



“STEERING” TO VALUE THROUGH TARGET PRICING

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VICE PRESIDENT, TOTAL REWARDS



The Kroger Co. Overview

- #23 on Fortune 500
- \$96.8 Billion Fiscal 2012 sales
- 2,419 supermarkets and multi-department stores
- 1195 fuel centers and 783 convenience stores
- 1950 pharmacies
- 326 fine jewelry stores
- 37 manufacturing plants

Kroger employs **343,000 associates** nationally and has created more than **33,000 jobs** since 2007.



Partnering with Communities
In partnership with our customers, associates and suppliers, Kroger donates **more than \$250 million** annually to food banks, schools and other community organizations.



Healthcare Objectives . . .Keep it Simple

Improve Health

- Engaged Associates
- Health Improvement Resources
- Right Treatment

Reduce Costs

- Right Place
- High Quality/Cost Effective
- Programs to create cost awareness



Strategy . . .Steer to Value

Reference Based Pricing (Target Pricing)



Educate associates on health care price variation by setting a maximum reimbursement amount for certain medications and imaging services which have high price variation and low quality variation (Statins, PPIs, Glucose Test Strips, ARBs, and select High Tech Imaging Tests)

Centers of Excellence (COEs)



Improve the quality of care and clinical outcomes for certain high cost, high impact elective non-emergent surgical procedures by using plan design to encourage members to use Top Tier COE facilities (hip and knee replacements and spinal fusion surgeries)



Target Pricing Overview – Medical

	AIM High Tech Imaging	<ul style="list-style-type: none"> • Pre-Auth • Physician Education
	Cost & Quality Program “Shopper”	<ul style="list-style-type: none"> • Member Call • Redirection
	Target Price	<ul style="list-style-type: none"> • 5 Tests in 2012 • 6 Tests in 2013

2012 Five tests: CT Abdomen, CT Pelvis, CT Chest, CT Head, MRI Spine
 2013 Added Abdomen/Pelvis Combo

2012 Shopper and Target Price rolled out to 10 states
 2013 Expanded Shopper and Target Price to 36 additional states



Target Pricing Results – Medical

Total 2012 Program Savings = \$3,000,000 3Q 2013 YTD Program Savings = \$5,700,000		
Clinical Review Operational Activity	“Shopper” Cost & Quality Program	Target Pricing
2012 Savings: \$1,400,000	2012 Savings: \$200,000	2012 Savings: \$1,400,000
3Q 2013 YTD Savings: \$1,700,000	3Q 2013 YTD Savings: \$400,000	3Q 2013 YTD: \$3,600,000



Member Behavior Change - Medical

Unit Cost Comparison Summary

The shopper, target pricing, and communication strategy together had a positive impact where implemented without any changes in covered services or clinical effectiveness.

10 Target Price States Unit Cost	Imaging Test	Variance in Unit Cost from 2011 to 2013
	All CT Scans	-11.9
	All MRI Scans	-11.7

All Other States Unit Cost	Imaging Test	Variance in Unit Cost from 2011 to 2012
	All CT Scans	+14.2
	All MRI Scans	+2.6



Member Behavior Change – Medical

Unit Cost Comparison By Service

When looking at just those imaging tests subject to a target price, the unit cost analysis proves target pricing motivates the member to change behavior.

10 Target Price States Unit Cost	Target Price Imaging Test	Variance in Unit Cost 2011 to 2013
	Chest CT	-24.4
	Head CT	-17.3
	Abdomen CT	-32.1
	Pelvis CT	-8.6
	Spine MRI	-21.0

All Other States Unit Cost	Imaging Test	Variance in Unit Cost 2011 and 2012
	Chest CT	-5.6
	Head CT	-24.0
	Abdomen CT	+13.7
	Pelvis CT	+1.6
	Spine MRI	-6.7



Target Price Program – RX

Kroger Prescription Plans (PBM)

- Clinical expertise
- Comprehensive Services: Retail, Mail Order, & Specialty Medication

Target Price Medications

- Statins
- Proton Pump Inhibitors (PPIs)
- Blood Glucose Test Strips
- Angiotensin II Receptor Blockers (ARBs) (added 2013)

Pharmacist education and messaging

- Educate to cost effective alternatives



Target Pricing Results -- RX

Savings (Company and Associates):

- 2012: \$4,300,000
- 2013 Q1 – Q3: \$1,700,000


	Cost Impact	Utilization Impact
PPIs	-60%	-4%
Statins	-57%	+5.7%
Test Strips	-50%	-7%

Note: ARBs added 2013. Data not included above.



Centers of Excellence High Quality & Cost Efficient

Tier 1 Utilization




- 2012 result = 8%
- 3Q13 result = 14%
- Member Outreach by Nurse Team

3638 Triage Calls
 470 Educated
 264 Surgeries

- 5% Engagement with Best Doctors

Claim Performance



- Paid less for Tier 1 surgeries


2012 = 28.6%
 2013 = 34.1%

- Paid less for Tier 1 surgeries inclusive of fees/travel exp.

2012 = 25.5%
 2013 = 33.4%

Savings based on allowed amount


Tier 1 Quality Metrics



- No PACs during surgical event
- PACs 90 days post surgery were lower for Tier 1 thus driving lower cost of surgical episode
- No readmissions for revision surgery for Tier 1 year one

PAC = Potentially Avoidable Complications

Knee Replacement, Hip Replacement, and Spinal Fusion Surgeries



Transparency is Essential for Success: Reduce Costs and Improve Health

- Tools and Resources are the key to behavior change
- Empowers associates to make more informed health care decisions as they shop health care services
- Transparency encourages competitive pricing



