



## **Kaiser Foundation Health Plan and Hospitals Q2 2019 financial update**

August 9, 2019

### **Solid financial performance enables acceleration of programs to improve affordability for our members and customers.**

Kaiser Permanente's mission is to provide high-quality, affordable health care services and to improve the health of our members and the communities we serve. As nonprofit organizations, Kaiser Foundation Health Plan, Inc., and Kaiser Foundation Hospitals "KFHP/H" devote our resources to advancing our mission through investments in integrated care delivery and in programs to make health care more affordable while improving member and community health.

"We are proud that our organization is growing and helping more people live healthier lives," said Chairman and Chief Executive Officer Bernard J. Tyson. "Our operational performance, combined with strong investment returns, will enable us to continue reinvesting in programs that improve the affordability of health care and coverage for our members, as well as contribute to the health of the communities we serve. We are now well-positioned to accelerate these efforts in the coming months."

### **Second quarter 2019 results**

For the quarter ended June 30, 2019, KFHP/H reported combined operating revenues of \$21.4 billion and operating expenses of \$20.3 billion. Operating income was \$1.1 billion or 5.2% of operating revenues, in the second quarter of this year, compared to \$345 million or 1.8% of operating revenues, in the second quarter of last year. Operating revenues increased driven by several factors including changes in membership as well as favorable accounting estimates of more than \$600 million primarily due to lower Affordable Care Act risk adjustment accruals recorded in the second quarter of 2019 compared to second quarter 2018. The year-over-year increase in operating income was driven by the increase in operating revenues as well as improved operating efficiencies.

Total other income and expense — generated largely by returns on investments — was \$930 million in the second quarter of this year, compared to \$308 million in the same period of the prior year. The gains were driven by strong investment performance as well as an accounting change effective January 1, 2019, requiring reporting of unrealized gains on certain equities as net non-operating income, which added \$223 million to total other income and expense. Net income was \$2.0 billion for the second quarter.

“Strong results are essential for us to deliver on our non-profit mission to improve affordability while advancing our high-quality care and service for our members and customers. This also allows us to make strategic investments in technology, people and care facilities,” said Executive Vice President and Chief Financial Officer, Kathy Lancaster. “At the same time, it’s critical we remain fiscally vigilant in today’s increasingly competitive environment with growing industry and financial pressures.”

Historically, operating margins in the first and second quarters tend to be higher due to the open enrollment cycle. We typically see lower operating margins in the second half of the year as expenses tend to increase throughout the year relative to operating revenues.

## **Membership**

Kaiser Permanente’s membership totaled 12.3 million as of June 30, 2019, compared to 12.2 million as of June 30, 2018.

## **Capital spending**

Capital spending of \$710 million in the second quarter reflects ongoing investments in upgrading and opening new facilities, as well as in technology.

In the second quarter, KFHP/H opened new medical offices in Virginia (Alexandria Medical Office), Washington (South Lake Union Medical Office), and California (Petaluma Behavioral Health Medical Office and Dublin Medical Office and Cancer Center). These additions bring our total number of medical offices nationwide to 701, along with 39 hospitals. There are presently more than 80 new medical offices in active design or construction phases expected to open over the next 3 years.

## **Improving community health**

In 2018, Kaiser Permanente’s community benefit expenditures were \$2.8 billion. As part of Kaiser Permanente’s larger commitment to address the social determinants that impact overall health and well-being — such as housing, access to food, and transportation — we continue to invest in opportunities to improve community health. A few highlights in the second quarter of 2019 include:

- Launching Thrive Local, a social health network, which enables health care and social service providers to address pressing social needs by partnering with Unite Us, a social care coordination platform. Starting this summer, and over the course of the next 3 years, we will be rolling out Thrive Local to support our members and the 68 million people in communities Kaiser Permanente serves.
- Pledging \$19.3 million in grants to community-based and national charitable organizations that support a range of health issues to improve the conditions for health in our communities, including health in schools, housing and homelessness, future workforce training and education programs, and more. These quarterly grants are part of the ongoing contributions that Kaiser Permanente makes each year to improve community health.

## Q2 2019 and 2018 financial summary

(\$ in millions, except %)	Q2 2019	Q2 2018
Total operating revenues	\$21,432	\$19,601
Operating expenses	\$20,314	\$19,256
Operating income	\$1,118	\$345
Operating margin	5.2%	1.8%
Total other income and expense (see accounting change note below)	\$930	\$308
Net income	\$2,048	\$653
Capital spending	\$710	\$735

Note: Effective January 1, 2019, KFHP/H adopted the provisions of ASU 2016-01, *Financial Instruments – Overall*, which requires that changes in estimated fair value for equity securities be recognized in total other income and expense. Previously, changes in estimated fair value were recorded on the balance sheet within net worth as unrealized gains or losses. Approximately \$223 million of net increases to estimated fair value of equity securities are included within total other income and expense in Q2 2019.

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### Footnotes:

Certain statements included in this document may constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “project,” “forecast,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Accordingly, actual results will vary and the variations may be material. None of the Kaiser organizations plan to issue any updates or revisions to those forward-looking statements if or when expectations change, or events, conditions or circumstances on which such statements are based occur.