

October 29, 2005

## Wal-Mart's Health Care Struggle Is Corporate America's, Too

By [REED ABELSON](#)

### Correction Appended

Back in the spring, amid relentless criticism that [Wal-Mart Stores](#) was failing to provide affordable health care to employees, executives at the company decided to take a detailed look at its benefits.

Wal-Mart knew its health costs were spiraling upward out of control, said M. Susan Chambers, the senior executive who led the initiative, but it was surprised to discover that its critics had a point. Almost half of the children of employees were covered only by government social-service programs like Medicaid or had no insurance at all.

An internal memo to the Wal-Mart board by Ms. Chambers and her colleagues, which became public this week, candidly assessed this finding and proposed steps the company might take to address it - or at least blunt some of the criticisms it had been encountering.

While Ms. Chambers was quick to emphasize in an interview that Wal-Mart was not the only company with employees who use Medicaid, she said she was startled to find out just how reliant working people have become on government health programs. "It certainly did bring out for me the magnitude of the national problem," she said.

As the nation's largest employer, Wal-Mart cannot help but be entangled in the increasingly contentious debate over how best to provide health care to working Americans. Many of the company's 1.3 million employees are drawn from the most vulnerable part of the national labor pool: people who can find only low-paying jobs, who frequently cannot afford health coverage and who have no ability to absorb the kind of bank-breaking inflation in medical costs the country has experienced since the late 1990's.

For various social and economic reasons - including limited access to preventive medical care - low-income workers and their families often have the greatest health care needs, with the least ability to meet them. The Wal-Mart quandary involves a fundamental national issue: Who, if anyone, should provide care to the bulk of Americans.

"Whose responsibility is this?" said Carolyn Watts, a health professor at the University of Washington. "Is it the government's responsibility or the employer's?"

As health care costs continue to soar well above the general rate of inflation, Professor Watts says the United States can no longer rely on employers to provide widespread coverage and needs to grapple with that new reality. "It's a very different social contract than we have had," she said.

The controversy over Wal-Mart's benefits may mask what some experts see as an unraveling of the employer-based system of health coverage. "These are indications of the gaps in the health care system that are exposed by Wal-Mart," said Len Nichols, a health economist at the New America Foundation, an independent public policy group in Washington. "You can't blame Wal-Mart."

The Chambers memo offers an unusually frank and, at times, disturbing glimpse into Wal-Mart's struggle to

achieve what are seemingly contradictory goals: to contain health care costs and to appease its critics. Even as Wal-Mart's health care bill, now \$1.5 billion, has climbed 19 percent a year since 2002, it is insuring fewer than half of its employees.

While the memo outlines a series of fairly simple steps to expand coverage - at an additional cost of some \$300 million a year by 2011 - it also recommends a wide-ranging set of initiatives to control costs, including one controversial proposal aimed at recruiting what the memo describes as "a healthier, more productive work force."

Perhaps the most unflattering element is the statistic that nearly half of the children of Wal-Mart employees are uninsured or on Medicaid, the federal and state insurance program for the poor. For the nation's overall labor force, that portion is one-third, according to Wal-Mart.

But Wal-Mart is not alone in teetering on a tightrope between protecting profits and doing right by employees, a balancing act that is occurring throughout corporate America. Those facing similar situations include [General Motors](#), which has long been seen as the gold standard for health benefits but is now scaling back. Another is [Starbucks](#), which cited the cost of its widely admired health benefits last year when it raised prices. And while Wal-Mart's discounter rival, [Costco Wholesale](#), has taken a strikingly more generous approach to health care, it has come at the cost of rebukes from Wall Street.

"The underlying problem is the problem of affordability of health care in the United States," said Helen Darling, the president of the National Business Group on Health, a coalition of companies. Wal-Mart's critics, who include some state officials, say companies like it are shirking their duty and asking the taxpayers to pay the cost of their workers' care.

In Maryland this year, legislators passed a bill aimed at large employers like Wal-Mart that would force them to insure more of their employees. After intense lobbying by Wal-Mart and other opponents, Maryland's governor vetoed the bill. A similar proposal was narrowly defeated by California voters last year.

What the Wal-Mart memo does make clear is that the company's health care costs are increasing at a faster rate than its revenues, and they threaten to engulf an increasing share of future profits. Many companies are reducing their own exposure by shifting an increasing share of the costs onto employees, asking them to pay more in premiums or to foot more of the bill at every doctor visit.

But Wal-Mart - and many other companies with similar work forces - does not have that luxury. Nearly 40 percent of its employees already spend an average of 16 percent or more of their pay on health care - a level about four times the national average.

The Wal-Mart work force reflects a growing fear of many employers that the people who work for them are increasingly at risk for health problems. Many of Wal-Mart's employees are obese, the company says, and a result is rapidly rising numbers of cases of [diabetes](#) or [heart disease](#). The prevalence of these diseases among Wal-Mart employees is increasing much faster than the national average, it says.

"The low-income population generally is not as healthy and does not engage as much in preventive care," said Diane Rowland, executive director of the Kaiser Commission on Medicaid and the Uninsured. A risk that a company like Wal-Mart faces, especially when it competes with smaller retailers that offer no insurance at all, Ms. Rowland said, is attracting too many workers who want the job primarily for the health coverage.

Among the starkest - critics would say Darwinian - solutions the Wal-Mart memo explores is the idea of not hiring as many people who have health problems or risks. The memo suggests that the company could require all jobs to include some component of physical activity, like making cashiers gather shopping carts. It also recommends redesigning and expanding benefits to appeal to a different type of worker, someone more

interested in buying a home, say, than in getting health insurance.

"These moves would also dissuade unhealthy people from coming to work at Wal-Mart," the memo said. The company also says a push toward more part-time workers - many of whom would either not be eligible for, or could not afford, whatever new health plan Wal-Mart might devise - will also lead to fewer people's needing coverage.

Lawyers and consultants said the company could run afoul of laws that prevent companies from discriminating against older workers or those with health issues.

A federal jury this year found that Wal-Mart was guilty of discriminating against an employee with [cerebral palsy](#) by reassigning him to a job where he had to collect garbage and shopping carts. The jury awarded him \$7.5 million, although the amount was reduced to about \$2.8 million, said the employee's lawyer, Douglas H. Wigdor. The company is currently operating under a consent decree by federal regulators because of similar behavior toward other employees, Mr. Wigdor said.

Ms. Chambers said the memo did not reflect any intention of discouraging people with medical problems from joining Wal-Mart but, rather, a concern about the lifestyle choices and health of its employees. She said the steps were meant to encourage people to be more active. "Does that mean we are not going to hire unhealthy people?" she said. "No."

The other initiatives represent a smattering of programs already embraced by other companies, like disease-management programs in which people with a specific illness are helped to take better care of themselves. Another step would be urging employees to go to doctors that provide good care at a reasonable cost.

Policy analysts say such measures offer no quick cure for the country's ills or anything that has a hint of real reform. One recommendation even harks back to the days of company doctors by suggesting that Wal-Mart consider expanding the customer health clinics available at a few of its stores to provide care for employees.

The company has already opened four of these customer clinics, which it said appeared to be a popular alternative for people who are uninsured and must pay out of pocket. Prices are clearly marked, and the company says the clinics are an affordable way for people to check out minor ailments like a sore throat or to have their blood sugar checked.

Most striking, perhaps, is that the many initiatives outlined by the memo would seem to accomplish so little financially - bringing down projected health costs from 2.3 percent of sales to something closer to 2 percent. Embracing even the most far-reaching suggestions, like recruiting healthier workers, might drive overall benefit costs to a level only a shade under 2 percent.

"As clever and strategic as it is," said Mr. Nichols, the economist, Wal-Mart's strategy "is not a solution to our long-term problem."

But Ms. Chambers said Wal-Mart realized that the current initiatives being discussed by corporate America only scratched the surface and that the company wanted to be part of any national dialogue about health care. "I feel," she said, "like we're dealing with symptoms - not causes."

**Correction:** Nov. 2, 2005, Wednesday:

A picture caption in Business Day on Saturday with an article about Wal-Mart's efforts to provide health care to more employees misstated the surname of the patient at a clinic in a Wal-Mart store near Orlando, Fla. He

is Josh Hashbarger, not Reyes.