October 26, 2005

Wal-Mart Memo Suggests Ways to Cut Employee Benefit Costs

By STEVEN GREENHOUSE
and MICHAEL BARBARO

An internal memo sent to Wal-Mart's board of directors proposes numerous ways to hold down spending on health care and other benefits while seeking to minimize damage to the retailer's reputation. Among the recommendations are hiring more part-time workers and discouraging unhealthy people from working at Wal-Mart.

In the memorandum, M. Susan Chambers, Wal-Mart's executive vice president for benefits, also recommends reducing 401(k) contributions and wooing younger, and presumably healthier, workers by offering education benefits. The memo voices concern that workers with seven years' seniority earn more than workers with one year's seniority, but are no more productive.

To discourage unhealthy job applicants, Ms. Chambers suggests that Wal-Mart arrange for "all jobs to include some physical activity (e.g., all cashiers do some cart-gathering)."

The memo acknowledged that Wal-Mart, the world's largest retailer, had to walk a fine line in restraining benefit costs because critics had attacked it for being stingy on wages and health coverage. Ms. Chambers acknowledged that 46 percent of the children of Wal-Mart's 1.33 million United States employees were uninsured or on Medicaid.

Wal-Mart executives said the memo was part of an effort to rein in benefit costs, which to Wall Street's dismay have soared by 15 percent a year on average since 2002. Like much of corporate America, Wal-Mart has been squeezed by soaring health costs. The proposed plan, if approved, would save the company more than $1 billion a year by 2011.

In an interview, Ms. Chambers said she was focusing not on cutting costs, but on serving employees better by giving them more choices on their benefits.

"We are investing in our benefits that will take even better care of our associates," she said. "Our benefit plan is known today as being generous."

Ms. Chambers also said that she made her recommendations after surveying employees about how they felt about the benefits plan. "This is not about cutting," she said. "This is about redirecting savings to another part of their benefit plans."

One proposal would reduce the amount of time, from two years to one, that part-time employees would have to wait before qualifying for health insurance. Another would put health clinics in stores, in part to reduce expensive employee visits to emergency rooms. Wal-Mart's benefit costs jumped to $4.2 billion last year, from $2.8 billion three years earlier, causing concern within the company because benefits represented an increasing share of sales. Last year, Wal-Mart earned $10.5 billion on sales of
$285 billion.

A draft memo to Wal-Mart's board was obtained from Wal-Mart Watch, a nonprofit group, allied with labor unions, that asserts that Wal-Mart's pay and benefits are too low. Tracy Sefl, a spokeswoman for Wal-Mart Watch, said someone mailed the document anonymously to her group last month. When asked about the memo, Wal-Mart officials made available the updated copy that actually went to the board.

Under fire because less than 45 percent of its workers receive company health insurance, Wal-Mart announced a new plan on Monday that seeks to increase participation by allowing some employees to pay just $11 a month in premiums. Some health experts praised the plan for making coverage more affordable, but others criticized it, noting that full-time Wal-Mart employees, who earn on average around $17,500 a year, could face out-of-pocket expenses of $2,500 a year or more.

Eager to burnish Wal-Mart's image as it faces opposition in trying to expand into New York, Chicago and Los Angeles, Wal-Mart's chief executive, H. Lee Scott Jr., also announced on Monday a sweeping plan to conserve energy. He also said that Wal-Mart supported raising the minimum wage to help Wal-Mart's customers.

The theme throughout the memo was how to slow the increase in benefit costs without giving more ammunition to critics who contend that Wal-Mart's wages and benefits are dragging down those of other American workers.

Ms. Chambers proposed that employees pay more for their spouses' health insurance. She called for cutting 401(k) contributions to 3 percent of wages from 4 percent and cutting company-paid life insurance policies to $12,000 from the current level, equal to an employee's annual earnings.

Life insurance, she said, was "a high-satisfaction, low-importance benefit, which suggests an opportunity to trim the offering without substantial impact on associate satisfaction." Wal-Mart refers to its employees as associates.

Acknowledging that Wal-Mart has image problems, Ms. Chambers wrote: "Wal-Mart's critics can easily exploit some aspects of our benefits offering to make their case; in other words, our critics are correct in some of their observations. Specifically, our coverage is expensive for low-income families, and Wal-Mart has a significant percentage of associates and their children on public assistance."

Her memo stated that 5 percent of Wal-Mart's workers were on Medicaid, compared with 4 percent for other national employers. She said that Wal-Mart spent $1.5 billion a year on health insurance, which amounts to $2,660 per insured worker.

The memo, prepared with the help of McKinsey & Company, said the board was to consider the recommendations in November. But the memo said that three top Wal-Mart officials - its chief financial officer, its top human relations executive and its executive vice president for legal and corporate affairs - had "received the recommendations enthusiastically."

Ms. Chambers's memo voiced concern that workers were staying with the company longer, pushing up wage costs, although she stopped short of calling for efforts to push out more senior workers.

She wrote that "the cost of an associate with seven years of tenure is almost 55 percent more than the
cost of an associate with one year of tenure, yet there is no difference in his or her productivity. Moreover, because we pay an associate more in salary and benefits as his or her tenure increases, we are pricing that associate out of the labor market, increasing the likelihood that he or she will stay with Wal-Mart."

The memo noted that Wal-Mart workers "are getting sicker than the national population, particularly in obesity-related diseases," including diabetes and coronary artery disease. The memo said Wal-Mart workers tended to overuse emergency rooms and underuse prescriptions and doctor visits, perhaps from previous experience with Medicaid.

The memo noted, "The least healthy, least productive associates are more satisfied with their benefits than other segments and are interested in longer careers with Wal-Mart."

The memo proposed incorporating physical activity in all jobs and promoting health savings accounts. Such accounts are financed with pretax dollars and allow workers to divert their contributions into retirement savings if they are not all spent on health care. Health experts say these accounts will be more attractive to younger, healthier workers.

"It will be far easier to attract and retain a healthier work force than it will be to change behavior in an existing one," the memo said. "These moves would also dissuade unhealthy people from coming to work at Wal-Mart."

Ron Pollack, executive director of Families U.S.A., a health care consumer-advocacy group, criticized the memo for recommending that more workers move into health plans with high deductibles.

"Their people are paying a very substantial portion of their earnings out of pocket for health care," he said. "These plans will cause these workers and their families to defer or refrain from getting needed care."

The memo noted that 38 percent of Wal-Mart workers spent more than one-sixth of their Wal-Mart income on health care last year.

By reducing the amount of time part-timers must work to qualify for health insurance, Wal-Mart is hoping to allay some of its critics.

One proposal under consideration would offer new employees "limited funding" so they could "gain access to the private insurance market" after 30 days of employment while waiting to join Wal-Mart's plan.

Such assistance, the memo stated, "would give us a powerful set of messages to use in combating critics. (For instance, 'Wal-Mart offers associates access to health insurance after they've worked with us for just 30 days.')"

Steven Greenhouse reported from New York for this article, and Michael Barbaro from Bentonville, Ark.