

# FREQUENTLY ASKED QUESTIONS

DISCOVERY HEALTH MEDICAL SCHEME  
HEALTH LAUNCH 2023 | CONTRIBUTION INCREASE





## Contributions increase

### Frequently asked questions relating to the contribution increase strategy

#### 1. Why is Discovery Health Medical Scheme having a contribution increase in April 2023?

For a medical scheme to guarantee sustainability and stability for its members, the healthcare claims paid by the scheme must match the contributions that the scheme collects from its members. By October 2022, Discovery Health Medical Scheme was appropriately priced, and contributions received by members matched the healthcare claims being paid by the Scheme. This served as a strong indication of the success of DHMS' deferral strategy in improving affordability for members while accurately remaining in line with long-term medical inflation.

In 2023, healthcare claims paid by the Scheme are expected to increase in line with medical inflation, and the Scheme would need to increase contributions accordingly to ensure that contributions received continue to match claims paid.

Discovery Health Medical Scheme took the decision to defer the contribution increase for 2023 by 3 months to improve affordability for members. The 2023 contribution increase would therefore only apply from 1 April 2023, offering members 2023 benefits at 2022 rates for the first 3 months of the year.

#### 2. What factors informed Discovery Health Medical Scheme (DHMS) weighted average increase of 8.2% for 2023?

In 2023, healthcare claims paid by the Scheme are expected to increase in line with medical inflation, and the Scheme would need to increase contributions accordingly, to ensure that contributions received continue to match claims paid.

Medical inflation in any year is informed by:

- Tariff inflation which is the increase in the cost of healthcare services linked to the Consumer Price Index (CPI)
- Demographic risk which is driven by an increase in the disease burden or demand for healthcare services from the members of Discovery Health Medical Scheme
- Utilisation changes as a result of increases in healthcare utilisation post-COVID-19

On 1 April 2023, the Discovery Health Medical Scheme contributions will increase by:

- 7.9% on all KeyCare, Smart, Core and Saver plans
- 9.9% on all Priority, Comprehensive and Executive plans

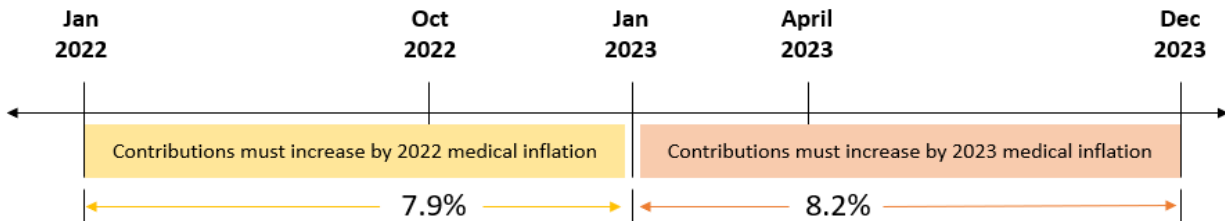
The contribution increase accounts for the following unique factors experienced in 2023:

- Volatility in the consumer Price Index (CPI) - the cost of healthcare goods and services are adjusted at various points across the year and typically increase at a rate of CPI+0.5%. Global supply-chain disruptions, spikes in global commodity prices and swings in the exchange rate have resulted in volatile and record-high levels of inflation in 2022 and into 2023. Although the volatility persists, CPI projections have consistently reduced since the July 2022 peak of 7.8%, with CPI currently recorded at 6.9% for January and expected to continue to drop through the rest of the year.
- The differentiated increase across plans takes into account the higher disease burden on the Priority, Comprehensive and Executive plans, reflected through higher hospital admissions, oncology claims and chronic illness costs. The increases on these plans allow the Scheme to maintain the industry-leading value of benefits at contributions that are on average 19.8% below industry contributions for equivalent benefits.



Eighty five percent (85%) of Discovery Health Medical Scheme members will experience a 7.9% increase in their contributions, while the remaining 15% of members will experience a 9.9% contribution increase. This represents a highly competitive weighted average increase in contributions of 8.2% for 2023, whilst sustaining contributions in line with medical inflation in Discovery Health Medical Scheme.

As a result of the three-month deferral of the 2023 contribution increases, members will pay the 2023 contribution rates for only nine months of the year. The deferral means that, in comparison to the contributions paid in December 2022, the average contribution paid by a member in 2023 will effectively increase by 5.9% for the KeyCare, Smart, Core and Saver plans, and by 7.4% for the Priority, Comprehensive and Executive plans.



### 3. Why is the contribution increase in 2023 different across different DHMS plan series?

The differentiated increase across plans takes into account the higher disease burden on the Priority, Comprehensive and Executive plans, reflected through higher hospital admissions, oncology claims and chronic illness costs. The increase in the disease burden index - and therefore utilisation levels - is 7% higher on extensive day-to-day plans than it is on hospital and limited day-to-day plans.

Members on extensive day-to-day options show higher demand for:

- Oncology related healthcare, with oncology claims 2.9 times higher than other plans
- Hospitalisation, with admission rates which are 1.7 times higher than other plans
- Chronic care, with chronic condition prevalence 1.5 times higher than other plans

As a result, a higher contribution increase on extensive day-to-day plans is required to account for these varying levels of utilisation across the different plan series.

The increases on these plans allow the Scheme to maintain unmatched value at contributions that are on average 19.8% below industry contributions for equivalent plans.

### 4. What is the difference between the 8.2% weighted average increase from April 2023 and the 6.2% effective increase when compared to December 2022 rates?

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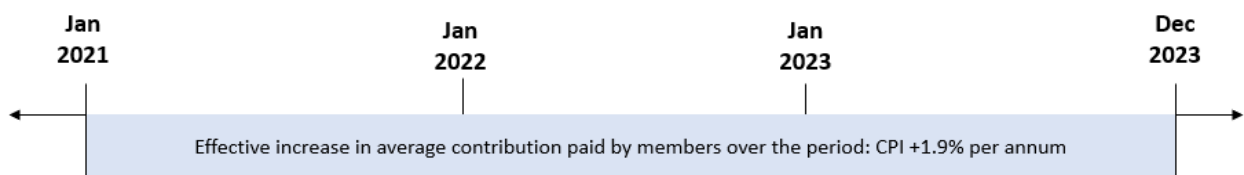
## 5. Why was there a contribution increase on 1 October 2022 and again on 1 April 2023?

For a medical scheme to guarantee sustainability and stability for its members, the healthcare claims paid by the scheme must match the contributions that the scheme collects from its members. Each year, healthcare claims paid by the scheme increase in line with medical inflation, therefore contributions received by members would require a concomitant annual increase.

In 2022, Discovery Health Medical Scheme took the decision to defer the 2022 annual contribution increase by nine months, to improve affordability for members. Contributions for Discovery Health Medical Scheme members would only increase on 1 October 2022, as opposed to 1 January 2022. This meant that DHMS members could enjoy their 2022 benefits, but only pay 2021 rates for the first 9 months of the year. This substantially reduced the total contributions paid by members across 2022. The Scheme followed a similar deferral approach for the first 3 months of 2023, deferring the 1 January 2023 increase to 1 April 2023.

The 1 October 2022 increase reflects the required increase in healthcare claims over the full 2022 period. Similarly, the 1 April 2023 increase reflects the increase in healthcare claims that occurs over the 2023 period.

Deferring the 1 January 2022 contribution increases to later in the year, resulted in members experiencing increases on 1 October 2022 and 1 April 2023. However, the full effect of these deferrals has greatly supported affordability for members across 2021, 2022 and 2023. Contribution deferrals have effectively limited increases for members to just 1.9% above CPI over this three-year period, significantly below the prevailing medical inflation which is 3 to 4% above CPI.



## 6. Why did Discovery Health Medical Scheme (DHMS) decide to defer the contribution increase until 1 April 2023?

During periods of high COVID-19 infection and uncertainty, the demand for non-COVID-19 healthcare reduced substantially as members deferred their non-urgent healthcare needs. This increased the reserve levels of the scheme. Discovery Health Medical Scheme used its strong reserve position to maximise affordability for members by delaying the annual contribution increases for a third year in a row. This allowed members to enjoy their substantially enhanced benefits while paying prior years' rates for 18 months over the last three years.

The contribution increases for DHMS in 2021, 2022 and 2023 have ensured that contributions remain in check with medical inflation, underpinning sustainability and mitigating risks of the scheme showing losses, and ultimately requiring price catch-up. The deferral of the increases, utilising the higher solvency as a "shock absorber", has the effect of reducing the effective annual increases for members. This strategy allows the Scheme to maintain its long-term sustainability, avoid future price shocks and benefit cuts and addresses affordability for members.

In 2021 the Scheme's strong excess reserve position was used to cumulatively reduce contributions by R2.2 billion for members by delaying the increase by 6 months. In 2022, DHMS repeated the deferral approach with the contribution increase delayed until 1 October 2022, amounting to a further R4.6 billion worth of financial relief to members. Member affordability was once again improved in 2023, with a further deferral of the contribution increase for 2023, reducing contributions by a further R1.8 billion.





The delayed contribution increases saved Discovery Health Medical Scheme members approximately R6,350 per policy, on average, during 2021, 2022 and 2023. Through the contribution increase deferral, the average contribution paid by a Discovery Health Medical Scheme member increased by just 1.9% p.a. above Consumer Price Index (CPI) over this period. This approach substantially lowered real increases for members from the required medical inflation increase of CPI+3% to CPI+4%.

The value of this strategy has been recognised by members and their financial advisers and is reflected in DHMS's growth over the last two years. Since January 2021, the Scheme's membership has grown by 47,500 beneficiaries, while most competitors have shrunk in this period.

## **7. Why did DHMS not announce the exact contribution increase until February 2023?**

In response to volatile consumer price inflation (CPI) and continued utilisation uncertainty, it was decided that the most prudent approach for both members and the Scheme was to delay the confirmation and announcement of the deferred 2023 contribution increase to February 2023.

Consumer price inflation (CPI), the base component of medical inflation, was highly volatile in 2022 which led to a large variance in predicted CPI for 2023. Waiting until February 2023 allowed the Scheme to better evaluate the CPI trend for the remainder of the year. In January 2023 CPI dropped to 6.9%, the third straight month of decline and an indication of further easing in CPI for the rest of 2023.

The outbreak of COVID-19 in early 2020 caused healthcare utilisation to drop significantly. It remained below expectations in 2021 and, while increasing back towards previous levels in 2022, it remained volatile. Delaying the contribution announcement to February 2023 allowed for a better understanding of utilisation trends and offered greater certainty to ensure that contributions remained closely matched to claims.

## **8. What was the reason for the increase deferral period being shorter in 2023 (April) compared to the previous two years?**

The use of Scheme reserves must balance support for short-term member affordability with other benefits that have a material long-term impact on members' health and ultimately support the long-term sustainability of the Scheme. Through the deferral strategy, the Scheme used R6.8bn worth of reserves to improve member affordability in 2021 and 2022.

A continued strong reserve position at the start of 2023 has afforded the Scheme the opportunity to not only support short-term affordability – through R1.8bn being made available for the three-month deferral, but to combine this with a significant investment into the health of all DHMS members through increased benefits in 2023. These included the Disease Prevention Programme, oncology thresholds increasing by 25% and most notably the WELLTH Fund.

As a Scheme that is deeply invested in every member's health, and fundamentally believes in preventative healthcare, DHMS was deeply concerned by the precipitous reduction in healthcare screening during Covid-19. Consequently, DHMS deployed its excess solvency to introduce the WELLTH Fund for members, significantly enriching benefits. The WELLTH Fund represents an unprecedented investment in the long-term health of Discovery Health Medical Scheme members by funding preventative and screening healthcare costs, allowing members to fully understand their health risks.

The WELLTH Fund is a once-per-lifetime benefit offering additional cover of up to R10 000 per policy for discretionary health needs. The WELLTH Fund is unlocked through completion of a Health Check. The discretionary and comprehensive nature of the benefits covered by the WELLTH Fund substantially improves the value members receive across all Discovery Health Medical Scheme plans.

### FREQUENTLY ASKED QUESTIONS

Discovery Health Medical Scheme, registration number 1125, is regulated by the Council for Medical Schemes and administered by Discovery Health (Pty) Ltd, registration number 1997/013480/07, an authorised financial services provider.



## 9. When can members expect DHMS contribution increases to return to 1 January?

With lower expected volatilities in healthcare utilization, Discovery Health Medical Scheme is aiming to move back to annual increase cycles from January 2024. This will however depend on any further COVID-19 waves and its impact on utilization.

## Benefit adjustments related to the deferred increase

### 10. Will members be able to change plan selections in April 2023 due to the contribution increase?

Members will have the opportunity to upgrade their health plan effective 1 April 2023. Plan downgrade requests are processed throughout the year. Advisors will be able to process upgrade requests on the Financial Advisor Zone from mid-February 2023. All mid-year upgrade requests must be submitted by 31 March 2023.

### 11. Will the savings portion be adjusted in April?

Yes. The additional MSA portion, which members are entitled to because of the higher contributions from April 2023, will be allocated by the 1 April increase date.

### 12. By how much will a member's Medical Savings Account (MSA) increase on 1 April 2023?

The additional MSA allocation will be calculated as follows: The monthly MSA contribution after the 1 April 2023 increase minus the monthly MSA contribution before the contribution increase multiplied by 9 months (the number of months in 2023 with the higher contribution).

### 13. When were the thresholds on the Annual Threshold Benefit increased for 2023?

Thresholds for the Above Threshold Benefit on the Executive, Comprehensive and Priority plans were increased by 9.9% from 1 January 2023. Thresholds will remain unchanged for the rest of 2023.

### 14. How will the additional Medical Savings Account allocation affect members who are in their Self-Payment Gap (SPG) by 1 April 2023?

While in the SPG, members will be able to use the additional Medical Savings Account until this is depleted.

Members who have reached their above threshold benefit (ATB) before 1 April 2023 will remain in their ATB and continue to access the associated risk-funded benefits. The additional Medical Savings Account allocation will be carried over to the next year or can be used for healthcare expenses not funded from the member's ATB in 2023.

### 15. Will the KeyCare income bands be increased in April 2023?

Income bands on all Keycare plans will increase in line with salary inflation, of approximately 5.8%, on 1 April 2023. The next income verification process will take place as part of the 2023 year-end process.

### 16. Where can advisors apply for an upgrade for their client's plan?

Advisors will be able to change their client's plans on the Financial Advisor Zone from mid-February 2023 to 31 March 2023. If you are experiencing any difficulties with this process, please contact your Corporate Health Manager or Servicing Specialist.

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