

Doctors and hospitals
working collaboratively to
improve the health of the community *and*
meet the challenges of managed care.



GREATER LEHIGH VALLEY INDEPENDENT PRACTICE ASSOCIATION, INC.
LEHIGH VALLEY PHYSICIAN HOSPITAL ORGANIZATION, INC.

MISSION STATEMENT

To ensure
high value health care,
satisfied patients and
positive outcomes at an
affordable cost.

Lehigh Valley Physician Hospital Organization, Inc.

Lehigh Valley Physician Hospital Organization is a regional health care delivery organization formed in 1993 by Lehigh Valley Hospital and Health Network, and the Greater Lehigh Valley Independent Practice Association. The LVPHO was formed to provide physicians and hospitals with leadership in meeting the challenges of managed care.

Through the successful collaboration of physicians and Lehigh Valley Hospital and Health Network, the LVPHO serves member physicians, local businesses and communities by managing the delivery of health care in a cost-effective and efficient manner. Its primary activities include:

- Offering affiliate health insurance plans through its preferred provider organization, Valley Preferred.
- Establishing relationships with health insurance carriers and third party administrators.
- Coordinating an integrated care management system designed to improve the quality of patient care while reducing costs.
- Evaluating and negotiating managed care contracts for member physicians.
- Providing physician support through a responsive, pro-active Provider Relations Department.
- Providing information technology assistance.
- Creating an educational forum for our members.
- Offering discounts on various programs and supplies to member physicians.

L V P H O

Preferred
Vendor Program

Medical
Management

Claims
Repricing

Valley
Preferred

Office of
Managed Care

Provider
Relations

To Our Members:

Bruce A. Ellsweig, M.D.
CHAIR

With many forces demanding a system that must serve and satisfy many different needs, perhaps no other aspect of life today is as dynamic and challenging as health care delivery. As

technology and scientific discovery make more treatment possible and more diseases preventable, costs skyrocket and consumer expectations rise even higher.

As employers and consumers want new ways to secure access to the best of today's medicine, consumers and physicians want fewer restrictions and hassles, and more choices and information.

Providing leadership to assist our physicians and Lehigh Valley Hospital and Health Network in meeting such challenges has been a central theme of the Lehigh Valley Physician Hospital Organization since our formation nine years ago. These challenges continued in 2002 as health care costs accelerated upward and the separation of Capital Blue Cross and Pennsylvania Blue Shield caused market disruption for employers, individuals and providers.

Using the core competencies we have developed in contract negotiations, care management and the offering of affiliate health insurance plans, our leadership continues to meet industry challenges and position our organization to succeed now and in the future. We will continue to serve as the eyes and ears of our physicians and Lehigh Valley Hospital and Health Network, identifying health care trends, staying on the cutting edge of managed care delivery and technology, and keeping one step ahead of market changes.

Gregory G. Kile
EXECUTIVE DIRECTOR

John Jaffe, M.D.
EXECUTIVE MEDICAL DIRECTOR

John Jaffe, M.D.
Surgery/Urology

LEHIGH VALLEY
HOSPITAL AND
HEALTH NETWORK
IN AFFILIATION WITH
PENNSTATE
College of
Medicine

A Busy Year of Contracting for the LVPHO

Negotiating contracts with insurance companies was at the forefront of activity for the LVPHO in 2002. Through the experience and expertise of our Management Team, we were able to negotiate and implement a series of contracts successfully to give our members the best possible terms.

Included in our accomplishments this year is a three-year contract with Capital Advantage Insurance Company. Highlighting the many terms are: no reduction in the physician fee schedule for three years, a requirement that Capital Advantage pay interest on all claims unpaid after 45 days, and a provision to limit professional liability insurance to the amount required by law.

The contract with Pennsylvania Blue Shield was negotiated directly with Lehigh Valley Hospital and Health Network; however, the LVPHO assisted in developing a disease management/quality improvement program for the Blue Shield patient population. In addition, the LVPHO has established a quarterly meeting format with both Pennsylvania Blue Shield and Capital Advantage to help clarify and address key issues.

We successfully entered into relationships with multiple payers through Valley Preferred. The net result is more patients in our region seek services from physicians and hospitals in the Valley Preferred Provider Network. Among these new payers was UnitedHealthcare, a large insurer with a national presence and more than 20,000 members in Lehigh and Northampton counties. This contract provides an important health insurance option to large employers in our area that have locations in other parts of the country.

A contract was also secured with Sterling Life Insurance Company to offer Sterling Medicare Select supplemental insurance to area residents age 65 and older that have Parts A and B of Medicare. Initially, this Medigap plan is available for care at the three Lehigh Valley Hospital and Health Network sites, but our goal is to extend it to include other Valley Preferred hospital partners. In addition to meeting the needs of individual seniors, this product is an attractive option for group health plans that wish to add a Medigap product for retirees.

The LVPHO's Laura Mertz (standing, left), Gregory Kile (seated, center), Joseph Felix (standing, second from right) and Patricia Sarik (standing, right) meet with United-Healthcare representatives.

The LVPHO has established a quarterly meeting format for our member physicians to meet with Capital Advantage and Pennsylvania Blue Shield.



Through our statewide initiative with the Mid-Atlantic Managed Care Organization, Valley Preferred added two new affiliate payers: Avemco and American Republic. While Educators Mutual Life Insurance Company exited the health insurance market, more than 95% of their clients were successfully moved into another affiliate product with Valley Preferred. The LVPHO also assisted Lehigh Valley Hospital and Health Network with contracting for HealthChoices, the Pennsylvania mandatory managed care program. There are an estimated 50,000 eligible patients in Lehigh and Northampton counties and three managed care organizations: AmeriHealth Mercy Health Plan, Gateway Health Plan and Med Plus (Three Rivers) Health Plan.

Introducing a New Disease Management/Quality Improvement Program



Disease management is a program whereby patients with certain chronic diseases are educated to improve self-management of their care, thereby improving outcomes and lowering costs.

The LVPHO has initiated a disease management/quality improvement effort for the Choice Plus and Pennsylvania Blue Shield patient populations. This initiative builds on the success of our disease management program for Choice Plus employees with asthma, congestive heart failure, hypertension and diabetes. Under the direction of LVPHO medical director, Jack Lenhart, M.D., we are extending this program to the Blue Shield population served by LVPHO physicians and adding a quality improvement component.

Disease management is a program whereby patients with certain chronic diseases are educated to improve self-management of their care, thereby improving outcomes and lowering costs. Our initiative adds a quality improvement component: physicians audit their own charts to determine if the care that patients with chronic diseases receive matches national parameters. If care does not match these parameters, the chart review will trigger the physicians to revise the care plan with assistance provided by the LVPHO.

This quality improvement process is unique because it is not a measure of aggregate performance. Physicians see the measures of performance in real time and receive incentive rewards for their participation. This initiative is both a program to improve the health of the patient population and a study on the use of physician incentives to improve the level of care.

The data collected should serve as an excellent way to demonstrate to other payers and large employers throughout our region that disease management can improve the health of their employees and lower their long-term health care costs. It is also a way for us to continue to differentiate Valley Preferred as a community partnership of doctors and hospitals that seeks to improve the health of the community.

DISEASE MANAGEMENT OUTCOMES

January 2000 through December 2001

When comparing the patient population before and after they enrolled in the Disease Management program, two-year outcomes show a definite downward trend of costs and a definite upward trend of patient behavior modifications toward better health practices.

MISSED WORK DAYS

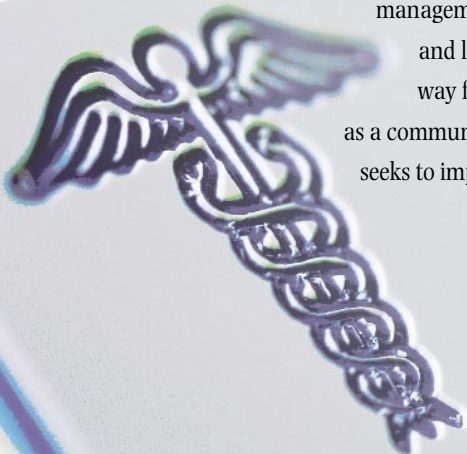
- 55% decrease in the number of absences
- 62% decrease in the number of days absent
- 70% decrease in lost wages

IN-PATIENT HOSPITAL DAYS

- 82% decrease in admissions
- 88% decrease in hospital days
- 88% decrease in plan costs

EMERGENCY ROOM VISITS

- 50% decrease in emergency room visits





Care Management is a Physician-Hospital Collaboration

The foundation of the disease management/quality improvement initiative is the care management function that has always been central to the mission of the LVPHO. Since inception, our Care Management Committee has led an effort to collect, analyze and communicate clinical data to member physicians. This data and the clinical guidelines, protocols and pathways that were established provided an excellent foundation for efforts to improve the quality of care and reduce costs.

The Care Management Committee is a great example of physician-hospital collaboration.

In 1998, we strengthened these care management efforts by combining the ideas and initiatives of physicians with the resources of the Lehigh Valley Hospital Care Management Systems Department to form the Care Management Council. Co-chaired by Drs. John Jaffe and Robert Laskowski, the council is a prime example of physician-hospital collaboration.

Having developed care management as a core competency of the LVPHO, we are positioned to respond to the purchasers of care, who are confronting increased health care costs by expressing more interest in measuring the cost-effectiveness of health care delivery.



Preferred Provider Organization is the Growth Model in Managed Care

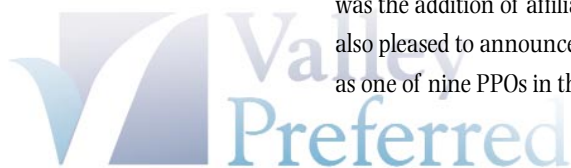
Valley Preferred differentiates itself as a medical educational resource that provides members with tools to improve their health—health fairs, education and access to community health programs like the Burn Prevention Foundation and employee assistance programs through Preferred EAP.

With PPOs emerging as today's growth model in managed care, our decision nine years ago to form Valley Preferred appears to have been a wise choice. According to the American Association of Preferred Provider Organizations (AAPPO), nearly 111 million individuals are enrolled in a PPO program. In fact, a recent survey by the Henry J. Kaiser Family Foundation reported that in 2001, 48% of people who were insured through their jobs were in PPO plans, compared with 23% in HMOs (93% were in managed care plans, up from 27% in 1988).

As PPOs grow in popularity, we believe it is important to differentiate the Valley Preferred model. While some large national PPOs offer little more than discounted fees to their clients, we built Valley Preferred as a provider-sponsored, regional model that respects the doctor-patient relationship and delivers exactly what employers and consumers have demanded—choice, access and a balance between the delivery of appropriate care and cost control.

Valley Preferred differentiates itself as a medical educational resource that provides members with tools to improve their health—health fairs, education and access to community health programs like the Burn Prevention Foundation and employee assistance programs through Preferred EAP. Valley Preferred continues to focus on service, with a Provider Relations Department that communicates with and serves the more than 3,200 physicians and 20 hospitals in 11 eastern Pennsylvania counties that make up our provider network.

In 2002, Valley Preferred continued double-digit growth, expanding to more than 3,400 clients, including businesses, associations, students, individuals, seniors and more than 100,000 members. Helping fuel this growth was the addition of affiliate health plans with UnitedHealthcare and Sterling Life Insurance Company. We were also pleased to announce that Valley Preferred was selected by the Pennsylvania Public School Health Care Trust as one of nine PPOs in the Commonwealth to serve public school employees.



Technology and Group Purchasing Continue as LVPHO Priorities

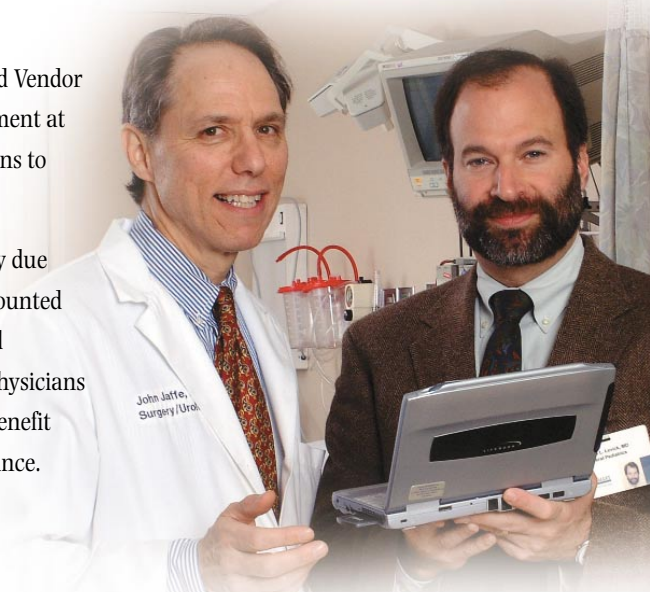
We continue to take a leadership role in the development of new technology throughout Lehigh Valley Hospital and Health Network. Led by Donald Levick, M.D., and our Information Services Committee, the LVPHO has been instrumental in assisting with initiatives such as CAPOE (computer assisted physician order entry), which is being implemented to reduce the number of handwriting errors and improve staff efficiency.

The I/S Committee is also working with Lehigh Valley Hospital and Health Network on a pilot program to offer patients web-based access to their physician's office. The hospital has joined forces with RelayHealth, the premier provider of web-based, doctor-patient communication services to offer patients secure communications with their physicians.

In 2002, the LVPHO assumed direct management of the Preferred Vendor Program, previously managed by the Physician Relations Department at Lehigh Valley Hospital and Health Network. We have outlined plans to expand and improve this valuable group purchasing program.

We are continuing to negotiate savings and perform the necessary due diligence to assure practices are getting quality products at a discounted price. Looking forward, we plan to expand beyond the LVPHO and Muhlenberg Health Network to include more of the 3,200-plus physicians who are part of the Valley Preferred Provider Network, and add benefit programs for physician practices, such as disability and life insurance.

We will continue to provide valuable services that relieve some of the administrative burdens for our physicians, while taking the necessary steps to monitor the health care market and to ensure a strong, secure presence in the years ahead.



John Jaffe, M.D. (left) and Donald Levick, M.D. with a handheld CAPOE system.

We Are Well Positioned for the Future

With the experience and expertise developed over the last nine years, we are well positioned to meet the challenges of health care delivery. We will continue to provide valuable services that relieve some of the administrative burdens for our physicians, while taking the necessary steps to monitor the health care market and to ensure a strong, secure presence in the years ahead. As always, we welcome and invite your input to help us shape this future.

Gregory G. Kile
Executive Director,
Lehigh Valley Physician
Hospital Organization

John Jaffe, M.D.
Executive Medical Director,
Lehigh Valley Physician
Hospital Organization

Bruce A. Ellsweig, M.D.
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Greater Lehigh Valley Independent Practice Association, Inc.

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A community partnership of
doctors and hospitals.

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