

# SAFEMAY

## Healthcare Solutions that Work

National Health Policy Conference  
February 2, 2009

Steve Burd  
Chairman, President & CEO  
Safeway Inc.

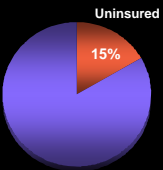
### Agenda

- U. S. healthcare challenge
- Safeway experience
- Policy implications




### America's Healthcare Challenge

#### Coverage Problem



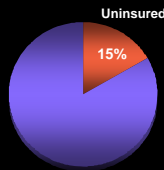
Uninsured  
15%

#### Cost Problem



### America's Healthcare Challenge

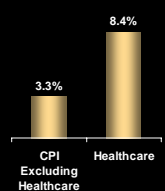
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#### Cost Problem

Annual Growth 1980 - 2007

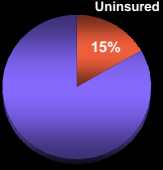


CPI Excluding Healthcare: 3.3%  
Healthcare: 8.4%



### America's Healthcare Challenge

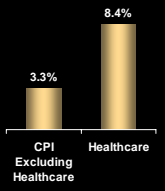
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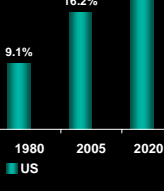
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Annual Growth 1980 - 2007




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% of GDP

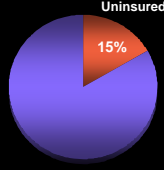


US: 1980 (9.1%), 2005 (16.2%), 2020P (25.9%)



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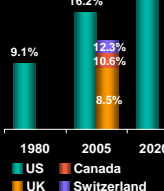
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Annual Growth 1980 - 2007




CPI Excluding Healthcare: 3.3%  
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% of GDP



US: 1980 (9.1%), 2005 (16.2%), 2020P (25.9%)  
Canada: 2005 (12.3%)  
UK: 2005 (10.6%)  
Switzerland: 2005 (8.5%)



## Root Causes of Escalating Healthcare Costs

- Too many consumers are not part of the system
- Disconnect between payers and receivers of healthcare
- Cost and quality transparency is largely absent
- Insurance policies generally lack incentives to change behavior
- Providers of healthcare have little incentive to be cost conscious...paid for services delivered, not results



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## Solving the Problem of Rising Costs

- *Insure everyone* – no one should be left out
- Create more *personal responsibility*
- Provide *cost and quality transparency*
- Encourage prevention and wellness by *linking healthy behaviors to financial incentives*
- *Pay more for results* and less for services rendered

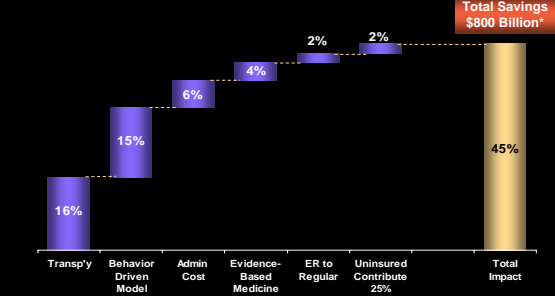


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## Potential Healthcare Savings

% of Direct Healthcare Spending 2008\*



\*2008 Estimates: Total HC spending - \$2.4 Trillion, Direct spending - \$1.8 Trillion

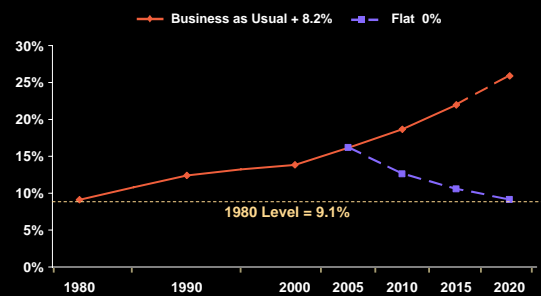


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## Healthcare Costs as Percent of GDP

Healthcare Annual Cost Growth Scenarios



Source: Safeway analysis



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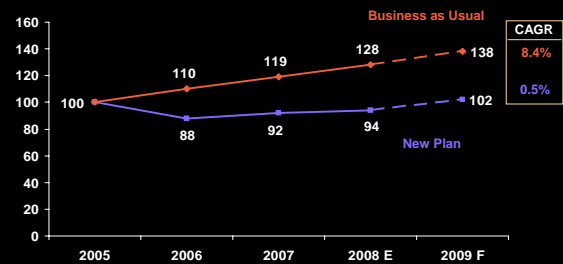


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## Safeway's Healthcare Expense Trend\*

Index 2005 = 100

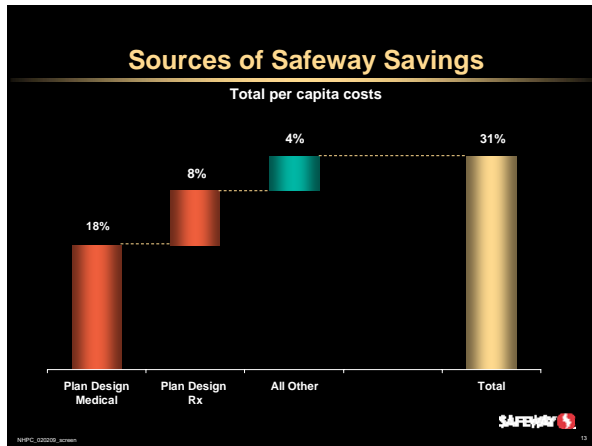


\* Per-capita expenses for Safeway non-union EEs moving to new plan from former PPO plan. These per-capita expenses are all-inclusive – Safeway contribution, EE premium and EE out-of-pocket expense

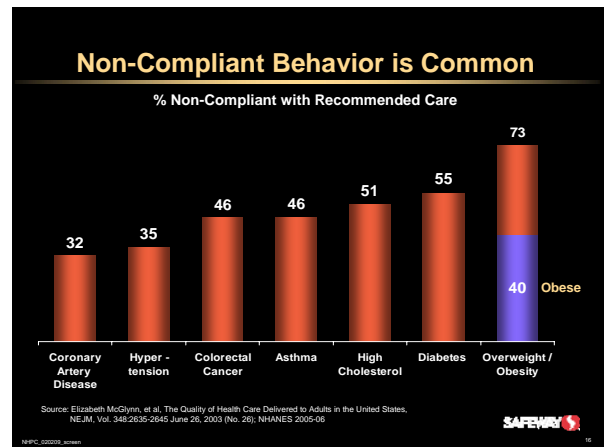
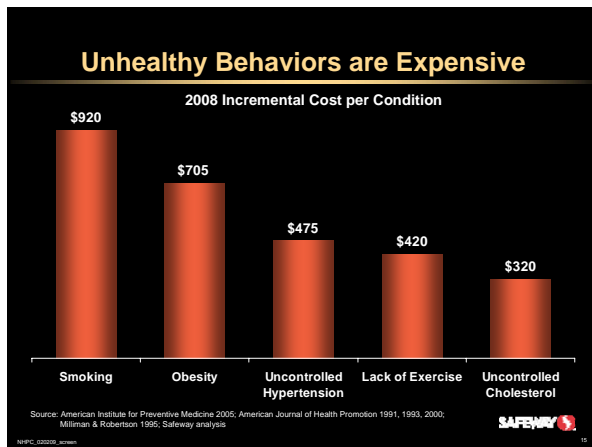


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- ### Safeway Results Based on Three Major Discoveries
- 70% of healthcare costs are driven by behavior
  - Four chronic conditions comprise 74% of healthcare costs
  - Obesity is a driving factor in all four chronic conditions
- Source: NHPIC 02/09, screen



- ### Philosophy for Behavioral Incentives
- Individuals are responsible for their own behavior\*
  - Health plans should be free to charge individuals the full cost of their behaviors
  - When consumers bear the true cost, they are motivated to change
  - The result will be improved health, higher productivity, and lower healthcare costs
- \*But not their genetics
- Source: NHPIC 02/09, screen

### Automobile Liability Insurance – A Useful Analogy

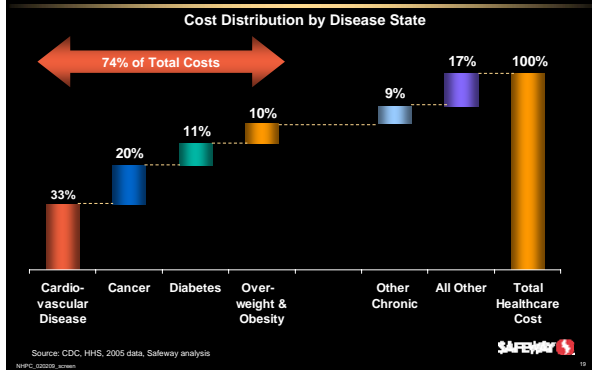
- Two neighbors – same cars, very different driving records
- Bill has no tickets or accidents; John has a reckless driving citation and an accident

Bill's Premium	John's Premium
\$762 / year	\$1,540 / year

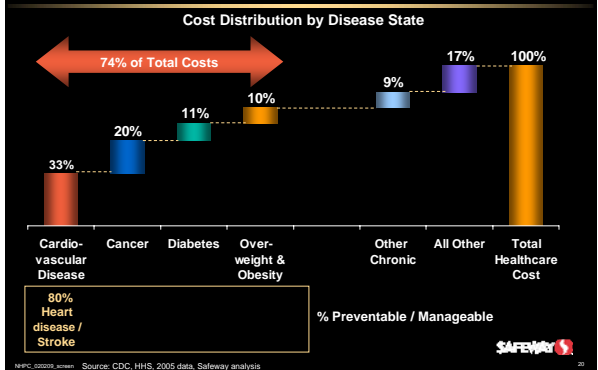
We all accept this as fair

Source: Mercury Insurance Company, Alameda County CA

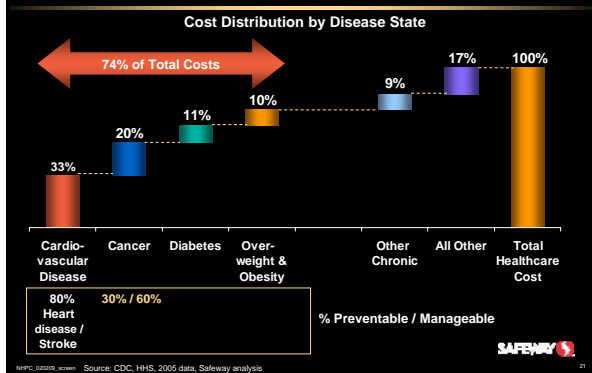
### Four Chronic Conditions Comprise 74% of Costs



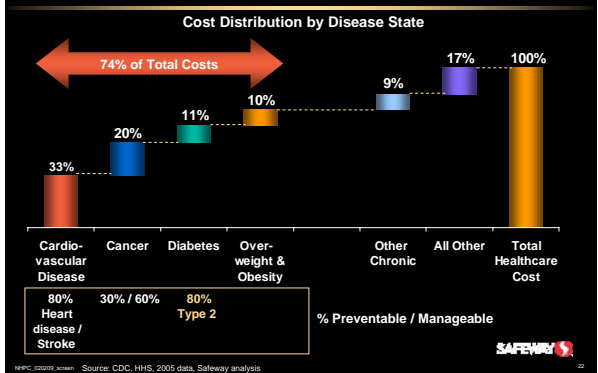
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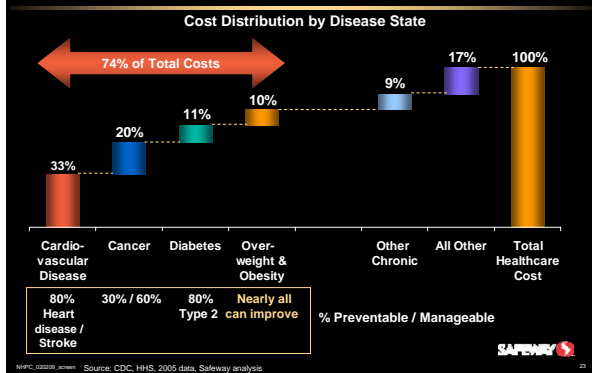
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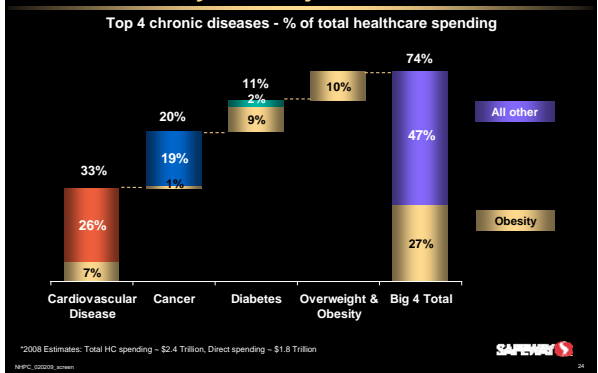
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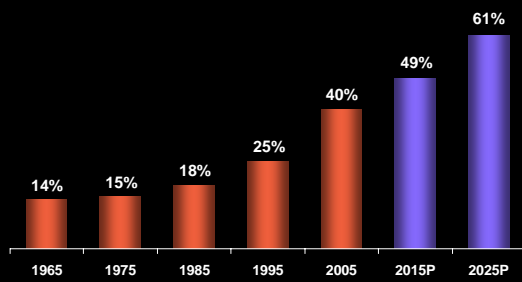
### Four Chronic Conditions Comprise 74% of Costs



### Obesity is a Major Cost Driver



## U.S. Obesity Rates



Source: NHANES Safeway analysis



## Safeway Healthy Measures

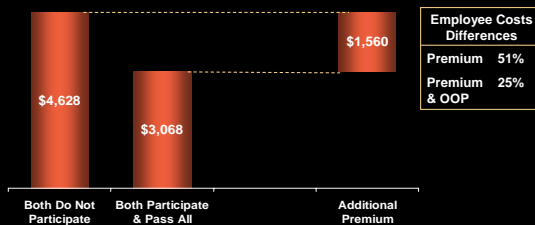
- Four key measures offered to all employees
    - Weight
    - Tobacco use
    - Blood pressure
    - Cholesterol
- 74% Participation
- Participation to earn lowest healthcare premium
    - Voluntary
    - Employees and spouses
  - Two ways to earn lowest premium
    - Pass the screenings now
    - Improve, verify at next year's screening – rebate at year-end

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## Healthy Measures Incentives

Family annual premiums \*



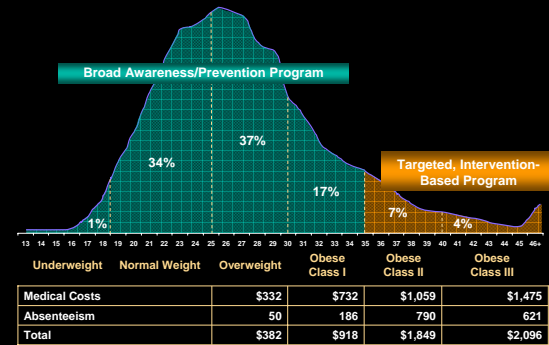
Employee Costs Differences	
Premium	51%
Premium & OOP	25%

\*The employee and spouse are both eligible for Healthy Measures discounts



## Safeway Obesity Challenge

2008 Safeway BMI Distribution\*



	Underweight	Normal Weight	Overweight	Obese Class I	Obese Class II	Obese Class III
Medical Costs		\$332	\$732	\$1,059	\$1,475	
Absenteeism		50	186	790	621	
Total		\$382	\$918	\$1,849	\$2,096	

\*Source: Healthy Measures 2008

## Safeway's Experience is Nearly Unique – Why?

- We understand and have acted on our three discoveries
  - 70% of costs driven by behavior
  - Four chronic diseases comprise 74% of costs
  - Obesity is arguably the most significant cost driver
- We believe in the efficiency of markets and have re-designed our healthcare plan with this in mind
- We have taken a holistic approach that reinforces our interest in our employees'
- Strong senior management leadership

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## Holistic Approach – Genuine Focus on Employee Health & Wellness

- Free fitness center and gym membership discounts
- Care management, wellness, 24-hour nurse line
- Healthy foods discount in cafeteria
- CareConnect program for breast and prostate cancer
- Cancer fundraising – more than \$100 million to date
- Engagement in policy debate

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## Major Safeway Healthcare Plan Elements

- HRA account
- FSA account
- Physicals at 100%
- Well baby/child at 100%
- Age-appropriate mammograms at 100%
- Age-appropriate colonoscopies at 100%
- Integrated care management
- 24/7 nurse line
- MedExpert
- Behavior incentives
- CareConnect for cancer
- Transparency tools
- Aggressive formulary
- Information/encouragement of generics
- Therapeutic equivalency switching with coordinated co-pays
- Drug facts website
- Rx compliance rewards soon
- Fitness Center
- Discount gym memberships
- Corporate nurse
- No-smoking campus
- Quit smoking programs with free aids
- Weight Watchers subsidies
- Weight management programs
- Cancer research fundraising
- Healthy food cafeteria subsidies
- Healthy snacks for meetings



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- Cancer research fundraising
- Healthy food cafeteria subsidies
- Healthy snacks for meetings
- Formed CAHR
- Co-founded Healthy Weight Commitment



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## Core Principles for Healthcare Reform

- Market-based healthcare system
- Universal coverage with individual responsibility
- Financial assistance for low income
- Healthier behavior and incentives
- Equal tax treatment



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## CAHR Membership

- Aetna
- Alex Lee Inc.
- Bashes
- Blue Shield of CA
- Brookshire
- Bumblebee Seafoods
- C&S Wholesale
- CIGNA
- Clorox
- Coca Cola
- CVS / Caremark
- Del Monte Foods
- Edison International
- Eli Lilly
- General Mills
- Giant Eagle
- GlaxoSmithKline
- HCA
- Health Net
- Heinz
- Hershey
- Humana
- Illinois Tool Works
- InnerLink
- Jax Markets
- KKR
- Kaiser Permanente
- Kimberly Clark
- Kohl's
- Kraft Foods
- Kroger
- Land 'O Lakes
- Longs Drugs
- Lund Food Holdings
- Merck
- McKesson
- Medtronic
- Morgan Stanley
- Norfolk Southern
- PG&E
- PepsiCo
- Pfizer
- Playtex
- Price Chopper
- Procter & Gamble
- Publix
- Raley's
- RenderX
- Rockwell Automation
- Rockwell Collins
- Roll International
- Safeway
- Schnuck's
- Smucker
- SuperValu
- Unified Western
- United Healthcare
- United Supermarkets
- USAA
- Wakefern
- Wegmans
- Winco Foods
- Wrigley



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## Tackling Obesity Nationwide

- 40% of population is obese, another 33% overweight
- Obese kids are now developing adult ailments – first generation with lower life expectancies than parents
- The single biggest driver of healthcare costs – largely behavioral, and reversible



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## Food Industry *Healthy Weight Commitment*

- Call to action from Safeway and PepsiCo CEOs for a nationwide solution
- Challenge accepted by 12 major food companies
- Developing programs with demonstrated success
- Broad participation expected with recruiting underway



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## Healthy Weight Commitment

- Help individuals achieve energy balance\*
  - Behavior change: 3,500 calorie rule
  - Food products with lower energy density
- Teach kids early, comprehensively and consistently
- “Walk the talk” in the workplace – 30+ companies will demonstrate results
- Communicate broadly to achieve objectives

\*Calories In / Calories out (CICO)

**SAFeway**

## 1,750 Less Calories In per Week

Many ways to achieve the goal – 250 / day

Keep the volume and taste, not the calories

**SAFeway**

## 1,750 More Calories Out per Week

Many ways to achieve the goal – 250 / day

Add activities *incremental* to normal movement

**SAFeway**

## Agenda

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## Market-Based Healthcare System

- Private system can work well if we create a market
- Government should lead in delivering transparency
  - Start with the Medicare database
  - Supplement with private insurers
  - Establish quality benchmarks
  - Make information broadly available
  - Do not let the desire for perfection get in the way of progress
- All plans should include substantial behavioral incentives; price is the ultimate market mechanism

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## Creating a Consumer Healthcare Market

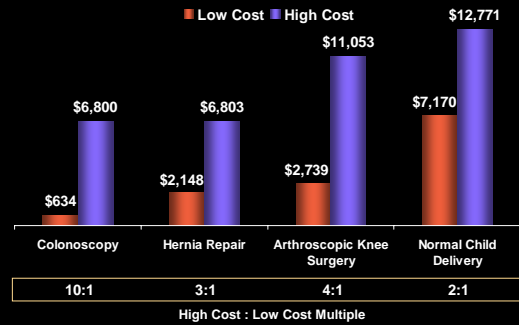
Basic Market Requirements	Today
▪ Knowledgeable consumers	No
▪ Alternatives exist	Sometimes
▪ Information is available	Difficult to access
▪ Price matters	Occasionally
▪ Quality matters	When known

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## Creating a Consumer Healthcare Market

Basic Market Requirements	Today	Tomorrow
▪ Knowledgeable consumers	No	Transparency tools
▪ Alternatives exist	Sometimes	Often
▪ Information is available	Difficult to access	Transparency tools
▪ Price matters	Occasionally	Skin in the game
▪ Quality matters	When known	Pay more for results

## Value of Cost Transparency



Source: New Hampshire Insurance Department, Safeway surveys and analysis

## Universal Coverage with Individual Responsibility

- All Americans should have access to healthcare plans, and be required to have insurance
- Risk pools become large and there should be no exclusions for pre-existing conditions
- Government can play a valuable role in creating rules and mechanisms to facilitate access
- Government should not compete with the private sector

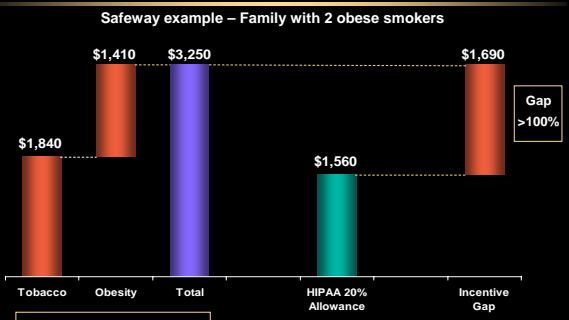
## Financial Assistance for Low Income

- Healthcare is expensive – over \$5,500 today for every American
- Even when costs are brought under control, they will still exceed the ability to pay for some
- Financial assistance for low income earners is necessary to fill the gap

## Healthier Behavior and Incentives

- Improved behavior and health status is critical
  - Lowers per capita costs
  - Frees resources for today's uninsured
- All healthcare plans should incorporate incentives
  - Start with plans for Government employees
  - Consider incentives for private plans
- The HIPAA limit for healthy behavior incentives is inadequate

## HIPAA Incentive Allowance is Insufficient



## Price Incentives for Behaviors Only

- **Not** for genetic differences
- **Not** for pre-existing conditions
- **Focused** on the top chronic conditions
  - Will have a major impact; 80/20 rule
  - Can be managed effectively



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## Equal Tax Treatment



- **Today's paradigm is out-dated**
  - Response to wage and price controls during World War II
  - Ratified through Supreme Court decisions
  - Dysfunctional today
- **Healthcare expenses for all Americans should have the same tax status**
  - Whether company-provided or individually purchased
  - Pre-tax treatment is preferable



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## Applying the CAHR Principles First Steps for Reform

- **Cost and quality transparency**, starting with the Medicare database
- **Coverage** of all Americans
- **Subsidies for low income** financed by system savings
- **HIPAA incentives** increased to 40-50%
- **Equal tax treatment** for all



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Ingredients for life..