



The Value of an Integrated Healthcare Network

The Value of an Integrated Health System: Coordinating Care to Expand Access and Improve Quality and Affordability

Well before passage of the Affordable Care Act (ACA), which encourages and rewards expanded access to more affordable and higher quality care, Sutter Health’s not-for-profit network set out to build a truly integrated system—one that offers comprehensive patient services and quality health programs tailored to the diverse communities we serve. Today, Sutter Health cares for more than 3 million patients throughout its Northern California network of physicians, hospitals, home health providers and other services.

Integrated healthcare networks like Sutter deliver on the promise of the ACA by providing a more user-friendly healthcare system, patient-centered care and healthier outcomes that lower the total cost of care. It’s through this integrated approach that we’re able to coordinate medical care and healthcare services from one caregiver or facility to another and make early and substantial investments in technologies like electronic health records, electronic intensive care units and telehealth. This gives us a unique opportunity to address health disparities and design interventions that can be applied in care settings across the Sutter network and beyond. At the same time, this kind of coordination and focus on standardizing best practices reduces complications in care, lowers hospital readmission rates and brings down the total cost of care.

Nationally Recognized for Quality With a Focus on Efficiency and Expanded Access

Sutter Health proactively implements programs across our integrated network that continuously improve the quality and value of healthcare for our patients. Our integration across regions, clinical settings and data environments is delivering care models with some of the best clinical outcomes in the nation.

In 2018 and 2019, Sutter affiliated physician organizations and hospitals were recognized for safety and quality:

- Integrated Healthcare Association recognized eight Sutter medical network organizations for reaching a high level of quality care for Medicare Advantage patients. Of those eight, five achieved 4.5 star ratings across a subset of 12 quality measures during the 2017 reporting year.
- Four hospitals within the Sutter Health network earned the highest possible ranking as part of the Centers for Medicare and Medicaid Services (CMS) Hospital Quality Star Rating for January 2019. In total, 86% of Sutter hospitals earned ratings of five, four or three stars—with an average of 3.64 stars across the not-for-profit network.
- The California Health and Human Services Department recognized twelve Sutter network hospitals for reducing cesarean births for first-time moms with low-risk pregnancies.
- Twenty-one affiliates within Sutter Health’s network earned recognition as a 2017-18 “Leader in LGBTQ Healthcare Equality” by the Human Rights Campaign Foundation (HRC), the educational arm of the country’s largest lesbian, gay, bisexual, transgender and queer (LGBTQ) civil rights organization.

Lowest Average Charge Per Discharge in Northern CA

Sutter Health network doctors and hospitals partner to coordinate care, reduce variation and adopt best practices. On average, total charges for an in-patient stay in a Sutter hospital are lower than the average of what other Northern California hospitals charge.

SEE CHART BELOW

AVERAGE CHARGE PER DISCHARGE FOR ACUTE CARE CASES IN NORTHERN CALIFORNIA

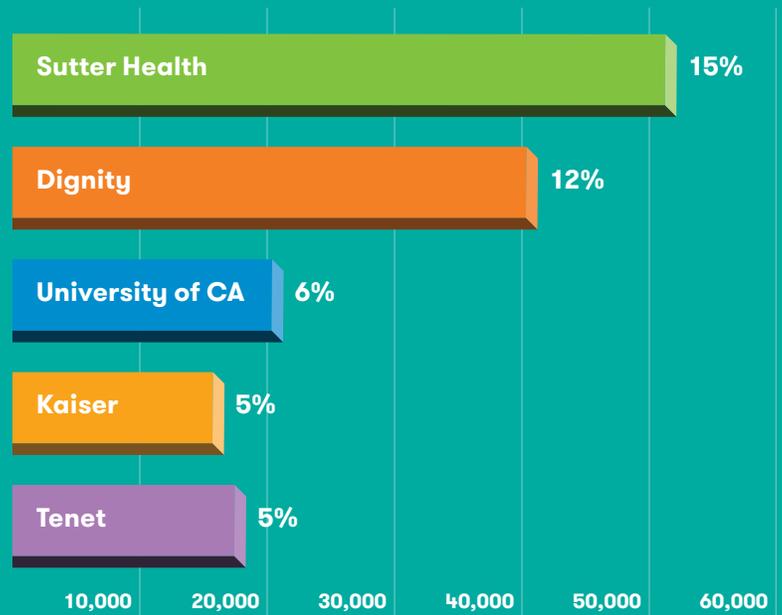


Source: 2017 Northern CA OSHPD CMI adjusted average charge per discharge for acute care cases in Northern California cohort group.)

Cares for Most Medi-Cal Patients in Northern California

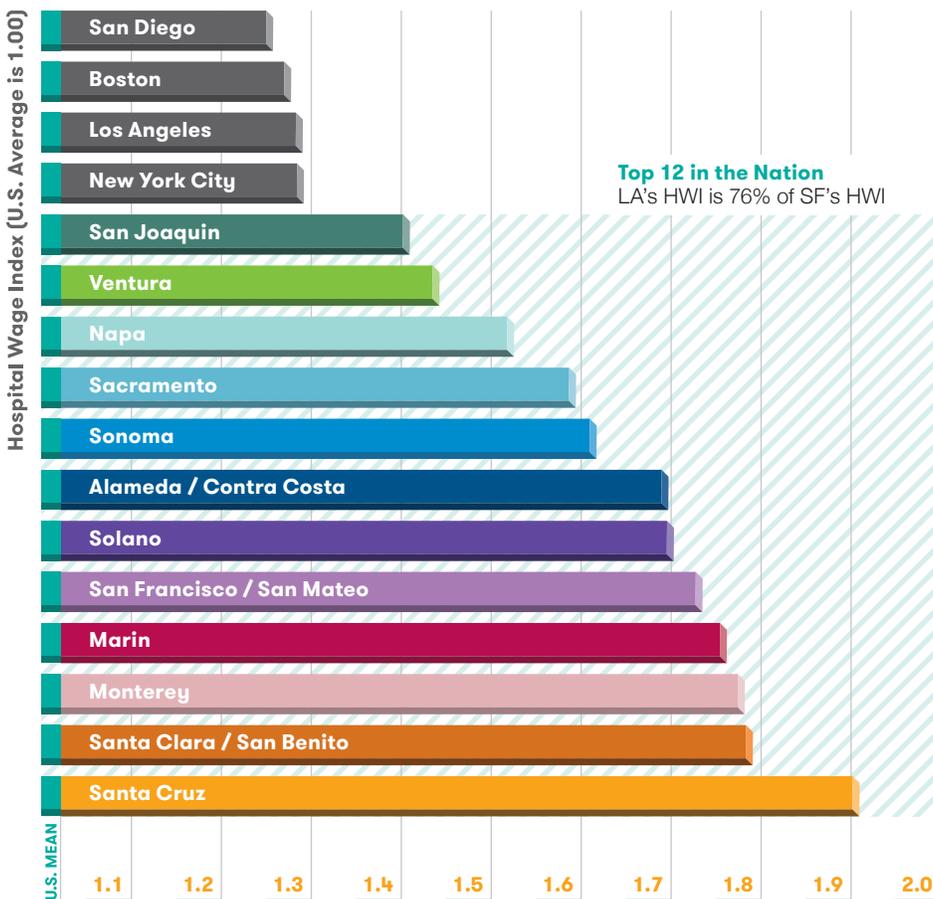
With passage of the Affordable Care Act, more low-income patients have health insurance and are covered by Medi-Cal. In 2017, Sutter hospitals compassionately cared for more low-income Medi-Cal patients in Northern California than any other health care system, serving 15% of the 2017 Medi-Cal discharge population in Northern California. Further, Medi-Cal accounted for nearly 19% of Sutter's 2018 gross patient service revenues. In 2018, alone, this commitment required a \$435 million investment because the State of California does not reimburse the full costs of providing care.

ANNUAL MEDI-CAL DISCHARGES PER HOSPITAL SYSTEM IN NORTHERN CALIFORNIA



Source: 2017 OSHPD Patient Discharge Data Note: Our data comes from the OSHPD Hospital Annual Financial Data disclosures.

TOP TWELVE 2019 HOSPITAL WAGE INDEX METROPOLITAN AREAS – COMPARED TO LOS ANGELES, CA, AND NEW YORK CITY, NY



Operates in Nation's Top Wage Markets

Sutter's network operates hospitals and provides access to other clinical services in some of the highest wage markets in the U.S, with system labor costs representing more than 60% of our organization's total operating expenses. Northern California is home to 11 of 12 of the nation's highest hospital wage index values, which helps contribute to a disparity in healthcare costs between Northern and Southern California hospitals.

Source: 2019 Medicare Inpatient Prospective Payment System Hospital Wage Index (HWI)

HWI reflects the cost of wages and benefits for employees and contract employees in that hospital market

Despite Rising Operating Costs, Sutter Commits to Holding the Line on Price Increases

Sutter Health is committed to smart management of our resources, including a focus on efficiency and prioritization of innovation to help control costs and improve affordability. As a result, Sutter has held average overall increases to health plans to less than 3% since 2014 in spite of our actual expenses for labor, facilities and technology increasing by an average of 6% each year.

SEE CHART BELOW

Supports Community-Based Hospitals

The strength of Sutter Health's integrated health network allows us to invest in and support community-based hospitals, many of which serve higher populations of patients utilizing Medi-Cal and Medicare, are located in rural areas of the state, and experience annual operating losses. It's because of this integrated network that Sutter is positioned to withstand changes in the financial markets, giving us the opportunity to further expand community access to high-quality healthcare regardless of external pressures that might impact more fragmented systems.

For example:

- Four Sutter Health hospitals sustained operating losses in 2018—totaling more than \$49 million.
- Two of these hospitals sustained operating losses for 4 out of the last 5 years.
- In 2017, all four hospitals' total patient discharge population utilizing either Medi-Cal or Medicare was between 81% and 88%.
- Despite these losses, Sutter Health has invested more than \$295 million in charity care, unpaid costs of Medi-Cal and community benefit programs in these four hospitals alone over the past 5 years.

Because of its integrated network, Sutter is able to heavily reinvest in the communities it serves, extending its total investment to nearly \$10 billion in new facilities and lifesaving technology. This includes recently building new hospitals to expand access and comply with state-mandated seismic requirements. Further, Sutter's ability to plan for and upgrade many of its smaller hospitals depends on the stability and soundness of Sutter's integrated network.

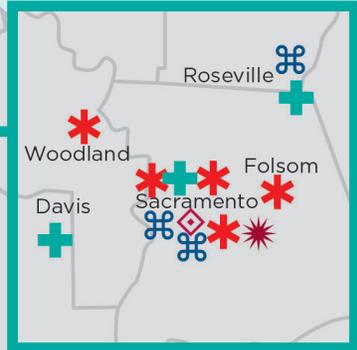
SUTTER HEALTH'S HISTORICAL COMMERCIAL PRICING INCREASES HELD TO LOW SINGLE DIGITS



143 HOSPITALS

-  ADVENTIST
-  ALAMEDA
-  BANNER
-  CHILDREN'S
-  DIGNITY
-  HCA
-  JOHN MUIR
-  KAISER
-  NORTHBAY
-  PRIME
-  RIDEOUT
-  STANFORD
-  ST. JOSEPH
-  SUTTER
-  TENET
-  UNIVERSITY OF CALIFORNIA
-  VERITY
-  INDEPENDENT

GREATER SACRAMENTO



GREATER BAY AREA



* This map represents a snapshot of hospitals and hospital systems operating in Northern California as of December 2018.
 ** Please note that Verity Health System filed for bankruptcy in August 2018.