5. Kaiser Permanente

KAISER PERMANENTE.

5.1 Summary

Kaiser Permanente (KP) is the largest non-profit health plan in the U.S., serving more than 8.6 million members in eight regions/states: Northern California, Southern California, Colorado, Georgia, Hawaii, Mid-Atlantic (Maryland, Virginia, and Washington, D.C.), Northwest (Oregon, Washington), and Ohio. It has three operating divisions:

Type	Nonprofit
Founded	1945
Headquarters	Oakland, CA
Total Revenue (2007)	$37.8B
Revenue Growth (YoY)	~10%
Net Profit (2007)	$2.2B
Profit Growth (YoY)	~69.%
Employees (2008):	159,766
Physicians (2008):	14,000
Nurses (2008)	40,000
Hospitals	32
Medical Office Buildings	430

- **Kaiser Foundation Health Plan** – KFHP is a managed health care subsidiary of Kaiser Permanente that offers care through a network of hospitals and physician practices. The company primarily provides health plans including individual and family health plan, child health plan, steps plan, Medicare advantage plans, and company plans. KFHP contracts with Kaiser Foundation Hospitals and medical groups to provide hospital and physician care services. As a not-for-profit, KFHP uses its funding to undertake numerous social activities including assistance to the uninsured and special populations, training new health professionals, and introducing new delivery and financing methods into the health care arena. In addition, KFHP operates a research division which is currently involved in around 200 active studies in vaccine and genetic studies.

- **Kaiser Foundation Hospitals and subsidiaries** – The company operates 32 hospitals and 421 medical office buildings. As noted in the company's 2007 annual report, if KP were a construction company, it would be the fifth largest in the U.S., with 68 million square feet of facilities. In 2007, the company completed four new hospital projects in California and one serving the Northwest region.

- **The Permanente Medical Groups** – Each of the eight regional Permanente Medical Groups is led by a physician executive (called the executive director) who reports to a board of directors made up of the physician-owners of the medical group. The executive director in each region partners with the health plan and hospitals regional president to provide direction to operations in that region. In 1997, the Permanente Federation was formed to represent the national interests of the eight regional groups. The federation provides business expertise to the regional medical groups as well as a national Permanente voice on key policy issues.

> **"Millions of doctor visits without one gallon of gas"**
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> Every day, our personal health record, My Health Manager, on kp.org, gives our members a more complete picture of their personal health information so they can actively take charge of their health. By the end of 2007, almost 2 million members had signed up, and My Health Manager is becoming their latest good habit. Unlike a lot of personal health records, which only access claims data, My Health Manager is directly tied to KP HealthConnect, one of the most robust and sophisticated electronic health records anywhere.
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> – *Kaiser Permanente 2007 Annual Report*

KP evolved from a new kind health care delivery system developed for workers in the California steel mills and shipyards of industrialist Henry J. Kaiser during the late 1930s and 1940s. The concept of "prepaid" health coverage emerged from combined visions of a young surgeon, Dr. Sidney Garfield, and an engineer-turned-insurance agent, Harold Hatch, who suggested that the insurance companies pay Dr. Garfield a fixed amount per day, per worker, up front. After the end of World War II, in October 1945, the Permanente Health Plan officially opened to public enrolment. According to the KP website, the name of the Health Plan and the Hospitals was changed in 1952 from Permanente, which some felt had little meaning outside the organization, to Kaiser, which had national recognition because of Kaiser Industries. The medical group chose to keep the Permanente name, in part to clarify that they were not employees of Henry J. Kaiser. The original mission of Dr. Garfield, who emphasized maintaining health and safety in addition to treating illness and injury, remains a core element of KP's corporate identity today.

5.2   KP Holds a Unique Position in the HMO Market

The size of the KP organization and the breadth of its activities give KP a unique strategic advantage over its competitors, which include Aetna, Blue Cross and Blue Shield, CIGNA, WellPoint, and Humana, among others. Few of its competitors can match KP in terms of financial support, brand identity, and product recognition.

To advance its mission of improving the quality of its health care and medical services, KP operates one of the largest non-academic research programs in the U.S. The company has eight research centers in the U.S. conducting epidemiological studies and health services research. KP physicians and research staff organize clinical trials of new drugs, medical devices, and other therapies. The company collaborates with the government agencies such as the National Institutes of Health and the Centers for Disease Control and Prevention, and has partnerships with more than 40 academic institutions, including Johns Hopkins and Harvard. On its web site, the company reports that there are 2,000 studies underway at any given point within KP's research infrastructure. In 2007 alone, the company published more than 500 medical research papers.

> **"Doing things the right way"**
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> In 2007, nearly every good thing that happened to our members, to us, and to our communities was the result of ideas and programs that have been at the center of our beliefs for years. From one end of the country to the other, we have helped our members make real progress on serious health issues such as obesity, smoking, heart health, and diabetes. We have seen our programs offer affordable, high-quality care to our members. We have seen our communities become cleaner, healthier places to live. And we have seen our organization enjoy the natural growth that comes from doing things the right way.
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> – **George Halvorson**, Chairman/CEO
>   Kaiser Foundation Health Plan, Inc.,
>   and Kaiser Foundation Hospitals
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> – **John H. Cochran**, MD, Exec Director
>   The Permanente Federation
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> *Kaiser Permanente*
> *2007 Annual Report (June 2008)*

5.3   Recent Initiatives

As the country's largest health plan provider, KP has taken a leading role in the movement toward electronic health records and what the providers and payers alike see as the ultimate goal: evidence-based medicine.

KP HealthConnect™ – KP launched this high-profile, $4 billion electronic medical and health information system in 2003. In May 2008, the company announced that it had completed the outpatient implementation of KP HealthConnect to all 8.7 million members. As a result, KP became the largest civilian hospital system in the U.S. using electronic medical records. Announcing the milestone in a press release, KP said, "As the nation seeks new solutions for reforming health care and reducing costs, Kaiser Permanente is leading the way in making technology a core tool for patients and providers. All of [our] 14,000-plus physicians now have electronic access to their

patients' medical records in every one of [our] 430 medical offices and clinics." Although the system had a troubled start, health experts in the U.S. cite it as a possible national model.

My Health Manager – More than 2 million members had signed up as of June 2008 to use KP's My Health Manager, the consumer portal on kp.org that is directly linked to KP HealthConnect. The company reported, "On a daily basis, we are seeing evidence of how it is improving our care and service quality. It also provides new access and convenience for our members, including the ability to securely e-mail their doctors and view most lab test results online." While patient convenience is a worthy goal, as is improving the quality of care and service, Kaiser's ultimate objective with KP HealthConnect and My Health Manager is evidence-based medicine. As KP Chairman Halvorson and Executive Director Cochran wrote in their 2007 annual letter, "Every year, our technology brings our health care teams closer to our members than ever…. Using an evidence-based approach, supported by our advanced technology systems, Kaiser Permanente's health care providers, hospitals, pharmacies, labs, and researchers work together to help keep our members healthy and productive. This integrated model of care is unique to Kaiser Permanente."

5.4   My Health Manager: Largest "Tethered" PHR System in U.S.

In the EMR industry terms, My Health Manager is a "tethered" personal health record (PHR), "tethered" because it is linked to a single provider's health plan system. With more than 2 million members, My Health Manager is currently the largest PHR system in the U.S. Once they've logged into the site, KP members can complete a number of health management activities online, such as sending an email to their doctor, scheduling appointments, ordering pharmacy items, checking lab test results, and reviewing information from past visits. As it implemented now, My Health Manager does not allow members to change any data or add health data from sources outside KP.

**KP's My Health Manager is the most widely used personal health record in the U.S.
In 2008, members sent more than 6 million secure messages to their care providers
and went online to view more than 16.7 million lab test results.**

5.5   The Next Step: Giving Consumers Control

Like some other EMR providers, Kaiser has already begun to explore how to make its EMR data interoperable with untethered PHRs that their members set up separately and manage themselves. As a first step, KP announced a partnership with Microsoft in June 2008 that began with a pilot project linking Kaiser's patient information with Microsoft's Health Vault personal health record service. If the pilot, which is open to KP's 159,000 employees, is successful, Kaiser plan to make it available to all of its 8.6 million members. "This is a big step for us, and our first partnership with a consumer health record supplier," said Anna-Lisa Silvestre, Kaiser's vice president for online services, said in a June 2008 interview with the *New York Times.*

Kaiser's move is significant, according to various observers, because of the company's size and its reputation as an innovative user of information technology. As early as the mid-1990s, Kaiser offered its members the ability to send health questions to nurses over the Web. By linking a consumer's personal health record on Health Vault with the Kaiser record, the company opens the door to sharing and supplementing information from the Kaiser system with other sources of personal health information, from blood pressure machines to pedometers. The biggest payoff, health experts say, would be in improving the management of chronic diseases like diabetes, asthma, congestive heart failure, and hypertension, which account for the largest part of U.S. health care costs.

The Kaiser partnership is a huge plus for Microsoft in its efforts to build relationships with health providers. Several analysts expressed surprise that Kaiser chose to pilot with Microsoft technology, since Silvestre is a member of a group of health professionals advising Google, according to the *New York Times.* Silvestre said Kaiser had also considered Google, but had been impressed by the privacy and security protections of Microsoft's technology. She noted that Microsoft and Kaiser are using the same Web-based data format, called a Continuity of Care Document (CCD), although initially Google was using a different format for Web health records, called Continuity of Care Record (CCR). Health experts don't anticipate differences in these standards to prevent interoperability of consumer health records supplied by rival companies. Google, they say, is committed to supporting both formats, and so is Microsoft. "Google will certainly be a player in this, and we look forward to working with them, Kaiser's Silvestre said. "We're all for consumer choice."

Deborah Peel, founder of Patient Privacy Rights, a medical privacy watchdog group, believes independent PHRs are what consumers really want – and need – and isn't surprised that Kaiser is experimenting with alternatives to My Health Manager. "I think PHRs created by insurers or employers are doomed from the start. They are suspect," says Dr. Peel, whose organization advocates legislation that will allow consumers to opt in or out of any use of their personal health data in EMRs. The most effective PHR, she believes, is one that allows consumers to manage their own health record information from every doctor, lab, and clinic they visit. "That would have the richest data about you," Dr. Peel says. "We would then see researchers and pharmaceutical companies approach us for our data…. That's our dream."

PHRs stored in independent health record banks like Microsoft's HealthVault and Google Health are one solution. However, the challenge for any company storing PHRs, especially giants like Microsoft and Google, will be to ensure that consumers have absolute control over who sees their health information. As more patients begin to understand the potential uses of PHRs to manage their health, control will become the dominant issue. Like an EMR, a PHR would contain a list of doctors, medications, and test results. But it also might contain a patient's own notes on the effectiveness of various treatments and links to helpful publications and organizations. Because PHRs give patients one central place to manage their own health information, many health experts view PHRs as playing a key role in improving behavioral health.

Marlowe Greenberg, CEO of Foothold Technology, whose software is used by hundreds of behavioral health organizations, believes patients will be especially wary about storing mental health and substance abuse data in a PHR. "We're never going to get this done," he argues, "unless the consumer has the control to determine who should see what." Ravi Poorsina, a senior

communications consultant for Kaiser, believes KP and Microsoft have already addressed these concerns. "Because there can be a stigma attached to behavioral health, there are some things members may not want to share with their primary care physicians," she said in a February 2009 interview with *Behavioral Healthcare*. "If a psychologist suggests that they start a journal, they can do it in their HealthVault PHR. That data will not automatically be transferred to their My Health Manager file. They can control what is transferred."

5.6   Technical Challenges at Kaiser Permanente

While Kaiser's HealthConnect EHR system appears to be successfully deployed today, the company faced significant technical challenges during the system's 5-year implementation. Many healthcare facilities that are implementing EHR systems face technical problems, but given the scale of Kaiser and its HealthConnect system, the problems were magnified and greater in number.

In November 2006, an internal report by Kaiser Foundation Hospitals was leaked to the press describing "hundreds of technical problems" with HealthConnect. According to reports that began appearing in the *Los Angeles Ti*mes in early February 2007, the system experienced excessive downtime and some applications were difficult to access, "allegedly because the system did not scale well to Kaiser's vast network." According to the *Times*, "Documents and interviews with current and former Kaiser employees showed the effort had encountered repeated technical problems, leading to potentially dangerous incidents such as patients listed in the wrong beds. At times, doctors and medical staff haven't had access to crucial patient information, and system outages have led to delays in emergency room care, the documents show." Days after the report became public, Kaiser CIO Cliff Dodd resigned. However, the company did not make any connection between his departure and the troubled project.

Kaiser's own "availability" reports documenting the reliability of HealthConnect over nine months in 2006 found the system available 88% of the time on some days and less than 80% in certain locations. "That rate is considered very low for the healthcare industry, which increasingly is aiming for systems with availability in the 'multiple nines,' or 99.99%, because of patient safety risks that can arise during system outages," the *Times* reported. In early 2007, the California Department of Managed Health Care requested information about the project, a first step before a possible investigation. No further action has been taken.

> **Kaiser vendor Epic Systems earns CCHIT certification**
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> In November 2008, the Certification Commission for Healthcare Information Technology (CCHIT®) announced newly certified EHR products for Inpatient (hospital-based) and Emergency Department use, as well as a special Enterprise EHR certification for vendors that provide Ambulatory, Inpatient, and Emergency Department EHRs that are interoperable. Epic Systems, which supplied the software for HealthConnect, had products in all three categories:
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> - EpicCare Clinical Inpatient System
> - ASAP Emergency Department System
> - EpicCare Enterprise Clinical System
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> The CCHIT has a 9-member volunteer board of trustees, plus 21 volunteer commissioners who represent all sectors of health IT and provide strategic guidance and oversight for the certification process and criteria. KP is represented on board of commissioners by Dr. Andrew Wiesenthal, associate executive director, Clinical Information Support, The Permanente Federation.
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> *Source: www.cchit.org*

Kaiser's experience came as no surprise to Dr. David Brailer, the physician appointed by President Bush to be the first national coordinator for health information technology. From 2004 to 2006, Brailer led the Bush administration's HIT initiative to provide portable EHRs to half of all U.S. citizens by the year 2014. In an interview with *CIO Magazine* just after he stepped down (January

2007), Brailer said, "Major corporate change projects of any sort tend to be complex and full of surprises, and Kaiser's is no different. Someone has to pioneer EHR in large corporate settings, and it might as well be Kaiser." As national coordinator, Brailer organized a number of projects that convened medical staff, health plan employees and IT vendors to work together. Projects included specifying the look of EHRs and addressing issues of data privacy and consumer control.

In the same interview, Dr. Hilary Worthen, a physician and senior director of clinical informatics at Cambridge (Mass.) Health Alliance, agreed: "The scale of Kaiser's project is indeed enormous, and that level of complexity is likely to uncover unforeseen issues. I'm not sure it means that organizations tackling a less ambitious implementation need to alter course." She noted, "I am not unbiased, since our organization is an Epic customer, too. There are certainly a lot of examples out there of robust Epic implementations…. given the scale of [Kaiser's] implementation, I am not sure anyone can do much better."

"This is one of the largest and most ambitious efforts anywhere in the world to modernize our healthcare system," Kaiser CEO George Halvorson told the *LA Times*. Taking that into consideration, he said, "It couldn't be going better." In the same article that described the problems with Kaiser's HealthConnect implementation, the *Times* also reported that systems has had early successes: "During routine data analysis using its digital records two years ago [early 2005], Kaiser was the first to identify problems with Merck & Co.'s arthritis drug Vioxx, which was later pulled from the market after a study showed it increased the risk of heart attack."

In November 2008, Kaiser Permanente received the highest ratings from the state of California on its annual HMO score card. It was the first time that any HMO in California had scored a four-star rating. The score card rates the state's eight largest HMOs primarily on preventive measures, including what percentage of an HMO's members received recommended tests on schedule, such as mammograms, colonoscopies, Pap smears and cholesterol checks. "The four-star rating is an aggregate of many measures, and it is significant because it really shows us what is doable for healthcare plans," said Sandra Perez, director of the state Office of the Patient Advocate, which issues the report card. "What we hope is that plans can learn from each other and find out from Kaiser what is working."

5.7   Key Executives

George C. Halvorson, Chairman and CEO
Kaiser Foundation Health Plan and Hospitals

Halvorson has been in this position since 2002 and has more than 30 years of health care management experience. He is the former president and CEO of HealthPartners, and previously held several senior positions with Blue Cross and Blue Shield of Minnesota. Halvorson is a frequent lecturer to academics, policy makers, and health industry leaders in the U.S., including the National Business Group on Health, the Microsoft Annual Health Plan Executive Forum, and the National Governors Association. He serves on a number of boards and is the current president of the board of directors for the International Federation of Health Plans. He is a member of the Harvard Kennedy School Healthcare Delivery Policy Group and also serves on the Institute of Medicine Task Force on Evidence-Based Medicine. Widely credited with supporting the successful rollout of Kaiser Permanente's information technology initiative, Halvorson has won numerous awards for his commitment to health technology, including the Modern Healthcare CEO IT Achievement Award. He wrote *Epidemic of Care*, which Warren Buffet said was "by far the clearest explanation of how we have gotten to where we are in health care and what is likely to happen."

John H. Cochran, Executive Director, The Permanente Federation

Dr. Cochran became the executive director of the Permanente Federation, the national umbrella organization for the regional Permanente Medical Groups, in October 2007. Dr. Cochran also serves as the president and CEO of The Permanente Company, which carries out the Federation's business functions. Previously, he served as executive director and president of the Colorado Permanente Medical Group. Dr. Cochran began his career with CPMG as founder of the Plastic Surgery Department in 1990.

Arthur M. Southam, Executive Vice President, Health Plan Operations

Dr. Southam has served in this role since 2007. Previously, he was senior vice president of Product and Market Management of KFHP. Before joining Kaiser Permanente, he was president and CEO of Health Systems Design Corp., a developer of software systems to support health plans and health care providers. He was vice chairman, president and CEO of Health Net, a large California-based health benefit plan from 1996 to 1998. Before that, he was CEO of CareAmerica Health Plans. He is past chairman of the California Association of HMOs.

Bernard J. Tyson, Executive Vice President, Health Plan and Hospital Operations

Tyson has served in this role since 2007. Previously, he was senior vice President for Health Plan and Hospital Operations of KFHP. The eight regional KFHP presidents report to him. In addition, he has responsibilities for National Facility Services, Workplace Safety, Patient Care Services, and National Health Plan and Hospital Operations. For three years (January 2003- 2006), he served as senior vice president of Brand Strategy and Management, "promoting Kaiser Permanente's brand and reputation by telling the Kaiser Permanente story and enhancing the organization's relationship with its key stakeholders," according to the company's web site.

5.8   Most Recent Financial Statements

2008 Operating Revenue $40.3 billion	*2008 Net Income* ($794 million)
2007 Operating Revenue $37.8 billion	*2007 Net Income* $2.2 billion
2006 Operating Revenue $34.4 billion	*2006 Net Income* $1.4 billion

Source: Kaiser Permanente Annual Reports

Feb.13, 2009 (excerpts from Kaiser Permanente press release)

KFHP and Kaiser Foundation Hospitals Report Fourth Quarter and Fiscal-Year 2008 Results

Operating Performance in Line with Expectations; Reports Investment Losses; Bracing for
Continued Economic Weakness with Focus on Quality, Efficiency

OAKLAND, Calif. – Kaiser Foundation Health Plan, Inc., Kaiser Foundation Hospitals and their subsidiaries (KFHP/H) reported total operating revenue of $10.0 billion for the quarter ended Dec. 31, 2008, compared to $9.6 billion in the same period last year. Operating income was $108 million in the fourth quarter of 2008, compared to a loss of $101 million in the same quarter last year. The difference between the two quarters was primarily due to an adjustment of certain self-insured liabilities in the fourth quarter of 2008.

Financial market declines impacted KFHP/H's investment portfolio in the fourth quarter, resulting in a net non-operating loss of $1.1 billion versus net non-operating loss of $132 million in the same quarter last year. As a result, there was a net loss of $996 million in the fourth quarter of 2008 versus a net loss of $233 million in the same period last year.

Total operating revenue for fiscal-year 2008 was $40.3 billion, increasing from $37.8 billion in 2007. Operating income in 2008 was $1.5 billion, compared to $1.7 billion in 2007. The decline of the financial markets resulted in a net non-operating loss of $2.3 billion in 2008, compared to net non-operating income of $498 million in 2007. The non-operating loss in 2008 contributed to a net loss of $794 million for the year, compared to net income of $2.2 billion in 2007.

Capital spending in the fourth quarter was nearly $1.1 billion, on par with the fourth quarter of 2007. Similarly, capital spending in 2008 reached $2.9 billion, slightly more than the $2.8 billion reported in 2007. During the past year, KFHP/H opened three new hospitals, a hospital tower, and 10 medical office buildings to meet the needs of members. In 2009, KFHP/H will reduce or defer some capital projects and adjust project timelines where it is prudent to do so.

Due to rising unemployment and the financial challenges facing our members and customers, total membership declined by approximately 30,000 members, or 0.3 percent, during the past year. As of Dec. 31, 2008, there were more than 8.6 million members.

Consistent with its not-for-profit mission, KFHP/H uses its resources to support a wide range of community benefit programs. These programs provide care for low-income individuals and support community-based health partnerships, research, training, and community health organizations. During 2008, KFHP/H provided approximately $1.2 billion to support its broad array of community benefit programs.