

**TESTIMONY OF**

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HEAD OF HUMAN RESOURCES  
LOGAN ALUMINUM, INC.**

**BEFORE THE**

**JOINT ECONOMIC COMMITTEE  
OF THE  
U.S. CONGRESS**

**WEDNESDAY, FEBRUARY 25, 2004**

**"CONSUMER-DIRECTED HEALTH PLANS"**

Good morning, Mr. Chairman and members of the Committee. I am Howard Leach, head of human resources for Logan Aluminum, a world class manufacturer of aluminum sheet products located in Logan County, Kentucky, with a workforce totaling 1,000 employees. Thank you for the opportunity to testify before you today.

I am delighted to share with you the practical side of the consumer-directed experience at Logan Aluminum. Like many employers, in recent years our business experienced annual health-care cost increases of 20+ percent, which, simply put, is not sustainable and not in the best interest of our business or our employees. Traditional approaches to the management of health care costs have been limited primarily to employers absorbing costs, shifting costs to employees or reducing benefits. Logan realized these solutions would not be effective long term, and it was just a matter of time until neither employers nor employees could afford the cost of health care.

As a business facing intense competition and cost pressures, we chose consumer-directed health because we saw its potential to help hold the line on a disturbing cost trend. But we also made this decision for the benefit of our employees. Now, with more than a year's experience in a consumer-directed plan, I am here to testify to the fact that we made the right call and, just as important, I believe our employees feel we made the right call. Looking back at our experience in 2003, we have determined that this approach has more than met our expectations in several important regards, specifically:

- Consumer-directed health care is a perfect match for any company, such as ours, that is motivated by a desire to control long-term health care costs through a healthier, responsible workforce. We provide incentives for our employees to complete an annual health risk appraisal, and we now have a 99.7 percent completion rate.
- By encouraging employees to be wise consumers of health care services, consumer-directed health care can help reverse unsustainable health care cost trends. As a self-funded benefits plan, we were able to realize an 18.7 percent reduction in our total medical costs in 2003 over 2002.
- And, most importantly, consumer-directed health care did not negatively impact our employees' use of preventive health services and the care needed for serious medical issues. In fact, hospital days of care were up 4.4 percent in 2003.

### **A Team-Based Culture**

To fully appreciate our enthusiasm for the consumer-directed approach, it helps to understand our company's culture. While employing roughly 1,000 people in our Russellville, Kentucky plant, we have established a team-based culture that emphasizes employee involvement in nearly every facet of the operation.

We look at our employees as partners. With the help of a 20-member employee committee, we engage our people in thoughtful discussions several times a year about health care costs. These employees, in turn, disseminate information about these issues

with other smaller groups of employees in the workplace. This helps keep every employee aware of health care issues affecting our business.

We are proud of the fact that we have historically offered employees an excellent, competitive benefits package including comprehensive medical coverage. We have been very fortunate in not having to ask employees to pay a percentage of premium, and under the new consumer-directed health care plan, we still don't. In the past, the only out-of-pocket costs employees were liable for was a \$15 co-pay for in-network doctor visits.

When health care costs became more of a concern in the early 1990s, we decided that the best way to tackle rising costs was to get at the root causes through a strong focus on prevention. We implemented a wellness program – managed by an onsite wellness director – that emphasizes regular health care screenings and critical lifestyle changes. We have an onsite medical department that includes a part-time doctor and two nurses.

Employees are encouraged to routinely take advantage of health care screenings, including an annual physical, onsite and at no charge. The program also supplies our employees with a variety of information designed to help them better understand how they can improve their health outlook through a healthy lifestyle. Because we want our employees to be actively involved in managing their own health, we follow up these educational efforts with health risk appraisals that are evaluated by an outside vendor.

The individual results are confidential – only the employees see their individual assessments. High-risk employees are identified and then contacted by the vendor and encouraged to participate in an intervention program. About 250 employees have been identified as at-risk, and 90 percent of them are now participating in health management activities. Logan Aluminum sees aggregate results only, helping us to identify health-related issues across our employee population as a whole. This allows us to concentrate our educational efforts and incentives on developing health issues.

Through follow-up health risk assessments, we know we have had an impact. Results show improvements in body mass index, tobacco use, seatbelt use and exercise activity across our employee population. Right now 25 percent of our employees are using the company fitness center, and 10 percent are in weight reduction programs. Anecdotally, we have all been extremely gratified to hear that health screenings have caught cancers early while still treatable. However, despite these significant trends in the '90s, we did not get all the behavior changes we had hoped for. And, when costs began to rise dramatically several years ago, we knew we had to respond aggressively.

Late in 2001, we assembled a task force made up of seven individuals with the expertise needed to examine the problem effectively. After extensive research and analysis, the group reported back to senior management the following spring that it was recommending a consumer-directed health care model. The task force reasoned that consumerism offered not only a solid chance of helping to slow costs but of fitting well with our focus on wellness and behavior modification. Consumer-directed health care, in

fact, reinforces the importance of healthy lifestyle choices and becoming a wise consumer of health care. Employees also are encouraged to set individual wellness and team wellness goals, which are rewarded with additional company incentives.

### **Continuous Information Is Key**

We very quickly communicated with our employees about the need to make a change in health care benefits. Initially, there were many questions and a few concerns about adopting a consumer-directed approach, but we responded as best we could with the promise of more information to come. When management approved the health benefits change, we returned to employees with more information about how the plan would work. A couple of months later, we went back again with more detailed information and reading materials to help familiarize our employees, their dependents and retirees with the specifics of the plan.

We selected Aetna HealthFund as our consumer-directed health care plan. Having enjoyed a long relationship with Aetna, we determined that this would minimize disruption to employees and allow us to continue to utilize Aetna's extensive PPO network in our area.

Throughout the implementation process, we emphasized that Logan Aluminum's philosophy remains unchanged. We want our employees to be healthy, wise consumers, and we are providing the tools needed to help make that happen. We continue to provide access to free, onsite physicals. We also provide incentives to employees who participate

in the health risk appraisal program and in wellness programs – up to \$250 in cash per year, per employee, if certain aggregate goals are met.

Consumer-directed health care complements these efforts by encouraging employees to assess the value and quality of health care services available to them. Preventive care is included as is treatment for more serious medical conditions, after the deductible has been met. In fact, with employees in the health plan now having access to a health reimbursement account, we implemented an additional \$200 incentive to be applied to the employee's account if he or she completes the health risk appraisal. As a result, 99.7 percent of our people now complete the health risk appraisal, and we are paying out \$418.75 in total incentives to each employee for 2003.

With the help of online tools provided by Aetna, employees now are getting a better understanding of the true costs of health care. This information is helping them make informed choices among the options recommended by their physicians. Our employees generated more than 15,000 hits to the online Aetna site in 2003.

The end result is that, over the course of 2003, employee concerns and questions virtually dried up. Our annual employee survey at the end of 2003 showed virtually none of the health care concerns expressed in 2002, before the plan was implemented.

While the deductible in the plan does have the potential to increase out-of-pocket costs, employees still do not pay monthly premiums. And, employees know that if they

maintain good health they can save some portion or all of their health reimbursement accounts and roll them over to another year – decreasing the potential out-of-pocket exposure in the following year. Again, they also know that full coverage kicks in once the Aetna HealthFund reimbursement account is exhausted and the deductible is met.

Our results from 2003 show that average employee out-of-pocket costs did go up in the consumer-directed health plan from \$240 to \$665. However, the net effect after wellness incentives was an increase of only about \$200 per employee. And, the results compare favorably with national averages. Hewitt Associates (October 2003) projected that the average employee contribution toward health care expenses would reach \$1,565 in 2004, up from \$1,276 in 2003.

### **Significant Impact on Costs**

As I alluded to earlier, we are seeing truly impressive results after just one year in Aetna HealthFund. While expanding on our efforts to promote wellness and informed decision-making, we saw a reduction of 18.7 percent in our total medical costs in 2003. This represents an improvement of \$925,000 to the company's bottom line. It's all the more remarkable when you consider that 13 and 14 percent increases are currently routine for alternative health care plans.

Similarly, we implemented a new, three-tiered pharmacy plan in 2002 that charges employees a co-pay for generic prescription drugs, a higher co-pay for preferred brand-name drugs and a higher-yet co-pay for non-preferred, brand-name drugs. After five



years of near-20 percent increases in our pharmacy costs, we saw a 5 percent reduction in the first year under the new plan and an additional 3 percent reduction in 2003.

We recognize that these results represent only a short period of time, but we are very encouraged that we are moving in the right direction.

### **Employees Get Needed Care**

We also are encouraged by utilization data that shows employees continue to enjoy access to the care they need. One of the best indicators of that could be hospital days of care, which increased 4.4 percent per 1,000 members in 2003. Inpatient surgeries were up 4.2 percent, an additional indication that employees are getting appropriate treatment for serious health events.

Use of health care services in some other settings, however, did drop off. For example, office visits per 1,000 members fell 6.3 percent. Emergency room visits dropped 2.1 percent. Since emergency rooms are a high-cost environment in which to receive care and should be used for true emergencies only, we think these results actually demonstrate that employees are giving serious consideration to their health care options and are making appropriate choices.

### **Conclusion**

Logan Aluminum is committed to providing its employees with quality health care benefits in a cost-effective manner, and we remain committed to the active involvement

of our own employees in helping to manage these costs through better management of their own health. Consumer-directed health care is helping us do that.

It's hard to overemphasize how big a threat rising health care costs have become to the competitiveness of American businesses today. Consequently, quality, affordable health care is extremely important to us from a business standpoint. But our passion and excitement for consumer-directed health care comes not just from a business objective met, it comes from a truly innovative solution that allows us to continue being the kind of company in which we have always taken pride.

In consumer-directed health care we have found an approach that provides employees with the health care services they need, helps make our employees wiser, more educated consumers, and holds the line on costs. I call that a win-win by any measure.

We will continue to watch the results of our new health plan. We will continue to talk to our employees to make sure the plan continues to meet our collective needs and that employees have the information they need. But if I'm certain about one thing it's that consumerism needs to move forward so that its potential for helping all of us to become better, more intelligent consumers of health care is realized.

Logan Aluminum very much appreciates the opportunity to testify before the Committee today. I hope the perspective of a company on the front lines of today's fast-evolving health care landscape has been informative and useful. We know how promising the

consumer-directed health care movement has become to us. We would very much encourage Congress to do what it can to ensure that this important new approach to health care is given every chance to demonstrate what it can do. We all need to be participants in a health care benefits solution. Consumer-directed health care readies us better than anything I can think of for this new era.

Thank you.