

**2009 Group Health Cooperative
Annual Membership Meeting**

Report to the Membership



Thank you and good morning.

I'm thrilled to be back here updating you on the health of your cooperative, now for the fifth consecutive year.

And I must say that this past year has been among the most exciting and most challenging in years.

In today's chaos created by the national debates about reforming health care, we find ourselves right in the middle of things. We have gotten a remarkable amount of national and media attention. People across the country want to better understand how we do what we do — because they recognize that we offer powerful insight into how the health care system across our country should be improved.

At the same time, we're also in the middle of the most challenging economic climate that many of us have ever seen. This recession has had an impact on Group Health — and we've had to make real adjustments in order to respond to it.

Yet all in all, even in the face of this financial uncertainty, your Group Health is in great shape:

- We are seeing new and steady enrollment growth.
- Financially, we are as strong as ever.
- We are being recognized for great customer service.

- And we're introducing exciting new innovations in our care delivery system that will reshape how care is provided in the future.

Our success is a result of many things coming together this year, but I believe that it is rooted in a few core principles that have defined Group Health for more than 62 years.

These same principles are the basis for today's strategic plan. They include:

- Our belief in a health care system that integrates and aligns care delivery and care coverage to create the opportunity to innovate and improve.
- Our focus on creating care delivery systems that are integrated systems, where the component parts are all focused on achieving a single goal — better health for our patients.
- Our commitment to offer a range of health plans that anticipate and meet our customers' needs.
- And it's our commitment to building an organization that great people love to work for.

This combination of features is what we mean by "Well Beyond Medicine."

So now let's turn to the update on performance. We'll briefly review the four categories that we use to measure progress: enrollment growth, financial performance, customer satisfaction and quality of care...

ENROLLMENT: WHY GROWTH IS STRONG and WHY GROWTH MATTERS

Let's begin with growth.

Earlier, I said that we have seen strong, steady growth — and we really have. We've grown from 560,000 members at the end of 2006 to nearly 620,000 at the end of last month.

Last year, we added almost 20,000 new members. And so far in 2009, we've added another 20,000 through just the first three quarters of the year.

These numbers are especially impressive given all the jobs that have disappeared in the region in the last 12 months. According to a report out this week, Washington State has lost nearly 150,000 public and private sector jobs this year because of the recession. This has directly affected our enrollment.

The consolidation and acquisition of companies like Safeco and Washington Mutual has also had an impact on enrollment. We lost more than 15,000 members from those two companies alone.

Despite these losses, we continue to see steady growth. We have attracted enough new patients to make up for those losses.

We are also very excited to see that many of our new members are individuals and young families, brand new to Group Health — much like most of us used to be. These people join us with the prospect of being members for decades to come.

But why is growth important in the first place?

As we grow, we become more efficient.

More than that, our growth is proof that we offer great value to the people in this state and that more and more people have come to trust us with their care.

It's a sign that we are continuing to make progress toward the goal our founders set out for Group Health 62 years ago: To serve the greatest number.

A STRONG FINANCIAL PERFORMANCE IN DIFFICULT ECONOMIC TIMES

Now let's shift from an update on growth to a review of financial performance.

I want to start by saying that Group Health ended 2008 as strong as it has ever been.

We reported operating income in 2008 of \$52 million. That was more than double our operating margin of \$20 million for 2007.

At the same time, we reported an overall net margin for 2008 that was negative.

That negative number was solely the result of reflecting in our financial reports the loss in the value of our investment portfolio in 2008.

We weren't alone in this regard. My guess is that just about everyone here saw their investments decline in value when the stock market fell late last year.

On our books, that loss in value camouflages what otherwise was a very strong year.

Now, if we were to look at the first three quarters of this year, the good news is that we've already seen enormous improvements in the value of our investment portfolio.

At the same time, however, earlier in this year we've seen an unexpected increase in our medical expenses — driven by an unusual increase in hospital use. We have seen some red ink in recent months.

And I want you to know that we have acted quickly to respond and have plans in place that have improved our performance.

SHORT TERM ADJUSTMENTS

I mention this because you may have seen some local media coverage of some of the steps we've taken to protect our financial strength.

We've frozen wages, and we've stopped the accrual of paid time off for our non-union staff. We've cut travel and business expenses. We've stopped buying new equipment unless it is essential.

These are short-term measures, but they add up to significant cost savings — savings, I am proud to say, have allowed us to honor our commitment to avoid lay-offs as a way to close the budget gap.

We have asked a lot of the people who work at Group Health. I know many are here, and so I want to thank them for their support, their hard work, and their contributions to our success in these challenging economic times.

TO PROTECT LONG TERM INVESTMENTS

We have made these short-term adjustments not only to avoid layoffs, but also to preserve our ability to continue to invest in exciting, new innovations in our care delivery system.

For example, next month we're implementing a new information system across our medical centers that will improve the way we schedule appointments, handle cash, and manage various financial transactions.

I'm sure many of you would agree that these improvements are long overdue.

We're also making exciting investments in our Medicare programs. We've developed several new choices, with great rates — all in all, a value that no one else can match in the state.

We expect to attract thousands of new Medicare members next year as a result.

With our cost-cutting plans and these investments, I believe we have a strong financial plan for the months ahead.

CUSTOMER SATISFACTION

Beyond growth and financial results, in 2008, we also continued to receive great recognition for the work we've done to improve customer satisfaction.

I'm thrilled to say that in the September issue of a leading consumer magazine, your Group Health Cooperative was ranked the number one HMO in the nation.

We're really proud of this. The ranking is based on interviews with Group Health subscribers — more than 12,000 members, including many of you here today. It's a great feeling to be judged the best HMO in the country based on your experience.

In addition, *U.S. News & World Report* continues to rank our Medicare plans among the best in the nation.

And in recent years, I'm very proud to report that more and more of our great doctors are being recognized as the best in the region by local journals.

While we're excited to receive these awards, we know that there is still a lot we can do to improve.

For example, as we have grown more new patients, we have seen that there are many ways we can improve the way we welcome them into our system. The truth is that it's still harder than it should be for new members to figure out how to figure us out.

QUALITY: PUGET SOUND HEALTH ALLIANCE and HOSPITAL READMISSIONS

As important as customer satisfaction is, our most fundamental focus is on the quality of care that our patients receive.

In fact, as you know so well, Group Health is organized around the conviction that we are most likely to succeed when we consistently provide great clinical care and promote better health for our patients.

For us, better health is the ultimate driver of customer satisfaction, strong financial performance, and enrollment growth.

It's why we've invested in so many innovations for better health, like our use of electronic records and even our use of consulting nurses — innovations that we take for granted at Group Health but that most people around the country would envy.

It's why we've been getting so much national attention in the policy debates this year.

It's the reason I've committed 23 years to my career to Group Health, and I'm sure many of my colleagues would say the same.

This is what we mean when we say “Well Beyond Medicine.”

How do we know we’re meeting our high standards for quality of care?

One way is the annual report card from the Puget Sound Health Alliance.

The Puget Sound Health Alliance is an organization of businesses, hospitals, health plans, and government organizations working to improve health care in the region by analyzing treatment at clinics and hospitals across the region. Each year they issue a report card that measures care quality in key areas.

This year, Group Health received the highest ranking in 11 of the 15 categories they measure.

In other words, if you want to get the very best quality care available in the Puget Sound, then you better go to a Group Health medical center.

We also know we’re doing well by looking at hospital re-admission rates — or the rate that patients are re-admitted to a hospital within 30 days of being discharged.

This is a topic that has been getting a lot of attention lately because it’s a good indicator of how well a care system is working or not working.

On average nationally, about 20 percent of Medicare patients are re-admitted within 30 days of being discharged. These are patients who are confused about their medications, who have complex follow-up instructions they can’t understand, and don’t have providers they can turn to when they have a question. So too often, they end up back in the emergency room, and then back in a hospital bed.

Now, historically at Group Health, our rate has been about 16 percent. That's good. With our system of care, we have many advantages. But we believed we could do better.

And we have. We've done some phenomenal work on hospital campuses across the state that has brought the re-admission rate down close to 8 percent. This great result comes from focusing on what we do best — providing a coordinated, integrated care system that puts the patient at the center of everything that we do.

This is what we mean when we say “Well Beyond Medicine.”

QUALITY: THE MEDICAL HOME

One more example of how Group Health is improving the quality of your care is a topic that has gotten a lot of national attention —what we call our Medical Home.

I realize that you've probably heard about this, and many of you may have experienced it. (Harry Shriver) But let me briefly say that primary care in our country is being redefined as we speak — these changes are often referred to as the medical home.

At Group Health, this work is transforming the relationship between patients and doctors so that members get the kind of individualized attention and care that leads to better outcomes.

We tested this approach at Factoria Medical Center for the past two years, and we have seen great results:

- We lowered emergency room visits by 30 percent.
- We've seen the number of days that patients spend in the hospital fall by 11 percent.

Our patients are thrilled. And our doctors are happier because they can spend more time doing what they really like to do — working with their patients to promote their health.

And at a time when many in our industry are worried about recruiting primary care physicians, we're getting seven or eight applications for every opening.

We believe that through this work, we have had a glimpse into the future of medical practice. It's not perfect, but we're confident enough that this is the future that we are expanding this primary care model across our entire statewide care system in the year ahead.

This is another example of what we mean by "Well Beyond Medicine."

CLOSE: WHY GROUP HEALTH IS A VOICE FOR POSITIVE CHANGE IN HEALTH CARE

As I said earlier, it has been a challenging year as we've struggled like everyone else to adjust to the realities of the recession.

But it's also been a very exciting year for us as people around the country have started to discover some of the truths about health care that we have known at the Group Health Cooperative for more than 62 years.

After years of trying to explain what Group Health is and what we stand for, it's gratifying to be seen as a model for the rest of the country.

At the 2004 Annual Membership Meeting, you passed a resolution on universal coverage. That resolution called for affordable, high-quality, continuous care for everyone in this country.

That document reflects the principles that you have supported and nurtured throughout the entire history of Group Health Cooperative. And today those are the principles that are shaping the future of health care in

the United States. They are your voice in the national health care discussion.

A lot remains to be decided in the debate over health care reform. But you should know that your voice is being heard and that you are influencing the outcome.

I think you should be very proud of what you have achieved here.

You've shown that a cooperative model of integrated care that aligns the various parts of a care system around the common goal of better health can achieve results that no other health care system can match.

So thank you. For being here today and for being the passionate, dedicated advocates for a better way.

Your support inspires so many of us to work every day to provide care that is "Well Beyond Medicine."

Thank you.

CEO and President Scott Armstrong
Group Health Cooperative
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