

# San Mateo County Times

## Safeway promotes healthy living to reduce costs

FRIDAY MAY 30, 2008

Safeway's corporate campus here is much like any other: tall office buildings, big parking lot, gray cubicle walls, tile floors.

What might be a little different are the fliers advertising nutrition and exercise speakers presenting lectures in the company's auditorium that week.

Or, the signs in the cafeteria that show employees calorie counts of food for sale.

Or you may notice the fitness center that features top-of-the-line exercise machines and luxury locker rooms that employees can access for free.

Those details may seem odd or insignificant, but they are symbols of the major changes happening at Safeway, one of the nation's largest grocers.

Like most companies in America, Safeway has watched health care costs soar unpredictably in the last decade, but took significant steps three years ago to reduce costs by changing its employee insurance plans and promoting health and wellness.

"You can think of personal behavior as being a form of currency in that the better the behavior from a positive health care standpoint," said Steve Burd, Safeway's chief executive, chairman and president, in an interview.

Safeway introduced a plan in which preventative care was covered completely, and included a health saving account of \$1,000 per person that Safeway funded. Health care costs above that are covered by employees.

"Employees treat it as their own money and they look at their health care advertisement costs," said Kevin Herglotz, Safeway's senior vice president, public affairs and government relations. "It makes them rethink their options."

Safeway started the initiatives with corporate employees, but it is beginning to extend those options to its union workers that comprise 80 percent of the company's 201,000-plus workforce.

Changing union plans takes a long time since Safeway has more than 400 contracts that come up for renewal at different times. Most union employees in California are now on the new plan.

### Savings

The moves have paid off so far. Safeway reduced its health care costs from 2005 to 2006 by about 13 percent and kept them flat the following two years. The company now spends about \$1 billion per year on employee health care whereas its net

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Chief Executive  
MyInsuranceExpert.com

income was \$888.4 million in 2007.

"Our goal was to initially stop the inflation in cost while at least maintaining the quality in care," Burd said. "Costs aren't coming down because the employment rolls are shrinking, they're coming down on a per-person basis."

At Safeway, promoting health among employees has become almost as important as keeping shelves stocked—it all affects the bottom line.

Meanwhile, Burd is trying to reform health care spending outside of the company by lobbying politicians and forming a nationwide coalition of more than 60 other firms that advocate for a market-based solution to healthcare.

"Health care for me has become a passion," he said.

Health care reform is on the forefront of current presidential campaigns and while many people expect monumental changes, Safeway's model proves that companies can make changes on their own to reduce health care costs by improving employees' health.

The model also brings into question broader issues about the role employer's should play in their worker's health and personal choices and where will health-care reform lead in the future.

Burd frequently cites research that shows that around 70 percent of chronic diseases—which cost the most to treat—are caused by individual behavior and are therefore preventable.

"We thought that if we could encourage people to change some of their behaviors, then that would have a profound effect on cost," he said.

One of Burd's main issues with the way health care is administered is the lack of transparency in what services actually cost.

"The health care industry is private, but not market based," said Ken Shachmut, Safeway's senior vice president for strategic initiatives, health initiatives and re-engineering. "For the most part, we have health care providers through employers. At the end of the day, you are writing a check on your employer's account. Employees don't have the same kinds of incentives as they would if they were writing the check on their own account."

### **Rigid system**

The problem is that most health care is not broken down by cost in a way that would allow patients to "shop around" for the best deal, said Emily Clayton, an Oakland-based policy coordinator for the California Labor Federation.

"The major challenge with asking employees or any individuals to go out and make smarter health care decisions presumes that we as individuals have access to information about health care costs," she said.

The concern of many labor unions, she said, is that people will choose to skip care and procedures they need for the sake of saving money.

Safeway says that its plan encourages employees to treat their health care as a consumer product, but also covers preventative and basic procedures, which Clayton called a "good step."

"A lot of employers are increasing co-pays, deductibles, or dropping coverage for spouses and kids," Clayton said. "Safeway is one of the leading national voices on trying to control costs while other employers just tend to be dropping coverage all together."

### **Fine lines**

Promoting health and wellness among employees may seem like a win-win situation, but employers have to be careful not to cross certain lines, said David Ritter, chair of the labor and employment group at Neal, Gerber & Eisenberg, a law firm based in Chicago.

"One side is the employment, 'I do my job, my performance is off the chart, but that's not good enough for you? I'm just smoking. Leave me alone,'" he said. "On the other side is, 'I'm a nonsmoker, so my premiums are higher because people who smoke statistically have higher health care costs, so why should I subsidize your costs?' When you work for an employer, you are part of the health care group. You are in the group, you have no choice."

Ritter said employers can divert 20 percent of the amount they spend on health care into wellness programs and the programs have to be voluntary.

"It's very hard to change people's behavior," Ritter said. "One way to get people to change is to add money. They believe that the knowledge, the more people they can educate and give incentives to, the more people will take the apple over the Snickers bar. They will opt for exercise."

The issue becomes controversial in terms of regulating behavior that some workers would consider a personal choice, such as smoking or participating in a dangerous sport.

"There are now employers now telling employees they can't smoke, period," said Carl Mowery, managing director for SMART, a consulting firm based in Chicago. "Or they are saying, 'You can work here, but you're not going to have health care.'"

On other hand, many advocates of employee wellness plans argue that healthier people make better employees. They call in sick less and are more engaged when they are at work.

"There are companies that have weighed those issues, and decided to stop hiring or not hired people out of concern for health care costs," Mowery said. "It goes to the issue of is health care a right? Is it an entitlement of employees? People are now realizing that health care is not an entitlement, but a benefit that an employer should be able to craft."

But, should employers feel obliged to motivate workers to be healthy or is that personal choice?

Lorne Zalesin, chief executive of MyInsuranceExpert.com, said individuals will only take full responsibility for their health care costs if they become completely responsible for their own health insurance plans.

"If the company is paying for health insurance and the employee is living very healthy, who gets the benefit?" he said. "Being healthy means premiums don't go up. If I'm not healthy, insurance premiums go up and who gets the detriment? The company."

### **Making changes**

While most people, companies and government officials agree that health care needs reforming, there are varying opinions about how the change will happen.

One side of the spectrum would be a system where employers are not in the equation at all. That would mean people could buy affordable insurance plans without having to go through an employer and could keep coverage in between jobs.

"In the 1980s, most companies offered pensions, ten years later, we went to the 401(k), now consumers drive their decisions," Zalesin said. "That is where health insurance is going, companies are not going to offer health insurance the way they do now."

On the other end of the spectrum is what's called a single-payer system, in which the government would pay for or provide health care.

Both Safeway and the California Labor Federation said they think the solution is somewhere in the middle of those two extremes.

"We do think employers, government and individuals should be responsible for health-care costs," Clayton said. "We believe that everyone has a right to health care and progressive tax system is the right way to finance programs."

Despite the differences in how to reform health care, most advocates agree making the system simpler and more efficient is key.

"Everything that we have done has required no changes in government policy," Burd said. "If government policy is changed at both the federal and state level, we'll be able to make even more progress. ...We think we have a big part of the answer and it's a national problem, so why shouldn't we give back what we've learned?"