



January 2, 2007

TO: KP Employees

FR: George Halvorson, Chairman and CEO, Kaiser Foundation Health Plan

I'm writing this letter to thank you for a good year, and to give you a year-end update about our 2006 performance. It is also, I think, a particularly good time to talk a bit about our vision and direction for 2007.

As we end a very productive and, at times, trying year, let's take a deep breath and look back. Here are a few highlights of our accomplishments:

- We enrolled 191,000 new members in 2006 –we are on track to finish 2006 at 8.65 million members. We continue to be on target with our enrollment. Eighty percent of our new sales are coming from products we did not have three years ago.
- Our cross-functional, cross-regional team implementation of Medicare Prescription Drug Benefit enrolled 800,000 KP members in Part D, and met all key deadlines. We did that job really well in spite of constantly changing rules and evolving government regulations.
- We continue to serve as a model for patient safety and patient care. Last month the *Wall Street Journal* featured KP as one of the central organizations leading the effort to address the subject of misdiagnoses. We have partnered with the Institute for Healthcare Improvement on a far-reaching patient safety project. Our new quality data gives us more information than we have ever had in our history to track and improve our performance in those areas.
- We continue to excel in the area of community benefit, including extensive promotion of healthy eating and active living (HEAL). In October, *Newsweek* magazine highlighted KP's pilot program to serve fresh, organic produce in our Northern California hospitals. We've won awards and earned recognition for our healthy eating program.
- Our work around health disparities continues to make an impact. We continue to be a thought leader in this area. We had a very well-attended and highly educational National Diversity Conference again this year. Our new *Health Disparities in America* video will create a real sense of awareness about this fundamental issue for people in various communities.

- Our Thrive campaign continues to be a huge hit. Our latest ads have been a success and the whole Thrive message continues to receive very favorable approval ratings.
- Our new focus on state and national health care reform is beginning to make a difference in how people think about the possibility of finally achieving real universal coverage in America.
- Our Labor Management Partnership (LMP) continues to succeed and set an example for the rest of the country. This past year we were featured in a *Boston Globe* piece that touted Kaiser Permanente as a model for labor partnerships in health care. Implementation of the LMP National Agreement continues to move ahead, with really good people making excellent progress in very important areas.
- We established a formal service credo and an introductory video on the credo is rolling out across the Program. There will be six additional service toolkits provided in 2007 as additional resources for all regions as we pursue a heightened focus on service.
- Seven of our eight regions launched KP HealthConnect™ online features, allowing members unprecedented access to portions of their medical record through kp.org – including the ability to e-mail their doctor.
- KP.org and the “e-mail your doctor” feature has been very successful. Members have sent more than one million electronic messages this year. This feature is improving member access and can translate to time and co-pay savings for members who choose to e-mail questions to their doctor versus scheduling an office visit.

We all need to have a sense of how important our contribution will be to world health care. Kaiser Permanente’s unique model of care has already allowed us to begin using our database to make a huge difference in the science of care. You probably saw the newspaper stories about the drop in breast cancer rates after a decline in the use of hormone replacement therapy. We provided key pieces of that data. As you may remember, our joint Food and Drug Administration (FDA) and Kaiser Permanente study played a significant role in showing Vioxx to be dangerous, and our study of the longer-term impact of drug-eluting heart stents presented at recent FDA hearings not only made front page news, but contributed to final FDA recommendations.

Our research and our care data can make a real difference in people’s lives. The unique and specific approach of having us as caregivers use computerized data to figure out important medical learnings, and then share them with the world, will only get better as we finish our KP HealthConnect rollout and move on to the next generation of computerized data.

KP HealthConnect is critical to our future success. It sits at the core of our operational effectiveness – for care, scheduling, billing, patient connectivity, data support, medical research, regulatory compliance, and operational performance. KP HealthConnect will be the largest civilian electronic health record system ever built. We have learned a lot in the process, and we have had to address a number of issues to get this massive project right. The good news is that the project is on track and rolling out nicely.

The outpatient electronic medical record has completely rolled out in our clinics in the regions outside of California. We will have the outpatient care system in California 95 percent in place by the end of 2007. The outpatient process is going really well. We are now also putting in the new KP HealthConnect hospital system — beginning with a couple of important pilot sites. The system is working well, and it is getting better as we learn how to work in a “wired” hospital environment.

As you know, our fundamental multi-year strategy is to use KP HealthConnect to enable us to do the work that really needs to be done to help us take care of our sickest patients. The numbers are extraordinary and powerful. We know that 10 percent of our patients incur 80 percent of our costs. We also know that 70 percent of our costs come from people with five chronic conditions (these include diabetes, asthma, congestive heart failure, coronary artery disease and depression). Each of those five conditions lends itself wonderfully to effective and timely interventions. Let me offer, once again, a mathematical way of thinking about the future cost benefits that will result from KP HealthConnect helping us improve care for those patients. The new KP HealthConnect functionality will very directly help us achieve consistent and optimal interventions with those most needy patients. A one percent improvement in our effectiveness for the 10 percent of our patients who incur 80 percent of our care costs is worth roughly \$250 million a year. A two percent savings is worth half a billion dollars a year. Systematically improving care for our most expensive patients is clearly our best approach to “bend-the-trend.” It’s also the best direction to follow to make us the preferred and most respected health plan in America for the next decade.

And, the total KP HealthConnect package also gives us a great billing system, a great appointment system, improved operational functionality, better product support, market-leading patient connectivity and industry-leading research data. It’s an extremely useful package, and it’s on track.

Our overall facility development and new building construction program is also on track. We will open 15 new hospitals and medical centers in the next three years. I suspect that could be the largest number of new hospitals opened by any system in the country. Our capacity is growing and the tools we need to improve use of that capacity are improving at the same time. We need both agendas and both are on track.

Our product mix also continues to improve – to the point where we should be up-to-speed with the complete set of new products we need by early 2008. Progress is being made for both our market presence and our ability to successfully administer the new products we are selling.

So, thank you for a solid 2006. We still have some very heavy lifting in 2007 and 2008 – and then we'll be showing the world how the best and brightest deliver optimal care. KP HealthConnect will do its share of the work. The world needs us to show how it can be done. I think we are up to it.

Be well and have a great new year,

George