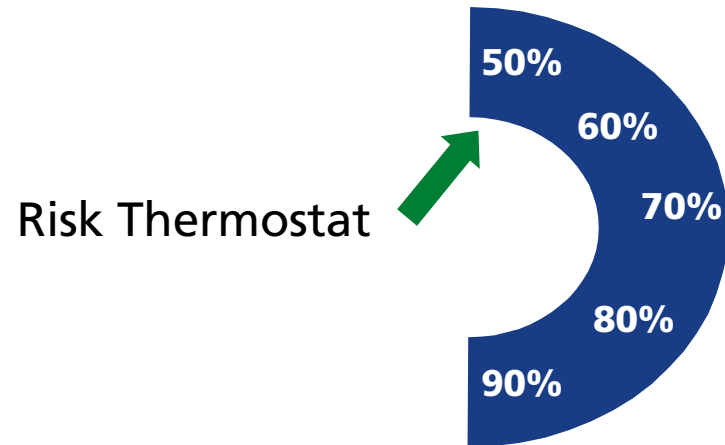
# HealthMarket Benefit Plans

Unique ability to hit multiple price points



# HealthMarket Benefit Plans

## Unique premium “dial in” price points



Full Indemnity PMPM=\$190.00

Defined Case Benefits	50th Percentile	60th Percentile	70th Percentile	80th Percentile	90th Percentile
Total Hip	\$10,000	\$12,000	\$16,000	\$21,000	\$28,000
Prostatectomy	15,000	18,000	22,000	29,000	35,000
Cataract	3,500	4,200	5,900	6,600	8,300
Delivery	2,500	3,000	4,500	5,900	7,500
<b>"Dial In" Price Points</b>	<b>\$95.00</b>	<b>\$114.00</b>	<b>\$133.00</b>	<b>\$152.00</b>	<b>\$171.00</b>

# HealthMarket Benefit Plans

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## Utilizing a broad distribution strategy

- ◆ [www.healthmarket.com](http://www.healthmarket.com)
- ◆ Existing carrier sales organizations
  - private label offerings
- ◆ National general agent rollout
- ◆ On-line intermediaries, for example:
  - BenefitPort
  - Channelpoint
  - BenefitMall
  - Quotesmith
- ◆ Retail brokers
- ◆ National telemarketing