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At Wal-Mart, a Health-Care Turnaround

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Once Criticized, Company Is Now an Innovator in Employee Coverage

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Washington policymakers contemplating a fundamental overhaul of the nation's troubled health-care system may want to study the saga of Wal-Mart.

Once vilified for its stingy health benefits, the world's largest company has become an unlikely leader in the effort to provide affordable care without bankrupting employers, their workers or taxpayers in the process. From its headquarters in Bentonville, Ark., the retailer is doing in the real world what many in Washington are only beginning to talk about.

At a time when other firms are scaling back or eliminating health coverage, Wal-Mart has made a serious dent in the problem of the uninsured. New figures being released today show that 5.5 percent of its employees now lack health insurance, compared with a nationwide rate of 18 percent.

The company has also put into practice many of the innovations that experts say will lead to higher-quality, more efficient care. Using its high-tech marketing savvy, Wal-Mart has introduced digital records, partnered with prestigious organizations such as the Mayo Clinic, and begun targeting costly health problems such as obesity and premature births.

Yet for all of Wal-Mart's achievements, the story of its immersion in the world of health policy is also a warning about the depth and breadth of one of the thorniest challenges facing the country today.

In attempting to strike a balance between healthy profits and healthy workers, Wal-Mart, like many businesses, still falls short of the comprehensive care that President Obama says he wants for Americans.

To reach near-universal coverage, the largest private employer in the nation relies heavily on the government and other employers to play a role. Of the company's 1.4 million workers, 52 percent are in a Wal-Mart health plan. Despite revenue that is expected to exceed $400 billion for 2008, the company charges its low-wage workers a substantial portion of their income for medical coverage.

Though proud of what it sees as dramatic progress, Wal-Mart itself warns that in a global market with a weakened economy, it cannot -- or will not be able to -- accept annual health-care increases of about 8 percent indefinitely.

"It starts to impact us competitively," said Linda Dillman, the company vice president tapped to oversee the health plan.

To Andrew Stern, president of the Service Employees International Union and a frequent Wal-Mart critic, the company's health contributions are not commensurate with its financial success. The moral, he said, is that "volunteerism has its limits."

But to Mark Smith, head of the California HealthCare Foundation, an independent nonprofit focused on health-care quality and efficiency, Wal-Mart's experience provides a different lesson.

"Even a company as big and successful as Wal-Mart cannot possibly solve this problem on its own," he said. "There are limits to what one company can do."

'It Had to Do Something'

It began with an internal memo, union agitators and some awfully bad press.

In fall 2005, the union-sponsored Wal-Mart Watch got its hands on a company memo outlining ways to clamp down on soaring health-care bills. Among the suggestions: Stop hiring unhealthy people.

Frustration with Wal-Mart had been building. Main Streets across the country chafed at the big-box store's arrival; labor activists complained that workers had to wait up to two years to qualify for the company health plan, which in many cases cost nearly 10 percent of the typical $20,000-a-year salary.

Yes, some U.S. companies did not provide any health insurance. But the skimpy Wal-Mart coverage seemed particularly galling compared with the billions in personal wealth amassed by the company's founding family, the Waltons.

The retailer symbolized by a bright-yellow smiley face was suddenly tagged with a red bull's-eye. Unions underwrote two aggressive anti-Wal-Mart campaigns, staffed primarily with Democratic political operatives. Teachers boycotted the back-to-school shopping season.

Several states, including Maryland, considered legislation in 2006 requiring that large employers commit a certain portion of their revenue to employee health care. Though the bills never said so, they were aimed at just one company.

The criticism stung, but more important, it began to affect the bottom line. Between 2000 and late 2005, Wal-Mart's stock fell 27 percent.

"It was hurting them when they tried to open a new store," Smith said. "For normal competitive reasons and its corporate image, it had to do something."

In 2006, then-chief executive Lee Scott appointed Dillman, his technology guru at the time, to take over health care. Though she maintains that Wal-Mart's program was never as bad as opponents suggested, Dillman moved quickly to make changes.

First, the wait to enroll in the health plan was reduced from two years to one for part-time employees and to six months for full-time workers. By the following year, an additional 50,000 workers were eligible.

Next, Wal-Mart put its marketing genius to work, doing sophisticated research on its own personnel.

"Any retailer will tell you that's what they do with their customers," Dillman said in a recent interview. "There are very sophisticated methods of doing this. If you want people to sign up, go find out what they need."

Employees said they wanted more choices, especially low-cost emergency coverage options. Wal-Mart responded with a menu of deductibles, co-payments and maximum out-of-pocket costs. It teamed up with the Internet site WebMD to simplify enrollment, created electronic health records and expanded its $4 generic drug plan from the 350 medications available to customers to more than 2,000 for employees.

Many workers have chosen low-premium, high-deductible plans that analysts say provide less coverage for preventive and primary care. The company tries to mitigate that with an upfront credit of between $100 and $500 that can be used on any medical expense.

"We're seeing utilization on types of care you would hope," such as checkups and the generic drugs, Dillman said. "And they're managing costs at the same time."

From 2007 to 2008, the retailer saw a 78 percent increase in 16-to-24-year-old workers who opted for the high-deductible plans. "It's better to have them in that than to have nothing, which is where most of them were," Dillman said.

Others, such as Cynthia Murray of Hyattsville, say a $180 premium out of a biweekly paycheck that averages $489 after taxes is too steep. Murray and her husband have been without health coverage for the nine years she has worked at Wal-Mart. "I just pray a whole lot I don't get sick," she said.

Seeking the Best Value

At the opposite end of the spectrum, Wal-Mart contracted with the Mayo Clinic for all transplant services, calculating that it could save money by using a single provider with a sterling performance record.

Whether purchasing toasters or transplants, "Wal-Mart looks for value," said Brooks Edwards, director of Mayo's transplant center in Rochester, Minn., one of several Mayo centers around the nation. "One of the most cost-effective things we do is weed out the patients that don't need a transplant."

Where other medical centers might recommend a heart transplant, for example, Mayo might opt for a simpler valve surgery. The strategy of evaluating various treatments, known as comparative effectiveness research, is gaining currency in policy circles. The economic stimulus bill sets aside $1 billion to pursue it.

Wal-Mart's newest initiative, "Life With Baby," is aimed at reducing the rate of premature births among employees, which is double the national average, Dillman said. Mothers-to-be are matched with a registered nurse who counsels them on issues such as diet, stress and smoking. The support continues with lactation instruction and vaccinations for the child's first year.

"Wow, it was really good. It helped me so much," said Cristina Majano, a 23-year-old new mother who works at a Wal-Mart in Northern Virginia.

For her first four years on the job, Majano did not purchase health insurance. "I was younger and didn't think I needed it," she said.

The coverage, even with a $1,000 deductible, is worth it for her and her daughter, Majano said. But she and her husband decided they could not afford to add him to the plan.

Wal-Mart, taking a cue from leading policy analysts, hopes to continue to focus on major cost drivers, moving next to back pain and diabetes.

"This is like the national discussion," Dillman said. "First you've got to get them in the plan, then figure out how to help them take care of themselves, stay healthy and get the care they need."

Research editor Lucy Shackelford contributed to this report.

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