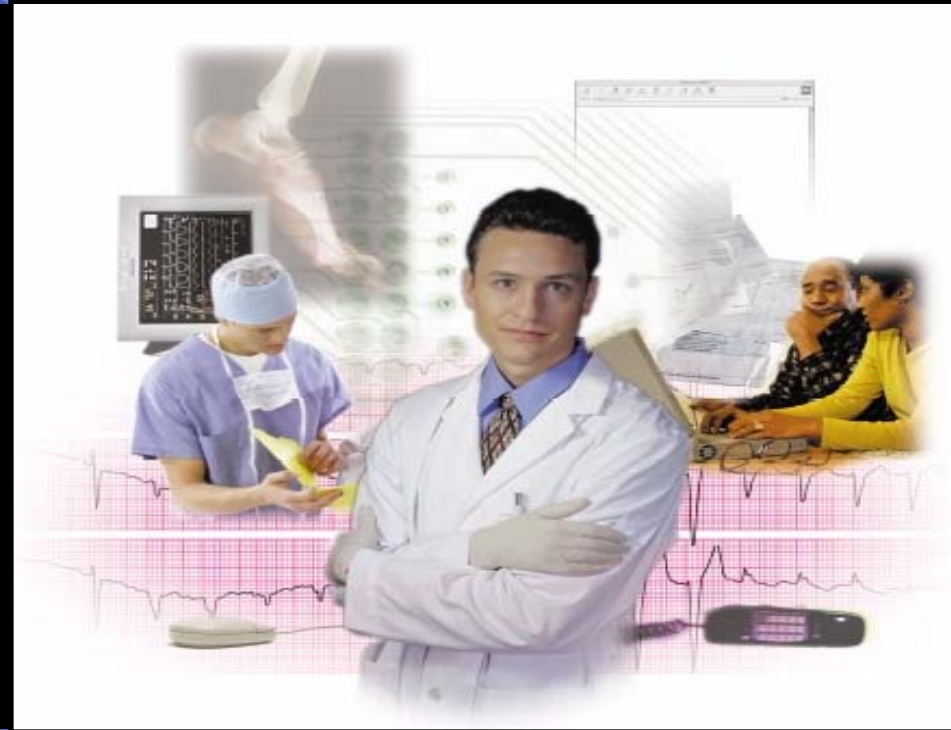


J. Mack Robinson College of Business

# Health Care

Alyse Minsky  
Rodney Smith  
Gary Donaldson  
Marty Stack  
Mike Clanton  
Ephram Bowman



# Topics for Discussion

- Introduction
- U.S. Health Care Industry
- Kaiser Firm Analysis
- Future of U.S. Health Care Economics and Health Care
- Macro-Impacts within U.S. Health Care



# Forces Causing Health Care To Change

- Changing Demographics
- Increased Customer Expectations
- Increased Competition
- Intensified Governmental Pressure



Source [www.ncbi.nlm.gov](http://www.ncbi.nlm.gov)

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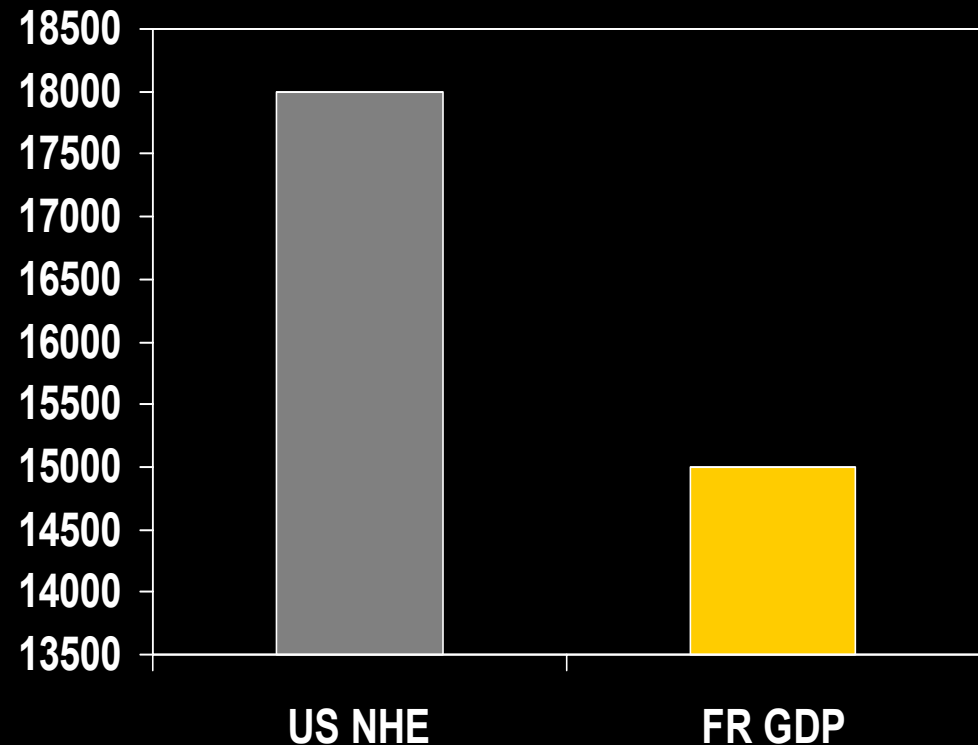


# What's Happening Today?

- Health Care Spending Has Risen 40% Since The Year 2000
- Insurance Premiums Have Gone Up By More than 60%
- Employer Based Health Care Insurance Has Gone Down From 70% to 60% Today.

# US Health Care Statistics

- Largest Employment Sector
- Health Care Expenditure More Than French GDP
- 60% Employer Based Insurance

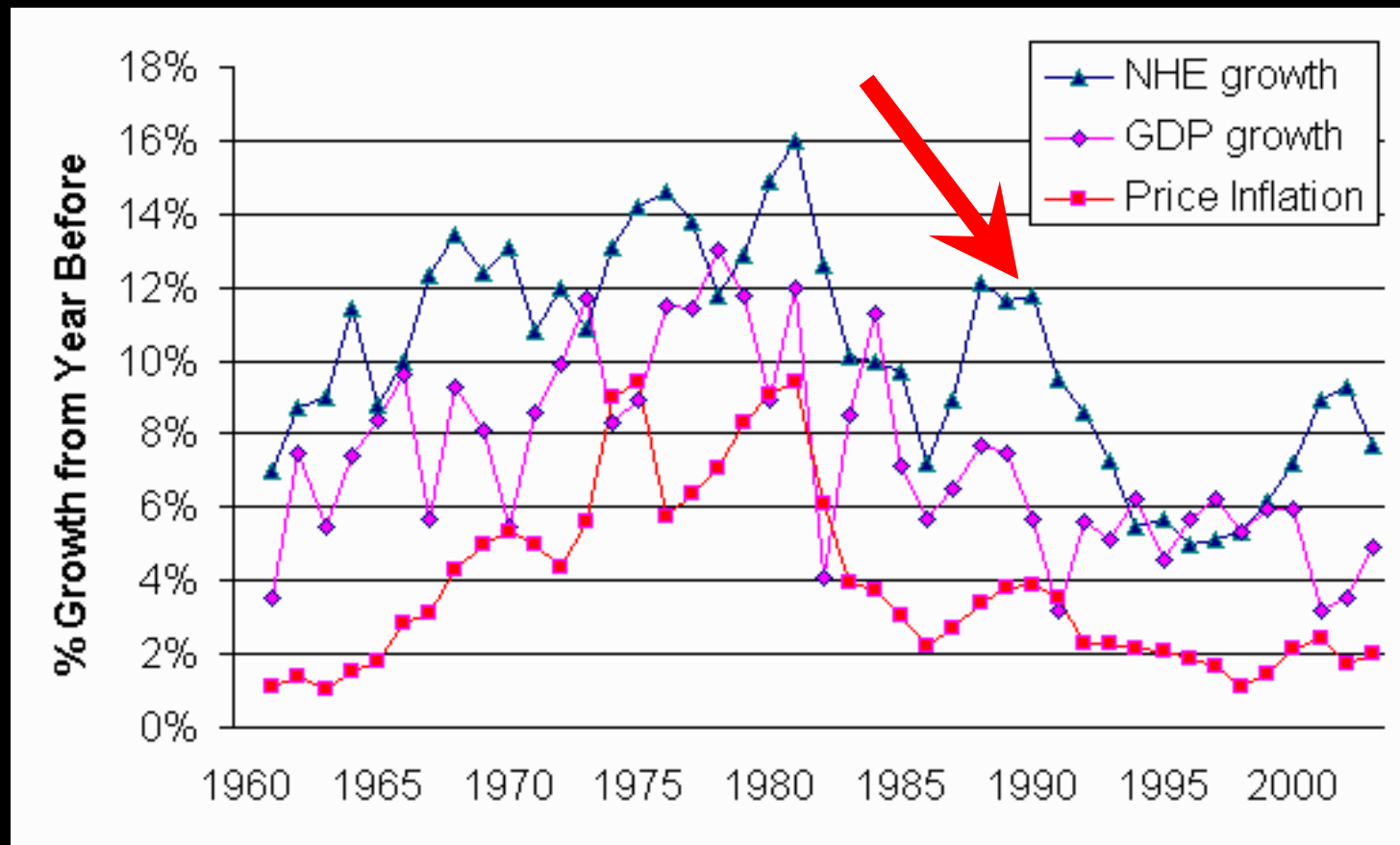


**2004 US Health Care spend \$1.8 Trillion vs. French GDP**

Source: <http://www.eia.doe.gov>



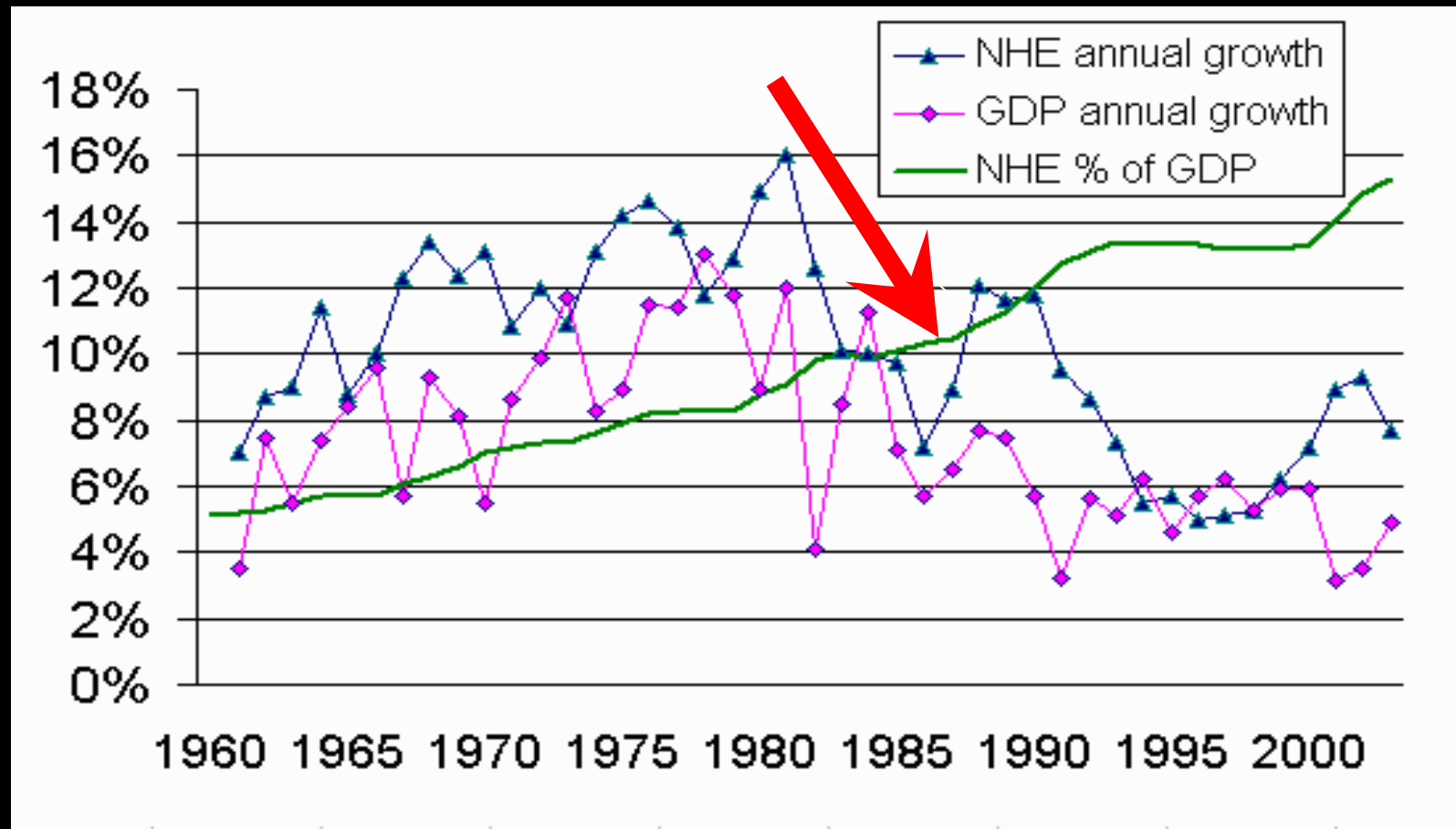
# Gross Domestic Product (GDP) and Inflation



Source: <http://hspm.sph.sc.edu/Courses/Econ/Classes/nhe00>

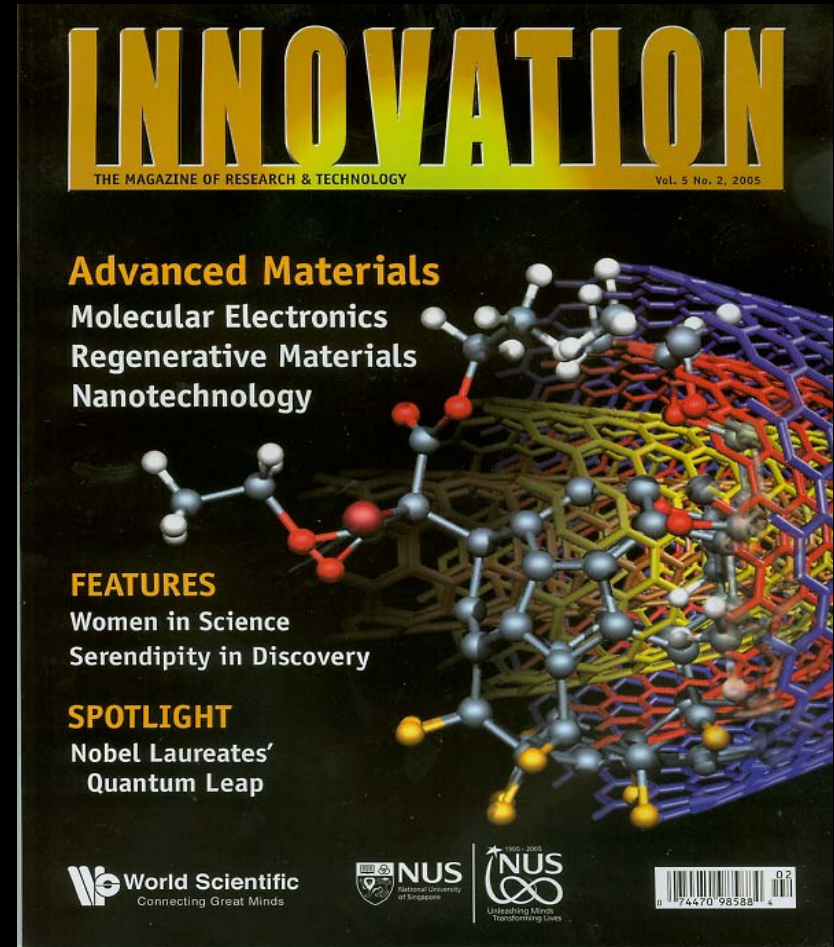


# Health Care Percentage of GDP



Source: <http://hspm.sph.sc.edu/Courses/Econ/Classes/nhe00>

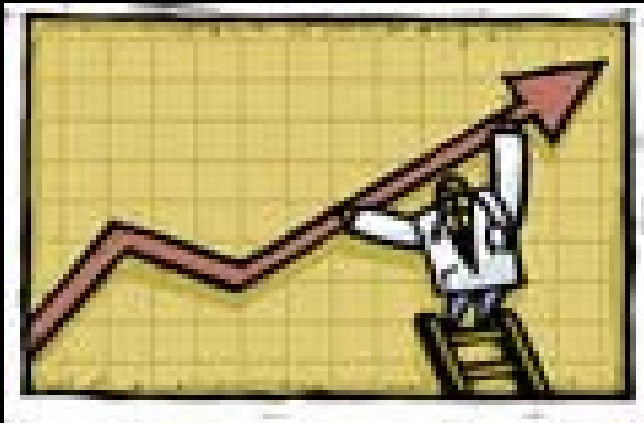
# Strengths of the US Health Care System



Source: <http://www.advarned.org/newsroom/chartbook.pdf>

# Weaknesses Of The Current US Health System

- Inadequate Coverage
- Inconsistent Levels Of Quality
- High Cost

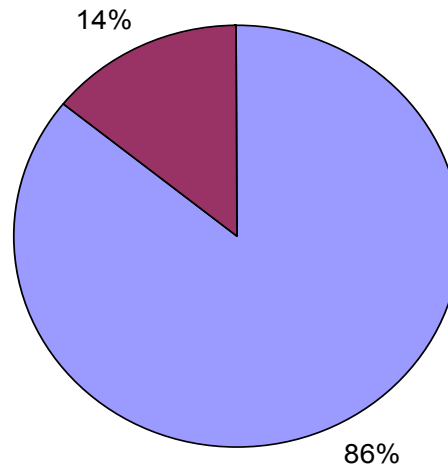


# Types of Health Insurance Coverage

- **Health Maintenance Organizations (HMO's)**
  - Least expensive, but least flexible type of health plan
- **Preferred Provider Organizations (PPO's)**
  - Lower fees with a network of health care providers
- **Point-of-Service (POS)**
  - Point-of-service plans are similar to PPOs, but they introduce the gatekeeper, or Primary Care Physician.

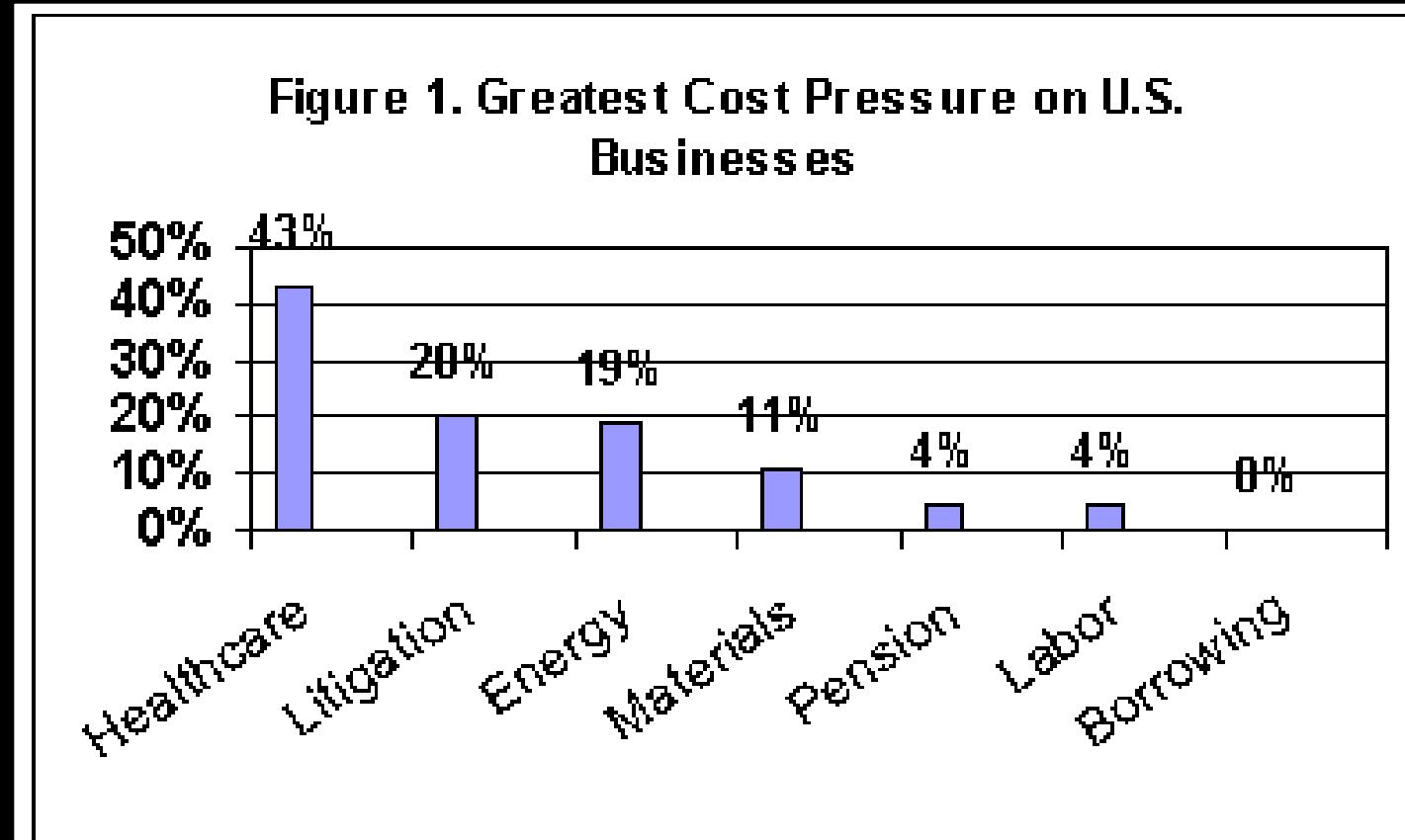
Source: [http://www.quotit.net/resources/plan\\_types.htm](http://www.quotit.net/resources/plan_types.htm)

**US Health Care Spending Is \$1.9 trillion or One-Sixth of the Nation's Economy: US GDP \$12 trillion.**

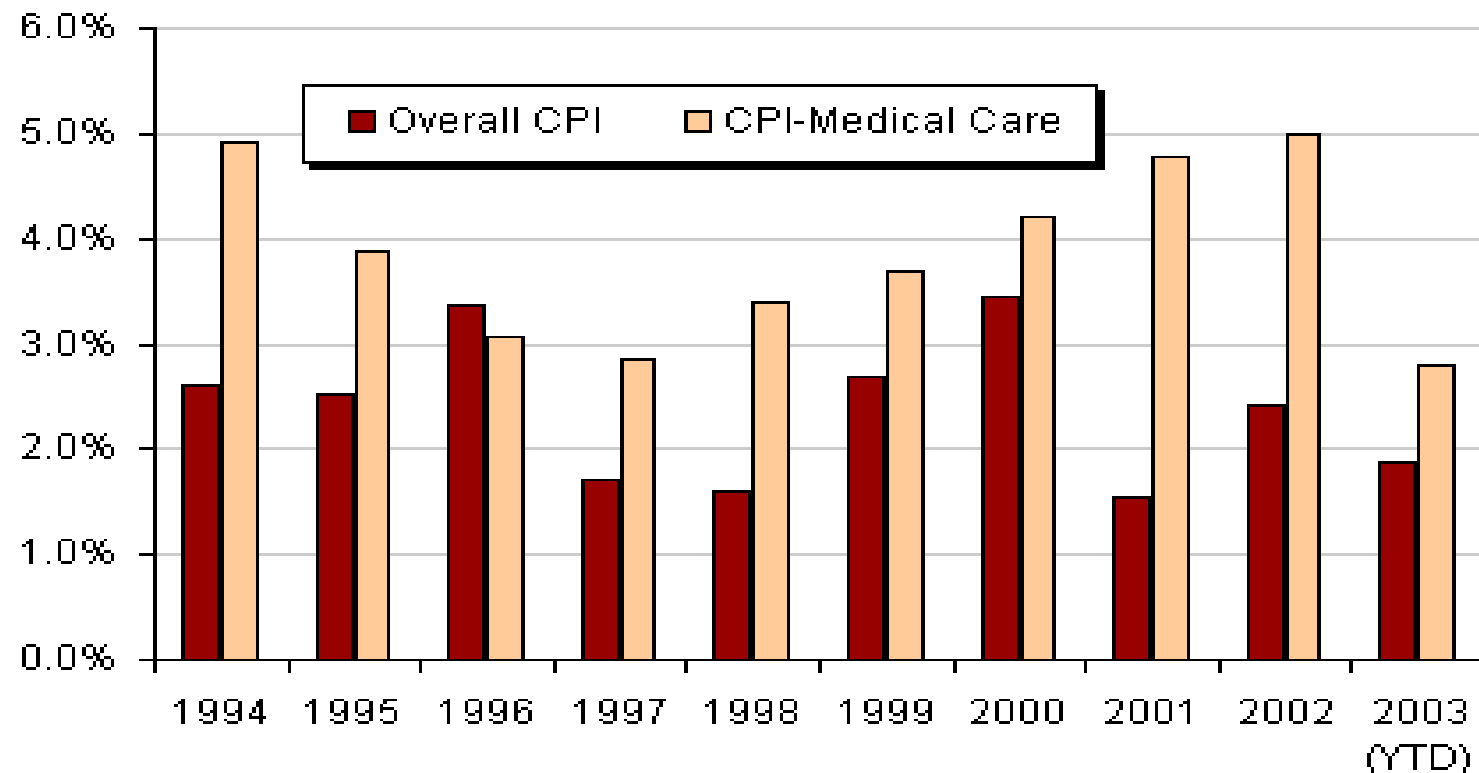


# Demand factors

- Providing Quality Health Care While Controlling Costs



# Medical CPI As Compared To CPI

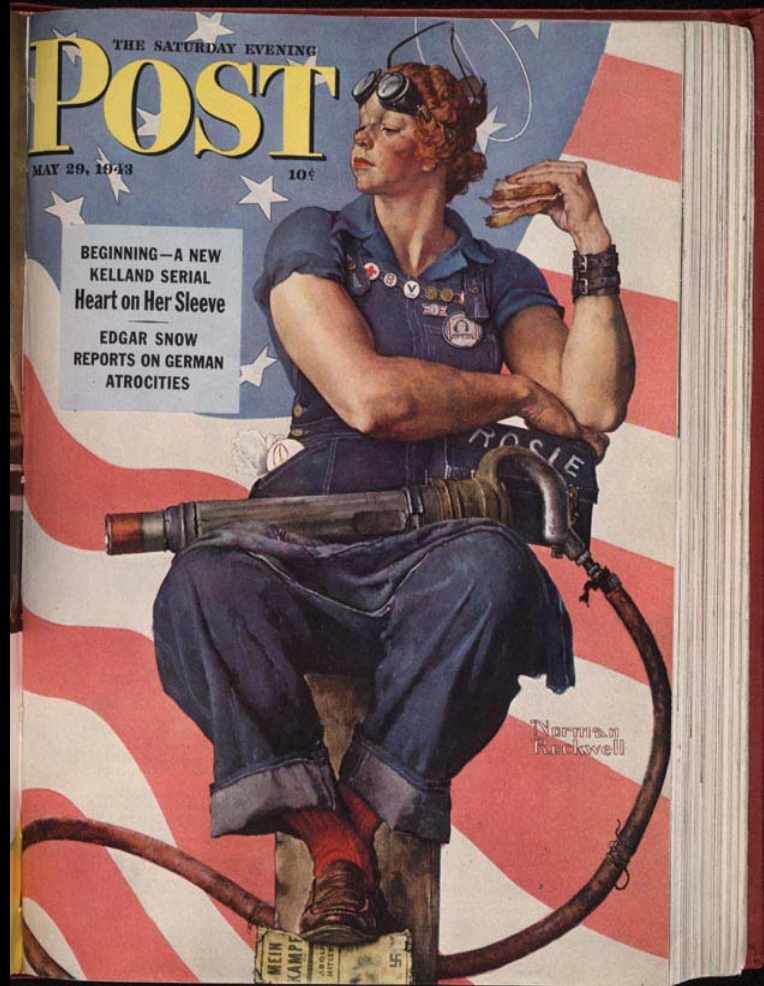


Source: Bloomberg.com

© ICMA Retirement Corporation  
Posted 11/28/03



# History of Employer Based Health Care and the US Economy - The US Health Care Legacy



Source: <http://www.eia.doe.gov>





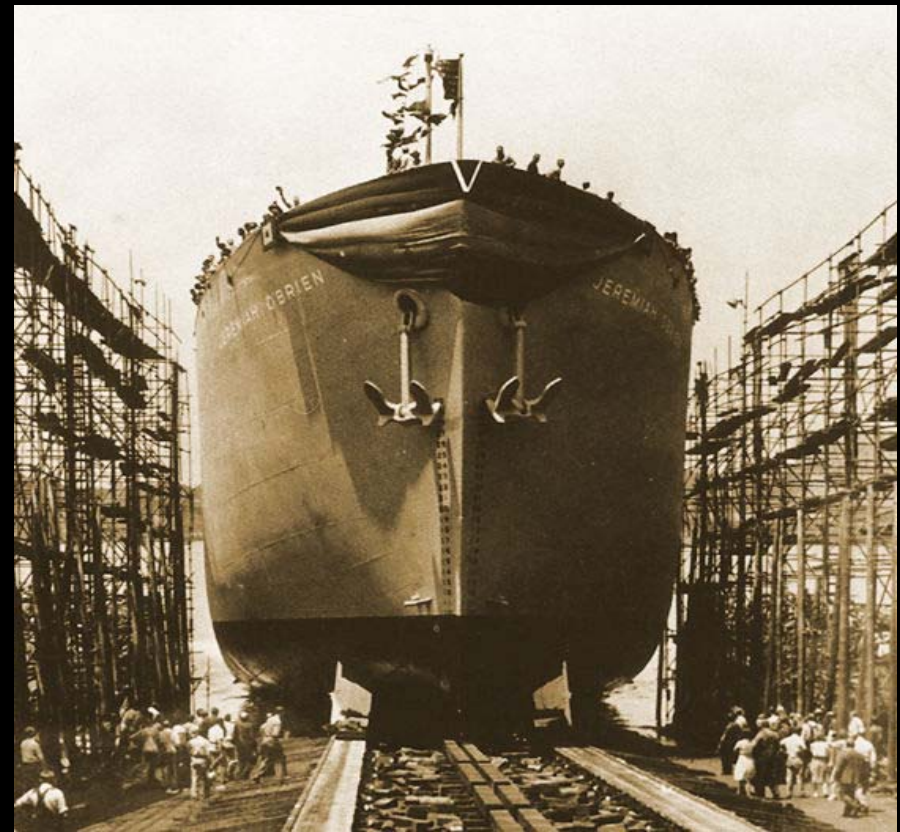
# FIRM ANALYSIS

## KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES/KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES



# Kaiser Background

- A Major US Ship Builder During WWII
- Began Offering Health Care To Their Employees during WWII



# DESCRIPTION OF BUSINESS

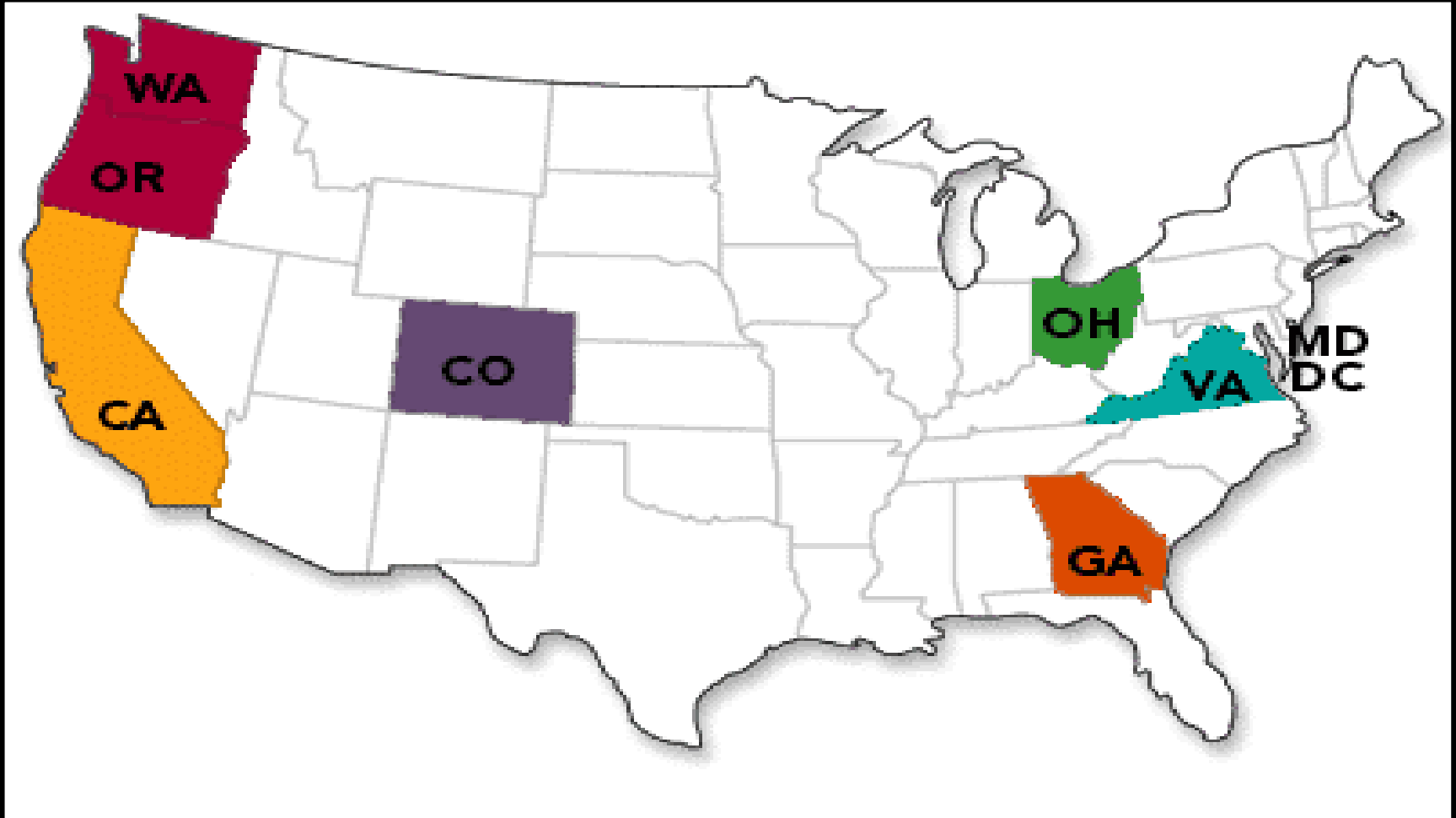


## PROFILE

- Headquartered in Oakland, CA.
- 8.3 Million Members In Health Plan
- Large Not-For-Profit Health Maintenance Organization
- 30 Hospitals
- 8 Independent Medical Groups
- 11,500 Physicians
- Total Operating Revenues Of \$28 Billion



# Kaiser's Presence Geographically



Source: <http://kaiserpermanente.org/kpwebentrypage.do>

# PRINCIPAL OPERATING SUBSIDIARIES

- Kaiser Foundation Health Plan of Colorado
- Kaiser Foundation Health Plan of Georgia, Inc.
- Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.
- Kaiser Foundation Health Plan of the Northwest
- Kaiser Foundation Health Plan of Ohio
- Kaiser Health Plan Asset Management, Inc. (KHPAM)



# Kaiser Demand Factors

- Cost Trends and Inflation Levels For Health Related Services
- Shift From Employer To Employee Contributions
- Federal and State Health Care Regulations
- Employment Levels and Equity Market Returns

# FIRM COMPARISONS

	<u>Kaiser</u>	<u>Aetna</u>	<u>Cigna</u>
Operating Revenues	\$26.1B	\$17.2B	\$18.1B
Net Income	\$1.6B	\$1.1B	\$1.4B
Number of Members	8.3M	13.7M	9.7M

Source: <http://kaiserpermanente.org/kpwebentripage.do>

# 2004 INCOME STATEMENT SUMMARY



Year ended December 31, 2004  
(In millions)

## Revenues:

Members' dues	\$19,911	71.0%
<b>Medicare</b>	<b>6,241</b>	<b>22.3</b>
Co-pays, deductibles, fees/other	1,872	6.7
Total operating revenues	28,024	100.0

## Expenses:

Medical services	13,178	47.0
Hospital services	7,484	26.7
Outpatient pharmacy/optical	3,119	11.1
Other benefit costs	1,873	6.7
Health Plan administration/adjustments	896	3.2
Total operating expenses	26,550	94.7

## Other Income and expense

Investment income- net	208	0.7
Interest expense	(71)	(0.3)
Total other income and expense	137	0.4

**Net Income** **1,611** **5.7%**

Source: <http://kaiserpermanente.org/kpwebentrypage.do>



# 2004 KEY FINANCIAL RATIOS

## Liquidity Ratios

Quick Ratio	1.03
<b>Cash to Debt (%)</b>	<b>173.1</b>

## Profitability Ratios

Profit Margin	5.0
Cash Flows from Operations Margin	12.8

## Debt Ratios

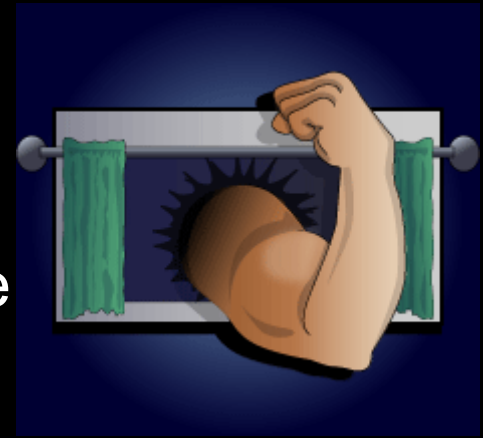
Debt to Assets (%)	11.8
<b>Capital Expenditures as % of Depreciation Expense</b>	<b>221.4</b>



Source: <http://kaiserpermanente.org/kpwebentrypage.do>

# STRENGTHS

- Sound Financial and Operating Performance
- Diverse Mix of Health Care Delivery System
- Including new Product Developments
- Technology Investments:
  - New Clinical Information System KP-Health
  - Connect New Internal Medical Cost
  - Administration System
- Low Debt Levels



# WEAKNESSES

- Rising Cost of Health Care
- Medicare Funding and Uncertainties About Future Funding Levels
- Substantial Future Capital and Technology Expansions
- Challenges Associated With Implementation of KP-Health Connect In All Of Its Medical Groups



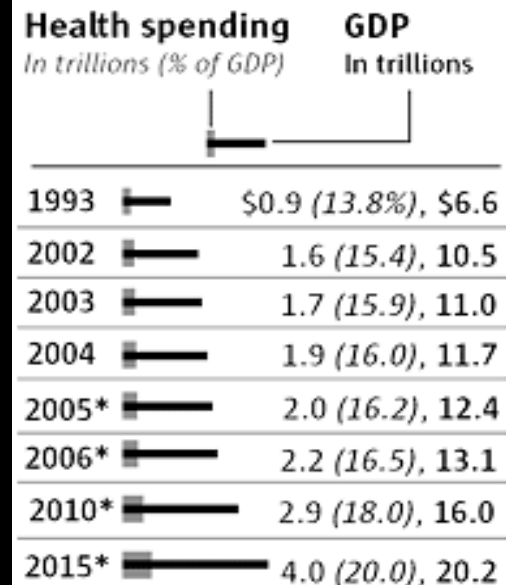


## “Forecast Please!”

- Spending In Health Care Will Be Greater Than Growth In GDP Through 2013
- Health Care Spending is expected to double over the next 10 years according to government projections
- It's Projected That The US Will Spend 18.7% Of Its GDP On Health Care By 2014

### Outpacing the GDP

By 2015, health-care spending is estimated to double from 2005 projections of \$2 trillion to \$4 trillion — consuming 20 percent of the GDP.



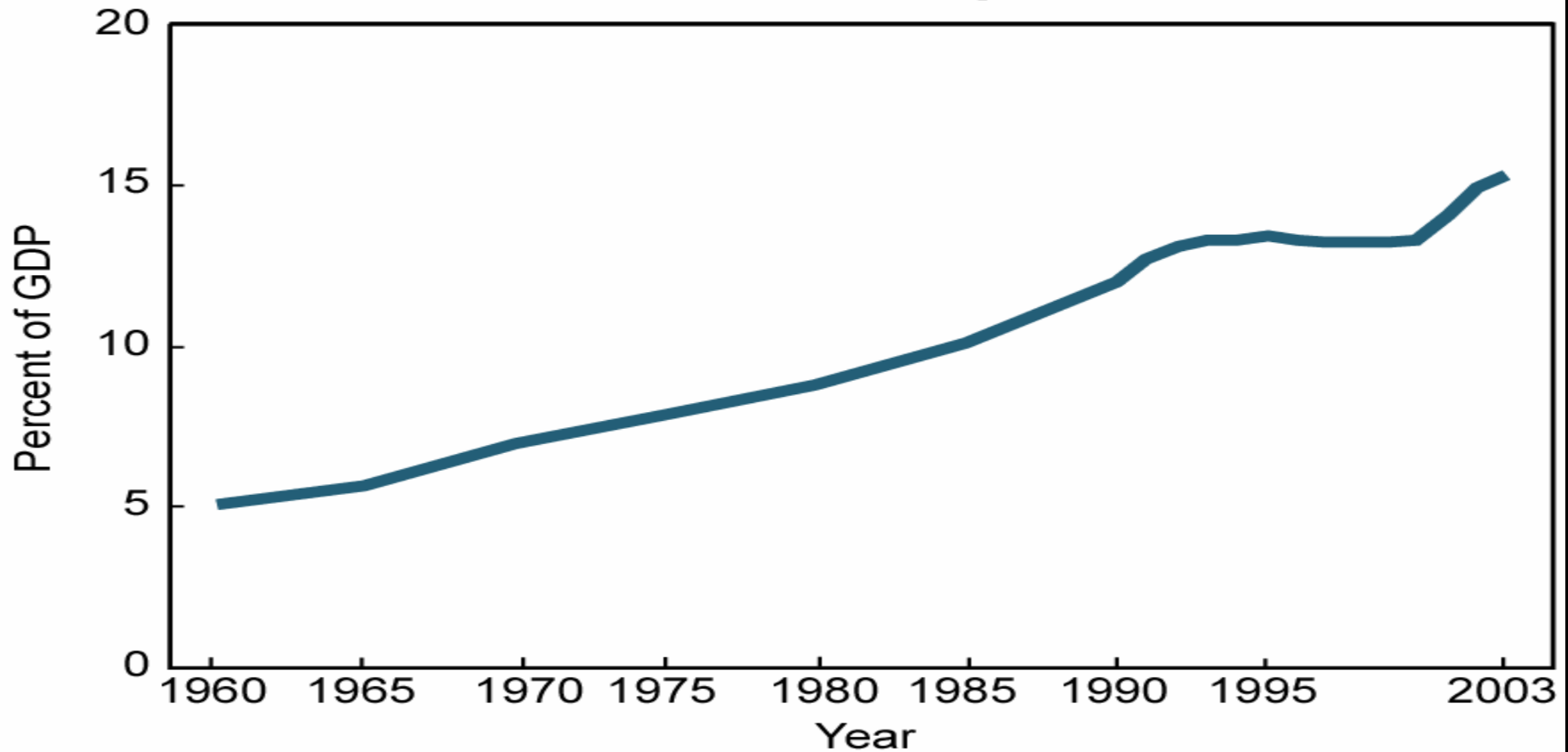
\*Projected

**Note:** Gross domestic product measures the value of all goods and services produced within the United States.

Source: Centers for Medicare and Medicaid Services

THE ASSOCIATED PRESS

## National health expenditures



SOURCE: Centers for Disease Control and Prevention, National Center for Health Statistics, *Health, United States, 2005*, figure 8.

Projected to reach 18.7% by 2013



# THE WOLVERTOON

BY MONTE WOLVERTON

**A ROUTINE  
CHECKUP AT  
THE HMO...**

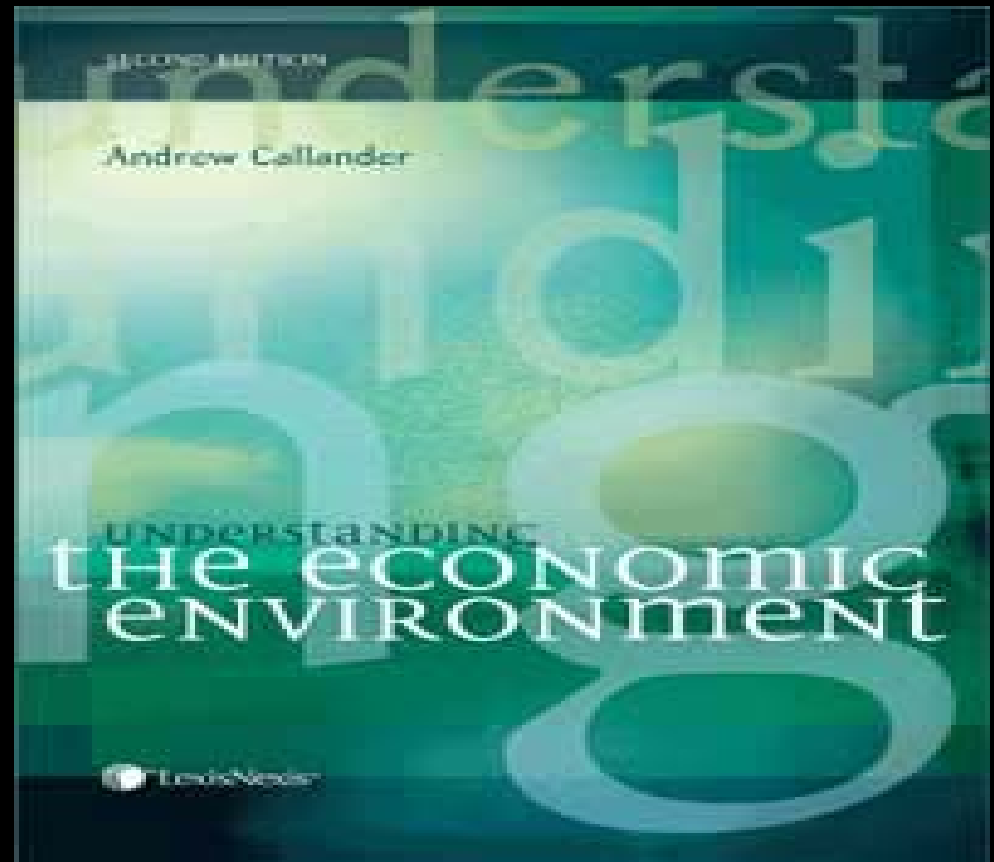
OH MY! THIS WALLET IS  
SERIOUSLY ABSCESSED!  
THE CASH WILL HAVE TO  
BE EXTRACTED FROM IT  
IMMEDIATELY!

NURSE! PREPARE  
THE SUCTION  
DEVICE!  
QUICKLY!

©1999 Monte Wolverton <http://www.wolvertoon.com/toons>

# Economic Environment

- GDP
- Inflation
- Unemployment
- Interest Rates

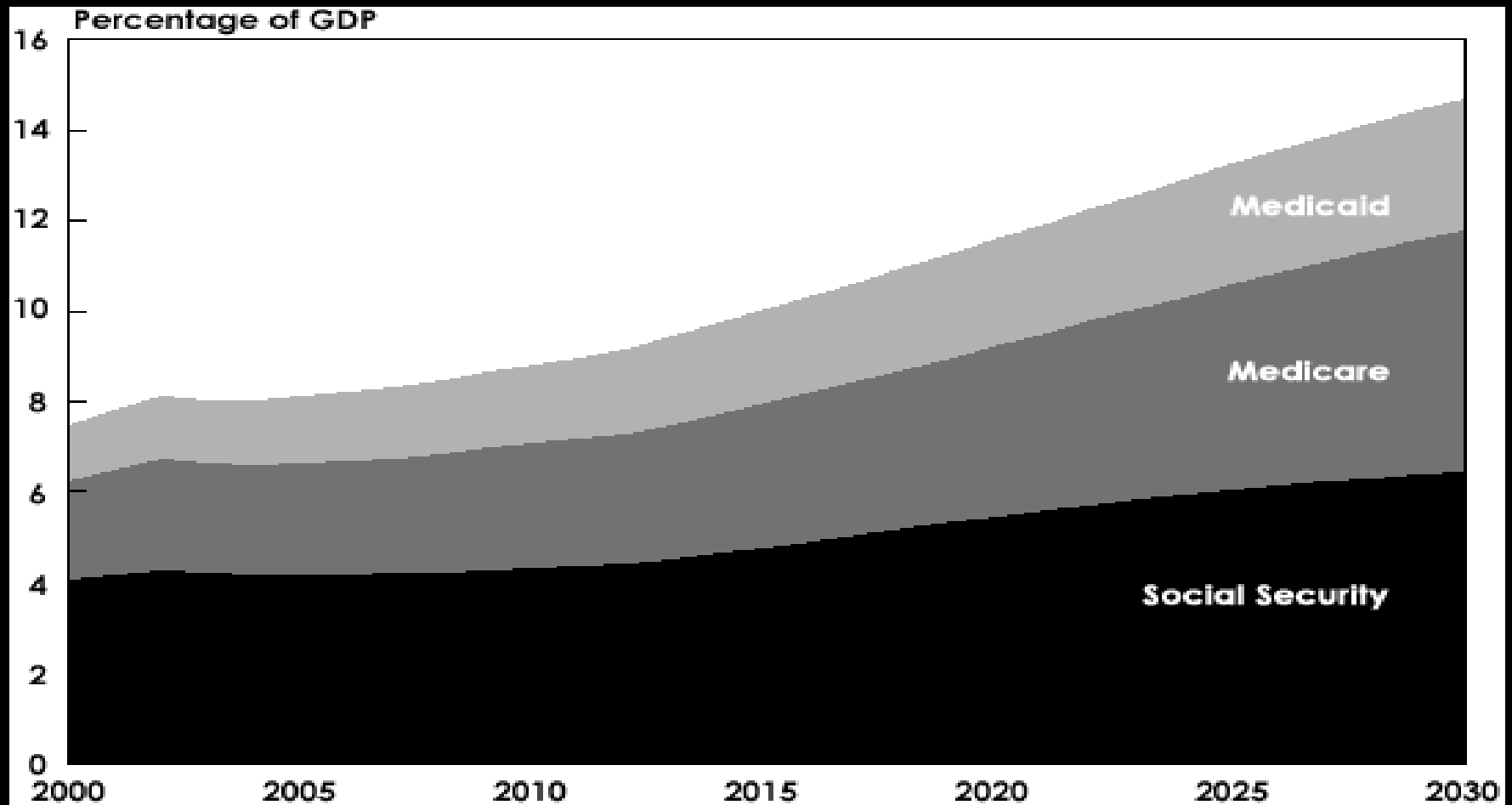




## Effects on the Individual

- Increased spending on health means less disposable income.
- Employers will be less likely to provide coverage due to the rising costs.

# Effects On The Government



# Recommendations to Kaiser

- Concentration on IT and Medical Records (*KP Health Connect*) to improve operating efficiencies, patient safety, and lower overall costs
- Points for health system modeled after South Africa (points for healthy living)



# Recommendations For US Health Care Industry

- Provide Incentive to consumers to know the total cost
- Promote and encourage electronic documentation.
- To reduce the burden on the economy
  - Market driven
  - Consumer awareness of total cost



# Thank you!

## Questions and Answers