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Misleading claims about Safeway wellness incentives

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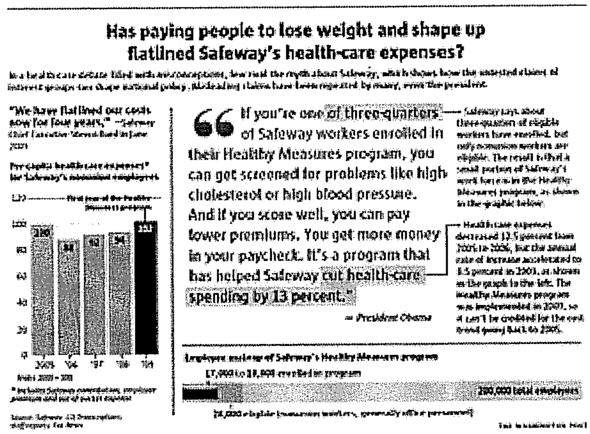
At the White House last May, President Obama speaks with business leaders, including Safeway Chief Executive Steven Burd, right, during a round-table to discuss cutting employer health-care costs.

WASHINGTON â€" It's a seductively simple solution to rising health-care costs. Require workers to pay higher premiums if they flunk tests for measures such as weight, blood pressure and cholesterol. Then, bingo: You not only get a fitter work force, you slash medical expenses.

Politicians of both parties embraced that idea, inspired largely by the claims of Safeway Chief Executive Steven Burd, who said he has set an example for employers nationwide by rewarding employees for healthy behavior.

"Safeway designed just such a plan in 2005 and has made continuous improvements each year," Burd wrote in The Wall Street Journal. "The results have been remarkable ... our health-care costs for four years have been held constant."

If only that were true.



In a legislative debate filled with misconceptions, few rival the myth about Safeway, which became the poster company for a provision that big employers and insurers covet. The supermarket chain's story shows how the untested claims of interest groups can take on a life of their own and shape national policy.

As the House and Senate worked to meld their bills, the Senate's "Safeway Amendment," which would more than double the potential rewards and penalties tied to wellness tests, became a point of contention.

Business groups pushed for the increase, arguing that financial incentives encourage workers to take responsibility for their health. Opponents such as the American Heart Association and the American Cancer Society say the provision would undo a central element of reform: the promise that people's insurance premiums would no longer be influenced by their health status.

Although the fate of health-care legislation remains in doubt on Capitol Hill, the Safeway experience could prove enlightening.

Rewarding or penalizing people based on wellness tests may save money over the long run, but Safeway hasn't proved it.

A review of Safeway documents and interviews with company officials show the company did not keep health-care costs flat for four years. Those costs did drop in 2006, by 12.5 percent. That was when the company overhauled its benefits, according to Safeway Senior Vice President Ken Shachmut.

Costs resumed climb

The decline had nothing to do with tying employees' premiums to test results. That element of Safeway's benefits plan was not implemented until 2009, Shachmut said.

After the 2006 drop, costs resumed their climb, he said.

Even as Burd claimed last year to have held costs flat, Safeway was forecasting that per-capita expenses for its employees would rise by 8.5 percent in 2009. According to a survey of 1,700 health plans by the benefits consultant Hewitt Associates, the average increase nationally was 6.1 percent.

Today, costs are slightly higher than in 2005, Shachmut said.

So when Safeway said it had flatlined costs since 2005, "we defined that, you might say, loosely," he said. "Perhaps a more precise way to say it is that our costs today on a per-capita basis are essentially the same as they were in 2005.

"But by our internal definition, that's, that's flatlining."

As for the steep increase in Safeway's expenses last year, the first year of its "Healthy Measures" incentive program, "we frankly did not have as much control over things as we should have," Shachmut said.

Burd's assertions about the program's success made him a rock star on Capitol Hill. He pressed his case in briefings for Senate Democrats and Republicans and in a May meeting with President Obama. Leading policymakers cited Safeway as a model.

In a June speech on the Senate floor, Minority Leader Mitch McConnell, R-Ky., said: "The Safeway program has proven so successful that the company wants to increase its incentives for rewarding healthy behavior. Unfortunately, current laws restrict it from doing so."

And Sen. John McCain, R-Ariz., in an August town-hall meeting, said: "You know, there's a guy who's gotten pretty famous lately, and he's the CEO of Safeway. ... Safeway's health-care costs have gone down. Why can't we adopt that on a national scale? Why can't we reward people for practicing wellness and fitness?"

Obama also repeatedly invoked Safeway's approach.

"It's a program that has helped Safeway cut health-care spending by 13 percent and workers save over 20 percent on their premiums," he told the American Medical Association in a June speech.

When he delivered those remarks, the program was less than six months old, and by Safeway's own analysis, the spending in question was on the upswing.

Today, employers can give workers any amount of money for participating in wellness programs, such as classes on how to lose weight or quit smoking. But there are limits on incentives tied to results: losing the weight or kicking the habit.

Under a regulation advanced during George W. Bush's administration, incentives conditioned on meeting wellness targets are limited to 20 percent of the premium, including employer and employee contributions to the premium.

The Safeway Amendment would allow employers to increase the stakes to 30 percent, and it would give federal officials license to raise the limit to 50 percent. It also would allow insurers to use the same approach, initially in 10 states and potentially in others.

Employers and insurers would be required to make exceptions for people with extenuating medical circumstances.

Safeway's expanded incentives are rooted in a philosophy.

"I have no problem with a smoker having a 10-pack-a-day habit and killing him or herself," Shachmut said. "It's a free country. I just don't want to have to pay the health-care costs of that personal choice. And the same thing is true for obesity."

In the battle over the Safeway Amendment, a central question is: How big must rewards and penalties be to change behavior, and at what point do they merely shift costs?

Rewards or penalties?

Safeway is not in a position to answer.

Politicians tend to describe the incentives as rewards rather than penalties. But, as reported in October, some employers sharply raise deductibles for workers and then give them a chance to chip away at the newly inflated charges.

"We structured it as a carrot, but I would quickly tell you that the carrot is nothing more than the mirror image of a stick, and vice versa," Burd told the Senate health committee in June.

It would be difficult for premium incentives to drive overall trends for Safeway's work force of about 200,000, because, according to company spokesman Brian Dowling, the program has been open to only 28,000 employees, generally office workers rather than store personnel covered by union contracts. About 17,000 to 18,000 enrolled.

(Burd's assertions about flatlining costs pertained to those workers eligible for Healthy Measures, as did the projected 8.5 percent increase for 2009.)

Safeway has taken steps to encourage cost savings and wellness, none of which required an act of Congress.

In 2006, it restructured its benefits to make employees more cost-conscious. Under the new structure, the company would pay the first $1,000 of a family's annual medical expenses, and the employee would generally be responsible for the next $1,000. It began covering 100 percent of the bill for preventive measures such as mammograms and colonoscopies. It paid people to complete health questionnaires, encouraged use of generic drugs, and in 2008 increased the limit on employees' out-of-pocket expenses.

While expenses soared in other health plans â€" by 30 percent over four years, according to Hewitt â€" Safeway boasts that per-capita expenses for its nonunion employees were only 2 percent higher in 2009 than in 2005.

Any number of changes in the company's benefits plan might contribute to the explanation.

Many Healthy Measures participants have undergone their second annual round of wellness tests, and recently Safeway spokeswoman Teena Massingill said employees showed "pretty impressive" improvements.

According to company statistics, the proportion of employees classified as obese declined by 5 percentage points, while the proportion who were overweight declined by 1 percentage point. Meanwhile, 40 percent of workers and spouses who failed the blood-pressure test in 2008 passed in 2009, 30 percent of former smokers registered as tobacco-free, and 17 percent who failed the cholesterol test in 2008 passed in 2009.

The financial ramifications remain unclear. In the short term, Safeway's program probably boosts medical expenses because the screenings prompt people to seek treatment for newly detected problems, Shachmut said.

In assessing the economic impact of incentives, it might be helpful to know how health-care expenses for employees in the voluntary Healthy Measures program compare with those for the rest of the Safeway work force.

Shachmut declined to provide such information. "We frankly haven't been disclosing that," he said.