



Healthcare Solutions that Work

North Bay Business Journal – Healthcare Conference

November 11, 2009

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Agenda

- **U. S. healthcare challenge**

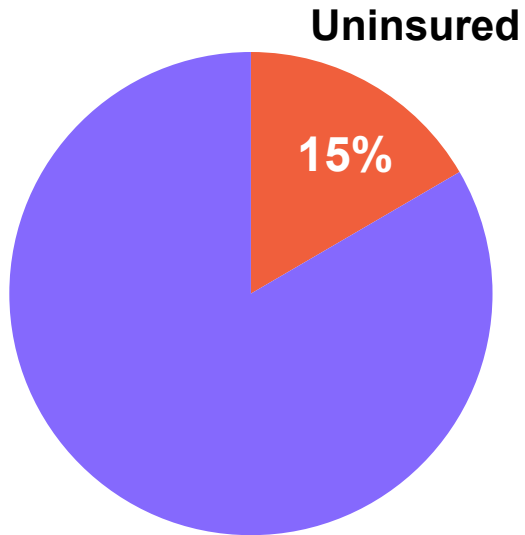
- **Safeway experience**

- **Policy implications**

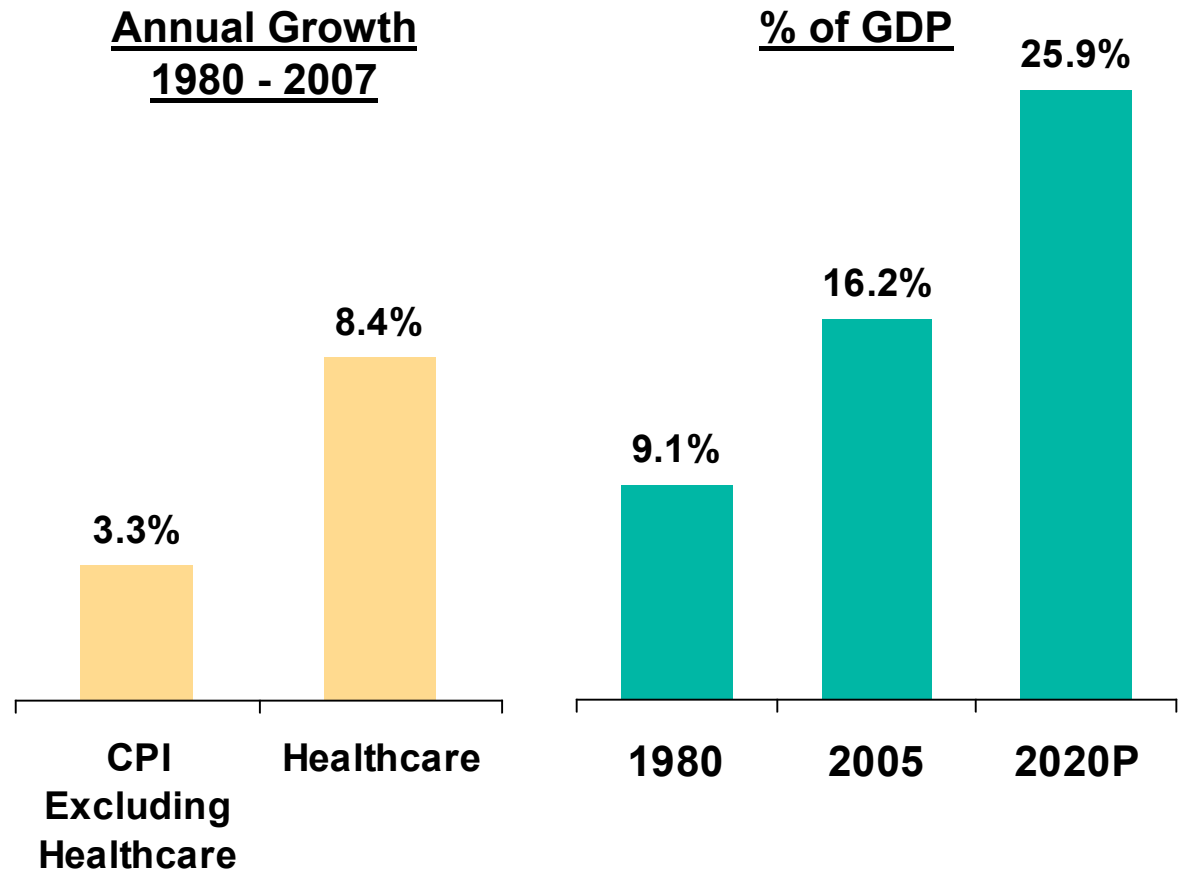
- ***Safeway Health***

America's Healthcare Challenge

Coverage Problem



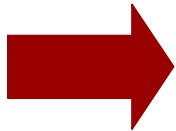
Cost Problem



Lowering America's Healthcare Cost Requires:

- Improving the health of our population

- Improving the effectiveness and efficiency of our healthcare delivery system



A market-based system in combination with universal coverage would address both of these requirements

Root Causes of Escalating Healthcare Costs

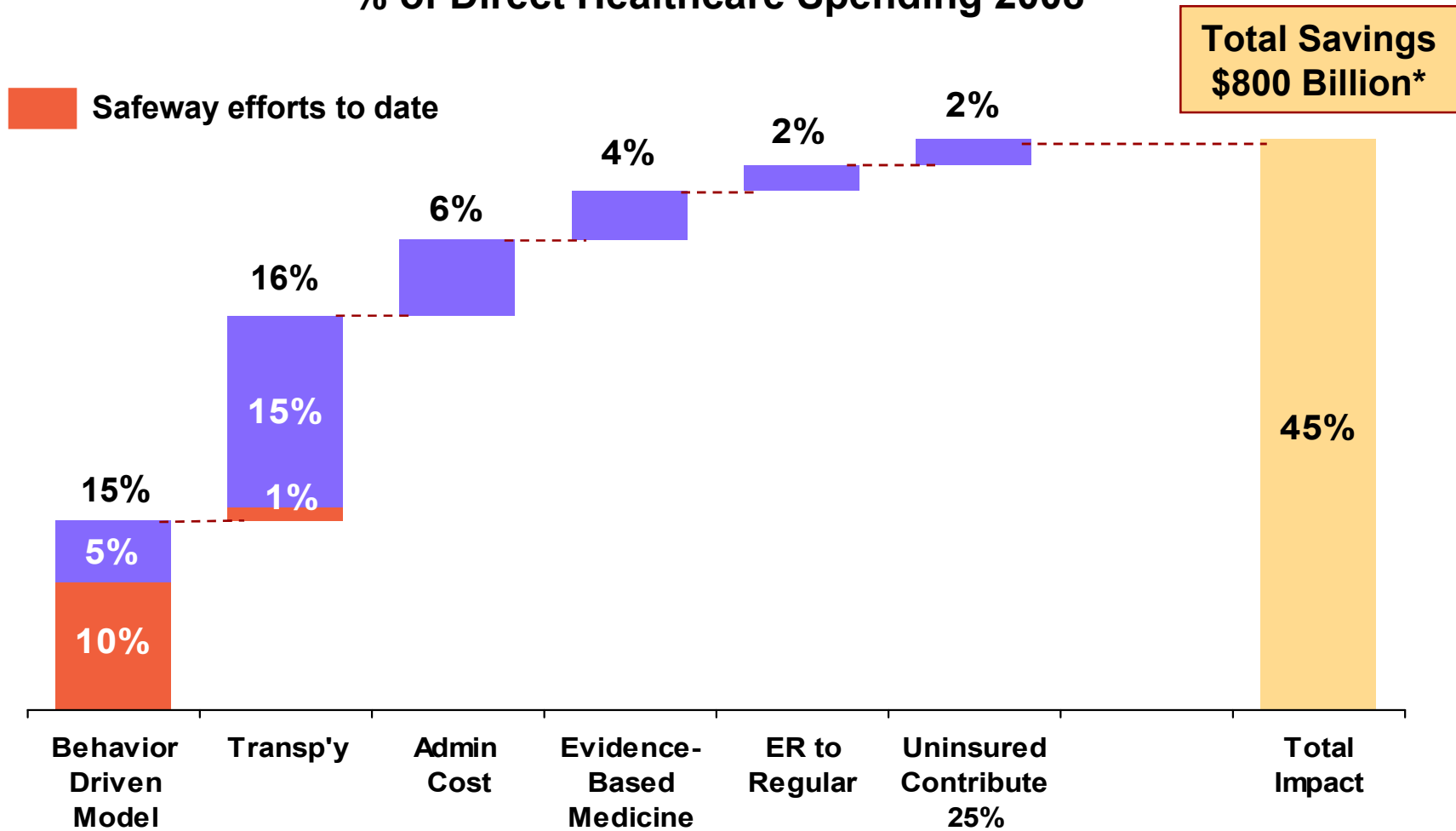
- ***Disconnect*** between payers and receivers of healthcare
- Insurance policies often ***lack incentives to change behavior***
- ***Cost and quality transparency*** is largely absent
- Providers of healthcare have ***little incentive to be cost conscious***...paid for services delivered, ***not***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

Solving the Problem of Rising Costs

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

Potential U.S. Healthcare Savings

% of Direct Healthcare Spending 2008*



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

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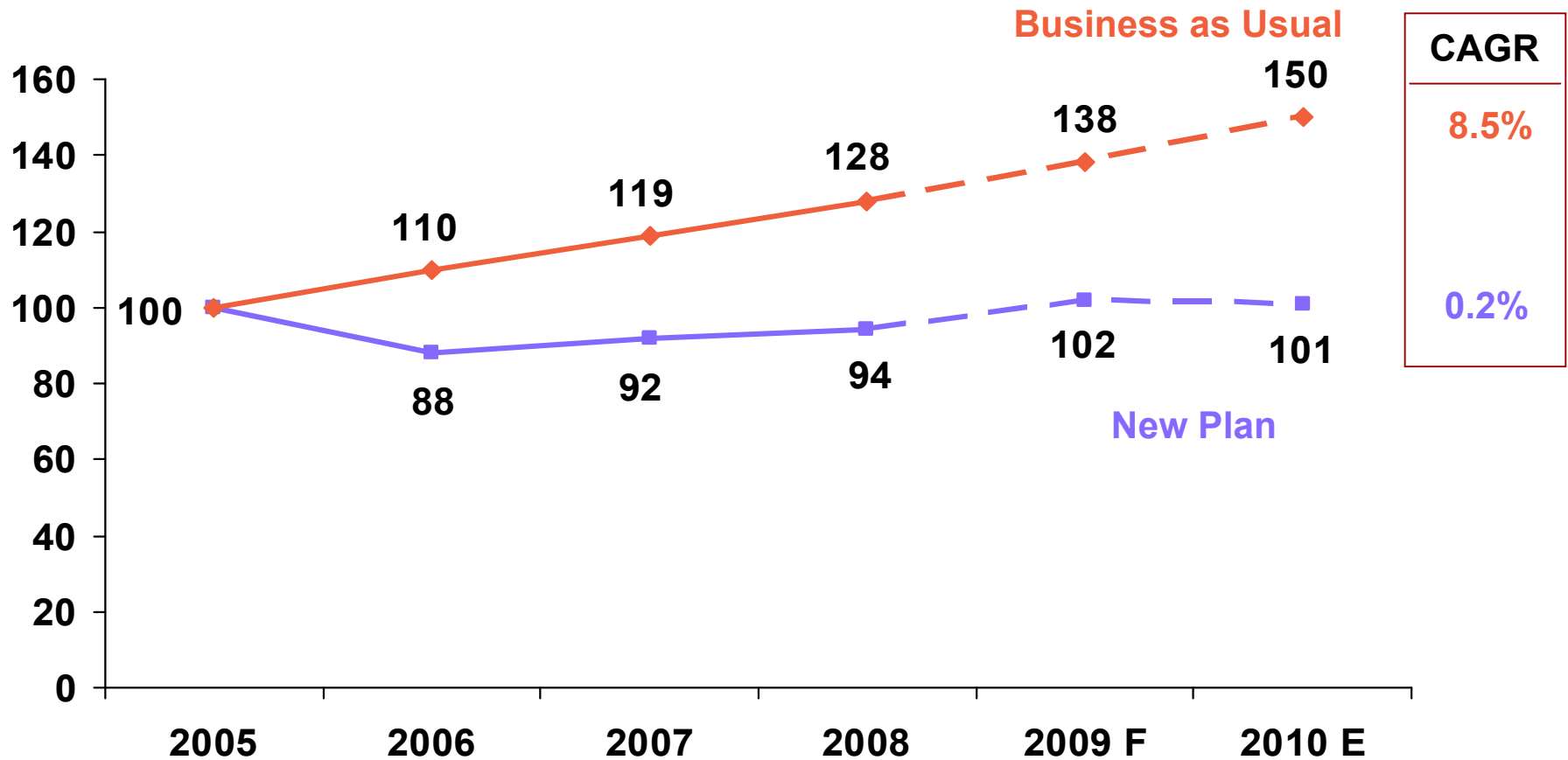
- Safeway experience

- Policy implications

- *Safeway Health*

Safeway's Healthcare Expense Trend*

Index 2005 = 100

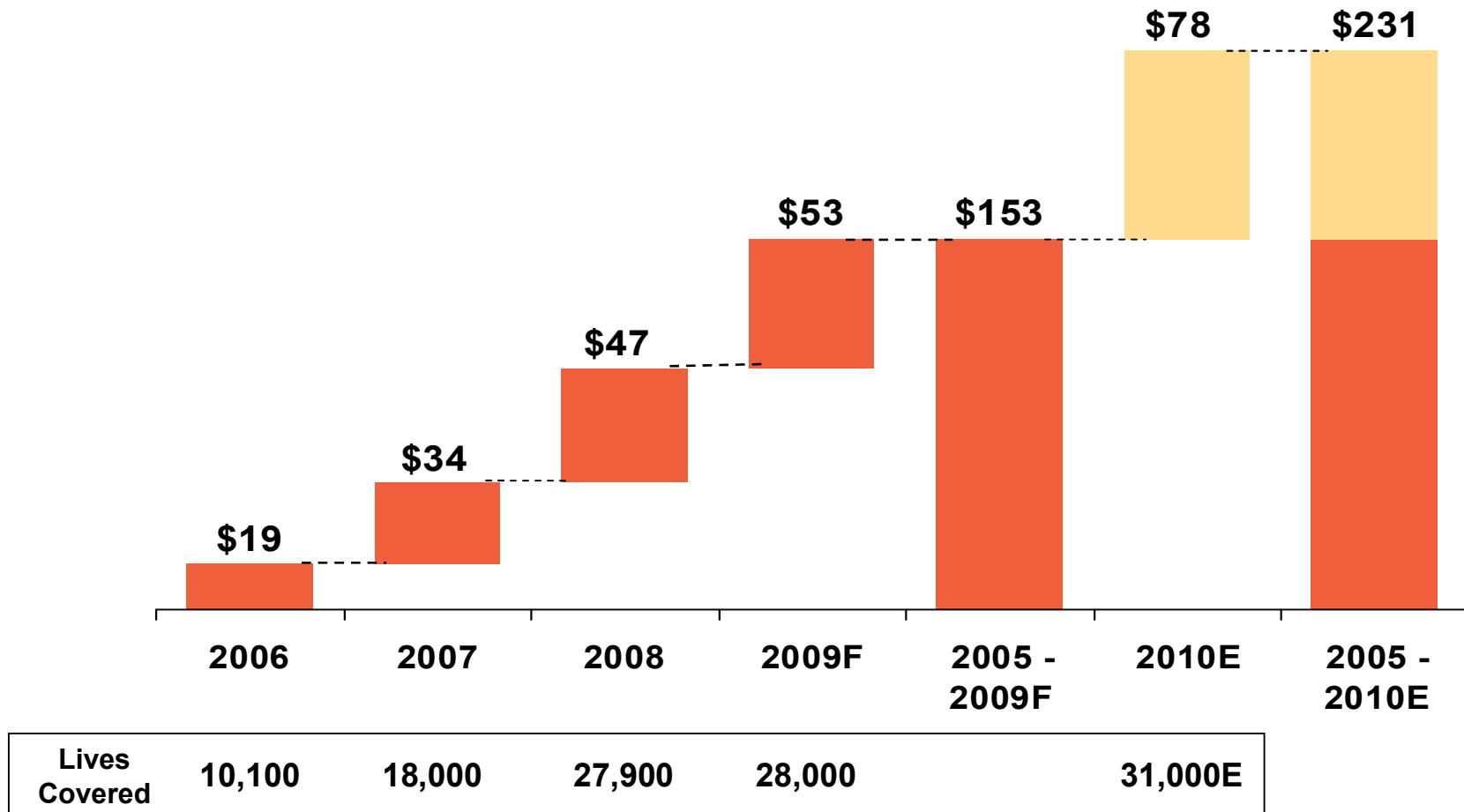


* Per-capita expenses for Safeway non-union EEs moving to new plan from former PPO plan

These per-capita expenses are all-inclusive – Safeway contribution, EE premium and EE out-of-pocket expense

Safeway Healthcare Savings Shared by Safeway and Employees

Savings vs. BAU in \$ Millions

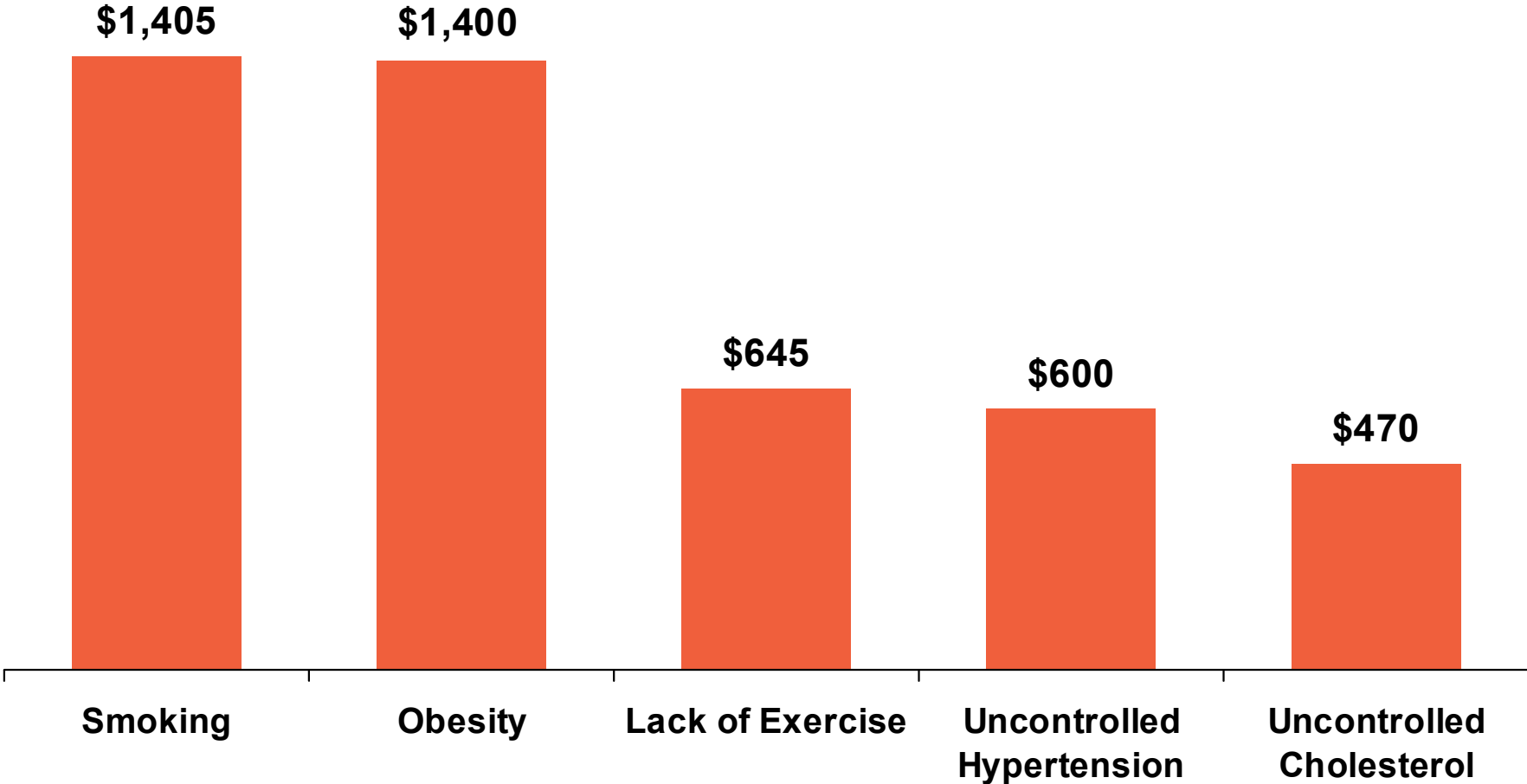


Safeway Results Based on Major Discoveries

- 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
- *Transparency* is critical to controlling costs

Unhealthy Behaviors are Expensive

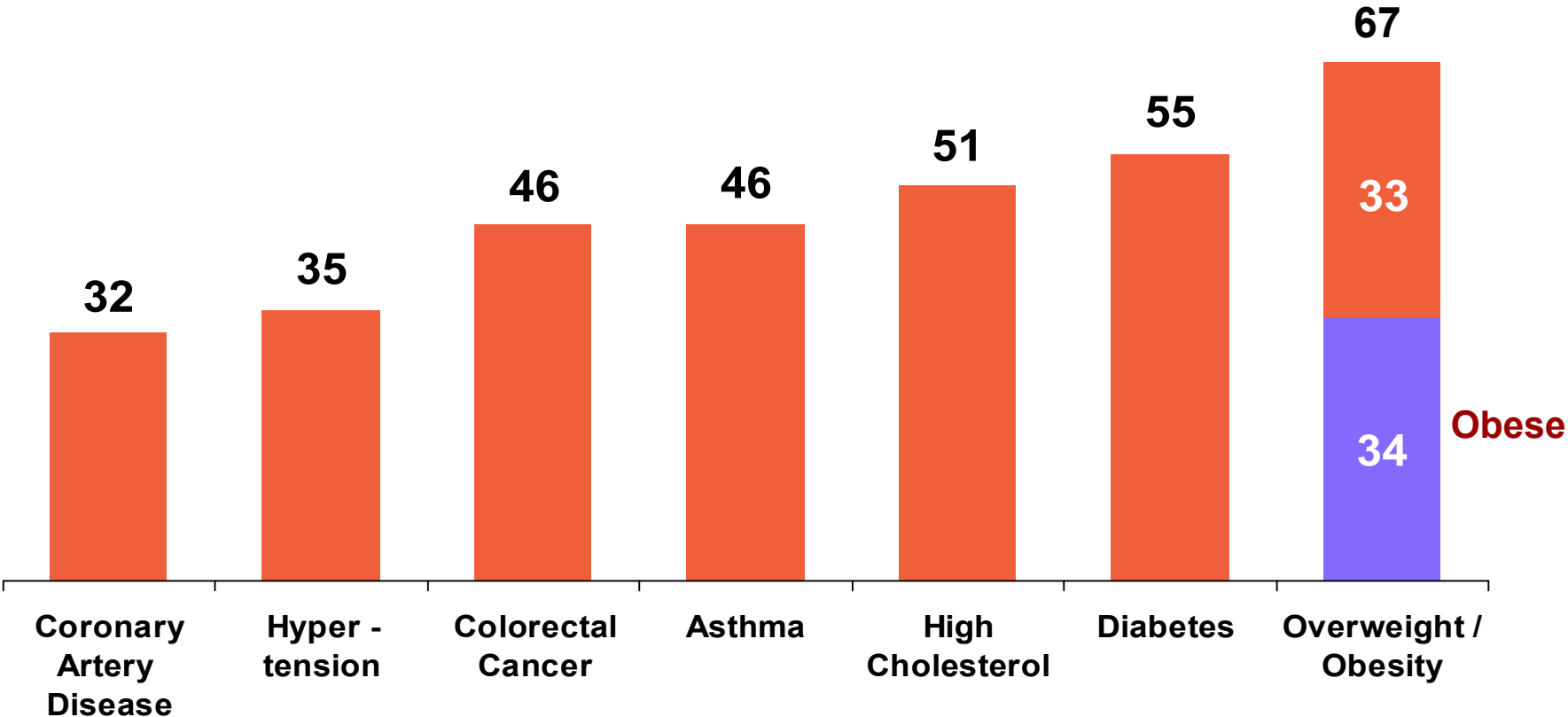
2008 Incremental Cost per Condition



Source: American Institute for Preventive Medicine 2005; American Journal of Health Promotion 1991, 1993, 2000; Milliman & Robertson 1995; Safeway analysis

Non-Compliant Behavior is Common

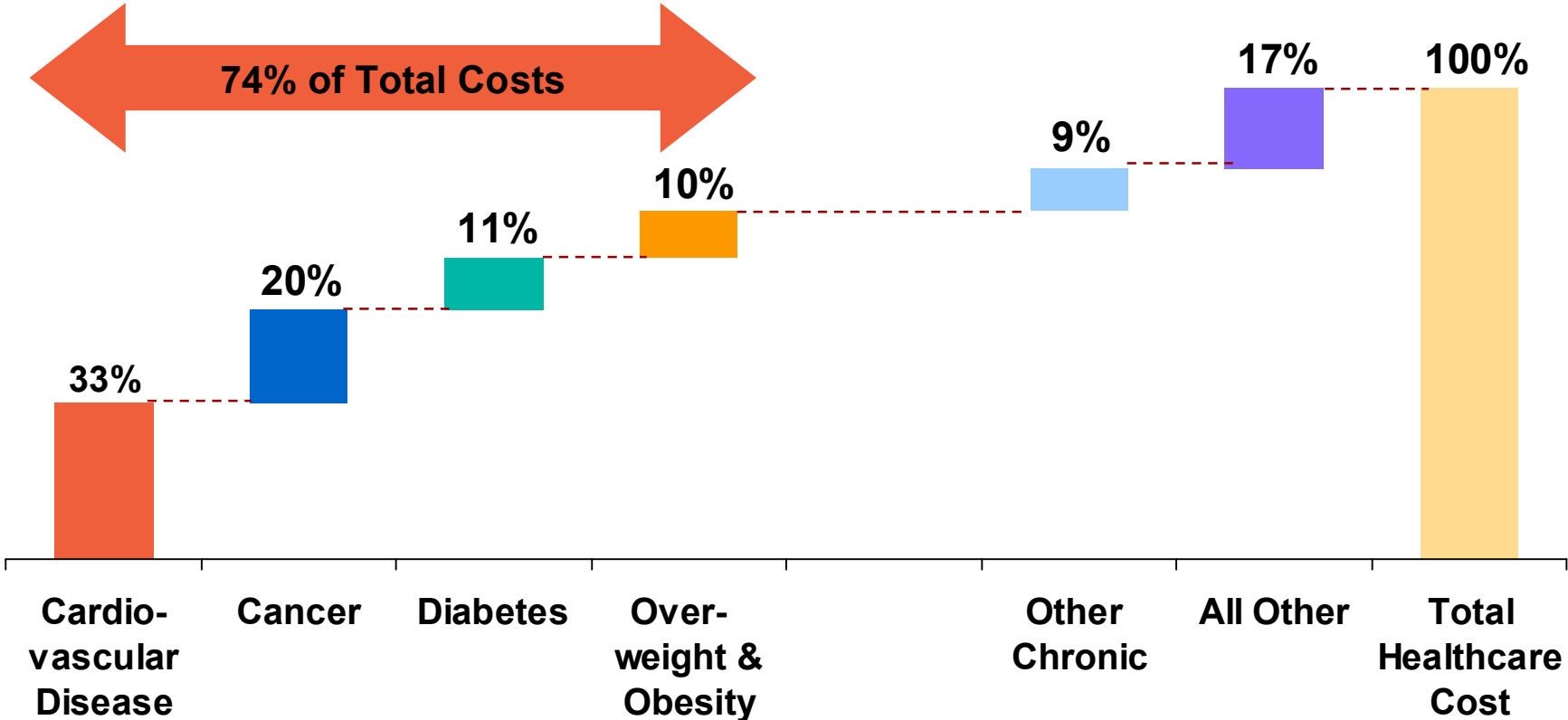
% Non-Compliant with Recommended Care



Source: Elizabeth McGlynn, et al, The Quality of Health Care Delivered to Adults in the United States, NEJM, Vol. 348:2635-2645 June 26, 2003 (No. 26); NHANES 2005-06

Four Chronic Conditions Comprise 74% of Costs

Cost Distribution by Disease State



80% Heart disease / Stroke	60% / 30%	80% Type 2	Nearly all can improve
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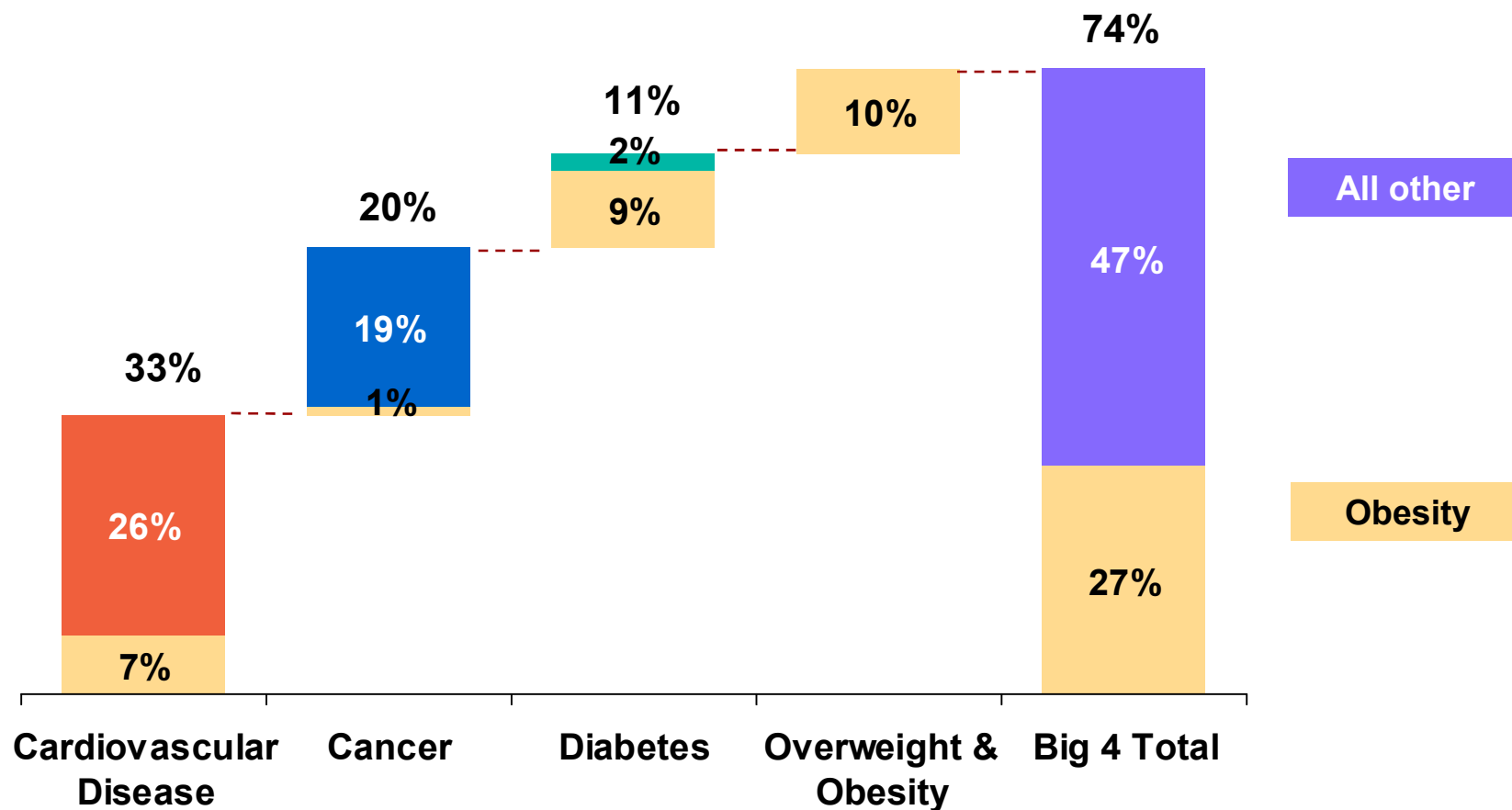
% Preventable / Manageable

Source: CDC, HHS, 2005 data, Safeway analysis



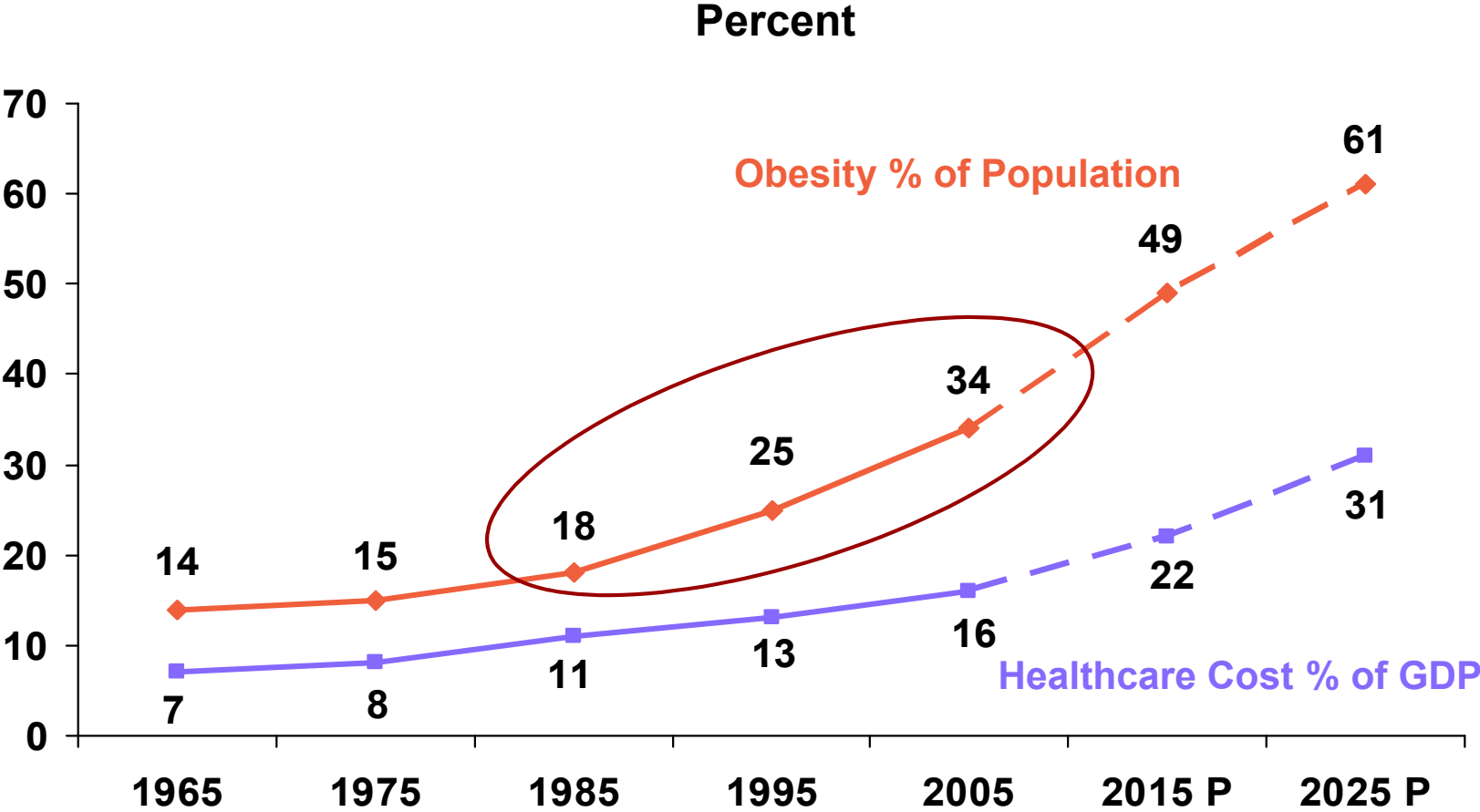
Obesity is a Major Cost Driver – Top 4

Top 4 chronic diseases - % of total healthcare spending



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

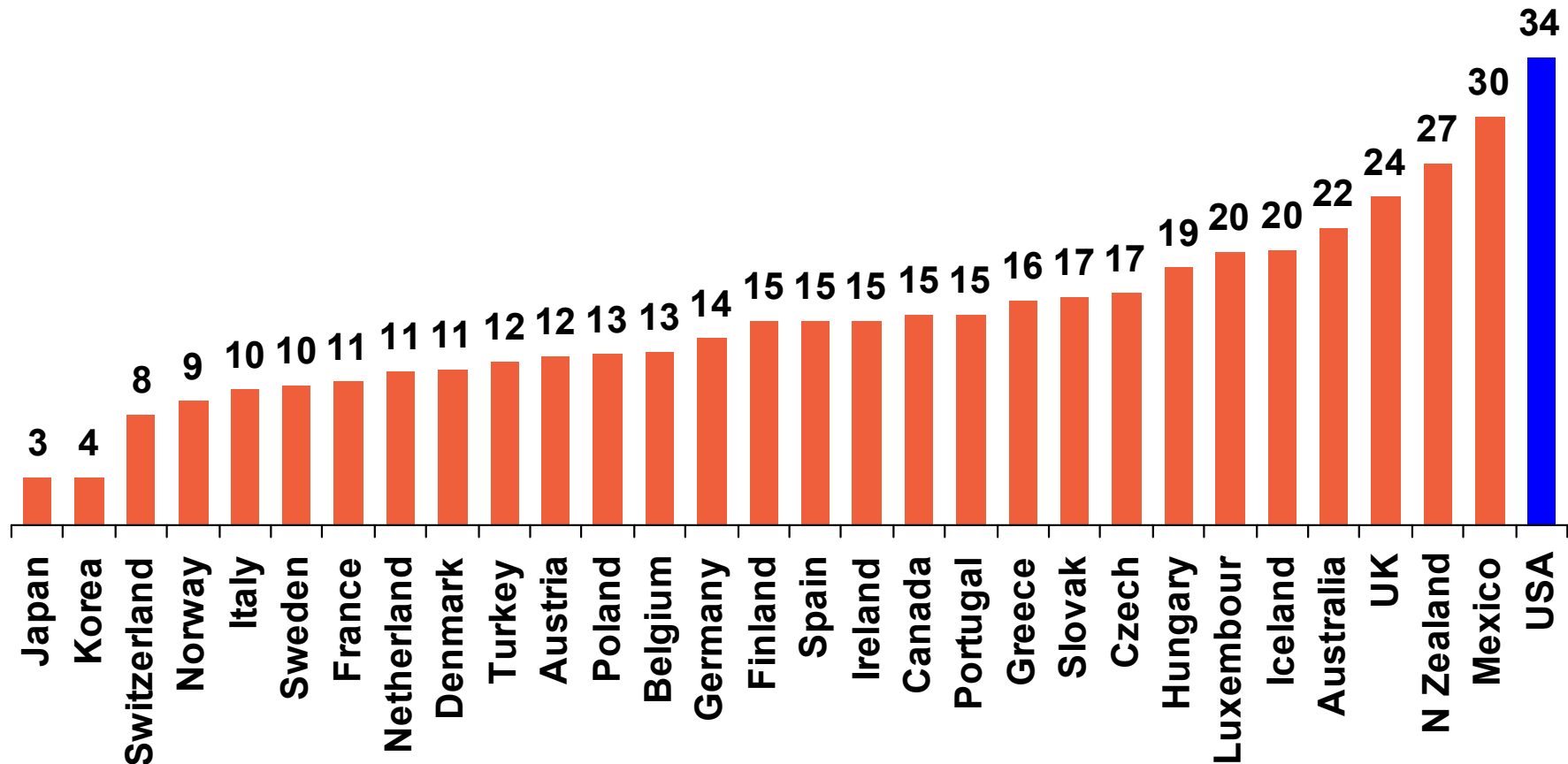
Total Healthcare Costs and Obesity*



* Sources: Obesity – NHANES, Safeway analysis
Healthcare Cost – CMS Office of the Actuary, Safeway analysis

Obesity Prevalence by Country

Obesity Prevalence for Adult Population (Aged 15+) by Country¹
Percent of Population



Notes: (1) Estimates relate to the adult population (aged 15+), based on national health interview surveys for most countries. Rates are based on most recent data available, with years ranging between 2003-2007.

Source: OECD Health Data, http://www.oecd.org/document/16/0,3343,en_2649_34631_2085200_1_1_1_1,00.html

Philosophy for Behavior 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

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

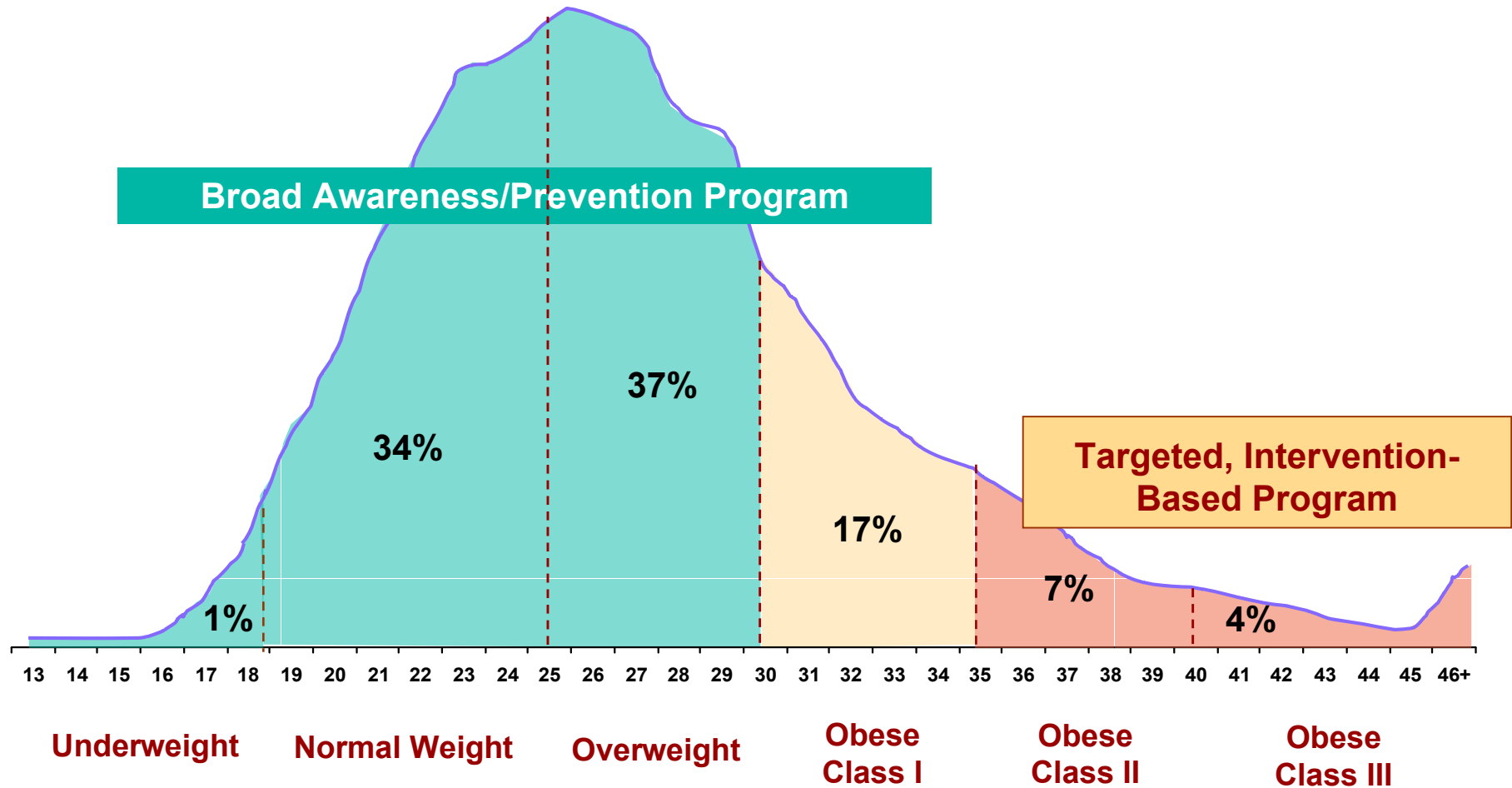
- **78% of participants rate program good, very good, or excellent**

- **Most common suggestion – More incentives!**

- **Reviewed and praised by U.S. Department of Labor**

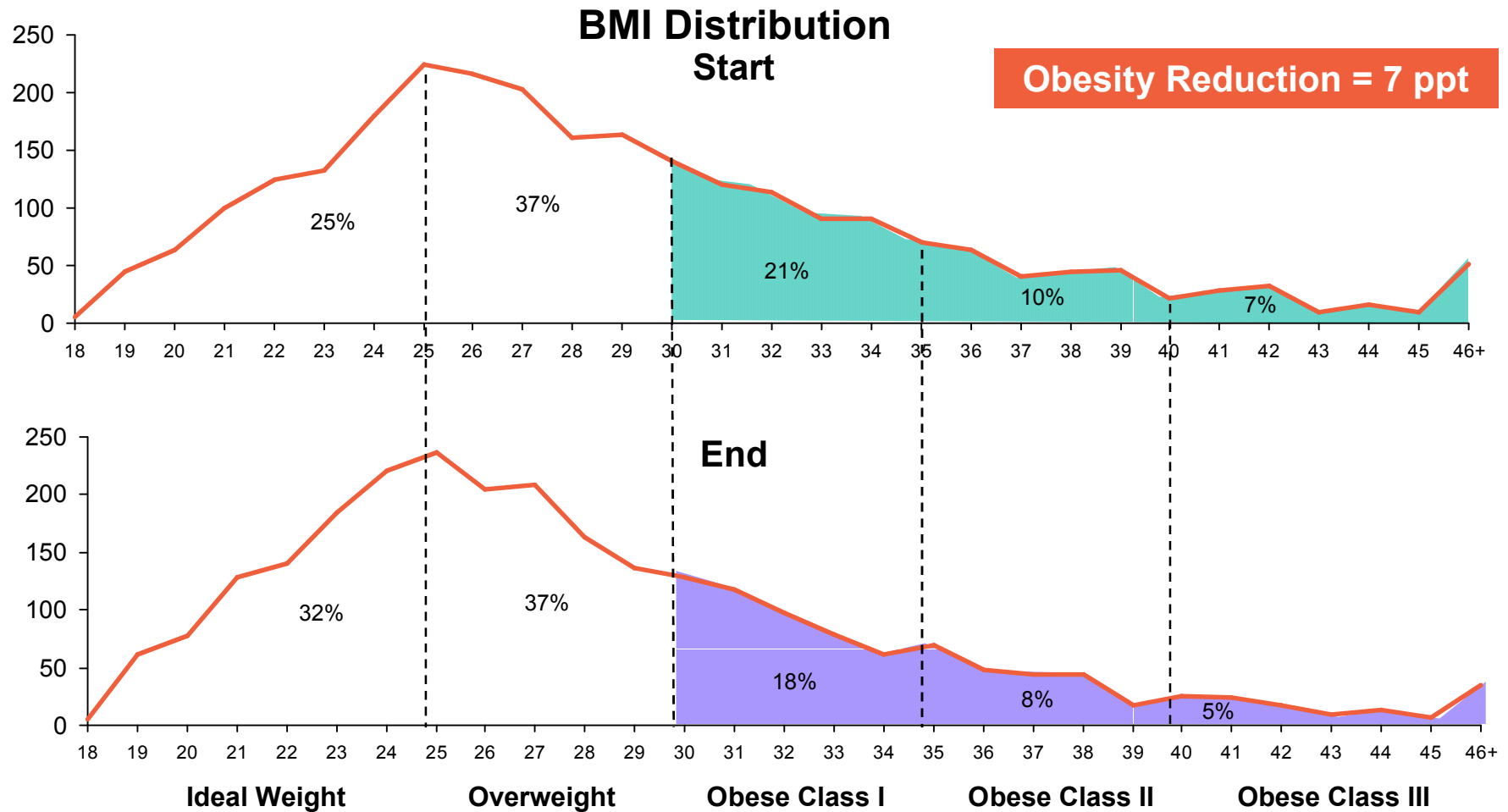
Safeway Obesity Challenge

2008 Safeway BMI Distribution*



* Source: Healthy Measures 2008

100 Day Challenge – Behavior Change



Source: 100 Day Challenge data as of 08/20/09.
Includes BMI information for 78% of current participants, 74% of enrolled participants.

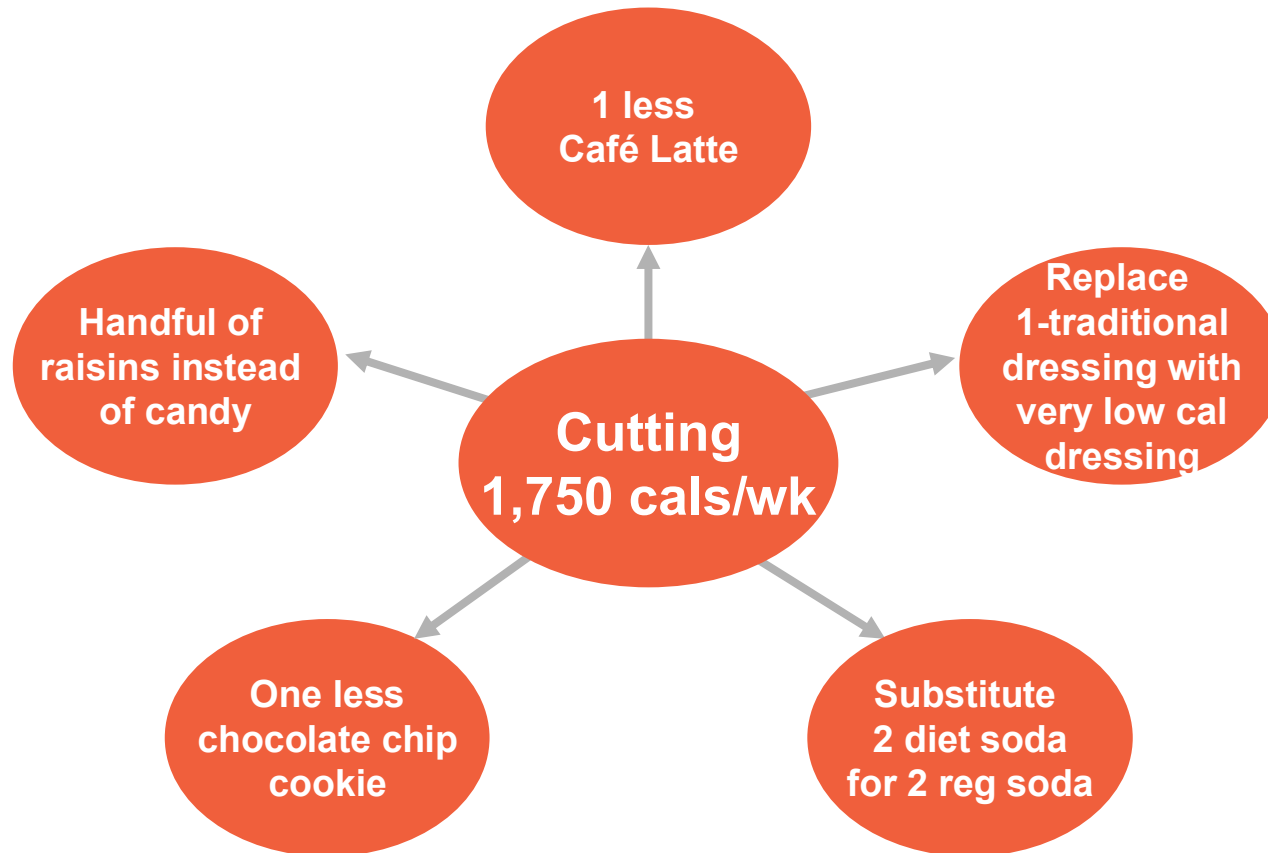
Healthy Weight Commitment Foundation* **Tackling Obesity Nationwide**

- **Over 40 food manufacturers and retailers working together**
- **Comprehensive approach to battling obesity**
- **Focused on individual consumers, in schools, and in the workplace**
- **Launched at National Press Club – October 5, 2009**

* Food industry initiative; Safeway is Co-Founder

1,750 Less *Calories In* per Week

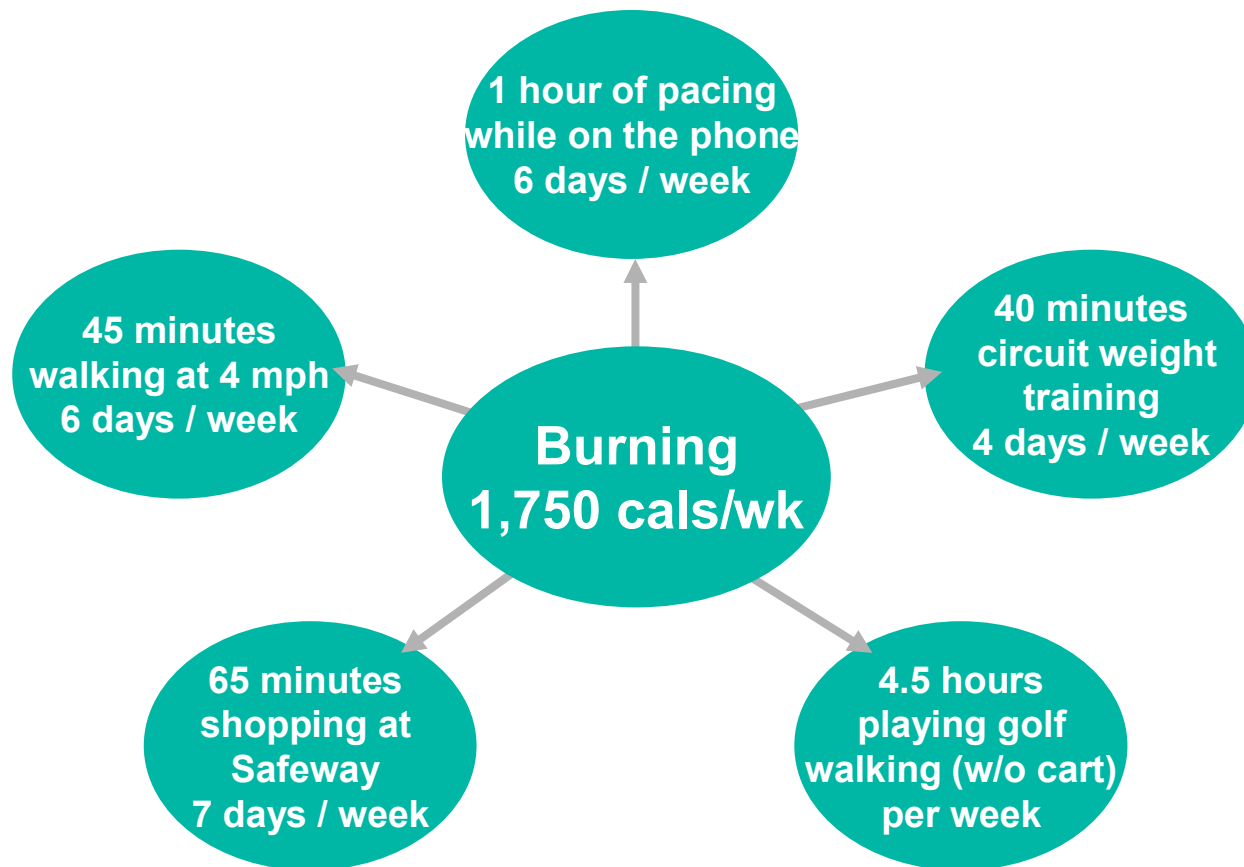
Many ways to achieve the goal – 250 / day



Keep the volume and taste, not the calories

1,750 More *Calories Out* per Week

Many ways to achieve the goal – 250 / day

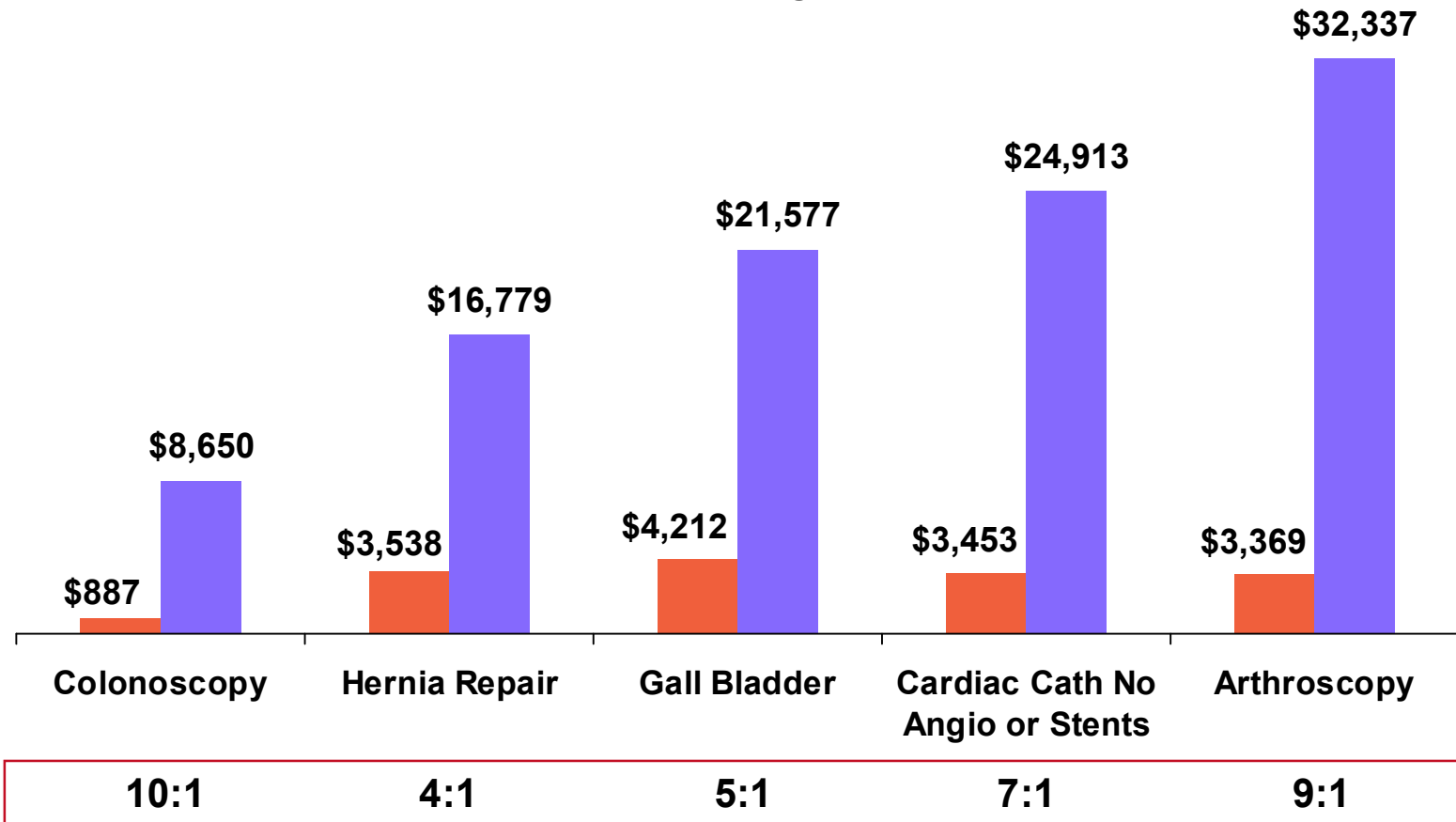


Add activities *incremental* to normal movement

Transparency Matters

Cost Per Procedure (\$) - Greater SF Bay Area MSA

Low Cost High Cost



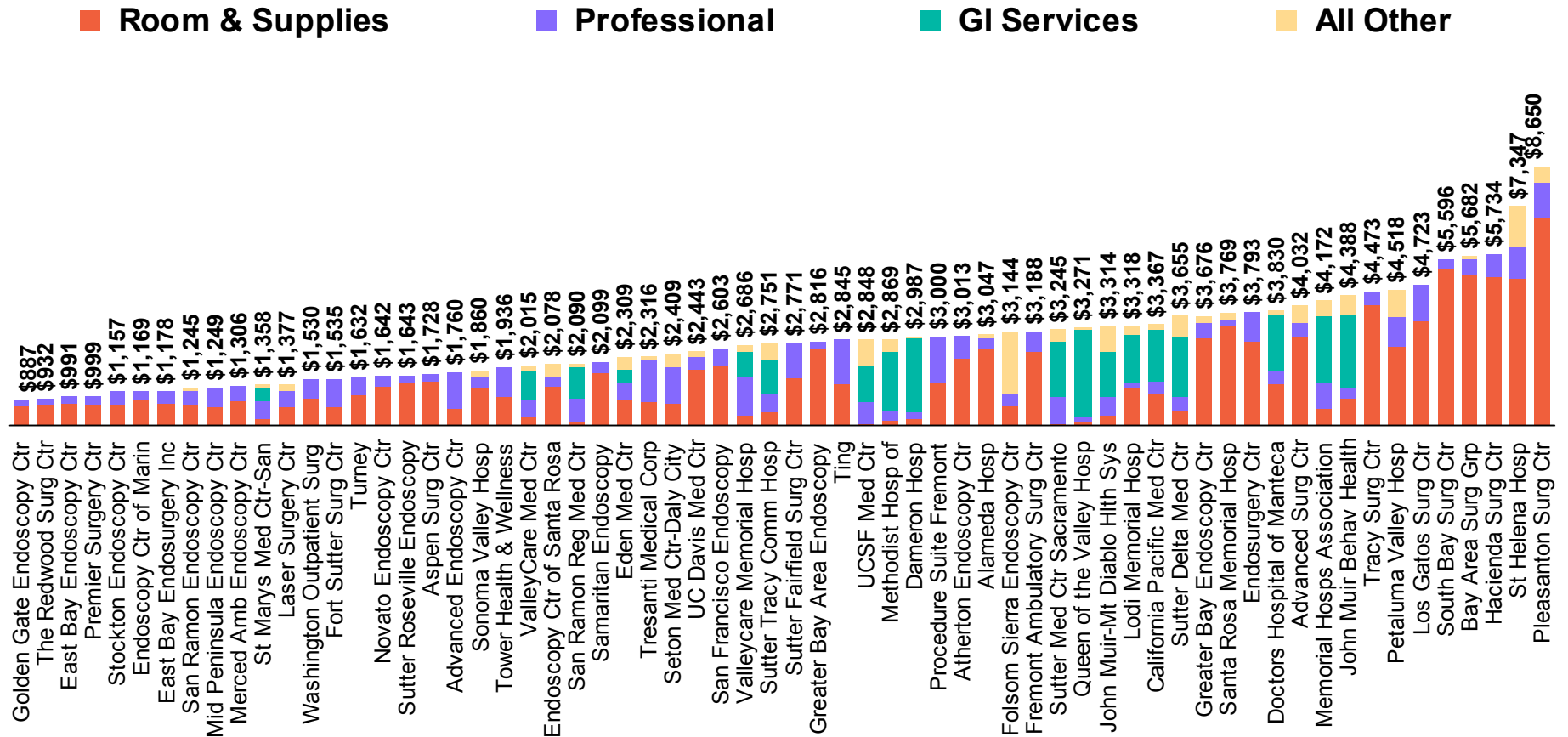
High Cost : Low Cost Multiple

Source: Safeway data and analysis - non-bargained employees



Colonoscopy

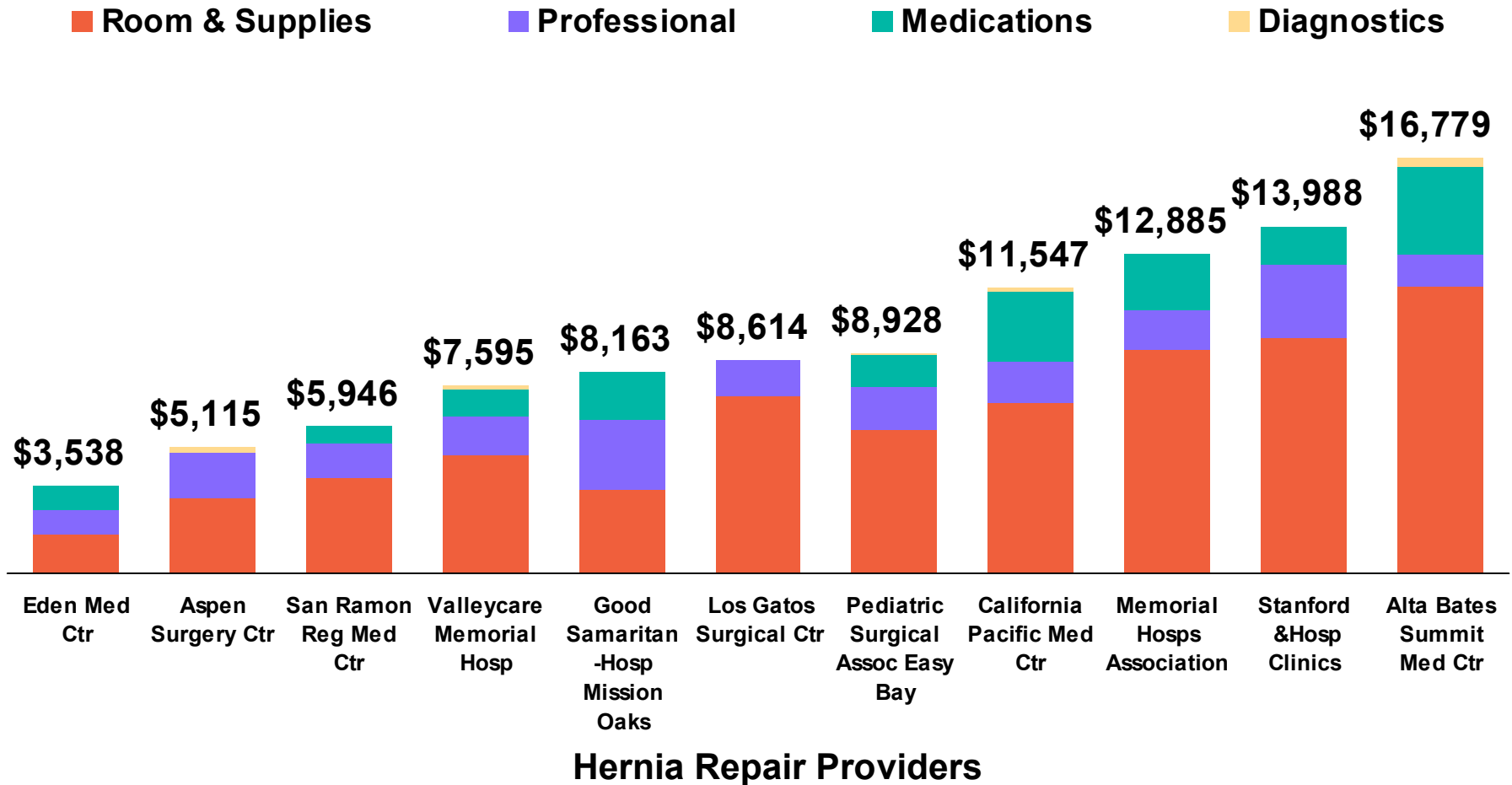
Cost Per Procedure (\$) – Greater SF Bay Area MSA



Colonoscopy Providers

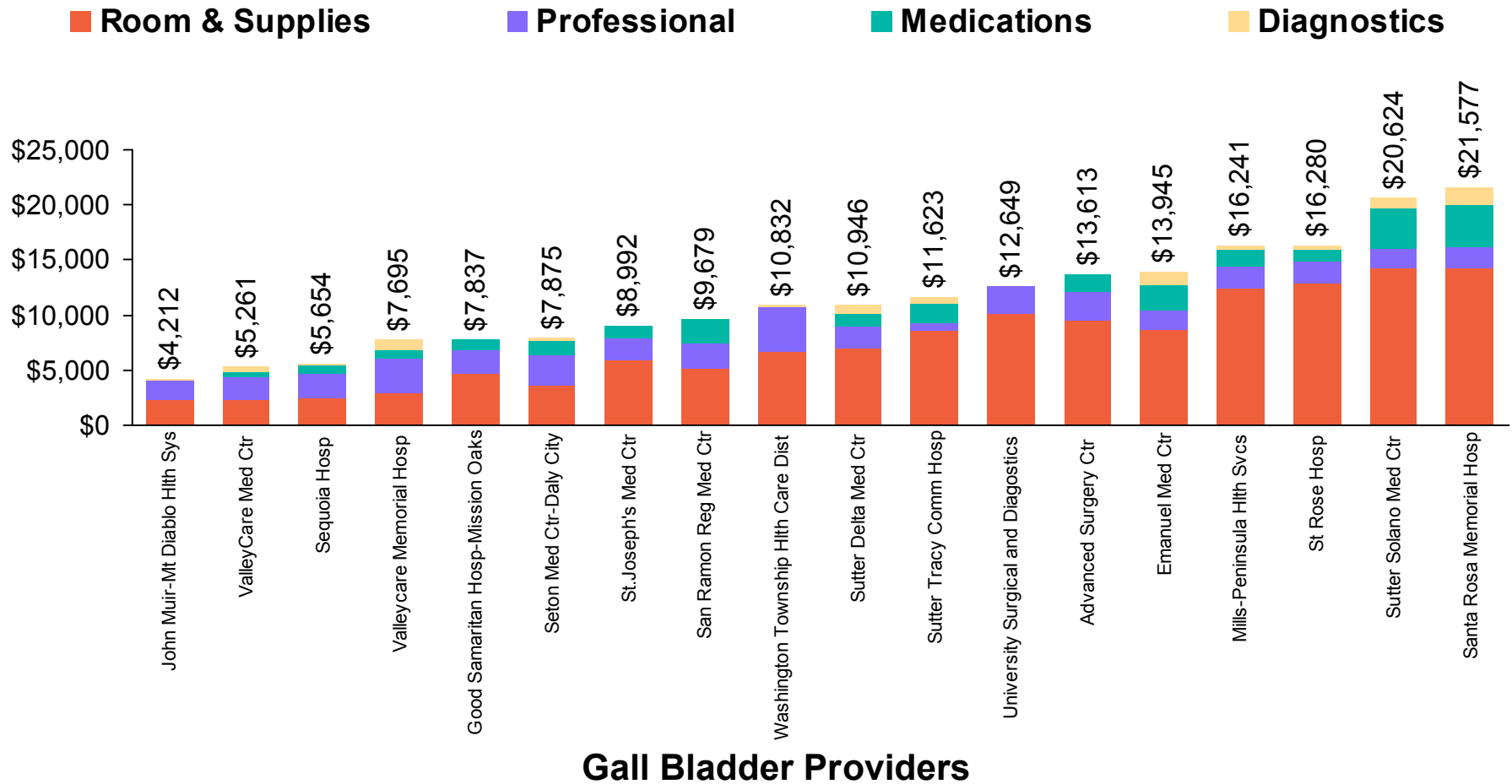
Hernia Repair

Cost Per Procedure (\$) – Greater SF Bay Area MSA



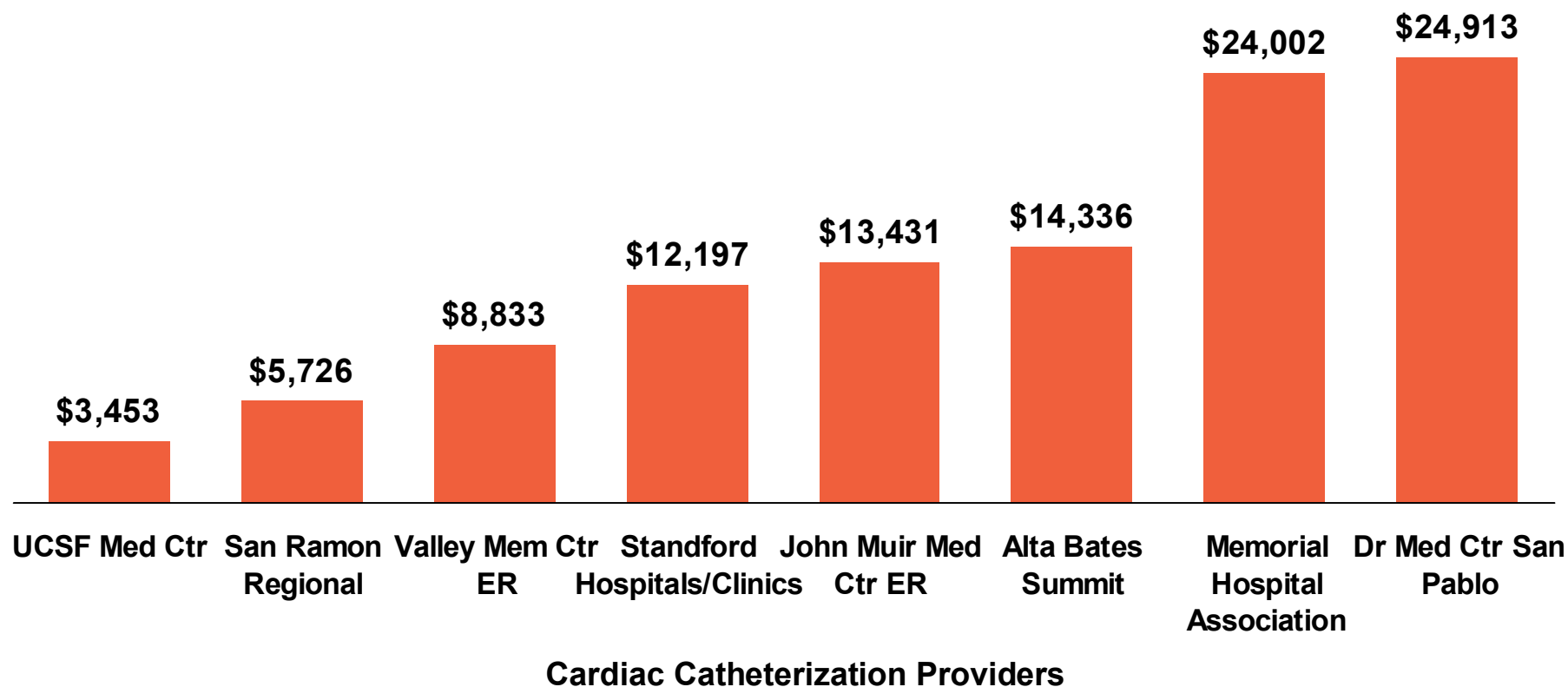
Gall Bladder

Cost Per Procedure (\$) – Greater SF Bay Area MSA



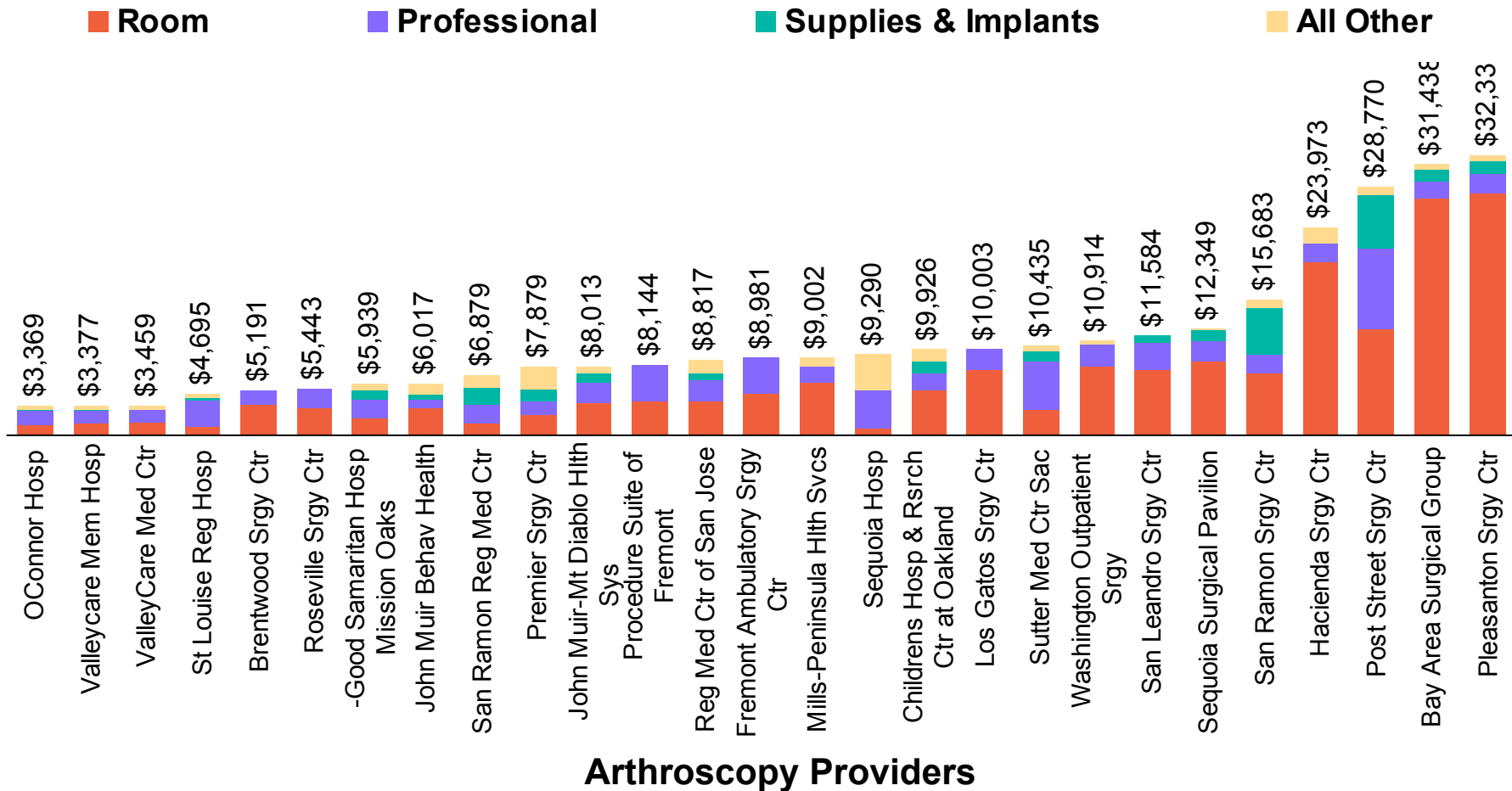
Cardiac Catheterization – No Angioplasty or Stents

Cost Per Procedure (\$) - Greater SF Bay Area MSA



Arthroscopy

Cost Per Procedure (\$) – Greater SF Bay Area MSA



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 since 2002 – more than \$100 million to date
- Engagement in policy discussion

Slide showing major elements of the Safeway health plan is omitted

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**



CAHR Membership

- Aetna
- Alex Lee Inc.
- Bashas
- Blue Shield of CA
- Brookshire
- Bumblebee Seafoods
- C&S Wholesale
- CIGNA
- Clorox
- Coca Cola
- CVS / Caremark
- Del Monte Foods
- Edison International
- Eli Lilly
- GAP Stores
- 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
- 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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- Policy implications
- *Safeway Health*

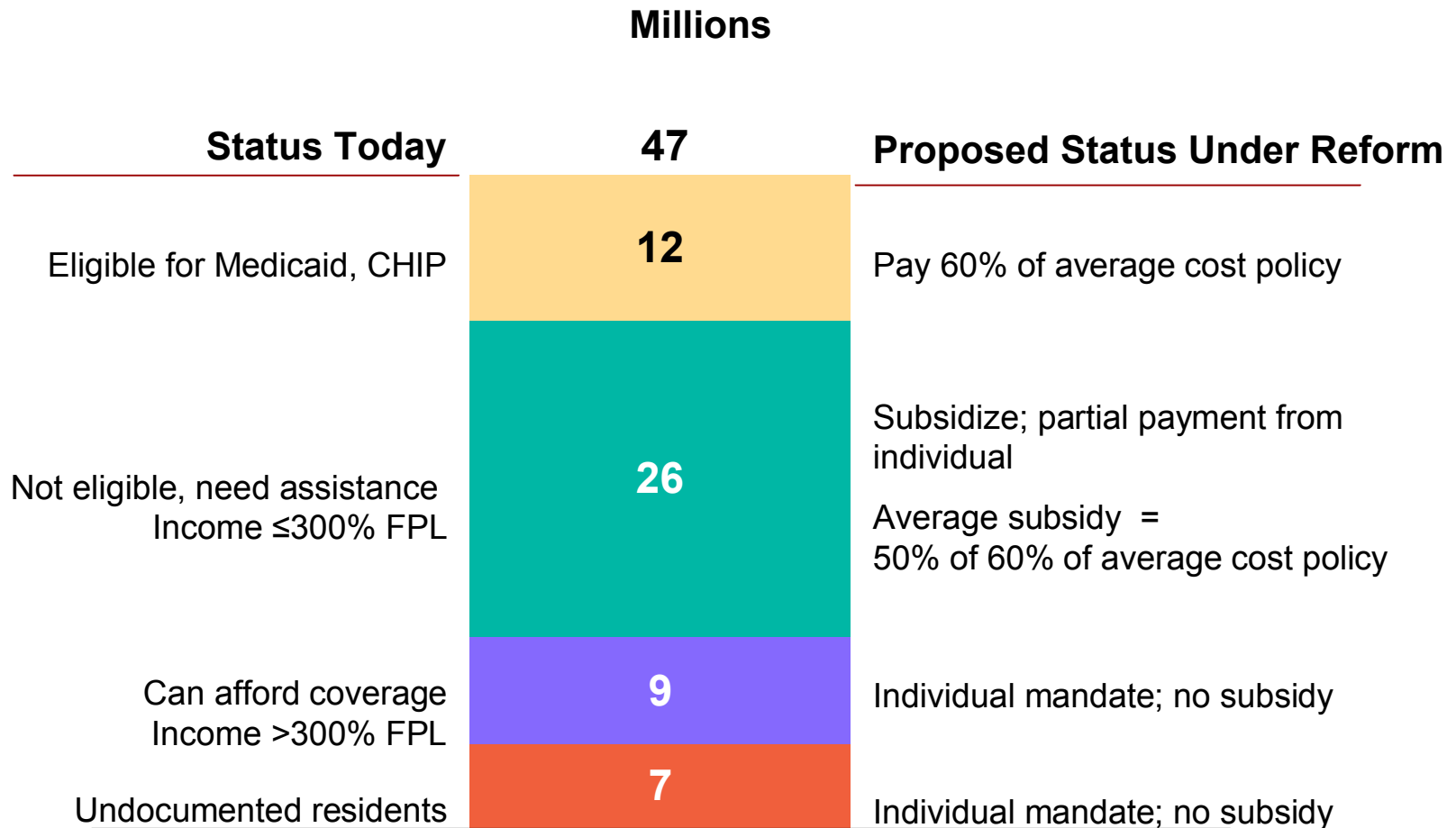
Key Elements for Effective Healthcare Reform

Elements to be Included	Elements that should NOT be Included
<ul style="list-style-type: none">▪ Individual mandate / universal coverage<ul style="list-style-type: none">– Insurance Exchanges– Subsidies for low-income individuals– Elimination of Medicare & Medicaid inefficiencies– Equal tax treatment ▪ Personal responsibility for healthy behavior ▪ Transparency on cost and quality	<ul style="list-style-type: none">▪ Public option ▪ Small business waiver ▪ Food taxes

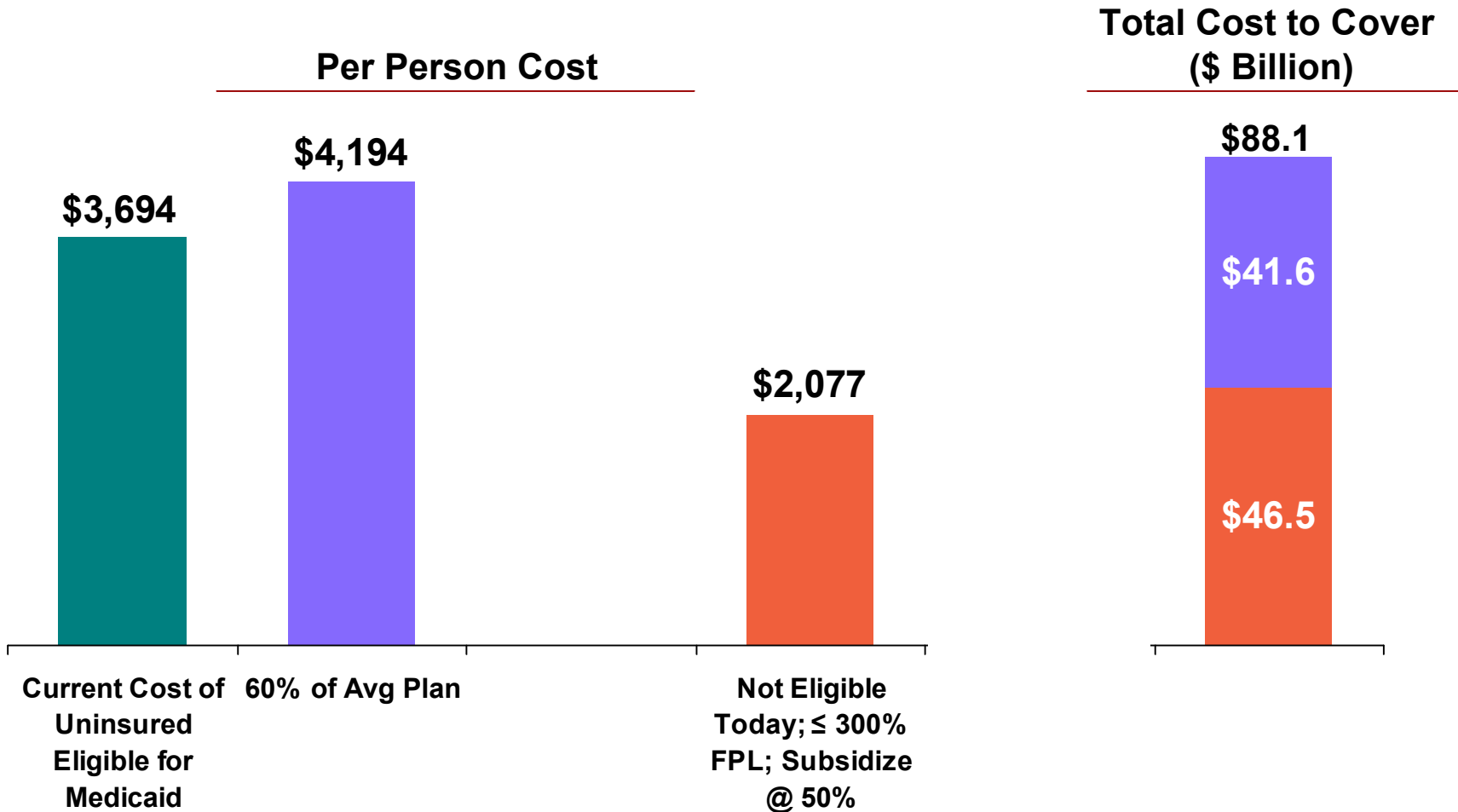
Financing Healthcare Reform

- **Cost to cover uninsured lower than commonly thought**
- **Savings more than sufficient to finance healthcare reform**
- **Government must enable the savings**
 - Individual mandate
 - Mandatory transparency
 - Increased HIPAA limits for behavior
- **Phased approach or transitional payroll tax on all employers**
 - Natural incentives to use transparency and behavior
 - Capture savings and offset the tax

Uninsured Population - 2009

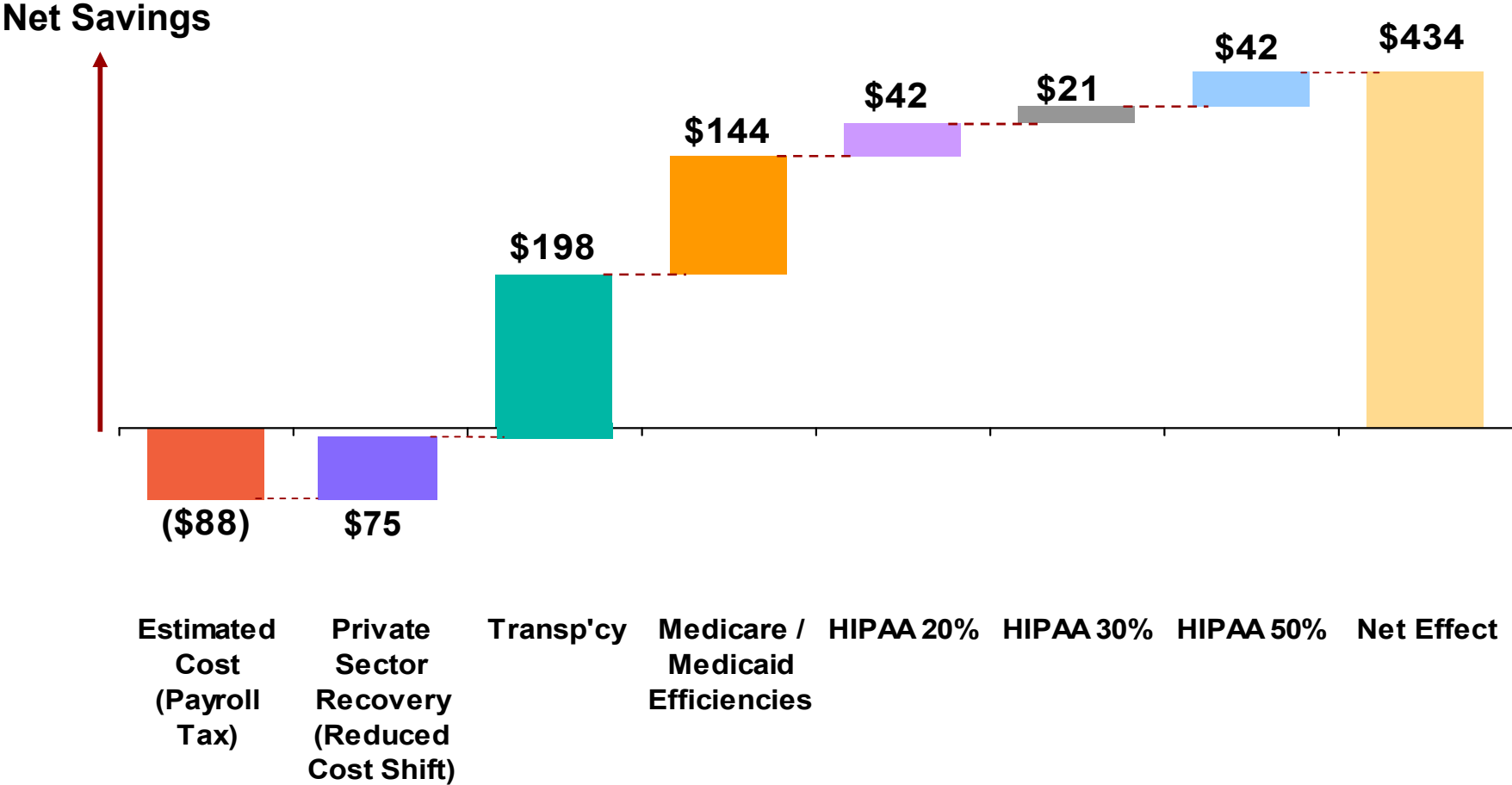


Cost to Cover Uninsured



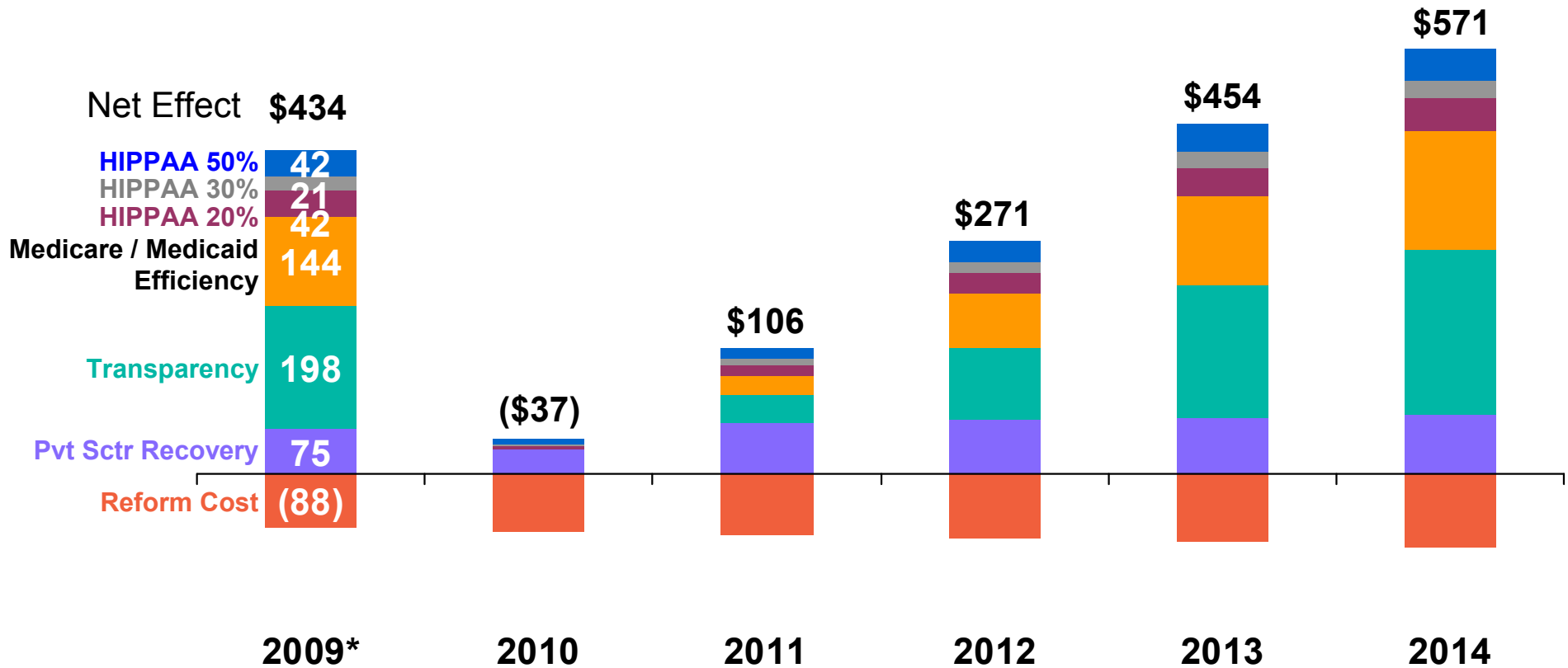
Financing Healthcare Reform

2009 Baseline Annuity Values - \$ Billion



Financing Healthcare Reform

2010 to 2014 Values - \$ Billion



	2009*	2010	2011	2012	2013	2014
Cover Uninsured in	2010	0.62%	N/A	N/A	N/A	N/A
	2011	N/A	N/A	N/A	N/A	N/A

*Baseline annuity value

Net Annual Reform Cost (% of US Payroll)



Why This Approach is Good Policy

- Establishes an appropriate benefit for today's uninsured, and achieves universal coverage
- Finances reform completely and generates a surplus
- Provides powerful financial incentives to the private sector to implement key reform elements in their own organizations . . .
 - Behavior incentives
 - Transparency
 - Evidence-based medicine. . . **and more than offset the effect of a payroll tax quickly**
- Normalizes Medicare service levels and adjudication nation-wide

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Safeway Health Concept

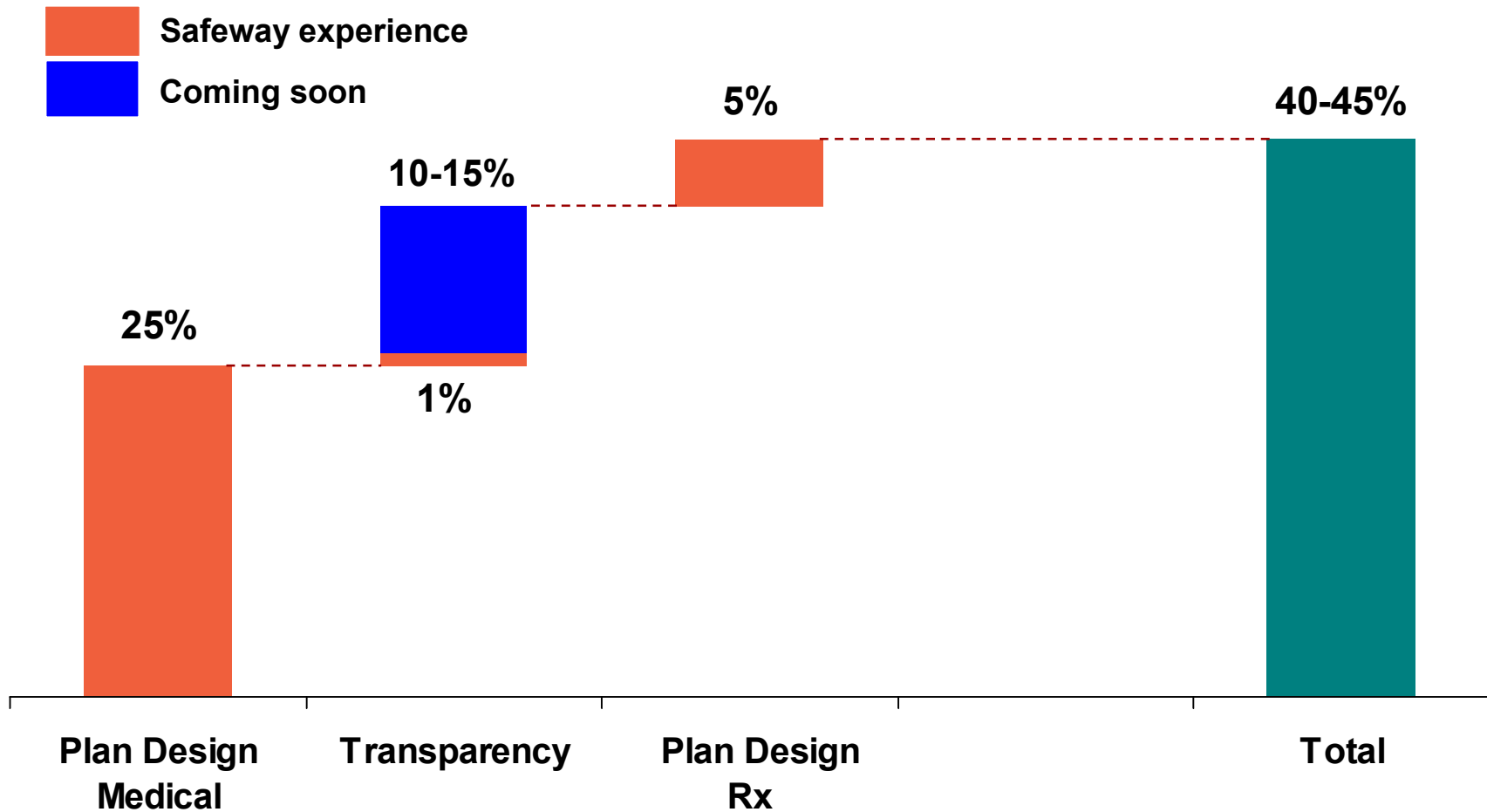
- **Partner with client organizations**
- **Replicate the Safeway experience**
- **Strengthen the client's healthcare paradigm**
- **Reduce healthcare costs**
 - Plan design medical
 - Plan design Rx – proprietary tools
 - Transparency
- **Share savings achieved**

Re-Designed Healthcare

What's it Worth For Individual Companies?

- Lower, sustained per capita healthcare costs
- Healthier employees
- Improved productivity
- *Safeway Health* a vehicle for achieving results

Safeway Health Cost Savings Potential



Source: CDC, HHS, Safeway Health analysis

Re-Designed Healthcare

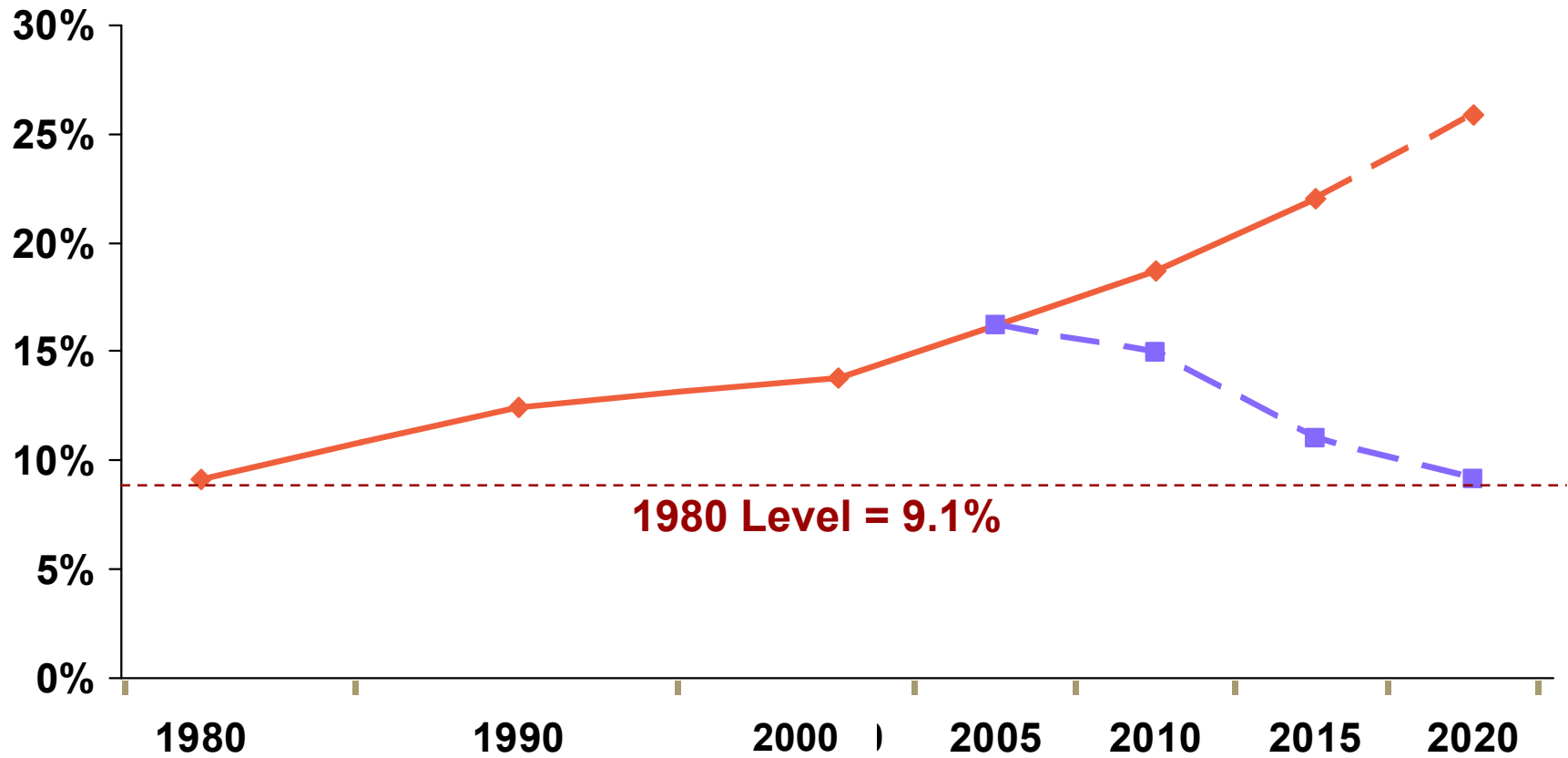
What's it Worth For the Nation ?

- Savings more than sufficient to fund today's uninsured
- Healthier citizens
- Market forces in healthcare; lower costs and trends
- Improved U.S. competitiveness in global markets

Healthcare Costs as Percent of GDP

Healthcare Annual Cost Growth Scenarios

—◆— Business as Usual + 8.2% —■— Flat 0%



Source: Safeway analysis

SAFeway 

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