Prevention over Repair: The Success Formula of Kaiser Permanente in the U.S.

The model

With 12.5 million members, Kaiser Permanente ranks among the top-rated health networks in the U.S. What is behind this success? How does the organization strike a balance between high-quality care and affordable premiums?

What sets Kaiser Permanente apart is that insurance, hospitals, and physicians remain legally separate entities. But they work together under exclusive, long-term contracts. The organization rests on three pillars:

- The Kaiser Foundation Health Plan (KFHP) is a nonprofit insurer.
- The Kaiser Foundation Hospitals (KFH) comprise forty not-for-profit hospitals with several thousand beds.
- The Permanente Medical Groups (PMGs) are eight large regional physician networks with more than 25,000 doctors.

An example illustrates how this integration plays out in daily care: a patient with hip pain sees his primary care doctor within the Kaiser Permanente network. That doctor refers him to an orthopedist, who conducts an MRI and recommends a hip replacement. The surgery is then performed at a Kaiser hospital.

What is unusual is that every physician along the entire treatment chain – from primary care doctor to orthopedist to surgeon – belongs to the same PMG. Hospitals don't employ physicians directly. Instead, they receive funding from the insurer for major investments and operations, covering things like nursing care, equipment use, medication, and implants.

For physicians and their PMG, there is no financial gain from transferring complex cases to the hospital: the physician's costs still land with the same PMG – they are merely shifted, not passed on. A hip replacement is recommended because it is medically indicated, not because it is the most expensive option available.

On top of this comes a system-wide safeguard: when budgets are exceeded, the insurer, the hospital group, and the PMG share the financial risk.

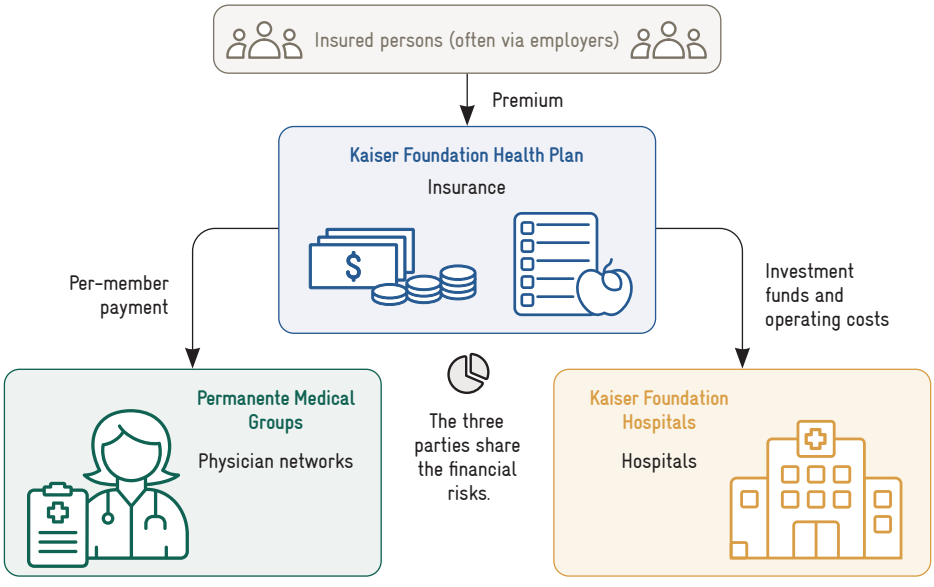
The system is largely closed: Kaiser works exclusively with PMG physicians, and these physicians treat exclusively patients insured by Kaiser.

How does Kaiser Permanente keep physicians from over-prescribing services? Two mechanisms are key:

- The insurer pays PMGs a monthly fee per member, adjusted for age, sex, comorbidities, and diagnoses. A physician gains nothing from ordering more services – doing so only cuts into his or her PMG's margin.
- Physicians receive a fixed salary, tiered by specialty, that does not depend on service volume. Bonuses make up 6 to 9% of total compensation and are tied to treatment quality – such as post-surgical complication rates – along with patient satisfaction and the PMG's overall financial performance.

Kaiser Permanente: three organizations, one incentive system

Although insurers, hospitals, and physician groups are legally separate, they operate as an integrated system in which incentives are largely aligned.



Source: Own representation

Experience and results

Integrated care across every stage of treatment, combined with the system's closed structure, makes it easier to share information and apply consistent quality standards. A shared clinical information system keeps every provider on the same page. It provides evidence-based treatment recommendations and drug allergy alerts for physicians, and it enables systematic evaluation of care quality.

Vertical integration also makes prevention pay off: the savings it generates flow back to the very organization that funded the preventive measures.

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One example shows how this improves care quality. In 2000, Kaiser Permanente launched a hypertension management program in Northern California, combining standardized treatment pathways, shared health data, and continuous tracking of outcomes. The result: the share of diagnosed hypertension patients with their blood pressure under control doubled, from 44% in 2001 to 90% in 2013. From 2000 to 2008, heart attacks declined by 28%, and deaths resulting from stroke declined by 42%.

Still, a model built on capitation premiums and global budgets has its pitfalls. Budgets or capacity set too tight can lead to unwanted rationing. In 2023, Kaiser was fined USD 50 million and committed to investing a further USD 150 million in improving mental health care, after regulators cited excessive wait times and inadequate capacity.

Even so, members appear largely satisfied overall: in 2024, 86.6% stayed with Kaiser Permanente. Kaiser's health plans also consistently earn top marks in the independent ratings of the National Committee for Quality Assurance (NCQA).

What about Switzerland?

In Switzerland, insurers and providers remain organizationally separate. Integrated-care models do exist, but they mostly cover outpatient care, not hospitals. Physician networks, moreover, carry only limited budget responsibility.

Per-capita payments are used in the Réseau de l'Arc in the Bernese Jura, launched in 2024. This integrated care model explicitly takes Kaiser Permanente as its reference point, combining an insurer, two hospitals, and a physician network. Since 2025 the model has also been offered in Ticino, and since 2026 in the Zofingen region as well. With roughly 7,000 members, though, it remains small.

Swiss residents can switch insurers every year. Long-term investments in members' health can therefore end up benefiting a competing insurer. In the U.S., by contrast, employers sign multi-year contracts with insurers on behalf of their employees. At Kaiser Permanente, this employer-driven member loyalty is what makes long-term prevention investments pay off.

Takeaways

■ **Shared responsibility instead of separate incentives**
Insurer, physicians, and hospitals jointly bear responsibility for quality and cost. This makes prevention worthwhile and unnecessary treatments less attractive.

■ **Integration requires shared data**
Financial incentives like capitation or fixed salaries matter. But only shared information systems, standardized treatment pathways, and close collaboration between primary care physicians, specialists, and hospitals make coordinated care possible.

■ **Capitation needs quality controls**
Capitation and global budgets can boost efficiency. But without adequate capacity and rigorous quality measurement, they risk undersupply and longer wait times.

Further information

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Authors:
Christoph Eisenring
Emilie Dousse
Diego Taboada