



# Wal-Mart and Health Care:

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## Condition Critical

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CFCW is a nonprofit research and policy analysis organization focusing on issues affecting low-wage and nonstandard workers. CFCW has published research on Professional Employer Organizations (PEOs), health insurance for nonstandard workers, employee classification issues, and the use of nonstandard workers by large public employers. CFCW is located in Seattle, Washington.

## **Executive Summary**

**Wal-Mart**, the largest corporation and private employer in the U.S. employing over 1.3 million workers, sets a national standard for wages and labor practices.

Since its incorporation in the 1960's, the company has grown exponentially with now more than 5,000 stores and \$285 billion in sales worldwide. But its employment and benefit policies have increasingly come under scrutiny from critics and government officials across the U.S.

A close examination reveals that Wal-Mart's success has come at a high price—not paid by Wal-Mart stockholders, but by its own employees. And there's more: employees universally are paying the price of Wal-Mart's questionable strategies for success because competing companies everywhere are compelled to apply the same practices simply to stay ahead.

In light of criticisms of the company's health insurance, Wal-Mart has announced a new plan with reduced premiums to assist its least-paid workers. How does the new plan stack up?

**Center for a Changing Workforce's (CFCW)** Wal-Mart investigation examined its employee health insurance practices using the company's own documents and Federal Government filings. The Center has concluded that:

- Wal-Mart actually provides health insurance to far fewer employees than the company claims. Less than 40 percent of its employees were covered in 2003 and 2005—substantially below the average for other large employers and direct competitors;
- The average store employee on Wal-Mart's *Associates Medical Plan* is “underinsured,” based on national standards. In 2005, a Wal-Mart worker with a family of four would have to pay health care costs equal to 30 percent of their income before receiving most benefits. The company admits: “*our coverage is expensive for low-income families.*”
- Wal-Mart's latest plan, announced on October 25, is essentially a cosmetic change. The main barrier to coverage is not the monthly premiums, which were reduced, but the huge deductibles of \$1,000-\$3,000, *plus* additional deductibles for hospital and pharmacy use;
- For Wal-Mart employees facing medical catastrophes, the company admits that bankruptcy is possible with Wal-Mart insurance: “*On the Family Plan, an Associate must spend between 74 and 150 percent of household income on healthcare (approximately \$13,000 to \$27,000) before insurance takes over completely. Though few Associates reach this level of spending, those who do almost certainly end up declaring personal bankruptcy;*”<sup>1</sup>
- As Wal-Mart has reduced health care coverage for its workers, more are uninsured or forced to apply for Medicaid. Wal-Mart leads the nation among

employers who are subsidized by taxpayers through their employee's use of Medicaid and similar programs. The company admits:

- *Five percent of our Associates are on Medicaid compared to an average for national employers of four percent. Twenty-seven percent of Associates' children are on such programs, compared to a national average of 22 percent. In total, 46 percent of Associates' children are either on Medicaid or uninsured.<sup>2</sup>*
- Starting in 2006, Wal-Mart will offer its employees *Health Savings Account* (HSA) insurance plans. But this new option won't help Wal-Mart's low-wage employees. The cheapest family plan has a \$6,000 deductible and a \$10,200 cap on out-of-pocket expenses. That's 60 percent of a Wal-Mart worker's average wage;
- The company is proposing dumping its older and sicker employees by switching all employees to Health Savings Accounts (HSAs) by 2008. The company says this move would eliminate high insurance "utilizers"—employees who would have difficulty paying deductibles ranging from \$2,500 to \$6,000. The company admits the sickest 20 percent of its workforce would be worse off with HSAs. The company is also proposing adding hard physical work, which some employees may not be able to perform, to store job descriptions, possibly in violation of the Americans with Disabilities Act (ADA).
- Wal-Mart's waiting periods deny eligibility to over 300,000 employees. Part-time employees are required to work for *two* years before they qualify for company-provided insurance—far longer than at comparable retail stores. Until they reach eligibility, employees' only option is to purchase high-profit "*limited-benefit*" insurance, which covers only \$1,000 of health care expenses each year.
- Wal-Mart's drive to the bottom in health insurance is forcing its competitors to cut health insurance benefits too, raising serious questions about the future of employer-provided health insurance. Between the years 2000 to 2003, the number of Americans without health insurance coverage grew by 5 million, with nearly the entire increase attributed to a decline in employer coverage.

**This report recommends direct state and federal action that would:**

- Set a standard minimum amount large employers are required to contribute in employee health care costs—or require them to contribute to state Medicaid funds to help cover the cost of the uninsured;
- The NAIC and State insurance departments should track, investigate and even ban the sale of defective insurance policies to low-wage workers through their employers.

## **Introduction**

Wal-Mart, the world's largest retailer, largest corporation and private employer in the United States, employs over 1.3 million workers at more than 3,700 stores nationwide.<sup>3</sup>

Wal-Mart is the biggest employer in 25 states. Adding more than 100 new stores each year—most of them *Supercenters*—it sets the standard for wages and labor practices everywhere.

Wal-Mart has generated over \$58 billion in net income for its shareholders in the past ten years (39 percent of its shares are owned by the Walton family<sup>4</sup>). The company is considered one of the most successful businesses in the nation.<sup>5</sup>

The key to Wal-Mart's success has been its ability to control costs. Crucial to its formula has been controlling the cost of employee health insurance. Wal-Mart contributed \$2,200 for each of its workers with employee-only<sup>i</sup> health insurance for the year 2004, according to the company. That's 33 percent less than the national average for *all* employers (\$3,264).

A close examination reveals that Wal-Mart's success has come at a high price—not paid by Wal-Mart stockholders, but by its own employees. And there's more: employees everywhere are paying the high price of Wal-Mart's strategies for success because competing companies are compelled to apply the same practices to compete. As a result, health care costs are shifted to workers, other competing employers and even the tax-paying public.

The questions surrounding health insurance coverage are common to large retail employers—however, Wal-Mart has drawn attention to itself because of its leadership position and its aggressive cost control measures.

### **Wal-Mart's success strategies raising national concerns**

Within three years—from 2000 to 2003—the number of Americans living without health insurance coverage shot up by 5 million. Almost the entire increase is attributed to the drop in employer-sponsored coverage.<sup>6</sup> As private coverage falls off, Medicaid coverage fills the gap, straining public sector budgets nationwide.

This investigation of Wal-Mart's employee health insurance programs uses company documents and filings with the federal government to establish that Wal-Mart is a major contributor to the crisis of health care coverage in America. The company's success has come at a cost too high to pay—it's story a prime example of why the nation's system of health care faces dire problems now and the future.

Wal-Mart's impact on the health insurance system can be measured several ways:

1. Impact on Wal-Mart employees—costs and coverage;
2. Impact on the public sector and taxpayers;

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<sup>i</sup> \$6,000 for family coverage, according to the company.

### 3. Impact on other employers.

#### **1. Impact on Wal-Mart employees**

The company's current health insurance practices stand out for three primary reasons:

- Based on company reports, less than 40 percent of Wal-Mart employees were enrolled in the *Associates' Medical Plan* in 2003;
- Despite what Wal-Mart claims in numerous TV ads, the *Associates' Medical Plan* does not provide either affordable coverage for normal family health care or complete catastrophic coverage;
- Wal-Mart endorses the sales of defective and inadequate "limited-benefit" insurance policies to its employees who aren't eligible for company-provided insurance;

Wal-Mart's spending on employee health care has been well below average. According to company testimony given in 2004 company, Wal-Mart spent \$3,100 per employee<sup>i</sup> on health insurance.<sup>7</sup> A Harvard Business School study estimated Wal-Mart's average annual cost at \$3,500 in the same year.<sup>8</sup> By comparison, the average spending per employee in the wholesale/retailing sector was \$4,800, and for U.S. employers in general, the average was \$5,600 per employee.<sup>9</sup>

#### **How many Wal-Mart employees are really covered?**

The company contradicts itself in its reporting of the number of workers it insures. It reported covering 537,000 employees in 2003, or 45 percent of its workforce.<sup>10</sup> In January 2004, however, a top Wal-Mart Executive told a state legislative committee that the company provided insurance for 51 percent of its employees, or 612,000 employees.<sup>11</sup> In June 2005, the company website claimed 56 percent of its employees were covered.<sup>12</sup> Most recently, the company website presented yet another figure—44 percent (568,000) of its 1.3 million US employees are covered by company health insurance.<sup>13</sup>

To check their numbers, CFCW examined Wal-Mart's annual health and welfare benefit trust filings with the U.S. Department of Labor.<sup>ii</sup> These filings are a report of spending on health, life and disability insurance by the company and its employees.<sup>iii</sup>

**CFCW** analyzed Wal-Mart's spending for 2003—the latest year the company's *Form 5500* is available (See Table 1). In 2003, Wal-Mart spent \$1.4 billion on health care for 1.2 million employees. Using its January 2004 cost figures, we estimate the company provided coverage to between 407,000 to 460,000 employees in 2003, or *34 to 39 percent of the workforce*.

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<sup>i</sup> The per employee average is a weighted average of employee-only, spouse and family coverage costs.

<sup>ii</sup> Form 5500 Annual Return/Report of Employee Benefit Plan (filed with the IRS and the Dept. of Labor).

<sup>iii</sup> We estimate the company spent less than \$20 million on life and disability insurance out of \$1.4 billion total health and welfare trust spending—almost all company health and welfare spending is on health insurance.

<b>Table 1. Wal-Mart Health Insurance Coverage and Cost Estimates – 2003</b>		
	Wal-Mart Estimate 1/2004	Harvard Estimate 2003
Employer Annual Health Insurance Expense	\$3,100	\$3,500
Number of US Employees (1/31/04)	1,200,000	1,200,000
2003 Health & Welfare Plan Spending	\$1,439,842,708	\$1,439,842,708
Estimate of number of covered employees	459,821	407,270
Estimate of percentage of employees covered	38.3%	33.9%
Employee contribution to H&W Plan Spending	41%	41%

Source: Wal-Mart's 2003 IRS/DOL Form 5500 Filing

In a recent internal memo, the company reported that health care spending was \$1.5 billion in 2004 (Wal-Mart's FY 2005).<sup>14</sup> Using the company's most recent per employee health insurance cost figure of \$3,500 per year, we estimate the company provided coverage for 428,000 employees in 2004, or 33 percent of the company's workforce. In its recent internal memo, the company says it spends \$2,660 per covered employee.

It appears Wal-Mart is publicly inflating the number of employees it covered in recent years by a wide margin. It is also possible the company has been inflating the amount it reports spending on health care on an average per employee basis, making it hard to determine how many workers are really covered.

How does Wal-Mart compare? Nationally, large employers cover 66 percent of their employees and retail employers cover 46 percent.<sup>15</sup> A competitor to Wal-Mart, Costco, provides coverage to 82 percent of its employees.

#### **Why so few Wal-Mart employees with insurance?**

A low rate of coverage is due to several factors. Strict eligibility rules can exclude a large number of employees. High out-of-pocket costs—or limited plan coverage—can serve as a disincentive for a large number of employees (affecting what's known as the "take-up" rate).

In 2002, Wal-Mart lengthened the eligibility waiting period from 90 days to six months for new full-time employees wishing to enroll for health care insurance.<sup>16</sup> The average waiting period for full-time employees for such "jumbo" firms nationally was 1.4 months. The average for all retail stores is three months.<sup>17</sup> At Costco, the wait is three months (see Table 2).

<b>Employer</b>	<b>Full Time</b>	<b>Part-time</b>
Wal-Mart	6 months	24 months
Costco	3 months	6 months
Average – large firms	1.4 months	
Average – Retail	3 months	

Source: Company websites and 2005 Kaiser/HRET Employer Survey

The length of Wal-Mart’s waiting periods is critical to note because of the high employee turnover rates in retail employment. An average of 32 percent of workers every year turnover in retail,<sup>18</sup> and one industry analyst estimated Wal-Mart’s employee turnover at more than 50 percent.<sup>19</sup> *The company’s extra-long*

*waiting periods mean that a large percentage of the company’s workforce will not be employed long enough to become eligible for insurance.* The company has recently acknowledged that approximately 325,000 employees are ineligible for the company’s insurance plans.<sup>20</sup>

**Part-time: two years is forever**

In 2001, the definition of part-time employment at Wal-Mart was changed from 28 hours or less per week to less than 34 hours per week.<sup>21</sup> Wal-Mart says 74 percent of its employees are full-time.<sup>22</sup> This means there are currently more than 330,000 part-time employees at Wal-Mart. The real number of part-time employees could be higher—the national average is 30 hours per week at discount department stores.<sup>23</sup> At Wal-Mart part-time employees are required to wait *24 months* before they are eligible for health insurance. Given the high rates of employee turnover in retail, few part-time workers will be employed long enough to ever get covered. (At Costco, the wait is six months for part-time workers.) The company is also proposing hiring more workers part-time in the future, while admitting that this would further reduce the number of workers eligible for benefits.<sup>24</sup>

**Shifting costs to the employee**

Recent research reveals that much of the decline in employer-based health coverage is due to the shift of premium costs from employers to their employees.<sup>25</sup>

In 2003, employees paid approximately *41 percent* of insurance premium costs at Wal-Mart (Table 1) although the company asserts their employees only pay 30 percent. Nationally, large-firm<sup>i</sup> employees pay on average 16 percent of the premium for health insurance and at Costco workers pay about 10 percent of their premium.<sup>26</sup> Unionized grocery workers, whose employers compete with Wal-Mart “Super Center” food stores, typically paid none of their health insurance premiums.

**The high cost of participating**

Once employees become eligible, they face the high cost of participating in Wal-Mart’s health insurance plan. And those costs are an important reason why many eligible employees simply do not sign up.

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<sup>i</sup> Firms with over 500 employees.

In May 2005, the company reported that full-time workers made on average \$9.68 per hour.<sup>27</sup> Full-time workers averaging 34 hours per week would have an average income of \$17,114.

On October 24, the company announced a new “inexpensive” plan, with lowered premiums for 2006. This plan will cost \$273 in premiums for individual coverage, plus a \$1,000 deductible. *It’s the fine print in this new “value” plan that provides the catch—the plan adds new separate deductibles of \$1,000 per hospital visit, a \$300 pharmacy deductible, an emergency room deductible, an ambulance deductible, etc. Preventive health expenses such as pap smears and office visit co-pays do not apply to the basic deductible, making it effectively higher.*

Just as alarming is the fact that that same plan has an individual co-insurance maximum of \$5,000, which, by itself, is almost 30 percent of a typical employee’s wages. *And that’s not all—that \$5,000 maximum doesn’t count pharmacy expenses and benefits paid at less than 80 percent, including services provided out-of-network and mental health treatment.* It’s important to note that researchers have determined that few individuals below 200 percent of the poverty level can afford to purchase coverage if premiums exceed five percent of income.<sup>28</sup>

In a recent internal memo, the company acknowledges:

*...Our coverage is expensive for low-income families...On average, Associates spend 8 percent of their income on healthcare (premiums plus deductibles plus out-of-pocket expenses) for themselves and their families, nearly twice the national average...In 2004, 38 percent of enrolled Associates spent more than 16 percent of the average Wal-Mart income on healthcare.*

Faced with high costs, those with the most need for insurance are the ones most likely to sign up. The company admits: *“Most troubling, the least healthy, least productive Associates are more satisfied with their benefits...Our workers are sicker than the national population, particularly in obesity-related diseases.”* Faced with such high costs, it is reasonable to assume that only those with the highest need for health care coverage are the ones most likely to sign up.

### **The consequences of an underinsured workforce**

Using definitions in a recent national study on the underinsured,<sup>29</sup> Wal-Mart employees covered by the Associates’ Medical Plan are, on average, “underinsured.”

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To be covered under the definition of underinsured, individuals must make less than 200 percent of poverty (\$19,140) and be spending more than five percent of their income on annual out-of-pocket medical expenses.

Adults enrolled in insurance plans that have high deductibles are less likely to get the health care they need at the time they need it simply because of cost. That means they’re likely to be unhealthier. “Thirty-eight percent of adults with deductibles of \$1,000

or more reported at least one of four cost-related access problems: not filling a prescription, not getting needed specialist care, skipping a recommended test or follow-up, or having a medical problem but not visiting a doctor or clinic. By contrast, 21 percent of adults with no deductible report one of these four access problems.<sup>30</sup>

### Is it really catastrophic coverage?

Wal-Mart characterizes its *Associates' Medical Plan* as having catastrophic coverage:

*The Associates' Medical Plan offers catastrophic medical plans. Why catastrophic? Catastrophic coverage provides financial protection and peace of mind in the event you become seriously ill or have a severe medical condition.*<sup>31</sup>

For a large number of Wal-Mart workers in their first year, the coverage is anything but catastrophic—the *Associates' Medical Plan* has a maximum cap of \$25,000 in the first year for each participant. By definition, this is not catastrophic coverage.

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Yet for Wal-Mart employees facing medical catastrophes, the company admits that bankruptcy is likely with Wal-Mart's insurance coverage:

*Associates also face significant financial risk when a medical catastrophe occurs. On the Family Plan, an Associate must spend between 74 and 150 percent of household income on healthcare (approximately \$13,000 to \$27,000) before insurance takes over completely. Though few Associates reach this level of spending, those who do almost certainly end up declaring personal bankruptcy.*<sup>32</sup>

A recent study concludes that the high deductibles and costly premiums Wal-Mart employees face are linked to medical bill overload and debt.<sup>33</sup> Half (49 percent) of adults with deductibles of \$500 or more have medical bill issues and debt, while 32 percent with deductibles less than \$500 face these burdens. Two-thirds of adults paying 10 percent or more of household income on premiums reported medical bill issues or heavy debt.

Medical debt can ultimately lead to bankruptcy—and often does. A recent study by researchers at Harvard Medical School cited unpaid medical expenses as a major cause of personal bankruptcies in the U.S. Twenty-seven percent of all bankruptcies in 2001 were in families that cited having more than \$1,000 of uncovered medical bills as the major cause of bankruptcy.<sup>34</sup>

### A Family Oriented Business?

Wal-Mart provides effective incentives to discourage workers from enrolling for health care coverage. Part-time workers who are with the company long enough to qualify for insurance after 24 months, are not allowed to purchase coverage for spouses or children at any cost.

The company also enforces a \$100 per-month surcharge to penalize employees who enroll a spouse if the spouse's employer offers insurance, no matter how expensive or bad the other employer's coverage.

Newborn charges are considered the baby's own, subject to the baby's annual deductible and coinsurance maximums. And Wal-Mart health insurance plans do not cover common preventative health procedures in the first year (after becoming eligible) including pap smears and mammograms. Family and marital counseling is not covered under mental health treatment.

The company new "inexpensive" plan will cost \$780 in premiums for family coverage, plus a \$3,000 deductible. *An employee would pay \$3,780—or 22 percent of their income—before most medical services would be paid for, not counting new separate deductibles of \$1,000 per hospital visit, a \$300 pharmacy deductible, and emergency room and ambulance deductibles.* The family coinsurance maximum is \$10,000, almost 60 percent of typical Wal-Mart wages, and is not a ceiling on out-of-pocket expenses.

Employees on the Associate and Spouse plan pay an average of 13 percent of their income on out-of-pocket health costs, about three times the national average.<sup>35</sup>

### **Selling insurance that's defective and inadequate**

Wal-Mart also offers an employee-paid "limited benefit" insurance plan for employees not eligible for the company's regular plan, including a large number of part-time employees. In 2003, Wal-Mart reported almost 10,000 participants in this plan.<sup>36</sup> The cost to employees was \$4.7 million.

Wal-Mart's limited benefit plans are sold by a subsidiary of Mega Life and Health Insurance Company. This plan offers low rates, between \$38 and \$128 per month,<sup>i</sup> but it also offers almost no coverage—\$1,000 per year coverage per person.

The result is a shockingly bad investment for hard working employees who have no other choice under Wal-Mart's eligibility rules, providing only \$3 of insurance protection for every \$1 of premium paid. In contrast, a high deductible major medical policy with a \$1 million cap provides \$370 of insurance for every dollar of premium.<sup>ii</sup>

Limited benefit plans leave employees exposed to financial catastrophe with any serious injury or illness and no understanding how quickly hospital charges add up—anywhere from \$1,000 to \$5,000 per day.

Mega Life and Health Insurance has a consumer complaint ratio five times the national average, according to the National Association of Insurance Commissioners (NAIC). Wal-Mart and other employers who provide limited-benefit insurance take advantage of a gray area in insurance regulation. Employer-provided insurance is frequently not regulated under state insurance law.

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<sup>i</sup> 2006 Premium levels, based on the number of dependents

<sup>ii</sup> Based on a \$2,700 average annual premium for HSA-qualified high deductible health plan (Source KFF Employer Health Benefits 2005 Survey).

While insurers trumpet “rich, upfront benefits,” limited-benefit plans have many of the same problems encountered with other insurance plans, including pre-existing condition exclusions, co-payments and deductibles, co-insurance, and exclusions such as occupational injuries, self-inflicted injuries, routine exams, and mental illness.

One major employer of part-time workers that decided against using limited-benefit insurance is children’s clothing retailer OshKosh B’Gosh. Benefits Director Sharon Jaske says the company discussed the idea, but decided against it after investigating.

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***OshKosh B’Gosh Stores:  
“the idea of our part-time  
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health care system with such  
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Jaske says, “the idea of our part-time workers trying to access the health care system with such poor insurance was scary.”<sup>37</sup>

Wal-Mart also offers AFLAC (American Family Life Assurance Company) voluntary supplemental insurance (VSI). VSI products include disease-specific policies for cancer and critical illnesses and

hospitalization insurance, which promise to pay enrollees a fixed amount (\$30 per day, for example) during hospitalization. In 2002, Wal-Mart also had 50,975 participants in AFLAC supplemental insurance coverage purchased through agents.

Is VSI a good deal for Wal-Mart employees? Not according to Consumer Federation of America insurance expert Robert Hunter:

*“Every analysis has shown that supplemental insurance is a waste of money for employees—it’s like buying toothpaste a squeeze at a time. Each policy only covers a small amount of the total risk that an individual faces. Employees are much better off with regular health and disability insurance. As for AFLAC’s claim that “no insurance is complete without it,” the best advice is: never buy insurance from a “quack.”<sup>38</sup>*

Hunter adds, “I have a real fear that some employees are buying VSI *instead* of regular insurance because it’s cheaper, which is very dangerous.” And in fact, a recent national study found that 15 percent of nonstandard workers, including part-time workers, have only supplemental-type insurance, covering specific medical conditions or limited hospitalization coverage, but not physician services.<sup>39</sup>

### **HSA Plans – Even Less Affordable**

In 2006, Wal-Mart will offer a Health Savings Account (HSA) insurance option to its employees. In general, HSA plans offer some first dollar coverage. After that initial coverage, participants must pay a large deductible. Only after the deductible is paid does the insurance finally kick in. For healthy individuals in higher-income brackets who aren’t affected by large deductibles, HSA plans allow accumulation of tax-sheltered savings. For lower-income families and people with chronic illnesses, HSAs have all the disadvantages of typical high deductible insurance plans.

The least expensive Wal-Mart HSA is almost cruel with its family coverage. A family deductible of \$6,000 must be met before most individual claims are paid, including any prescription drug costs, at full retail prices. After the deductible has been paid, benefits are still subject to a 20 percent coinsurance up to \$10,200, which is 60 percent of the

company's average wage. This truly is a plan for people who think they will never use the health care system. Unlike many HSAs where employers make the initial contribution for first dollar coverage, Wal-Mart's HSA requires the employee to put up

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***The new Wal-Mart HSA is almost cruel with its family coverage.***

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\$500 to \$1,000 before receiving the company's matching contribution.

HSA plans are clearly a problem for the large number of lower-income Wal-Mart employees. Studies by Commonwealth Fund and others have shown that lower-income people (incomes less than \$35,000) and those in poor health or with a chronic condition and high deductibles experience more cost-related access problems than higher-income and healthy individuals.<sup>40</sup>

***The Future, Part 1 - Dump the Sickest Employees with Health Savings Accounts***

In an effort to reduce health care costs, Wal-Mart executives propose switching all employees from traditional plans to Health Savings Accounts (HSAs) by 2008.<sup>41</sup> The company estimates this switch would save the company \$400 to \$700 million in 2011.

This move is calculated to get rid of high insurance utilizers—older, less healthy employees who would have difficulty paying HSA deductibles ranging from \$2,500 to \$6,000 and out-of-pocket maximums of \$10,000 per year. The company admits the sickest 20 percent of its workforce would be worse off with an HSA plan. The goal is attracting younger, healthier employees:

*“moving all employees to consumer-driven health plans will help achieve this goal because these plans are particularly attractive to healthier Associates...It will be far easier to attract and retain a healthier workforce than it will be to change behavior in an existing one.”*

This action would appear discriminate against older and sicker workers. In addition, the company proposes restructuring the workforce in two ways to help drive out the old, less healthy employees. First, the company proposes reducing the number of full-time jobs and replacing them with part-time jobs, which would drive many employees depending on full-time employment to seek other jobs. Second, the company proposes adding hard physical work to store job descriptions, which less healthy employees may not be able to perform. Such an action would appear to raise legal issues under the Americans with Disabilities Act (ADA), which requires employers to provide suitable work for people with disabilities.

***The Future, Part 2 - Cutting Retirement Benefits to Make Health Care Look Better***

To counter bad publicity about the company's current health plans, executives propose changes to improve some of the most obvious defects, including the 24-month waiting period for part-time workers. To pay for the improvements, executives propose cutting retirement benefits by at least \$200 million (by eliminating flat 401(k) retirement

contributions, which would cut the company's retirement benefit cost from four to three percent of wages).

The company proposes reducing maximum out-of-pocket expense levels to 15 percent of income, still three times the five percent of income level above which employees are considered "underinsured."

Wal-Mart also proposes that new employees be given an "option" after 30 days to purchase insurance in the individual insurance market until they are eligible for the company's regular plans. The company sees this move as an answer for its critics: "Wal-Mart offers Associates access to health insurance after they have worked for us for 30 days." Even if the company subsidizes this offer with limited funding, older employees, families, and those with chronic health conditions working at Wal-Mart's low wages will not be able to afford insurance in a market with high premiums and no coverage for pre-existing conditions.

## **2. Impact on Public Sector: Taxpayers subsidizing Wal-Mart**

Because they can't afford the company health plan, many full and/or part-time Wal-Mart workers must turn to public assistance for health care or forego their health care needs altogether. As a result, taxpayers are subsidizing what should be a company-provided health care plan. The company acknowledges this in the recent internal health insurance memo:

*We also have a significant number of Associates and their children who receive health insurance through public assistance programs. Five percent of our Associates are on Medicaid compared to an average for national employers of four percent. Twenty-seven percent of Associates' children are on such programs, compared to a national average of 22 percent. In total, 46 percent of Associates' children are either on Medicaid or uninsured.<sup>42</sup>*

***"In total, 46 percent of Associates' children are either on Medicaid or uninsured."***

*- Company Memo*

According to a recent University of California study, the taxpayers of California subsidized Wal-Mart \$20.5 million in medical care during 2003.<sup>43</sup> The same study concludes that families of Wal-Mart employees in California utilize an estimated 40 percent more in taxpayer-funded health care than the average for families of all large retail employees.

Wal-Mart has more employees and dependents on subsidized Medicaid or similar programs than any other company nationwide. With over 56,000 employees and dependents enrolled, according to published reports from 18 states,<sup>44</sup> Wal-Mart is ranked first in 16 out of 18 states and was in the top four in the remaining two states.

In Georgia, Wal-Mart has the highest ratio of children enrolled in PeachCare, (Georgia's Medicaid kids program) of the state's four largest employers.<sup>45</sup> Wal-Mart had about one child in the program per every four employees. The article concludes, "a snapshot of Georgia's program for uninsured children shows that it's packed with kids of Wal-Mart employees." The survey found 10,261 of the 166,000 children covered by PeachCare in

September 2002 had a parent working for Wal-Mart Stores. That's about 14 times the number for next highest employer: Publix, with 734.

A recent Congressional report quantifies the cost to taxpayers of Wal-Mart's health insurance offerings. For each two-hundred-employee Wal-Mart store, the government is spending an estimated \$108,000 a year to pay for children's health care on Medicaid. The report estimates total federal subsidies for a typical store of \$420,000 a year, or about \$2,103 per Wal-Mart employee.<sup>46</sup>

### **3. Impact on other employers: The Drive to the Bottom**

Because of Wal-Mart's status as an industry leader, there is increasing pressure on other employers to replicate Wal-Mart's policies. This will escalate the number of families without health insurance. Last year, Albertsons Inc., a major Wal-Mart competitor, told the 20,000 employees in its Dallas/Ft. Worth division that a "substantial group" of them would become part-time employees in a move to cut costs and compete with Wal-Mart and other stores. In a satellite broadcast to employees, Division President Judy Spires said she understood that the changes would bring "turmoil" to the lives of many employees and some may need to find additional part-time jobs as well as purchase health benefits. Spires said part-time employees could still qualify for limited benefits insurance purchased through the company.

According to industry analysts, the change would result in stores typically going from a 50/50 mix of part-time and full-time to having about 80 percent part-time employees.<sup>47</sup> The changes appear to come too late for Albertsons as an independent company—in September the company announced it was up for sale.

Wal-Mart's health insurance policies became the focal point of 2004's California retail grocery strike. Large chains Von's, Pavilion's, Ralph's, and Albertson's wanted to dramatically increase workers' share of health costs claiming it was necessary to compete with Wal-Mart. According to E. Richard Brown, the director of the Center for Health Policy at the University of California, Los Angeles, if the grocery chains drastically reduce health benefits, the trends toward cost shifting and elimination of health coverage will accelerate.<sup>48</sup>

*"Whether the current pressure from Wal-Mart is real or imagined or merely a convenient excuse for the grocers' cost-cutting bargaining position, Wal-Mart has sparked a new race to the bottom among American retail employers. Undeniably, such a race threatens to undermine the employer-based health insurance system."<sup>49</sup>*

If other large California retailers adopted Wal-Mart's wage and benefits standards, a University of California study estimates, it would cost state taxpayers an additional \$410 million a year in public assistance to employees.<sup>50</sup>

If employers don't reduce benefits in response to Wal-Mart and similar employers, they pay more to insure the spouses and families of Wal-Mart employees through dependent coverage. Employers spend an estimated \$31 billion to cover workers through dependent coverage, adding 20 percent onto the \$150 billion they already pay for their

own employees' insurance.<sup>51</sup> Employers also pay the greatest share of \$13 billion in charity care and bad debt that hospitals pass on to all payers, including employers.

### **Policy options**

Some lawmakers have already taken action to address concerns about Wal-Mart and similar low-wage employers. In early 2005, Maryland lawmakers passed legislation requiring large employers to pay at least eight percent of payroll for health insurance, or contribute to the state's Medicaid fund.<sup>i</sup> Recently New York City and Suffolk County, Long Island passed similar legislation. At least four other states are considering similar proposals. At least 18 states have taken administrative action or passed legislation to disclose the number of employees of large employers who are subsidized under Medicaid and similar programs at the state level.

A Costco executive recently proposed legislation in Washington that would require employers to provide at least preventative health insurance coverage. Costco points to Hawaii's health insurance mandate, which has saved money for Costco by reducing cost shifting between employers.<sup>52</sup> Such an action in other states would require changes by Congress to the Employee Retirement Income Security Act (ERISA). Hawaii, which passed its law before the passage of ERISA in 1974, is the only state exempted from ERISA.

Universal coverage proposals, such as recent proposals by the Institute of Medicine<sup>53</sup> and the National Coalition on Health Care,<sup>54</sup> would also solve the problem of the deteriorating employer-based health insurance system, by replacing Wal-Mart's defective plans with guaranteed universal access to affordable care.

Finally, Congress and state insurance regulators should tackle the gray area of sales of defective limited benefit health insurance plans through employers such as Wal-Mart to low-wage workers. First steps should include tracking the sales of such insurance at the state level. Regulators should also hold hearings on whether the sale of such insurance is in the public interest, given high costs and skimpy benefits. For example, current California insurance rules require that basic hospital insurance benefits be "of real economic value to the insured."<sup>55</sup>

### **Summary**

Wal-Mart's health insurance practices cause significant problems for employees and their families, other employers and taxpayers. The average Wal-Mart employee is underinsured by national standards and could face bankruptcy in a catastrophic health situation. Other employers and taxpayers are carrying the burden of paying for at least 50,000 company employees and dependents on Medicaid, plus uninsured employees. Instead of addressing the concerns head-on by bringing its health insurance plans up to large-firm standards, the company has taken the first step to drive out low-income

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<sup>i</sup> Gov. Robert L. Ehrlich vetoed the Maryland legislation. A veto override vote is likely in January 2006.

employees in poorer health through the use of “consumer-driven” HSA-type health insurance plans.

The company is also sponsoring the sales of over-priced and defective “limited-benefit” insurance policies to low-income employees, sales that place employees with little knowledge of insurance products at substantial risk of medical bankruptcy. The report recommends several actions to level the playing field between Wal-Mart and other employers and reduce public subsidies that disproportionately benefit Wal-Mart’s shareholders.

## Endnotes

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<sup>11</sup> Garrett, Alison, op. cit.

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<sup>14</sup> Chambers, Susan, “Reviewing and Revising Wal-Mart’s Benefits Strategy,” Internal Memo to Wal-Mart Board, 2005, page 3

<sup>15</sup> Kaiser Family Foundation/HRET Employer Health Benefits 2005 Annual Survey, Exhibit 3.2.

<sup>16</sup> Wal-Mart 2002 Benefits Book, Page 4

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<sup>22</sup> Garrett, Alison, op. cit.

<sup>23</sup> BLS, Current Employment Statistics, January 2005.

<sup>24</sup> Chambers, Susan, op. cit., page 7

<sup>25</sup> Holahan, John, “Changes in Employer-Sponsored Health Insurance Coverage,” *Snapshots of America’s Families III*, Urban Institute (September 17, 2003).

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