

## **Healthy Trend -- New Way to Curb Medical Costs: Make Employees Feel the Sting --- Whole Foods Plan Tries to Give Workers a Reason to Save; Risk for Chronic Conditions --- A Question for the Podiatrist**

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When Patrick Bradley visited a podiatrist last year, the vice president at Whole Foods Market Inc. was asked to walk up and down the hallway so the specialist could check his gait. The itemized price for his stroll: \$50.

Most people with medical insurance simply would have swallowed hard and forwarded the claim to their insurer. Mr. Bradley, who is 44 years old and was suffering from an inflamed nerve in his toe, complained. The doctor ended up waiving the charge. "He actually said that no one had ever questioned it before," Mr. Bradley says.

Whole Foods is on the forefront of a campaign to change that. The 159-store grocery chain last year adopted a health plan that encourages its 30,000 or so workers to feel a bit of the pain every time a doctor sends out a bill. The new "consumer driven" medical coverage gives employees more of a financial stake in what they pay for medical care in hopes of slowing the growth in medical costs.

With more traditional plans, workers pay a premium that is taken out of each paycheck and must meet an annual deductible of at least a few hundred dollars. After that, insurance picks up most of their health-care costs. In health-maintenance organizations, there are generally lower premiums and no deductibles, but employees pay a small fee each time they visit a doctor -- and often have to jump through hoops to see doctors outside the HMO.

The Whole Foods plan, which workers themselves chose over two competing plans after a series of votes last summer, has no premiums at all for many workers. But the deductible is a relatively hefty \$1,500. Whole Foods each year puts money into an account for each worker to use for health-care expenses. If employees don't spend their money in one year, they get to carry it over to future years. After the deductible is reached, the plan operates more like a traditional one, picking up 80% of most medical expenses. The hope is that once the money feels as though it belongs to them, people won't get an MRI when an X-ray (or an ice pack) might do. Already at Whole Foods, the plan is inducing the company's butchers, bakers and baggers to take responsibility for cutting costs by buying generic drugs, asking for fee waivers on lab tests and other procedures, and keeping a closer eye on what doctors charge for their services.

The plans have one big drawback: People with chronic conditions can take a big hit, since they have little choice about how often they go to the doctor. Some critics fear that the plans will discourage people from getting the care they need.

**Fewer than 1% of insured Americans are enrolled in this type of plan, according to Steve Davis, managing editor of the newsletter Inside Consumer-Directed Care.**

But the plans are fast gaining the attention of employers looking for new strategies for reining in insurance costs. Congress last year ushered in a new form of health savings account that can be used in conjunction with the plans.

**According to a March 2004 Mercer Human Resource Consulting survey of 991 employers, most of which have more than 500 employees, 19% think it's "very likely" that they will use the new health savings accounts in the next two years, and more than half think it's "somewhat likely."**

"The tipping point has arrived," says Regina Herzlinger, a Harvard Business School professor who recently edited a 928-page collection of essays about consumer-driven care. "We're going to have a lot more of these high-deductible plans."

**Companies such as Lockheed Martin Corp., Medtronic Inc. and Wells Fargo & Co. offer the new plans as a choice alongside more traditional insurance options. Whole Foods**, among the nation's fastest-growing grocery chains, is one of the few companies of its size to adopt a consumer-driven plan without any other options. That makes the purveyor of hormone-free duck and organic raspberry applesauce a case study in the impact of such a plan on an entire work force.

The initial results at Whole Foods have been dramatic. Last year, overall medical-claim costs fell 13% from the year before and hospital admissions per 1,000 employees fell 22%, according to Whole Foods' figures. The company estimates that it spent about the same amount per employee on health insurance in 2003, including deposits into the new employee accounts, as it did under its old plan in 2002. Nationally, health-insurance premiums for a family of four went up an average of 13.9% during that same period, according to a Kaiser/Health Research & Educational Trust survey.

Whole Foods believes it is in even better shape than those figures suggest. It argues that the \$14 million that workers had left over in their savings accounts at the end of 2003 will act as a future damper on its costs, as employees with ever-larger account balances put less pressure on the company to sweeten their benefits packages.

Because many employees don't have to pay any premium with the new insurance, about 95% of eligible workers are enrolled, up from about 65% who participated in Whole Foods' health-insurance programs in 2002. Under the old benefits plan, many employees opted out of the health-insurance program, preferring to take more vacation days instead.

There are tradeoffs with the new plan. In order to pay for it, employees had to decide what other benefits to cut. Some people lost vacation days, and the 401(k) match is lower than it used to be. Bonuses to mark employee anniversaries and celebrate new babies no longer exist. The plans also shift some of the burden of fighting health-care costs to the employees from their employers.

**In 1992, the Cato Institute, a libertarian think tank, published a book called "Patient Power" that offered the high-deductible plans as a counterproposal to President Clinton's proposal for universal health care.**

A few years later, Congress created something called the Archer Medical Savings Account, which certain small businesses could use in conjunction with a high-deductible health insurance plan.

"Patient Power" gave Whole Foods founder and CEO John Mackey, who considers himself a libertarian, the idea for how he might overhaul his company's health insurance. In 2002, he took a five-month sabbatical to hike the Appalachian Trail. At various stops during his amble northward from Georgia, a car would arrive at a designated stop where the trail crossed a road. Someone would restock him with food and hand over a laptop so he could catch up with e-mail.

At one stop, Mr. Mackey got the news that the Treasury Department had issued a new regulation that would make it easier for companies to adopt consumer-driven plans. The government had confirmed that health-cost-reimbursement accounts, like the one Whole Foods uses in conjunction with its health plan, would be shielded from taxes and that employees could carry the balance over from year to year. Unlike some medical savings plans, the one used by Whole Foods doesn't allow employees to add tax-free contributions to the company payments.

When Mr. Mackey got the news, he asked his senior executives to examine whether it would even be possible to rip up the company's health-insurance plan and start over with just a few months left before it was time for employees to sign up for health care for the next year.

Whole Foods had reason to hurry: The company's self-insured plan at the time was essentially insolvent. Claims had outpaced the money the company had set aside, and it had to pump in several million dollars more to get the plan back in balance. As a result, the company took a five cents-a-share hit to earnings in 2002.

Mr. Mackey's benefits team managed to get the new program into place in the last months of 2002, but it decided to make the plan its only offering, not just one of a number of options. "Because we were in crisis, we had to kind of cram it down our [employees'] throats," Mr. Mackey says now.

For employees, the quick transformation of their benefits plan was a lot to absorb. "The anxiety might have been in not knowing the details," says Jen Burdge, a bakery manager in a store in San Francisco. "My first concern was who was going to pay for my acupuncture. It was \$60 per visit, and I was going two or three times per week." That would have cost her more money out of pocket had she not curtailed her appointments more recently.

The new plan "certainly never stopped me from going to the doctor," she says. "But it made me a more conscious spender. You have this amount of money and this much time."

After other employees voiced even stronger concerns as he toured the stores, Mr. Mackey decided to reopen the decision for the following year, letting employees make the choices about what insurance plan to use and what benefits to offer.

Over the next several months, management laid out a series of benefits options. First, employees were asked to decide whether they wanted to keep the **consumer-driven health-care** plan or revert to a choice between two more traditional insurance arrangements. Then, employees were faced with a list of dozens of potential benefits and had to select 30 that would make it into the runoff.

To the company's management in Austin, Texas, the results were startling. With almost 80% of the work force voting, the new health-insurance plan had won handily, with 83% of the vote.

To some employees, however, the landslide was no big surprise. "They were saying 'Here's one plan that will cost you' hundreds of dollars a month, and another that's even more,'" says Jackson Bowman, who worked in the bakery in the Madison, Wis., store until this past Sunday. "Then, they offered this new plan which was free. Which one are you going to pick?"

The new plan is free for individual full-time workers who've been with the company for a couple of months. Workers with spouses and families do pay premiums, but those too fall to zero after about five years working full time for the company.

(MORE)

Other companies with plans like Whole Foods' often make employees with spouses and children hit a much higher deductible than single employees. Whole Foods initially did the same thing, but that changed after Mr. Mackey faced down a cold meat-room full of worried butchers in April 2003. Since Whole Foods doesn't have very many employees with both spouses and children, it decided it could afford to offer the same deductible to everyone without busting the budget.

The other half of Whole Foods' new health-insurance plan is the savings account. Whole Foods contributes between \$300 and \$1,800 to it each year for employees, depending on how long they've worked for the company. When they want to use the money for a doctor or chiropractor or at a pharmacy, they present a debit card and the money is drawn out of the account. The plan includes incentives to use doctors and hospitals in the company's network.

In 2003, only 10% of Whole Foods employees spent all of the money in their savings accounts. A total of \$14 million rolled over to 2004, or about \$560 per account. That money gets added to new contributions from the company this year for future health-related expenses. For large medical expenses, the company picks up 100% of the cost after employees hit an annual out of pocket maximum.

Still, employees at other companies might see worse results if their employers mimicked Whole Foods' deductibles and the size of its savings-account contributions. The average age of a Whole Foods employee is just 32, and the company's emphasis on healthy products tends to attract people who exercise regularly and eat their fruits and vegetables.

As a result, Whole Foods employees tend to have fewer medical needs than those at other companies.

Injuries are the company's No. 1 diagnosis -- not surprising at a company where many workers pursue outdoor adventure sports in their free time. The second-biggest diagnosis is pregnancy. As a result of these trends, overall doctors' visits didn't fall much from 2002 to 2003, even though other companies with similar plans usually see a drop.

Though the overall Whole Foods plan -- with the zero premiums for individuals and the four-figure account deposits -- may seem generous, there are tradeoffs. Many employees lost several vacation days in the transition to the new benefits plan. During the election, they chose to set aside a paltry \$2.25 million for the match on their 401(k) contributions each year, though they do have the potential to earn other bonuses.

**People with chronic problems have the potential to fare the worst under these plans. That's because they're likely to spend so much on medicine and doctor visits that they'll hit the deductible every year. For a grocery worker making \$12 an hour, the cost could still be thousands of dollars annually. Some companies waive the deductible for certain chronic conditions. Whole Foods doesn't do that, although it does cover prenatal care.**

Some policy experts fear that plans such as these could lead people to skimp on their own care in order to save money for a rainy day -- but it is likely to be years before anyone knows whether that concern is warranted.

Even for people who are otherwise healthy, all it can take is a couple of bad teeth to send them over the edge. Mr. Bowman, the former Madison worker -- who is moving to California to attend culinary school --

recently got a quote for \$4,500 of needed dental work. "I could spend all of my money from the company this year on one crown," he says. "But what if I do that and then get hit by a bus later on this year?"

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#### Basic Coverage

Key features of Whole Foods' "**consumer driven**" **health-care** plan:

- No premiums: After a few months on the job, individual workers get free coverage. For workers with families, free coverage starts after about five years.
- High deductibles: \$500 for prescriptions and \$1,000 for all other medical costs.
- Employee accounts: Whole Foods deposits \$300 to \$1,800 per year, depending on length of employment, to help meet the deductible.
- Results: Overall medical claims fell 13% in the first year. About 90% of employees had money left over to use next year.