

KAISER PERMANENTE
by Ryan Howard, Psych 490, Spring 2003

Kaiser Permanente was built from the ground up by a young inventive doctor and a strong businessman with the expectations of improving health care, which to this day these people are still striving to achieve. This essay will show how Kaiser came to be in existence, how they have come up through the ranks, and where they stand today. In the beginning there was no Kaiser Permanente, it was simply known as Kaiser. As we explore the rise of Kaiser to what is now known as Kaiser Permanente with approximately 8.4 million voluntarily enrolled members, I hope to show elements of how this non-profit organization has become a leading insurance provider in California as other providers file bankruptcy and even others raise their rates to unobtainable monthly premiums for the general public.

Crossen says "Kaiser aims to be the emperor of the HMO universe." With all intents and purposes of squashing its top competitors of Aetna, PacifiCare and WellPoint Health Networks. After researching for my first paper I now believe Kaiser has a huge advantage over those other groups that are for-profit. Much of that has to do with patient care or perceived patients care. Many for-profit groups hand tie their physicians in regards to patient care and referral services most of the time over the objection of the attending physician. More doctors do not speak out on this, for fear of being kicked out of the HMO group for bad slandering. Much of this is explained in detail in my previous paper.

At the height of the Great Depression a young surgeon by the name of Sidney R. Garfield, MD saw an opportunity for a medical care facility treating the thousands of construction workers building the Los Angeles aqueduct. He borrowed the money and opened a 12-bed hospital in the middle of the Mojave Desert. Being at the height of the Great Depression financing was difficult; many insurance companies did not pay in a timely fashion and to compound that not all the workers had insurance. More often than not Dr. Garfield was left without payment for his services and the hospital fell into financial hardship.

Enter Harold Hatch, an engineer turned insurance agent whose idea was that the insurance companies pay Dr. Garfield up front a fixed amount of money per day, per covered worker. This was a blessing as it helped solve the hospital's money troubles, thus the term "prepayment" was born. With today's inflation and budgetary cuts, individuals' premiums are much higher than what those workers had to pay. For those workers only paid 5 cents per day, for this new form of health coverage; and for an additional 5 cents per day, workers could also receive coverage for non-job related medical problems. Many workers enrolled in this new program of "prepaid coverage" and Dr. Garfield's hospital became a financial success.

As the Los Angeles aqueduct project was completed Dr. Garfield was prepared to start a solo practice in Los Angeles. That was soon put on the back burner as he was asked to provide health care to the 6,500 workers and their families working on the

Grand Coulee Dam. The proprietor of this project was a Mr. Henry Kaiser.

Dr. Garfield was so excited about this new possibility that he stopped plans for a solo practice and turned his existing run-down hospital into a state of the art treatment facility. Still working under the "prepayment" umbrella started by Mr. Hatch, Dr. Garfield recruited a number of doctors to work in what was now termed a "prepaid group practice." Things started with a smashing success for Dr. Garfield, but like always things seem to slow down. For the second time things looked bleak for Dr. Garfield and his medical group, as the dam project was nearing completion. Again Dr. Garfield was contemplating about opening a private practice. Something happened though that would forever change Dr. Garfield's fortunes and also the path of health insurance.

America's entry into World War II was the changing event on the American health insurance industry. With tens of thousands of inexperienced and in poor health already workers streaming into the Kaiser Shipyards in Richmond, California. Henry Kaiser contemplated on how to provide health care for all these workers. He really had no solution but knew that Dr. Garfield could solve this problem. There was a little problem with that solution though. Dr. Garfield was scheduled to enter active duty with an Army reserve unit shortly. To solve matters Henry Kaiser made a special request to then president Franklin Roosevelt which resulted with the release of Dr. Garfield from active duty, with the sole purpose of implementing and running a prepaid group practice for the workers in the Richmond shipyard. This brought Dr. Garfield and his prepaid medical group to the San Francisco Bay Area, forming an association with Henry Kaiser.

Just like anything else all good things must come to an end, right? As the war came to an end the shipyard population went from a high of 90,000 to a low of 13,000 in a few short months. Just as the workers left so did the majority of physicians within the practice. With a desire to keep his new form of health care running and with the support of Henry Kaiser, Dr. Garfield officially opened the Permanente Health Plan to the public on October 1, 1945. Excited by all the possibilities Dr. Garfield forged on and within ten year's enrollment surpassed 300,000 members in Northern California.

In the early years the success of Dr. Garfield's health plan was directly related to the support of the workers unions. Those unions being the International Longshoremens, the Warehousemen and the Retail Clerks Union. The Retail Clerks Union was solely responsible for bringing this health plan to the Los Angeles area. As time passed the health plan needed a change in order to make it more recognizable. So, in 1952 the health plan evolved from just Permanente to Kaiser Permanente. Switching to the Kaiser name, which had high recognition nationally due to Kaiser Industries and Henry J. Kaiser, it was decided by the medical group to keep the Permanente name as a clarification, as they were not employees of Henry Kaiser. Thus Kaiser Permanente was born.

This reorganization was done in part to accommodate the concept of partnership. The partnership directly connected the medical professionals and the management team. This allowed for individual physicians the ability to buy a financial stake in the program's future, physicians were actually affected if enrollment went down due to unhappy patients. It was in the best interest of the physicians to provide the best care possible. At that time physicians could pick between three regions for employment; those being Northern, and Southern California as well as Oregon. A fourth region being Hawaii was added in 1958. Many more regions have been added since that time including Colorado, Ohio, Georgia, Maryland, Virginia, and Washington.

Does the future hold for Kaiser even more expansion for the medical group? Crossen believes that expansion "provides for economies of scale that improve efficiency." As the argument goes, the best defense is a good offense. Kaiser is facing ever larger competitors. "If Kaiser fails to grow sufficiently, they may be disadvantaged in the future in many ways that cannot be predicted now" (Crossen). Not only must Kaiser maintain their motto of price, access, service, and quality to succeed, for expansion to happen, it takes more than just a thought and planning. It takes money and excessive amounts of management time and attention. "In some places, however, the perception that the Kaiser model does not allow members sufficient choice of physicians has hindered growth" (Crossen). Only Kaiser knows what the future holds for its expansion and continued coordination of care.

As the years have passed Kaiser Permanente's membership has grown rapidly. From its beginning membership of only 300,000 union workers. After offering enrollment to the public in 1955 its membership numbers increased rapidly from 500,000 to one million in 1963 and two million in 1968. By the mid 1970's membership had reached three million. As it stands today there are some 8.4 million voluntarily enrolled members. Most of those members "joined Kaiser Permanente because they thought it offered something different. For many it was safety, stability and now some feel those qualities have been lost" (Crossen). As expressed in my previous paper it seems that non-profit groups like Kaiser are more respected than for-profit groups.

In a study of HMO enrollees who described themselves as being sick. "Just 55.3 percent of the people in for-profit plans who described themselves as being in fair or poor health said they were "very satisfied with overall care," compared to 65.7 percent of those in nonprofit plans" (Edelson). Overall " 64 percent of those in nonprofit plans said they were "very satisfied," compared to 58.1 percent of those in for-profit plans" (Edelson). Now think back to my prior paper when I mentioned the care of a 75 year-old woman. Many HMOs would not approve expensive tests even if they were needed too save her life. The benefits of treating or even saving the life of a 75-year-old woman does not outweigh the financial cost.

Being a certified Athletic Trainer I have always been somewhat skeptical about using Kaiser Permanente for my own health coverage as well as sending student-athletes for evaluations. I have never liked the process that is usually involved for

individuals to see a specialist, like an internist or orthopedist. It has always seemed to be a long drawn out process. First they must see the General practice Doctor and that individual must deem it necessary for a referral to the specialist and that takes time. In the field of competitive athletics time is in a way money. The longer that athlete may be out means the more practice and games missed. In my line of work I need a quick diagnosis on an injury, so that I may know a time frame to safely return that athlete to the competitive playing field. In retrospect I now think a nonprofit HMO such as Kaiser might be a much better option than a for-profit HMO, in regards to getting the proper medical care.

I have had this view for a very long time, but as I researched and developed this paper on the history of Kaiser Permanente I think my stance has softened a little. As I researched and began writing this paper I found out that Kaiser was built from the ground up with a purpose and direction to help the poor and unhealthy. As stated earlier Dr. Garfield started his medical practice to service the union workers. Soon the hospital expenditures outweighed the hospital income. With serious thought about closing the doors and opening a private practice Dr. Garfield held a meeting with Harold Hatch who suggested that insurance companies pay a fixed amount per day for each covered worker, thus the "prepayment" was born. This was the start of something big for Dr. Garfield, but no one knew just how big.

Another thing that I believe has changed my thought process about Kaiser is the fact that their doctors have a vested interest in Kaiser Permanente. With having varied investments within the organization, it would seem that Doctors would want to provide the best possible care to see their investment increase and not decrease. By providing the best possible care to their members, things could change for the better in more ways than one. For instance a well cared for and happy member may recommend Kaiser Permanente to friends and family. Thus enrollment could increase and the Doctors see their investment share increase. Its a win/win situation for both the Doctors and members. Members get the care they want and deserve and Doctors see higher dividends. Here's a little food for thought as you think about health care and where Kaiser might fit in. Earlier I stated that nonprofit HMOs like Kaiser are favored over for-profit HMOs. That may be true but Kaiser has its own difficulties, just like the other insurance companies. For example the Los Angeles Times reported that "Kaiser Permanente to pay \$1 million fine for HMO patient death. The fine was from the 1996 death of a patient, "who died from a stomach aneurysm in Kaiser's Hayward hospital after she made a number of efforts to visit her physician about back and abdominal pain on the day of her death" (Los Angeles Times). Now how would that make you feel as patient under Kaiser care? I would have to speculate, that you would not feel very good after hearing this. Especially when the Kaiser CEO at the time, George Halvorson said "Kaiser proved in court that the HMO did not violate state laws that require "reasonable access to patient care" but added that Kaiser would work to develop "ways to more quickly identify hard-to-diagnose conditions" (Sacramento Bee).

Another case in point, as reported by the Associated Press, "Kaiser Permanente and consumer activists announced a legal settlement that will require the health care

giant to disclose the guidelines and financial incentives that influence the medical decisions of its doctors." This helps shed light on the cost controls of health maintenance organizations, as well as requires Kaiser to post on the Internet it's guidelines for what kind of treatment patients can expect for an illness, and how doctors are compensated for their services.

Kaiser was also accused of offering financial incentives to its customer service employees "to keep patients away from doctors" (Consumer Watch Dog). Kaiser "came under fire for a bonus it offered call center employees if their calls with patients averaged less than 3 minutes, 45 seconds and if they scheduled appointments for 15 to 35 percent of the patients who called" (Consumer Watch Dog). Now this does not seem to be a health insurance group that many people would want to call their own. After reading, researching and writing about for-profit groups, Kaiser may be one of the best available groups in the industry. Even though they have flaws and inadequacies, they might be minimal to what might happen in other for-profit group.

Trusting someone with your health care needs is very important for each and every person. People want to leave their doctor's office with the feeling the doctor care about them and is doing all he can for you as a patient. You want to know that if questions arise, or you are unsure about a procedure, that your doctor is there to answer those questions. Remember this is your health, so there should never be the thought of that's a stupid question or such a minor problem you should not ask it. As Kaiser is aspiring to be the World leader in improving health through high-quality service, affordability, and integrated health care. So to Kaiser Permanente there are no trivial or dumb questions.

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