
SAFeway CEO STEVE BURD ON HEALTH CARE
Rough Transcript by Health Access California

On September 7, 2006, Safeway CEO Steve Burd addressed the U.S. Chamber of Commerce on how he believed health care costs could be reined in. Burd's idea is finishing its first year of implementation among 30,000 non-union (management) employees.

About Safeway's Pilot program:

Safeway has 200,000 employees; 30,000 non-union (management) are being asked to be part of the pilot project focused on personal responsibility and high deductible plans. The first year (2006), 43% non-union signed up. Next year, Burd expects 70% non-union to sign up. He said feedback has been "uniformly" positive.

The plan: "Consumer Driven" model

Preventive medicine is paid for 100% (based on guidelines that spell out how frequently someone needs to get cancer screening, colonoscopy, routine physicals, well baby care, etc.)

- **Deductibles/Out-of-pocket costs:**

Before: \$750

After: \$2000, plus \$1,000 HRA contribution from Safeway: (so "only" raised it \$250) "but they had the spending power of their money and \$1000 of our money."

OOP MAX \$3,000 "They immediately start behaving as if it's their money. Now they're interested and looking at the hospital bill."

Other aspects:

- Pays 90% of cost for in-network use (rather than standard 80%)
- Encourages generics
- 24-hour hotline staffed by nurse
- "Care Management:" Employees fill out a health risk questionnaire which tells us if they're at risk of becoming diabetic, or have high blood pressure, and then we give them special coaching and care so they can deal with their pending chronic conditions.
- Wellness programs: installed a fitness center at the Headquarters and "encourage people to use it so they become much healthier than they are today"

***** BEGIN ROUGH TRANSCRIPTION *****

(emphasis and topic headings added by Health Access)

The problem: I would consider (health care) it to be the nation's #1 domestic issue.

Buried in our experience is a formula-template for solving the nation's healthcare crisis.

In crises you stimulate change and innovation. This thing is teed up to solve.

Every American business is facing challenges in costs. One of the problems is that it gets aggravated. As businesses experience increases, they often start changing their health care plan. Some smaller businesses drop health coverage altogether. What that does is it increases the number of uninsured and somebody pays the bill. It's really not always paid for by government. It's paid for by those who are insured.

American worker will cease to be competitive in a global economy.

"Wrong approach" We have a genuine concern that there might be a bad reaction to this growing crisis. We've heard talk about nationalizing health care before. I think that would be a mistake. I actually think that what's lacking is a market mechanism, which I think we can easily introduce. And the market is a wonderful way to solve this kind of health care problem.

We don't want nationalized health care. If we did get nationalized health care, it would move us further away from an efficient, market-based solution.

I firmly believe that this is a very solvable problem. ..It's rare in a career that you run across a problem this big that you can actually solve. We all see these big huge problems – this is a big problem, but it's one I think is absolutely solvable. Reverse cost escalation, and I believe you can experience cost declines.

"Right Approach": Think it's important that we figure out a way to reinvent the health care system in this country so that all Americans can get "properly covered."

Individual Mandate/Deductibles: And if there's a model that we should be looking at to draw an analogy, I think it's the automobile insurance model. Today, in this country, it's required that you carry liability. It's not a requirement that you carry collision. And if you carry collision, you can have it \$500, \$1000, even \$5000 deductible. What I'm talking about is something like automobile liability insurance where everyone would have to have that type of insurance, but businesses could layer on top of that.

Market-based solutions: We could do this by using market-based solutions. If you look at health care as a percentage corporate expense -- what percent was

health care of their net income in 1997 – 48%. But in 2005, it was 88%. And the forecast is that in 2008, health care expenses will exceed net income.

Safeway was already there. In 2005, we had health care expenses of \$1 billion for 200,000. That exceeded net income by 19%. If that doesn't get your attention, nothing else will. Operating margins are about 2 to 3%.

We always worry about Consumer Price Index. But National Health Expenditures have been growing faster:

1970: CPI 100 – 2004: 500

National Health Expenditures have grown 17.6 times since 1970.

When compare it to consumer prices in general, it's inflating at 3.6 times the rate. That should get people's attention.

Health care as a percentage of GDP

1960: 5.2%

Early 70s: 7.2%

2015: 20%

We can't be competitive if that much of GDP spent on health care.

If you look at per capita expenditures, our per capita is number one in the world, rivaled by Switzerland. Twice Germany and France. Twice Canada and UK.

If we were spending all of this money and we were getting dramatically better outcomes – it would be okay.

Child mortality is high: The reason we're higher is because the spending is not evenly distributed.

It's pretty strong evidence that we're not getting much additional quality for what we're paying for.

What's to "blame:"

If you look at the uninsured, they only pick up 10 to 20% of their own health care. A lot of this happens at emergency, hospitals, who chase these people for months and months to try to get some recovery of the cost.

Then the underinsured are paying 60-70%.

And those who are insured – which is probably everybody in this room – we are paying 130-140% of cost. As a business, we'd like to get rid of that cost shift as well.

So, another reason to try to address the issue

I think that the root cause is of our health care system, is that there are two basic things lacking.

- 1) Market mechanism that would cause efficiencies to happen “naturally”
- 2) No incentive to behave any differently. I’ve come to believe that behavior drives 50- 70% of all health care costs.

If you can alter behavior, you can alter health care costs and they will come down.

Issue 1)

Lacking a “market mechanism” There’s a real disconnect between consumers and health care b/c if we’re covered, we often treat the health care that we get as a “free good,” particularly after we’ve blown through the deductibles and the out-of-pockets.

Once we have nothing more coming out of our pocket, we really don’t care if that blood test costs \$400 or if that blood test costs \$100.

Consumers need to take responsibility:

We don’t care enough to even find out that there are different labs in the city. And trust me, those price differences exists even in this market. We’re not trained to behave like consumers when it comes to health care because we’re not really paying the bill. The providers have little incentive to be cost conscious. Medicine is as much an art form as it is a science. And as long as it says you get paid “x” amount for this procedure and “y” amount for this procedure, what difference does it make what order you do all those things in?

“Victims”

The payers...we’re self-insured. We are a payer, we’re footing the bill. We can take matters into our own hands. But we can install a market based system with our 200,000 employees.

Most health care plans lack incentives. If you think about it, in this country, the health care bill is 2 trillion. **“The Solution”** If 50-70% is driven by behavior, much of which is controllable, therein lies the opportunity to lower these costs and finance some of the subsidies that are going to be required for others.

Safeway’s experience

I thought I’d share with you our recent experience. We’ve started with a subgroup of our population. We have 30,000 non-union management. Unions represent 85% of employees. When we piloted ideas, we did without much discussion.

For the past five years, employer-sponsored health care plans experienced double digit inflation.

Piloted program in 2005. We’re not longer experiencing 12% health care cost increase. We’re experiencing an 11% decline.

In order to encourage employees to sign up, for this new health care plan, where they didn't need to change any doctors or providers, they just needed to sign up for a plan that would cause them to be rewarded for doing good things and not rewarded for bad behavior. We could have taken the 11% savings down to our bottom line, we chose instead to capture a small fraction of that savings and in contrast to what other industry...

The average employee would pay 24-25% -- of health care bill. Our employees experienced a 23-29% reduction in employee contribution—in the deductible, Out-of-pocket and premium combined.

Right now, just under half are signed up. Next year, we expect to have more than 70% of non-union signed up for health care plan.

Other thing, people (other businesses) have been reducing benefits. By contrast, employees in the pilot program felt they had an improved level of care and so we won on both counts. We lowered our cost and we improved their health care, which makes them a happier more productive employee: fewer sick days and more productive.

Description of plan (which is explained above already) :

It's a consumer-directed plan. There is an array of preventive medicine that we pay for 100% - (based on guidelines that spell out how frequently someone needs to get cancer screening, colonoscopy, routine physicals, etc.) well-baby care.

You want to catch these diseases early, when you can interrupt their progress and provide for a better quality of life and lower costs.

Before: HC plan that had \$750 deductible.

After: Raised it to \$2000, but created HRA – gave employees \$1000 (so “only” raised it \$250), but they had the spending power of their money and \$1000 of our money.

This rolls over. This is there for a rainy day, a day when their Out Of Pockets reach \$3,000 maximum. “They immediately start behaving as if it's their money.” Now they're interested and looking at the hospital bill.

Would pay up to 90% of cost for in-network use, rather than standard 80%.

If generics are available, we encourage generics. Also introduced flexible spending account. 40% reduction in what you'd pay over the counter. Big fan trying to get congress to pay for rollover feature in FSA

800-hotline with a nurse that can answer basic questions.

Care management: we have our employees fill out a health risk questionnaire which tells us if they're at risk of becoming diabetic, or have high blood pressure, and then we give them special coaching and care so they can deal with their pending chronic conditions.

Then we have a series of wellness program: we just committed to putting a fitness center on our HQ campus...and encourage people to use it so they become much healthier than they are today.

This is the evolution of our plan, 2007, target is 70%. We also have begun discussions with unionized workforce. Talked to a number of leaders about going after the basic behaviors to alter the cost escalation that we're all experiencing. These same opportunities exist throughout operations.

Personal Responsibility:

Lifestyle management

*If you are a smoker and you'd like to not smoke, we will pay for all of the standard OTC techniques for having somebody stop smoking. We will bear that burden.

* If someone wants to engage in weight loss, we'll let them go to the fitness center in the middle of the day.

* Stress reduction is also part of it. Additional health resources: chronic care, 24-hour staffed nurse hotline, health advisor or coach. One of the things we're demanding...is that we want transparency in all costs

I know people want to legislate healthcare cost and quality, but again, I'm a big believer in the market, but if I create enough incentives for people to ask those questions, they'll demand transparency and that's the way the market works.

Incentives for behavior

Rewards for positive health care behavior.

If you do thing that lower cost and increase quality of life you'll get rewarded with that for it.

And higher premiums for non-compliance.

If we did nothing, our health care costs would rise 40%. Between now and 2008. Earlier I showed you that costs down 11%.

Tackling the national problem

- Encourage healthy behavior; (most important. That's where the money is)
- Reduce Waste
- Trim administrative expensive (electronic health care records)
- Address end of life/ terminal care issues. --- encourage hospice care.

Addressing these four issues we'd be able to harvest enough savings to provide bare bones coverage for everyone.

Chronic conditions. Everyone knows that chronic conditions consume most expenses:

- Cardiovascular disease: We all know there's an element that's hereditary. Even though it is, there are things you can do if you have a predisposition – how you eat, the things you can do how you exercise that can prevent you from being a cardiac patient. A lot of it is driven by behavior.
- Cancer: there are things you can do that can make you less likely to get cancer. There are lots of things you can do in terms of treatment if you have cancer...particularly if you discover it early, that are cost effective and lead to a long term quality of life.
- Diabetes, whether you are "in control" has a lot to do with whether you are high cost or low cost.
- Asthma, the treatment is advanced. Both his boys have form of asthma; twice a year in spring and fall, they start wheezing. You can take a standard form of medication that can prevent you from having an asthma attack, which could mean an emergency room treatment or death.

Here's the chronic areas, lots of big expenditures. Lots of behavioral things you can do about it.

This chart shows you chronic diseases and the degree of noncompliance.

Coronary artery disease: 32% are non-compliant with what their dr. recommends.

Hypertension: 35%

Colorectal Cancer: 45% (don't get the test/scans)

Asthma: 46%

Diabetes: 55% ("I talked to a diabetic and this guy was crashing once a week. He's not going to make it to age 40. I asked him, 'What are you doing?' He said 'I start every morning with a glass of orange juice.' If there are diabetics in this room, that is exactly the wrong thing to do – increases your blood-sugar several points. This guy happens to be a personal trainer. He thought OJ was healthy. Well, not in that quantity and not for him.)

So a lot of non-compliance, you begin to appreciate how much money could be saved and how much better care we could have if people simply complied with what the doctor suggested.

Several years ago, I was stunned by what had happened in the banking industry. Paraphrase: by moving money around electronically, the industry was able to save lots of money.

ER: \$400-\$500

Doctor's office visit: \$125-\$150

Electronic visit: \$20-\$40

“I have a doctor who advises me on sports medicine issue b/c I don't stretch and I go out and play softball.”

“I've had a phone relationship with this guy for 15 years and the beauty of it is, he charges me nothing. But even if he were to charge, that electronic visit is a lot less expensive than going to the doctor. That's what a market based system is driving toward – when you can substitute a \$20 visit for a \$400 visit.

Example: Let's take a diabetic. Average health care cost is \$8,000 a year. That's about 8% of the population. Protocols are basic: Compliance, diet, medications, monitoring, blood sugar samples and required screenings to give you indicators of long-term issue – nerve, amputations – those are very controllable things.

All diabetics can be managed. Success leads to a better quality of life.

How it all pencils out

\$2 trillion we spend on health care:

Wellness/Prevention: leave this alone

Chronic and Acute Care: Save as much as 40% on chronic and acute care. Let's say half -- 384 billion

Reducing waste: duplication, therapies, overlapping, redundant tests, nonstandard treatment....

Administrative costs: with insurers – and then with providers. Collectively, people will argue about this – 24% admin costs...we think it's closer to 29% that would yield 400 billion

End of life: cost side...

An efficient market based says we hit about \$1.5 trillion.

\$2 trillion bill today – who pays for it:

\$1.7 billion paid for by Insured (Use 1.3 billion) no word on what they use)

Underinsured: \$242 billion to there \$403 billion

Uninsured: \$130 of their \$302

If you can put in consumer-driven solutions - \$1.5 free up money to get adequate coverage for everyone that needs it.

Others (under and uninsured) get subsidized.

“I'm more willing to give up the savings we've gotten, to stop the inflation”

We're still working the issue from a public policy standpoint. We know it's working for us. Working with a handful of ceos to see if we can fashion a greater solution...

Praises Massachusetts

If you're not familiar with what Massachusetts did recently, it's an interesting template for the beginnings of a possible solution. The short version: it's the automobile insurance industry....individual mandate. One missing ingredient, they didn't pay attention to behavioral aspects. The auto industry does: If your son has driving violations, he pays more b/c he's a bigger risk. That's the way it should be. If the market based system works in your household, you make him pay the difference, and guess what, he starts driving differently.

The same thing works in health care.

Private system: insurance company is challenged to create products to feed the new solutions.

My advice for everyone in this room...if you haven't done some of these things, you need to look at health care plans and re-engineer them. Focus on behavioral aspects, which involves personal responsibility.

If people have "skin in the game" even if you give them \$1,000 they just start behaving differently. We've signed on to the notion. And insisted that they (hmos) have to give transparency (from Kaiser)

Actively engage in policy debate.

Op-ed by Andy Stern, union leader – and thought – I could have written this article. He's talking about the same kind of things I'm talking about here. He's talking about non-transportability....growing grass roots movement...

The entire health care system needs to be transformed. Won't be addressed by Congress until the next election...

We're sort of there on the ground floor. People are very interested in what we've accomplished. Think it involves partnerships....

Tax incentives needed

The biggest role for government't is providing the appropriate set of tax incentives. There's legal issues that need clarifications that will make the market system work even better...we can help create a health care system...for the American worker...

We're passionate about this. We don't have the solution yet. and we're determined to be a part of that solution..

Q & A

Q: What is the operation in Canada? You have an operation in Canada, can you tell me the difference of healthcare?

A: Canada has a nationalized health care plan. In our company, nationalized health care provides a base level of coverage, in many markets we add a level on top of that. The thing I don't like is that access is not particularly good in Canada. A lot of executives in Canada will come to the States for operations because they don't want to wait 9 months to get in line for surgery. One of the best examples I heard, was in the WSJ, which I had confirmed by the Prostate Cancer Foundation, and it said that if you were diagnosed with prostate cancer in US, 20% would die (lower than 5-10 years ago.) If you were diagnosed in Canada or the UK, 60% chance you would die. So, that is all I needed to hear about why I would not want a nationalized solution.

In US, in spite of all our problems, we do have a lot of private sector research on disease and management and protocol and we have much earlier detection b/c of those protocols, which leads to better outcomes and protocols. I actually fear nationalized health care.

Q: You talked about discussions with union workforce. How will they react?

A: We've had discussions with some local leaders and we're working the problem together. We haven't designed a solution, but we're culling through the data, but I would interpret a real eagerness to help solve this problem. They have a strong vested interest because health care costs and employee wages are part of the same pot. And so if you have something escalating out of control, it takes something out of that pie. I think they'll be fairly receptive. I've had discussions at national level with union leaders.

Some people might think that the negotiation with had in Southern California, (the whole issue there was healthcare) the question might be how do I reconcile what happened with so cal with remarks today. As much as I want to change the system and rewrite the rules, I live in today's system. We're in a competitive low-margin business. In that world, I have to compete.

What I'm interested in doing is creating the rules for tomorrow.

Q: What should be done inside medical community with respect to protocols.

A: it seems to me that as you advance the cause of research and find new or effective treatments, there needs to be a better way to get that information to practicing physicians. Whenever someone in our company is diagnosed, immediately encourage them to go to UCSF.

Patients and their doctors need to do better research

(Basically advocates for people to find the best – highest quality facility in the area – using the internet.) Information on the internet is readily available. There's good information and bad information. You need a clearinghouse so that

appropriate protocols are understood and accepted by medical establishment. Again, you've stepped out of bounds of comfort.

I think it's critical that practicing physicians know what the best treatments/protocols are.

Q: How did you encourage employees to enroll in new plan?

A: We narrowed options so it made it easier for them to choose. Then also did a heavy marketing campaign that I kicked off personally in auditorium and provided website access to detailed info. Models to estimate FSA numbers might be. It took a big marketing campaign driven from the top. Supported by other execs. Will keep doing that until we get everyone enrolled.

Now, we've got 43% non-union that really had a great experience. We couldn't find neg. feedback. They had better care and lower cost...(they've only done it for one year)

Q: You talked about the response by employees to the program. Let's look at numbers.

A: Uniformly positive in all the survey work. We just keep getting better at it. I would not tell you we're leading the nation in what we're doing. We come close to leading in articulating what we've found. 18 months from now we will be in the lead because we believe so strongly

“When we discovered this behavioral stuff, I felt it was the Holy Grail. It's where the money is. It's where the change takes place”

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