THE WALL STREET JOURNAL.
WSJ.com

How Safeway Is Cutting Health-Care Costs
Market-based solutions can reduce the national health-care bill by 40%.

By STEVEN A. BURD

Effective health-care reform must meet two objectives: 1) It must secure coverage for all Americans, and 2) it must dramatically lower the cost of health care. Health-care spending has outpaced the rise in all other consumer spending by nearly a factor of three since 1980, increasing to 18% of GDP in 2009 from 9% of GDP. This disturbing trend will not change regardless of who pays these costs -- government or the private sector -- unless we can find a way to improve the health of our citizens. Failure to do so will make American companies less competitive in the global marketplace, increase taxes, and undermine our economy.

At Safeway we believe that well-designed health-care reform, utilizing market-based solutions, can ultimately reduce our nation's health-care bill by 40%. The key to achieving these savings is health-care plans that reward healthy behavior. As a self-insured employer, Safeway designed just such a plan in 2005 and has made continuous improvements each year. The results have been remarkable. During this four-year period, we have kept our per capita health-care costs flat (that includes both the employee and the employer portion), while most American companies' costs have increased 38% over the same four years.

Martin Kozlowski

Safeway's plan capitalizes on two key insights gained in 2005. The first is that 70% of all health-care costs are the direct result of behavior. The second insight, which is well understood by the providers of health care, is that 74% of all costs are confined to four chronic conditions (cardiovascular disease, cancer, diabetes and obesity). Furthermore, 80% of cardiovascular disease and diabetes is preventable, 60% of cancers are preventable, and more than 90% of obesity is preventable.

As much as we would like to take credit for being a health-care innovator, Safeway has done nothing more than borrow from the well-tested automobile insurance model. For decades, driving behavior has been correlated with accident risk and has therefore translated into premium differences among drivers. Stated somewhat differently, the auto-insurance industry has long recognized the role of personal responsibility. As a result, bad behaviors (like speeding, tickets for failure to follow the rules of the road, and frequency of accidents) are considered when establishing insurance premiums. Bad driver premiums are not subsidized by the good driver premiums.

As with most employers, Safeway's employees pay a portion of their own health care through premiums, co-pays and deductibles. The big difference between Safeway and most employers is that we have pronounced differences in premiums that reflect each covered member's behaviors. Our plan utilizes a provision in the 1996 Health Insurance Portability and Accountability Act that permits employers to differentiate premiums based on behaviors. Currently we are focused on tobacco usage, healthy weight, blood pressure and cholesterol levels.

Safeway's Healthy Measures program is completely voluntary and currently covers 74% of the insured nonunion work force. Employees are tested for the four measures cited above and receive premium discounts off a "base level" premium for each test they pass. Data is collected by outside parties and not shared with company management. If they pass all four tests, annual premiums are reduced $780 for individuals and $1,560 for families. Should they fail any or all tests, they can be tested again in 12 months. If they pass or have made appropriate progress on something like obesity, the company provides a refund equal to the premium differences established at the beginning of the plan year.

At Safeway, we are building a culture of health and fitness. The numbers speak for themselves. Our obesity and smoking rates are roughly 70% of the national average and our health-care costs for four years have been held constant. When surveyed, 78% of our employees rated our plan good, very good or excellent. In addition, 76% asked for more financial incentives to reward healthy behaviors. We have heard from dozens of employees who lost weight, lowered their blood-pressure and cholesterol levels, and are enjoying better health because of this program. Many discovered for the first time that they have high blood pressure, and others have been told by their doctor that they have added years to their life.

Today, we are constrained by current laws from increasing these incentives. We reward plan members $312 per year for not using tobacco, yet the annual cost of insuring a tobacco user is $1,400. Reform legislation needs to raise the federal legal limits so that incentives can better match the true incremental benefit of not engaging in these unhealthy behaviors. If these limits are appropriately increased, I am confident Safeway's per capita health-care costs will decline for at least another five years as our work force becomes healthier.

The Healthy Measures program currently applies only to our nonunion work force. While we have numerous health and wellness provisions in our union contracts, we are working with union leaders like Joe Hansen of the United Food and Commercial Workers to incorporate healthy measures provisions in our union work force as well.

While comprehensive health-care reform needs to address a number of other key issues, we believe that personal responsibility and financial incentives are the path to a healthier America. By our calculation, if the nation had adopted our approach in 2005, the nation's direct health-care bill would be $550 billion less than it is today. This is almost four times the $150 billion that most experts estimate to be the cost of covering today's 47 million uninsured. The implication is that we can achieve health-care reform with universal coverage and declining per capita health-care costs.

There is a very real possibility that we will see positive transformational health-care reform in the near future. I am encouraged by the effort I see on Capitol Hill, particularly the bipartisan effort in the Senate. While some tough issues remain, if we continue to work in a bipartisan manner I believe we will resolve these issues successfully and find agreement on meaningful reform.

Mr. Burd is CEO of Safeway Inc., and the founder of the Coalition to Advance Healthcare Reform.