



**KAISER PERMANENTE: PORTRAIT OF
A HEALTH MAINTENANCE ORGANIZATION**

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PORTRAIT OF KAISER PERMANENTE HEALTH MAINTENANCE ORGANIZATION

INTRODUCTION

Kaiser Permanente⁽¹⁾ is the oldest and largest not-for-profit Health Maintenance Organization (HMO) in the United States. Kaiser Permanente aspires to be a world leader in providing high-quality, affordable, integrated health care. It distinguishes itself by its social and community involvement, the central role played by its physicians in providing clinical care, its sophisticated health information system and its health promotion and disease prevention activities.

Kaiser Permanente was founded in 1945 by Henry Kaiser, a businessman working in construction in remote areas of California and Oregon. Mr. Kaiser signed a contract with the insurance company responsible for workplace health and safety to offer to his employees pre-paid health insurance covering the medical care offered at the time by Dr. Sidney Garfield. Gradually, eligibility for this insurance was extended to the entire community and broadened to include a wider range of health care, including not only medical services but also in-hospital services.⁽²⁾

Today, Kaiser Permanente has more than 8.3 million members in nine states (California, Colorado, Georgia, Hawaii, Maryland, Ohio, Oregon, Virginia and Washington) and the District of Columbia (see Table 1).⁽³⁾ Its head offices are in Oakland, California.

(1) The Kaiser Permanente Web site is: <http://www.kaiserpermanente.org/>.

(2) United States Congressional Research Service, *Health Insurance and the Uninsured: Background Data and Analysis*, Library of Congress, Washington, D.C., May 1988, p. 17.

(3) Data for 31 March 2003 taken from a press release issued by Kaiser Permanente on 7 May 2003 (see <http://www.kaiserpermanente.org/newsroom/releases/050703.html>).

TABLE 1: KAISER PERMANENTE'S PRESENCE IN THE UNITED STATES		
State	Number of members (approx.) in 2002	Internet Address
California	333,404	http://www.kaiserpermanente.org/locations/california/index.html
Colorado	402,043	http://www.kaiserpermanente.org/locations/colocations.html
Georgia	275,458	http://www.kaiserpermanente.org/locations/georgia/index.html
Hawaii	233,646	http://www.kaiserpermanente.org/locations/hi/index.html
Mid-Atlantic	517,553	http://www.kaiserpermanente.org/locations/midatlantic/index.html
<ul style="list-style-type: none"> • Maryland • Virginia • District of Columbia 		
Northwest	449,728	http://www.kaiserpermanente.org/locations/northwest/index.html
<ul style="list-style-type: none"> • Oregon • Washington 		
Ohio	158,322	http://www.kaiserpermanente.org/locations/oh/index.html

Source: Various Internet sites and Library of Parliament.

WHAT IS A HEALTH MAINTENANCE ORGANIZATION?⁽⁴⁾

HMOs are managed care organizations. They are networks or organizations that integrate and coordinate, on behalf of their members or enrolled individuals, the three following functions: 1) health care insurance (private or public), 2) health care delivery, and 3) the purchase of health services. Some HMOs are for-profit and others are not-for-profit. They bring together insurance companies, physicians, other health care providers, hospitals and other health care

(4) For further information about HMOs, see Philippe Le Goff and Odette Madore, *Health Maintenance Organizations in the United States: Potential for Introduction into Canada*, PRB 02-05E, Parliamentary Research Branch, Library of Parliament, Ottawa, 24 May 2002.

institutions; all these work together in a business relationship that varies from one organization to the next. Some HMOs employ health care providers directly (physicians, hospitals, laboratories, drugs, home care), while others enter into contracts with them.

Despite their great diversity, HMOs can be grouped into four major categories,⁽⁵⁾ based on the status of the physicians and the hospitals affiliated with them and the type of administrative organization set up to deliver care. These four categories are: the staff model, the group model, the network model and the Independent Practice Association model. Recently, two other managed care organization models have appeared on the American market: Preferred Provider Organizations (PPO) and Point of Service Organizations (POS).

- In the staff model, the HMO employs physicians and other health care providers directly and pays them a salary. The staff model also owns primary health care centres and has its own hospitals. This type of HMO may also provide diagnostic, laboratory and home care services.
- The group model is not a direct employer of physicians. This type of HMO signs contracts with groups of physicians who often make up a multidisciplinary team that is reimbursed on a capitation basis. Similarly, the group model does not necessarily own hospitals, but contracts for their services.
- In the network model, an HMO contracts with a variety of groups of primary health care physicians, specialists and hospitals. These health care providers deliver services to HMO members while maintaining their non-HMO practices.
- The Independent Practice Association (IPA) model is less restrictive in terms of medical practice. This type of HMO signs agreements with groups or associations of physicians (the IPAs). Physicians and institutions working under this model remain largely autonomous in the delivery of care.
- The PPO and the POS give patients and the providers much more freedom than the four HMO models described above: members do not have to consult only HMO-approved physicians, and the physicians do not provide their services solely to HMO members.

Kaiser Permanente may be considered a hybrid of the staff and group models. Like the staff model, Kaiser Permanente owns its own primary health care centres and hospitals. However, Kaiser Permanente does not employ physicians directly, but contracts with them through the Permanente Medical Groups (see below). Moreover, in areas of the United States

(5) *Ibid.*

where Kaiser Permanente has few or no health care facilities, service agreements have been signed with hospitals and affiliated physicians. The extension of its geographic coverage through affiliations, along with the fact that the physicians are not directly employed by the HMO, means Kaiser Permanente's structure is closer to that of the group model.

Recently, Kaiser Permanente decided to diversify its insurance plans. In addition to its regular packages, it now offers POS-type health care insurance in response to requests from American consumers for greater flexibility in the choice and location of their health care providers.

CORPORATE STRUCTURE

Kaiser Permanente currently comprises three components: Kaiser Foundation Health Plans Inc., Kaiser Foundation Hospitals and Permanente Medical Groups.

- **Kaiser Foundation Health Plans Inc.** acts as an insurer, offering insurance plans and packages for medical and hospital care to groups and individuals for a monthly premium. This medical and hospital care is offered to the members of Kaiser Foundation Health Plans through service agreements with Kaiser Foundation Hospitals and Permanente Medical Groups. Kaiser Foundation Health Plans Inc. offers several types of coverage which vary from one state to another. For example, Kaiser Foundation Health Plan of Georgia Inc. offers a range of health care insurance plans for various customers (individuals, small companies, corporations), health care insurance within the framework of Medicare⁽⁶⁾ and a POS-type health care insurance. Members of Kaiser Foundation Health Plans have “visiting member benefits” that ensure that Kaiser Permanente coverage is portable and can be transferred from one area to another for hospital and medical care.⁽⁷⁾
- The **Kaiser Foundation Hospitals** owns and manages hospitals in several states, in order to provide or coordinate the delivery of hospital care to members of the various Kaiser Foundation Health Plans. Kaiser Foundation Hospitals also sponsor charitable activities, public health education initiatives and medical research projects.
- The **Permanente Medical Groups** correspond to corporations of professional physicians with full responsibility for providing and organizing medical care on behalf of the members in each area served by Kaiser Foundation Health Plans Inc. Currently, each area has at least

(6) Medicare is a federal health insurance plan covering those aged 65 years and older, some younger people with disabilities, and people with terminal kidney failure.

(7) Kaiser Permanente, *Kaiser Permanente Visiting Member Program – Your Benefits*, December 2002 (document available on the Kaiser Permanente Web site).

one Permanente Medical Group. Each Permanente Medical Group is remunerated on a capitation basis. The physicians in these Groups work in teams of health care professionals who provide primary health care under contract to Kaiser Foundation Health Plans. The teams are directed by a physician who is responsible for the team's budget and overall operations. The teams function to some extent on the "GP Fundholdings" principle that was in effect for a number of years in the United Kingdom.⁽⁸⁾ Contrary to most other HMOs, Kaiser Permanente's primary health care physicians receive a salary. However, the payment system also allows for incentives related to performance and client satisfaction.⁽⁹⁾

In April 2002, the Kaiser Permanente network comprised 29 hospital complexes, 423 private medical clinics and 125,000 employees, including 11,345 physicians.⁽¹⁰⁾

In 1997, Kaiser Permanente affiliated itself with Group Health Cooperative, the largest not-for-profit health care cooperative in the United States. Based in Seattle, Group Health Cooperative delivers a variety of health services to approximately 10% of the population of Washington State and has nearly 600,000 members.⁽¹¹⁾ Although the two companies remain independent, they cooperate in the area of marketing and exchange information about clinical and administrative practices. The members benefit from a reciprocal agreement for all health services delivered by the two entities.

HEALTH INFORMATION SYSTEMS

Kaiser Permanente is regarded as a leader in the intensive use of sophisticated information systems and in the digitization of medical files.⁽¹²⁾ The CEO of Kaiser Permanente, David M. Lawrence, thinks that today it is impossible to practise medicine without the assistance

(8) Interestingly, one study suggests that Kaiser Permanente achieves better performance at roughly the same costs as the U.K. system. See Richard G. A. Feachem, Neelam K. Sekhri and Karen L. White, "Getting More for Their Dollar: A Comparison of the NHS with California's Kaiser Permanente," *British Medical Journal*, Vol. 324, 19 January 2002, pp. 135-143.

(9) In an article entitled "Primary Care Redesign," published in *The Permanente Journal* in autumn 1997, Dr. Rob Ryan described in detail the organizational model for Kaiser Permanente's primary health care in Atlanta, Georgia. However, it is not known whether this model has been adopted throughout the Kaiser Permanente network in the United States and whether it has since been modified. The article is available on-line at <http://www.kaiserpermanente.org/medicine/permjournal/fall97pj/redesign.html>.

(10) Eric W. Pfeiffer, "Shock therapy at Kaiser Permanente," *CIO Insight*, Vol. 1, No. 12, 1 April 2002; available on-line at <http://www.cioinsight.com/article2/0,3959,6025,00.asp>.

(11) For further information, see the organization's Web site: <http://www.ghc.org/>.

(12) Pfeiffer (2002).

of information technologies; he believes that paper records are now obsolete and incompatible with the enormous amount of information:

The more you try doing it by paper record, the more you risk errors and poor quality care. That's part one. The second part is that the rate at which knowledge is being created, such as better understanding of diseases and new drugs, is simply beyond the capacity of any human being or small group of human beings to keep up with. The only way you can manage it is with information technology.⁽¹³⁾

At Kaiser Permanente, information technologies are seen as essential tools to control costs, integrate care, reduce the amount of time spent on administrative duties, and improve the health of the members. In the past five years, Kaiser Permanente has invested US\$2 billion (representing between 5% and 7% of its operating income) in information technology and carried out the following projects:

- **Digitizing the medical files of its 8.3 million members.** Although complex and subject to many legal and ethical debates, the digitization of medical files is perceived by Kaiser Permanente and numerous other HMOs as a way to minimize the number of medical errors and significantly improve the quality of care.
- In addition to making information about a variety of health-related issues available on-line, the **Kaiser Permanente On-line** Internet site enables members to receive personalized health consultations with nurses and pharmacists. These health care professionals have access to the electronic medical files of all members and can respond to members within 24 hours. Moreover, members can renew their drug prescriptions and make appointments for non-emergency medical check-ups through the site.
- **KP Clinical Practice Exchange** is a secure Intranet environment for Kaiser Permanente health care providers. It enables them to communicate, to exchange information and to access extensive clinical resources. This Intranet also facilitates discussions and the pooling of innovative ideas, research results and general information.

To date, the impact of increased use of information technologies by Kaiser Permanente, as reported by its CEO David M. Lawrence, is impressive (see Table 2):

(13) *Ibid.*

TABLE 2: IMPACT OF INFORMATION TECHNOLOGIES

ISSUE	SOLUTIONS	IMPACTS
Skyrocketing drug costs.	Development of an Intranet application giving access to a database able to suggest to the physician a less expensive drug or one that has fewer side-effects.	Drop in drug costs (20% in some private clinics), in legal costs and in wrong prescriptions.
Disparity in billing by physicians across the country.	Physicians may consult a database suggesting standard treatments for specific health problems, thus limiting cases of excessive billing.	Medical spending has dropped by 5% to 19% throughout the Kaiser Permanente network in the United States.
From 10% to 15% of medical tests must be redone following the loss or misreading of results of the first test.	Creation of digitized medical files accessible by authorized staff.	Duplicate tests have dropped to almost none in several private clinics, generating savings of US\$1 million for Kaiser Northwest.
Increased number of visits to emergency rooms.	Pilot project for digitized medical files in Colorado.	Kaiser Permanente in Colorado recorded a drop of 5% to 10% in emergency visits in 2001, resulting in savings of several million dollars.

Source: Pfeiffer (2002) and Library of Parliament.

HEALTH PROMOTION AND DISEASE PREVENTION

The significant resources earmarked for health promotion, disease prevention and public health reflect the Kaiser Permanente corporate vision and the philosophy underlying the establishment of HMOs. Kaiser Permanente fulfils its promotion/prevention/public health mission by three means:

- First, **primary health care teams**⁽¹⁴⁾ emphasize prevention, disease management and early intervention. The management of prevention programs, such as for smoking cessation, breast cancer screening and childhood vaccinations, is an integral part of the primary health care teams' responsibilities. Team members receive training in client communications and specific instructions for monitoring each prevention activity. Moreover, to underline the importance attached to prevention, Kaiser Permanente makes a point of linking the achievement of prevention initiatives with the performance bonuses that the primary health care teams receive.
- Kaiser Permanente regularly sets up **information meetings** for its members on a variety of subjects, such as asthma, diabetes, nutrition, etc. The majority of these activities are free for members.
- Kaiser Permanente also carries out prevention activities through its quarterly bulletins *Partners in Health*⁽¹⁵⁾ and *Senior Outlook*⁽¹⁶⁾ for seniors, a toll-free telephone line, *Healthphone*,⁽¹⁷⁾ and a health guide (*Healthwise Handbook*),⁽¹⁸⁾ in addition to its Internet site.

FINANCIAL OVERVIEW

Kaiser Permanente's revenues are significant, reaching almost US\$20 billion in 2001. The same year, the HMO's net income reached US\$681 million, an increase of 16.6% compared with the previous year (see Table 3). In 2002, revenues amounted to some US\$23 billion, a 14% increase over the previous year. Net income, however, decreased sharply by almost 90% to \$70 million in 2002. Since its inception in 1945, Kaiser Permanente has always managed to generate a surplus from its operations, except for the late 1990s, when the HMO suffered significant financial losses.

Various factors have contributed to Kaiser Permanente's financial difficulties: increasing costs for drugs and in-hospital care, high administrative costs and fierce competition. In addition, Kaiser Permanente underestimated the demand for specialized medical care, which forced the HMO to redirect its patients to non-associate specialists. According to Mr. Lawrence, the major investment in information technology made it possible for Kaiser Permanente to recover its financial position.⁽¹⁹⁾

(14) Ryan (1997).

(15) See <http://www.kaiserpermanente.org/locations/midatlantic/newsroom/localnews.html>.

(16) See <http://www.kp.org/locations/california/mod114/senioroutlook.html>.

(17) See <http://www.kaiserpermanente.org/toyourhealth/healthphone.html>.

(18) See <http://www.kaiserpermanente.org/locations/midatlantic/members/handbook.html>.

(19) Information in this paragraph taken from Pfeiffer (2002).

TABLE 3: KAISER PERMANENTE FINANCIAL DATA AT 31 DECEMBER (IN U.S. DOLLARS)			
	2000	2001	2002
Total Revenue	17.7 billion	19.7 billion	22.5 billion
Net Income	584 million	681 million	70 million
Operating Income	562 million	714 million	142 million

Explanatory note: Total revenue corresponds to income from any source (operations, investment, sales of assets). Net income is obtained by subtracting total costs (physicians, hospitals, administration and other) from the total revenue. Lastly, operating income corresponds to total revenue minus operating costs.

Source: Data taken from two Kaiser Permanente press releases, dated 28 February 2002 and 28 February 2003.

COMMENTS

With its 8.3 million members, its total revenue of almost US\$23 billion, and its 125,000 employees, Kaiser Permanente is surprisingly similar in size to the combined provincial health care insurance programs of Canada's western provinces (Manitoba, Saskatchewan, Alberta and British Columbia), which provide coverage for a total of 9.2 million citizens at a cost of approximately CAN\$30 billion.

In spite of these similarities, experts⁽²⁰⁾ contend that the establishment in Canada of Kaiser Permanente-type HMOs would require a number of significant changes, including: a different method of remunerating physicians, the promotion of multidisciplinary practice, the redefinition of patients' freedom of choice, better coordination and vertical integration of care, and the use of a sophisticated health information system. It would not be necessary to transform the provincial health care insurance programs into HMOs, but it would be necessary to transfer some of their functions either to regional health authorities or to primary health care teams, while maintaining the single-insurer principle. All in all, this is an option that deserves consideration.

(20) See, for example, Douglas E. Angus, *Is it Really Time to Restore Federal Cash Transfers to Health Care?*, Centre of Governance, University of Ottawa, 1998 (available on-line at <http://www.governance.uottawa.ca/english/Publications/Downloads/98-38.pdf>), and Douglas E. Angus, "Better Management, Not More Cash, Prescribed for Canadian Health Care System," *Canadian Business Economics*, February 1999, pp. 15-20.

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