



McLaren MOMENTUM

 **McLaren**
HEALTH CARE

mission

McLaren Health Care, through its subsidiaries, will be Michigan's best value in health care as defined by quality outcomes and cost.

Building Momentum

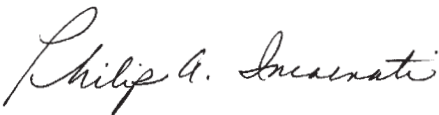
There is a saying that those who prepare are those who excel, and that well sums up the past year for McLaren Health Care. During a period of massive change in health care funding and regulation, where all providers are facing economic stress, McLaren's master plan for growth and excellence has helped us to not only survive, but thrive.

The proof is found in our major achievements for 2011. We've continued rolling out our system-wide information technology conversion for both clinical and financial functions. Our proton beam center, a first for the state of Michigan, is nearing completion, with the first treatments planned late in 2012. Our system growth continues as well, with the anticipated addition of Northern Michigan Regional Health System. Perhaps most importantly, our clinical quality scores continue to position us as best in class.

Indeed, this has been a year of solid financial results, sustained growth, and clinical successes for McLaren. These achievements trace their roots back to choices made by our board of directors and executive leadership years ago. In 1996, we adopted the McLaren mission statement — *McLaren Health Care, through its subsidiaries, will be Michigan's best value in health care as defined by quality outcomes and cost.*

This mission statement is a sort of DNA code that gives structure and meaning to all the components of our multi-billion dollar health care organization. Huge investments in electronic medical record technology? This will pay off in better, more effective, more cost-efficient care. Expansion of the McLaren family to new markets, even outside of Michigan? Smart growth and larger scale help our local hospitals through lower unit costs and access to the newest treatments, facilities, information, and better financing. Cutting-edge research programs and technology? Not only do these improve the standards of medical care, but they also make McLaren, our communities, and our state a magnet for health care talent and investment and a source of hope to our patients.

This year's annual report will give you the full story on how McLaren is growing, adapting, and excelling in many areas of health care. And how, at the heart of this great enterprise, always guiding it, is a simple statement that gives it all purpose.



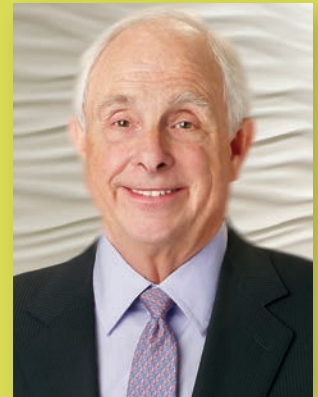
PHILIP A. INCARNATI
President and CEO, McLaren Health Care



DAVID S. McCREDIE
Chairman, Board of Directors, McLaren Health Care



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The State of Health Care

Turbulent, demanding times reward those who can best deliver two key strategic goals. The first is agility — skill at spotting trends and placing oneself ahead of them. The second is scale — those who bring resources and diversity can endure challenges and seize opportunities. McLaren Health Care has worked tirelessly to master these seemingly-contradictory goals, and brought them together for success in 2011.

Health care reform had an impact within the McLaren system last year. A centerpiece of the federal law is the creation of local Accountable Care Organizations (ACOs). ACOs serve as local administrative bodies, with the expertise and resources to offer each patient the full continuum of health care — inpatient, outpatient, and post-acute services. Final rules for shaping ACOs were released in October, and offered real improvement over the early, often impractical proposals. For example, the first drafts set out an unwieldy 65 measures for tracking care quality. After a flood of comments from the public and providers, this number was halved. Changes in how patients should be assigned to ACOs, Medicare funding, and reimbursement rates were also added to the ACO draft during the rulemaking process, which should make implementation over the next year more feasible.

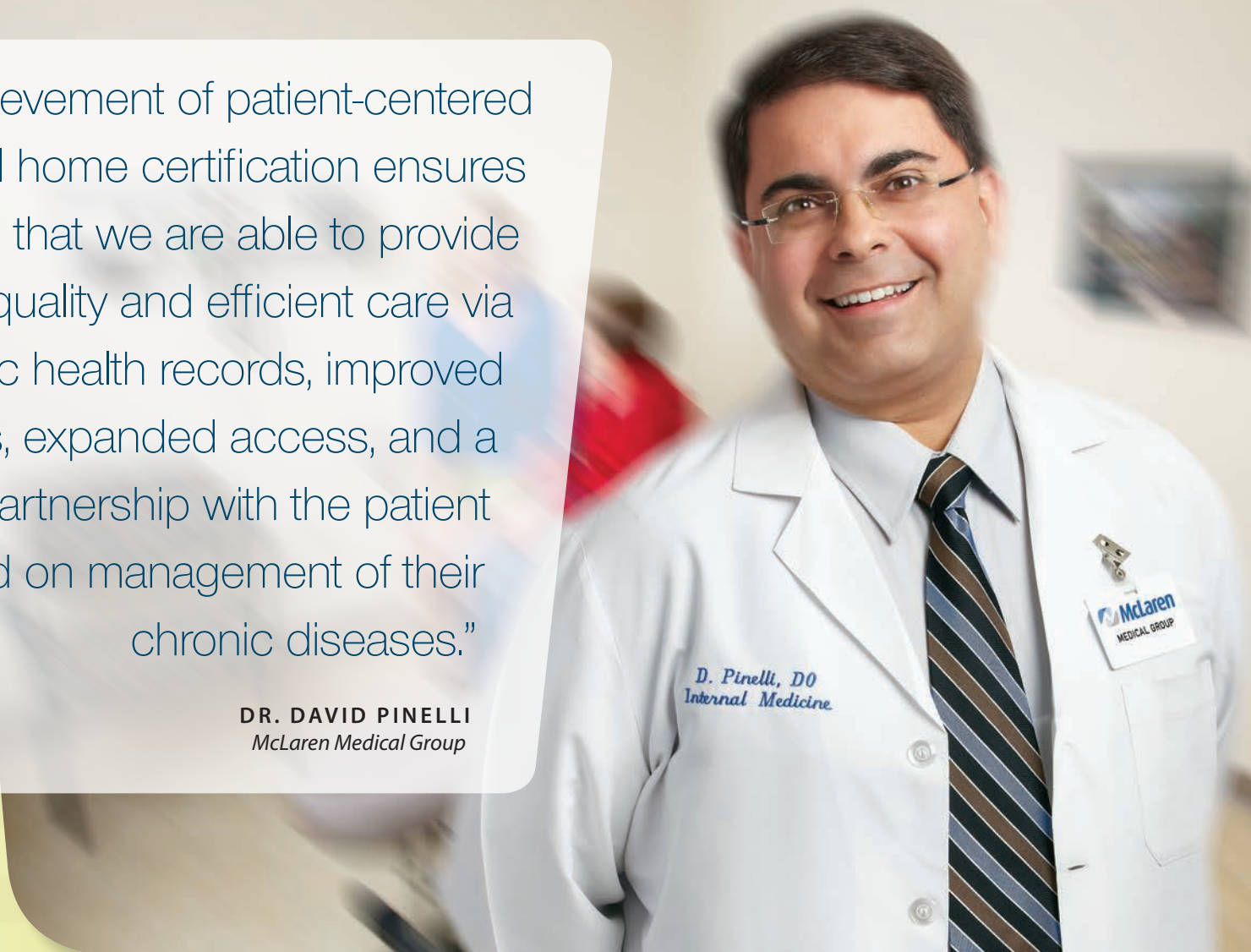
If ACOs are the administrative structure of health care reform, the “medical home” concept is its frontline application, the clinical model that puts it into practice. Traditional care models are sometimes scattered, often with every stage of a patient’s care overseen by a different provider. Overlap, gaps, counterproductive treatments, and of course, higher costs might be the result.

A “medical home” approach gives a single provider, typically a primary care physician, responsibility for managing and monitoring a patient’s entire arc of care. Many disciplines, from specialist care, to rehabilitation, to disease management, to home care, will work together as a team. All members of this “medical home team” contribute toward the goal of improving the patient’s care, and cutting costs.

If ACOs are the administrator for health care reform, and the medical home its clinical hands, “value-based care” is its soul. Value-based care demands strong data management and analysis to weigh the most effective treatments based on both quality and cost. For example, extra days in the hospital after a procedure may offer negligible recovery benefits — but add thousands of dollars to treatment. Regulators are now shaping specific care measures to gauge just what delivers the most bang for the buck.

“The achievement of patient-centered medical home certification ensures that we are able to provide high quality and efficient care via electronic health records, improved processes, expanded access, and a renewed partnership with the patient focused on management of their chronic diseases.”

DR. DAVID PINELLI
McLaren Medical Group



McLaren Medical Group manages the corporate ambulatory network consisting of more than 60 primary and specialty centers located throughout a 14-county region. It also employs more than 150 primary care physicians and many specialists within the McLaren network. The primary care physicians of McLaren Medical Group are among the top admitting and referring physicians for many of McLaren's medical centers. For the past six years, McLaren Medical Group has earned the Governor's Award of Excellence for Patient Care Standards in Preventative Medicine. Regional EMS, the corporation's ambulance service, is positioned under the McLaren Medical Group structure, but has its own governing board.



Of course, the status of the federal health care reform law itself grew less certain in 2011. Multiple legal challenges to the plan at the state level led to the U.S. Supreme Court, which will decide on the constitutionality of major funding provisions in 2012. Experts believe this decision could go either way.



It should be noted that the Supreme Court will decide on just one aspect of the reform law, the mandate for individual citizens to pay for health insurance (though a thumbs down by the court raises the issue of severability — whether invalidating one element in the reform law overturns all of it). Most provisions of federal health care reform, as we see above, are proceeding on the path to implementation.

This is because the new law gathers many megatrends already underway in the health care field. Sophisticated, integrated data systems to capture, structure, analyze and share the numbers that tell us which treatments work best, how to save dollars, and how to save lives. A “concierge” approach, in which one physician, or provider group, directs and monitors treatment for a patient from start to finish. Strong incentives for sharing among provider networks — sharing of data, of ideas, of rewards for success, and penalties for failure. This is where McLaren Health Care steadily worked to place itself, long before the federal health care reform law was even conceived.

For example, a push toward electronic medical records (EMRs) is a major element of health care reform, with government funding available to update systems. But well before reform mandates, McLaren was a leader in innovative EMR systems, not only for budgets and billing, but for health care decision support, clinical analytics, and scenario planning. Expansion of the McLaren system is a strategic response to the demands health care will face in the future, reform law or not. Such a regional strategy offers the scale and scope needed for ACO networks and effective “medical home” systems.



McLaren–Bay Region, located in Bay City, Michigan, is a 404-bed acute care hospital providing specialty, primary and preventive care. Services include cardiovascular, neuroscience, women’s health, orthopedics, rehabilitation, home health and hospice care, EMS and oncology. The emergency department treats more than 45,000 patients a year. McLaren–Bay Region is affiliated with more than 50 educational institutions for training a wide variety of clinical personnel. As the



regional leader in cardiovascular and neuroscience services, the medical center cares for patients throughout the Great Lakes Bay Region, with a population of nearly 500,000.

Sustainable Growth

In any corporate environment, growth is vital for gaining economies, building resilience, and improving financial results. But long-term corporate growth is also one of the trickiest, most demanding business goals, often a high-stakes wager that demands smart strategy and brilliant execution. Whether building internal growth in a tough economy, or investing in strategic acquisitions, achieving sustainable growth is a demanding discipline.

Smart, sustainable growth is based on far more than a simple “get big or get out” approach. “We face more pressure to grow now,” observes McLaren CEO Phil Incarnati. But external growth through acquisitions requires in-depth research on how effectively a new subsidiary will fit into McLaren’s long-term strategy.

“We look for a culture that is compatible with ours, or one that we can bring into alignment with the McLaren culture,” notes Incarnati. “What value will an acquisition bring as part of our organization in savings or revenue enhancement, and how soon can this be realized?” McLaren’s strategic plan looks outside the borders of Michigan, to potential growth in Ohio and Indiana, offering greater diversity and better reimbursement options.

Outside growth helps create additional value through scale. However, “scale” means far more than just spreading the McLaren brand into new areas. It means patients are able to seek specialty services all within a single health care system. It means we can realize the unit cost savings of buying one million bandages versus buying 10,000 — multiplied by the huge inventory of supplies demanded by modern health care. “We need these economies of scale,” observes Dave Mazurkiewicz, McLaren senior vice president and chief financial officer. “And we have to grow our base to grow our size, which further adds to those economies.”



CLARKSTON

acres of prime real estate in northern Oakland County. Phase I opened in 2009 and includes a 138,000 sq. ft. Medical Office Building, a 45,000 sq. ft. freestanding cancer center and a five-acre “healing garden” with walking paths, a meditation labyrinth and numerous water features. Phase II proposes a 200-bed acute care inpatient facility, two additional medical office buildings, and a comprehensive outpatient cardiovascular center.

McLaren–Clarkston represents the largest ground-up development in the history of the corporation. The health care village is located on 80





“It requires a commitment from the entire team to develop and maintain a practice environment that is consistent with providing excellent patient care. Part of that is recognition of the value of collaborative practice with our patients and families and the development of transformational care processes that result in excellent patient outcomes.”

PATRICIA ROSENBERG, RN, MSN
*Vice President of Nursing and Chief Nursing Officer
McLaren-Macomb*

 **McLaren**
MACOMB

McLaren-Macomb is a 288-bed acute care hospital located in Mount Clemens, Michigan. With more than 400 physicians and 2,000

employees, it is one of Macomb County's largest employers. McLaren-Macomb provides a full range of services, including cardiovascular care, cancer services, comprehensive orthopedic services and a state-of-the-art surgery center. It is the center of orthopedic oncology for the entire McLaren system. The medical center operates one of the busiest emergency departments in the area, treating more than 60,000 patients annually. In addition to becoming Macomb County's first and only verified trauma center in 2010, McLaren-Macomb is also accredited in computed tomography and houses an accredited sleep center and an accredited chest pain center. It is a leader in osteopathic graduate medical education, with residencies in cardiology, emergency medicine, endocrinology, family medicine, general surgery, general vascular surgery, internal medicine, OB/GYN, orthopedic surgery, otolaryngology-facial plastic surgery, radiology and urologic surgery.



Setting a Higher Standard

McLaren Health Care has made a specialty of clinical excellence in the delivery of patient care. Not only have we earned accolades from our patient surveys, we've gained outside recognition (in 2011, *U.S. News & World Report* ranked four McLaren hospitals among "America's Best Hospitals" in 10 specialty care areas).

Clinical excellence requires setting solid benchmarks for quality care ... and then stretching to improve upon them. It demands outstanding data collection, interpretation and analysis. Excellence in clinical care is based on endless, intense learning about what works best, and what can work better.

"Over the years, we've learned to track quality metrics on costs and outcomes," notes Dr. Tom Petroff, vice president of medical affairs at McLaren–Greater Lansing. For example, a 35-item "patient safety dashboard" tracks quality and clinical outcomes metrics, such as post-operative infections, mortality, and medical errors. Quality care doesn't end at the hospital door. A new "discharge clinic" initiative at McLaren–Macomb helps assure care plans for patients as they leave. Each patient stops by at discharge to verify that all their care plans are complete, basic vitals are checked one last time, and plans for follow-up care are confirmed.

McLaren even builds partnerships outside our system to improve clinical outcomes. In 2011, we launched an effort with the Michigan Health and Hospital Association's Keystone Center to identify and use best practice guidelines for patient safety and care. "I'm particularly proud of what we're doing through the Keystone collaboration," observes Ellen Talbot, chief nursing officer at McLaren–Bay Region. "We focus on evidence-based guidelines and research on what prevents problems across hospitals." As one example, McLaren is now instituting best-practice ICU procedures that reduce the incidence of ventilator-acquired pneumonia.

But the scale of the McLaren system creates its own diverse culture, which nurtures many new clinical care best practices from within. Talbot holds frequent meetings of chief nursing officers from across the McLaren system, with intense sharing on "quality, professionalism, and standardization. We have benchmarking with all our hospitals, so we can look across the system and identify who does something better."

This constant improvement effort pays off for McLaren in improved clinical care and patient satisfaction. The future health of McLaren Health Care itself depends on boosting clinical excellence. Measureable results improve our reimbursements. Of our Blue Cross/Blue Shield reimbursement that's based on performance measures, we captured 92 percent of the maximum potential reimbursement in 2010, up from 76 percent in 2007. Some hospitals in our system have achieved 100 percent.

Funding that depends on achieving clinical excellence will increase sharply with the full rollout of health care reform. "With pay-for-performance, more and more dollars will be held at risk," says Dr. Petroff. "But we'll continue to focus on doing our very best."

A Comprehensive View of a Patient's Health

“When we talk about disease management, what we really mean is *health* management,” says Bethany Caughlin, vice president of health services for McLaren Health Plan. As a licensed HMO, McLaren Health Plan offers health care benefits to almost a quarter million beneficiaries in 28 Michigan counties. Funding care through commercial insurance plans and Medicaid (plus plan administration through our Health Advantage subsidiary) puts McLaren in a unique frontline position in administering health care.

As an HMO within the McLaren system, the McLaren Health Plan is able to shape an integrated care environment. Encouraging healthy lifestyles, managing chronic conditions, and integrating care are the paths we must take to support a health care system that demands both lower costs and better results.

This breadth of expertise allows McLaren's disease management efforts to focus not just on someone's single ailment, but on their overall health. Take hypertension as an example. Many disease management efforts are limited solely to treating and managing a patient's hypertension. McLaren disease management fits that hypertension care into a whole-patient context. Has this person been screened for other chronic diseases? Are other conditions, such as excess weight or diabetes, being integrated into treatment?

In another example, Caughlin cites McLaren's robust pregnancy management program for Medicaid patients. “We start with healthy pregnancy support, and then, after birth, with immunization programs and follow-up health screenings for the child and mother. As one measure of success, the program has achieved an immunization rate of 83 percent for our Medicaid kids.”

New for 2011 is a weight management initiative for those in our HMOs. Participants learn their target Body Mass Index, and then are encouraged to achieve and maintain this goal with information, counseling, and diet and exercise.

The payoffs of McLaren's disease management work are many. McLaren Health Plan has been awarded “Excellent” accreditation by the National Committee for Quality Assurance (NCQA) for the last several years. The NCQA's HEDIS scores for health management outcomes are consistently among the highest in the nation for conditions such as asthma, diabetes, and hypertension.

But it is the personal benefits of effectively managing patient care that speak the loudest. Helping beneficiaries manage their diabetes long-term, for example, cuts complications, improves overall health and life span — and, not coincidentally, lowers health care costs. “Diabetics don't want to be in a hospital if they can get good care outside,” notes Caughlin. “We can offer all levels of care in the McLaren system, so care is appropriate. Everyone gets the care they need, at the right time and at the right price.”

“Through guidance and instruction, disease management helps patients understand their disease process and how to manage their disease. These programs can improve patients’ overall quality of life by helping to reduce complications from their disease.”

BRENDA SOBLESKEY, RN, BSN
*Diabetes Education Coordinator
McLaren–Greater Lansing*



McLaren–Greater Lansing is a 389-bed tertiary teaching facility located in Lansing, Michigan. It is home to one of the region’s leading cardiac programs; advanced clinical centers for radiation oncology and women’s and children’s health; medical/surgical units; and a full-service pharmacy. Residency programs include anesthesiology, family medicine, internal medicine, general surgery, obstetrics and gynecology surgery, orthopedic surgery, physical medicine/rehabilitation and emergency medicine. Fellowships are offered



in general cardiology, interventional cardiology, hematology/oncology, nephrology, gastroenterology, pain management, and rheumatology. The medical center is recognized as a Cardiac Center of Excellence by Blue Cross Blue Shield of Michigan, as a Primary Stroke Certification from the Healthcare Facilities Accreditation Program and is mid-Michigan’s only breast care center accredited by the National Accreditation Program for Breast Centers.



“The value of proton therapy for patient treatment is immeasurable. The McLaren proton project is particularly attractive to me because it offers highly developed, state-of-the-art technology, such as the highest proton energy available, cone beam computed tomography, and a compact synchrotron.”

SUNG PARK, PhD
Chief Physicist
McLaren Proton Therapy Center



McLaren-Flint is a tertiary teaching facility with 416 beds located in Flint, Michigan. Certified as a Cardiac Center of Excellence by Blue Cross Blue



Shield of Michigan (BCBSM), the medical center is also designated as a BCBSM Center of Distinction for Hip and Knee Replacement Surgery and Spine Surgery. McLaren-Flint holds a three-year accreditation with commendation from the Commission on Cancer and is the site of the state's first Proton Therapy Center. It is further certified as a Bariatric

Surgery Center of Excellence and as a Primary Stroke Center, as designated by the Joint Commission. Other specialized services feature the neurosciences and minimally invasive surgery, including the most comprehensive robotic surgery program in Michigan. McLaren-Flint is affiliated with MSU College of Human Medicine for its medical residency programs, including family practice, internal medicine, general surgery, orthopedic surgery and radiology. Fellowships are offered in hematology/oncology and surgical oncology.

Technology Drives Better Outcomes

The star of our clinical technology expansion over the past year has been our proton beam therapy facility in Flint. Upon completion, the McLaren Proton Therapy Center will be the first and only proton center in Michigan. Construction on this \$65 million project began in 2010. Equipment is being installed, tested and certified over the coming year, with the first patient treatment slated for late 2012.

There are only nine proton beam facilities in the U.S., and the next-generation technology planned for the McLaren center will “give us functionality that no other facility in the world has,” states Dr. Alfred R. Smith, chief consulting physicist for the project. “It promises better clinical outcomes for several cancers, including pediatric cancers that now require patients to go out of state for treatment.”

McLaren also sets the standard for other advanced technology that improves the quality of care. McLaren–Flint recently acquired the most advanced MRI system available worldwide. The Discovery MR750 3T is a powerful new digital imaging tool that offers faster and more precise three-dimensional MRIs. This \$2 million tool, launched in February, offers “better clarity, crisper images, and better definition of soft tissue,” observes Brent Wheeler, vice president of support services at McLaren–Flint.

New clinical technology at McLaren also allows greater surgical adaptability. New hybrid operating rooms make it simple for surgeons to “switch gears” quickly if a minimally invasive procedure, such as a basic angioplasty, reveals the need for a more invasive procedure. Rather than having to reschedule the procedure in a traditional OR, the hybrid OR means there is no need to stop. Care proceeds without interruption, with less time wasted, less patient stress, and no expensive rescheduling.

For 2012, McLaren will continue to expand its clinical technology, with advances in robotic, minimally invasive surgery systems. This technology scales and translates a surgeon’s hand movements into precise micro-instrument procedures within the operative site. The result is less patient trauma and greater precision. McLaren–Flint is also a recognized training center for robotic surgical procedures and is considered a model for other programs around the country.

All these advances come at a price, usually measured in the millions. But in the McLaren vision, new leading-edge technology has a very down-to-earth purpose. “There has to be value,” concludes Wheeler. “We’re not just spending millions to say that we did it, but because the funders of health care increasingly demand better outcomes, fewer side effects, and lower costs over the life cycle of a disease.” Investments in clinical technology today have proven themselves as tools to cut overall health care costs tomorrow.

Data-Driven Care Improves Outcomes

Thousands of patients ... millions of care decisions ... billions of coding and billing items. A large, diverse entity such as McLaren is at the heart of enormous amounts of electronic data. Our system generates, receives, and lives by a tsunami of data that grows exponentially each year. But these billions of bits threaten to be overwhelming unless very well managed. Data may be stored and processed in any number of incompatible systems and formats. Government regulators and payers are imposing major changes in standards for health care data storage, security, and compatibility.

“New payment models coming online will require us to monitor quality and patient satisfaction,” notes Walter Reid, vice president, product strategy and marketing for McKesson, the nation’s leading healthcare services company. “We’ll see more value-based payment, with a greater percentage of reimbursement at risk. There’s no way to achieve that without automation.”

Major drivers of this change are new coding rules from the federal government’s Centers for Medicare and Medicaid (CMS) on billing and classifications. CMS is requiring that participating health care systems comply with ANSI (American National Standards Institute) version 5010 data standards by January 1, 2012, and the related ICD (Internal Classification of Diseases)-10 standards by October 1, 2013. This change in technical formatting and nomenclature “will require retraining of people, testing and cross-vendor collaboration,” observes Reid.

These challenges have prompted the McLaren system to standardize its data technology infrastructure around the McKesson *Paragon* hospital information system. Paragon offers “a single platform, with fewer moving parts,” according to Reid, and qualifies for federal funding under the HITECH incentive reimbursement program.

But McLaren’s push toward universal, accessible data systems offers many other benefits. Federal health reform plans impose information technology requirements including Electronic Health Records, personal health records (a health history that easily follows the patient throughout care), and area health information exchanges. All require a seamless ability to share data between providers, patients, hospitals and payment sources. “The days of patient lab results being on paper, and driven to a provider in the back of someone’s car are over,” notes Reid.

This also brings internal payoffs for McLaren by using data to craft better care. “This generates a fundamental change in nursing,” according to Ellen Talbot, chief nursing officer at McLaren-Bay Region. “It adds inherent safety, and will drive better practice changes in how we work.”

McLaren’s sophisticated “universal language” approach to clinical technology fits in well with its team approach, Reid concludes. “Rather than islands of data, the information — and then the thinking — become socialized and shared among providers. Consistent ability to share clinical information become the expected outcome — along with improved quality and lower costs.”

“Technology has made us more efficient, more effective, and has driven safer care. It hardwires the process in always putting evidence-based care and medical information at the forefront. This allows us to leverage best practice and remove human error.”

BART BUXTON
*President and Chief Executive Officer
McLaren–Lapeer Region*



McLaren–Lapeer Region, a 222-bed acute care facility, is located in Lapeer, Michigan, and is the primary provider of health care services to Lapeer



County and the surrounding area. The medical center has received national recognition from the Centers for Medicare and Medicaid for clinical excellence in orthopedics, pneumonia, congestive heart failure and surgical care. Other services include a 29-bed, 24-hour Emergency and Trauma Center and specialized services for heart, cancer,

orthopedic and general surgery, physical medicine and rehabilitation, women’s services, sleep disorders, behavioral health, wound care and hyperbaric services and chronic pain clinic. A Transitional Care Unit within the facility supports patients from their discharged inpatient stays until they are self-sustaining to return to their homes.



“At McLaren, our researchers are dedicated and determined to explore, discover, learn and cure. We will continue to support research initiatives as our physicians and investigators find new treatments that may benefit countless patients throughout Michigan.”

LANA GEVORKYAN, BS, CCRP
*Corporate Director of Human Research
McLaren Health Care*



ORTHOPEDIC HOSPITAL

McLaren Orthopedic Hospital, a 79-bed specialty hospital in Lansing, Michigan, is the state’s largest dedicated orthopedic

hospital, offering inpatient and outpatient services for the treatment and repair of orthopedic degenerative disease, injury and trauma. The orthopedic hospital is a recognized Blue Distinction Center for Knee and Hip Replacement by Blue Cross Blue Shield of Michigan and Blue Care Network. Additional services include an inpatient geropsychiatry unit, a multi-specialty residency clinic, a nationally renowned sleep disorders center, and a wound care and hyperbaric oxygen therapy center.



Research Raises the Bar Across the System

Among the people and facilities that make up McLaren Health Care, two of our brightest spots are also ones that often draw too little notice. Medical research and education programs are vital elements in our mission of continually improving care. These programs make McLaren a national player in advancing medical technology and treatment, help keep young physicians in our state, strengthen the local economy, and raise the bar for our medical staff.

“All of the hospitals within our system are involved in research in one way or another,” says Paul Romanelli, PhD, director of medical education at McLaren–Flint. Research trials cover a huge range, falling into one of four categories: resident research, faculty research, nurse research or clinical trial research. The latter, involving trials of clinical protocols, drugs, devices and treatments, is what we most often think of when medical research is mentioned. The most common clinical trials involve cardiology, oncology, vascular surgery, and orthopedic treatments.

McLaren’s reputation encourages pharmaceuticals and medical device manufacturers to bring even *more* research projects to our system. This lets us offer patients the latest treatments that may not yet be available anywhere else. “Clinical research with patients is vital to developing new treatments,” notes Lana Gevorkyan, corporate director of human research at McLaren Health Care. “Improvement in care happens because of this research.”

Romanelli says that some of the most exciting work involves “pure research” — cutting-edge projects that explore the boundaries of treatment. A current research trial, for example, is testing a bone regeneration device that may allow repair of fractures in cases where the only current option is amputation. “We’re trying this on shattered femurs now. Many of the trial patients are soldiers, casualties from Iraq and Afghanistan who otherwise would lose a leg.”

Graduate medical education complements the research function, and may be even more crucial to keeping Michigan a contender in the future of health care. The McLaren system has built a strong relationship with Michigan State University’s medical schools, which send hundreds of medical residents and fellows to our hospitals.

Both these young physicians and our McLaren communities benefit. The residents, of course, gain vital knowledge and seasoning needed to complete their education. But our hospitals may benefit even more. Teaching hospitals have 24-hour in-house physician coverage, increasing the quality of care. Further, resident programs are a definite draw for quality medical staff, who relish the challenge of teaching.

McLaren’s research and medical education programs offer a breadth of talent and capabilities throughout our system that ultimately benefits patients most of all. “The combination of graduate medical education and research programs gives our patients a much bigger advantage over most other hospitals,” concludes Romanelli. “Both patients and physicians-in-training can find what they need without leaving our system.”

The Human Factor Powers Excellence

No health care system can hope to offer effective care without committed, motivated employees. “McLaren considers committed employees as the cornerstone of a high performing health system”, said Bill Peterson, Vice President of Human Resources for McLaren Health Care. “McLaren measures employee commitment through an annual survey conducted by Morehead Associates, and over the past three surveys we have seen a steady increase in the level of participation in the survey process by our employees. Even more importantly, we have seen a positive increase in the number of employees who score in the highest tier of commitment to the organization.”

As further reinforcement of the corporation’s focus on the importance of employee commitment, these performance metrics are also contained in the organization’s annual strategic plan and are reported regularly to the Board of Directors of the corporation and the subsidiary boards.

How does McLaren attract the best people and motivate them to do even better? Kathy Kendall, president and CEO of McLaren Health Plan, shares the secrets of success as practiced at her own division. “First, we hire tough, and we hire right.” The standard hiring approach is to do a first and second interview, and then make the hiring decision. At McLaren Health Plan, that’s only halfway there.

“We go through a four-step process. First, all potential employees go through a first interview with peers. Next, there is an interview with a supervisor both from the department doing the hiring, and from a non-hiring supervisor, to get an outside perspective. The third interview is with the vice president of the hiring division. And then they interview with me.”

“Half of success is skills, but the other half is good fit,” says Kendall, adding that motivation and ability to thrive in McLaren’s results-driven culture are as crucial as a good resumé. Especially valued is personal initiative. “Every employee here is a leader, not just management.”

“After hiring, it’s constant communications,” Kendall stresses. McLaren Health Plan discusses its goals for the next fiscal year with *every* employee, and asks each one to identify his or her role in achieving those goals.

The final step in employee engagement at McLaren Health Plan is assuring that employees achieve the goals. “We celebrate every ‘first down,’ and tell people they’ve done a great job,” says Kendall.

And this strategy has paid off. In addition to being recognized by *Modern Healthcare* magazine as one of the “Best Places to Work” in the United States in 2010 and 2011, McLaren Health Plan also received a national award for excellence in employee commitment from Morehead Associates and earned the distinction of “Top Workplaces” in Michigan by the *Detroit Free Press*.

“You have to be outstanding in the area of customer service to succeed in today’s healthcare environment. In our organization, we know our vision and we feel valued, and that brings out the best in us and translates into our interactions with customers.”

CARMEN McGLINCHEY
Quality Management Administrator
McLaren Health Plan



McLaren Health Plan continues to be one of the fastest growing health plans in Michigan. Since enrolling its first member in August 1998, McLaren Health Plan has expanded to provide health care benefits to Medicaid recipients and group employers through HMO, POS, and PPO products. The Health Plan currently serves Michigan residents throughout 30 counties. McLaren Health Plan has been recognized nationally by *Modern Healthcare* magazine as one of the Best Places to Work in Healthcare and has been acknowledged as a Top 100 Workplace by the *Detroit Free Press*.





“Cost and quality will continue to be the drivers as patients and purchasers of healthcare make decisions about medical needs. At McLaren, this focus on increasing quality and reducing costs is used for every decision we make, every day.”

DAVID MAZURKIEWICZ
*Senior Vice President and Chief Financial Officer
McLaren Health Care*



McLaren Homecare Group provides community-based home health care, palliative care, hospice, medical supplies and equipment, corporate and community wellness, pharmacy and infusion services, and Brian's House hospice services. Divisions include McLaren Home Medical, McLaren Hospice and Pharmacy. These divisions serve more than 375,000 patients and businesses in 25 counties throughout Michigan. While corporate headquarters are located in Genesee County, Michigan, the organization also maintains regional offices in Macomb County, Ingham County, Bay County and Lapeer County, along with two residential hospice care centers and retail storefronts in 12 locations throughout southeast and mid-Michigan.



Meeting Challenges in Healthcare Reimbursement

On the financial side, 2011 saw McLaren Health Care making its way forward despite being surrounded by obstacles. The cost of providing quality care continues to rise, even as funding to provide this care is under threat from all sides. While we've weathered Medicare reductions and lower Medicaid reimbursement, the federal budget challenges of 2011 seem doomed to worsen in 2012, pushing these major funding sources into crisis mode. "The federal government is setting record debt levels, and its credit rating was downgraded in 2011," observes Dave Mazurkiewicz, McLaren Health Care senior vice president and chief financial officer. "The state [of Michigan] is not in any better shape. That means two of our biggest payers are in serious trouble."

We face other fiscal hits from non-governmental sources. The economic struggles of Michigan have increased McLaren's bad debt exposure for offering care. Unemployment and underemployment continue to be an issue. Aside from the pinch this puts on private health care coverage, it adds a nasty twist for our Medicare reimbursements. "Erosion in our area wage index lowers that component of our Medicare rate increases," notes McLaren CEO Phil Incarnati. This index bases Medicare reimbursement on prevailing area wages. Lower wages thus mean lower reimbursement rates. "It's a Catch-22 situation."

In short, the income challenges facing McLaren will only grow more challenging. "Employers think that health care is already too expensive, so, whatever we're paid today, that's probably not going up in the future," says Mazurkiewicz.

At best, most health care providers across the state will try to continue their current quality levels in an age of tight funding. But McLaren isn't "most health care providers." We've set the ambitious goal of *improving* the quality and effectiveness of care with *less* funding. And McLaren's financial expertise is a key element of this vision.

Fiscal discipline has given us the tools needed to excel in this new age of health care, states Mazurkiewicz. "Systems with strong liquidity and access to capital have been more likely to succeed, and McLaren has worked to keep that edge." Our system is one of the few state businesses with a double-A credit rating from both Moody's and Fitch. That gives us access to capital at lower costs, allowing McLaren to make the investments in facilities and technology that keep us competitive. Many of these investments (such as building new IT systems) are now mandated for all hospitals, putting smaller systems, with weaker credit options, in a bad spot. "One of the major drivers for people wanting to join the McLaren system, versus being independent, is the stronger access to capital markets," says Mazurkiewicz.

How does McLaren shape the financial discipline that keeps it both strong *and* effective in offering quality care? "McLaren is a very metric-driven, accountable organization," notes Mazurkiewicz. "Everybody knows what's expected of them, and everyone commits to do their jobs."

Synergy and Value Key to Growth Strategy

A good merger and acquisition strategy really means having a good merger *integration* strategy. Otherwise, both sides suffer, and great opportunities for synergy and accretive value creation are lost.

McLaren Health Care has made an art of the integration of newly acquired organizations over the past two decades, carefully growing our system to cover 32 counties in Michigan, and now looking over the border into nearby states. Our steady growth in revenues and continued improvement in clinical quality suggest a vision beyond just “bigger is better.” Our successes come from serious thought about which acquisitions make the best business case, good due diligence, and a “win/win” approach to integration.

“The board has directed us to pursue a growth strategy,” says McLaren CEO Phil Incarnati. “We need to roughly double the size of the company, and not just here in Michigan.” Among the partners under discussion is Northern Michigan Regional Health System, headquartered in Petoskey. With a service area of 22 counties in the northern Lower Peninsula and eastern Upper Peninsula, this linkage would greatly expand McLaren’s footprint to the north.

But what has McLaren’s history been when it comes to integrating such large, diverse health systems? The 2010 acquisition of Central Michigan Community Hospital (now McLaren–Central Michigan) offers some clues. “The decision to become part of McLaren has been terrific for us,” says Bill Lawrence, CEO of McLaren–Central Michigan. “While we were healthy and growing, we determined that independence was just not sustainable in terms of future investment, the new IT mandates [for health care], and the need for expanded services.”

Benefits became apparent immediately. “We were able to achieve significant cost savings in the first year,” through improvements in supply chain management, malpractice insurance, legal costs, IT, and lower interest costs on debt. The balance sheet confirms the savings. “For the past five years, we had operating margins of around one percent, but for FY 2010, we actually hit 2.5 percent. In 2011, we expect to exceed four percent.”

The linkage with McLaren has brought non-financial benefits as well. “In 2011 we added 14 new physicians, and project adding 18 in 2012. It’s been a very definite plus in recruitment — physicians look at us differently now.”

None of these payoffs would happen without a solid integration process. “The nuts and bolts have worked out incredibly well,” notes Lawrence. “McLaren tends to be a welcoming organization, and they’ve developed a competency in bringing new organizations into the fold.”

Smart integration is not about making an acquired entity smaller, but instead making it bigger and stronger than was previously possible. By gaining economies of scale, tapping into better financing rates, expanding care options, and sharing knowledge, McLaren’s integration savvy delivers on its promises. Lawrence confirms, “the integration process surpassed my expectations in virtually every regard.”

“The talent, skill level, resource pool and financial savings that McLaren Health Care has afforded us over the past year have greatly expanded our opportunity to compete on a significant basis in our market.”

GREGG BEEG
Chief Financial Officer
McLaren–Central Michigan



McLaren–Central Michigan, a 2011 Thomson Reuters 100 Top Hospitals® Award Winner, is a 118-bed acute care, not-for-profit medical center located in Mt. Pleasant, Michigan. It offers a full range of quality health and wellness services to the residents of central Michigan, including cardiovascular care, cancer services, and comprehensive surgical and orthopedic services. The medical center has over 70 active staff physicians and is associated with more than 150 other skilled providers.



McLaren–Central Michigan is one of the region’s largest employers, with more than 700 employees and another 200 volunteers.



McLaren–Oakland is a 328-bed medical center which provides primary and specialty healthcare services to the greater Pontiac

McLaren
OAKLAND

and Oakland County community. Founded in 1953, the medical center has grown from one small clinic to a full-fledged medical community that includes more than 300 physicians, an inpatient hospital with a range of services including cardiovascular care,

cancer services, women’s health, minimally invasive robotic surgery, comprehensive orthopedic services, and a state-of-the-art Surgery Center. McLaren–Oakland is a leader in Emergency/Trauma services and operates 18 satellite facilities throughout northern Oakland County. The medical center offers AOA approved residency and fellowship programs in anesthesiology, cardiology, interventional cardiology, critical care, dermatology, clinical cardiac electrophysiology, emergency medicine, family practice, general surgery, internal medicine, orthopedic surgery, pain management, podiatry, pulmonary/critical care, diagnostic radiology, otolaryngology and facial plastic surgery, and urological surgery.

McLaren
CANCER INSTITUTE

McLaren Cancer Institute is a network of cancer centers located in Lansing, Flint, Bay City, Lapeer, Pontiac, Mount Clemens, Owosso, Mount Pleasant and Clarkston, in addition to Marquette and surrounding areas in the Upper Peninsula through a partnership with Marquette General Health System. With

its growing statewide network of hospitals, oncologists and community practitioners, McLaren Cancer Institute was created by McLaren Health Care to facilitate the integration of the oncology research and educational resources with the physicians and facilities associated with the McLaren system. The result is the timely delivery of newly discovered treatment options as well as established standards of care to physicians and patients.



McLaren
BAY SPECIAL CARE

McLaren–Bay Special Care Hospital is a 31-bed acute care facility located in Bay City, Michigan, specializing in the care and treatment of patients with special medical needs that require lengths of stay greater than 25 days.

McLaren Health Care Service Area



- 1** McLaren–Bay Region
Bay Medical Foundation
- 2** McLaren–Bay Special Care
- 3** McLaren–Central Michigan
Central Michigan Community Hospital Foundation
- 4** McLaren–Greater Lansing
Ingham Regional Healthcare Foundation
- 5** McLaren–Orthopedic Hospital
- 6** McLaren–Lapeer Region
Lapeer Regional Medical Center Foundation
- 7** McLaren–Clarkston
- 8** McLaren Health Plan
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- 9** McLaren–Flint
The McLaren Foundation
- 10** McLaren–Macomb
MCG Foundation
- 11** McLaren–Oakland
POH Riley Foundation
- 12** McLaren Homecare Group
*Brian's House Residential Hospice–Bay City
Brian's House Residential Hospice–Davison*
- 13** McLaren Insurance Company, Ltd.
- McLaren Cancer Institute
- McLaren Medical Group
Regional EMS

SYSTEMWIDE STATS 2011

Discharges:	85,543
ER Visits:	326,455
Surgeries:	82,467
Outpatient Visits:	2,265,436
Home Care Visits:	170,434
Hospice Days:	86,925
Net Revenue:	\$2.1 billion
Community Benefit:	\$139,815,000

What's in a Name?

The McLaren story we've told for 2011 has been one of growth and consolidation during a time of financial challenge and massive health care change. McLaren responded in 2011 by working our plan ... the strategic vision we set forth years ago of smart growth, value, and excellence in care. This goal continued to pay dividends last year. We were again named among the Top 25 Integrated Health Networks in America in 2011 by SDI. Our National Committee for Quality Assurance HEDIS scores for health management success are among the highest in the nation. McLaren's world-class proton therapy facility is nearing completion, and will start treating patients in 2012. Our Electronic Health Record initiative has delivered the billing, coding and accessibility demanded of a modern, broad-based health care system. And we continued our geographic expansion in 2011, bringing McLaren-Central Michigan fully into the McLaren family. The result — a consolidated, regional medical powerhouse that combines high tech with high touch, profitably delivering value-based, quality care to a growing area of Michigan. How do we top this for 2012? One way is by giving this dispersed, diverse health care family a shared name.

What's in a name? If the name is "McLaren," there's powerful imagery of regional health care excellence. Quality care and cost effectiveness. Financial strength. Advanced technology, treatments and facilities. Patients able to seek a broad variety of specialists and care options all within one geographically dispersed system. From the start of our growth in Flint 23 years ago, the McLaren name now represents the best in health care throughout much of Michigan.

"The McLaren Health Care brand delivers a message," observes Kevin Tompkins, vice president of marketing. "It tells the story of a health care system that is always growing, and always based on value." The McLaren name brings value in some subtle ways. Hospitals we've acquired now find it easier to attract talented staff because "McLaren" proves a powerful enticement. Local communities where McLaren has expanded its brand have proven to be among the biggest champions of the McLaren name. These local voices are united in their message — the McLaren connection speaks of a larger network of care, is more attractive in recruiting talent, and strengthens the image of the local hospital. Starting in January 2012, all the facilities within the McLaren system are rebranding themselves to emphasize their McLaren connection. For example, Ingham Regional Medical Center will become McLaren-Greater Lansing; POH Regional Medical Center will be rebranded as McLaren-Oakland. In essence, all corporate subsidiaries will share the McLaren name. A new logo, wholly different from the current one, will symbolize this system-wide reinvention. "We weren't really leveraging our success into a single brand," notes CEO Phil Incarnati. "Our brand has grown in recognition in just the last five years, and consumers see value in having a shared name."



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