



**Testimony of  
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**Before the United States Senate  
Committee on Finance**

**Hearing on Rising Costs, Low Quality, the Necessity for Health Care Reform**

**June 3, 2008**

Mr. Chairman and Members of the Committee:

**Introduction**

Good morning, Chairman Baucus, Ranking Member Grassley, and Members of the Committee. It is my pleasure to be here today to discuss Ford Motor Company's health care coverage – I am Felicia Fields, Group Vice President, Human Resource and Corporate Services for Ford Motor Company. In this position, I am responsible for overseeing the Human Resources activities for all of our business operations around the globe. This includes employee benefits and health care design.

First of all, I commend the chairman and the members of this Committee for calling this hearing to discuss the important issue of health care in the aim of working together for better quality and value. In my statement before you today, I'd like to discuss Ford's experience in providing health care benefits to our employees and retirees, initiatives we have launched or planned, and the challenges we face.

**Ford Health Care Costs**

In 2007, Ford provided health care coverage for about 535,000 employees, retirees and their dependents in the United States. Our health care expenses totaled \$2.2 billion, which breaks out to about \$1,000 for every vehicle manufactured in the U.S.

**Major Changes to Retiree Health Coverage**

Of that \$2.2 billion, over half, about \$1.2 billion, was attributable to post-retirement health care. Over the past few years, we have implemented a number of changes in the way we offer post-retirement health care coverage:

- **VEBA:** In November 2007, Ford workers represented by the UAW ratified a new contract. Included in the contract was a Memorandum of Understanding (MOU) to establish a new

independent *Voluntary Employee Benefit Association trust (VEBA)*. Starting January 1, 2010, (pending federal district court approval and SEC pre-clearance of the accounting treatment of the VEBA and the hourly retiree health care obligation), the trust will administer post-retirement health care benefits to all former UAW-represented employees and current employees who were active as of the effective date of the new contract.

Upon implementation of the final settlement agreement, Ford will contribute \$13.2 billion in assets to the VEBA. Its earnings will remain exclusively within the VEBA. This new, mutually-agreed to arrangement will permanently shift complete responsibility for providing retiree health care benefits for current and former UAW-represented employees (measured at \$20.2 billion on our December 31, 2007 balance sheet) from the Company to the VEBA.

- **Coverage for Salaried Retirees:** We have also taken steps to address costs of salaried retiree health care benefits.
  - For retirees under 65, we capped our contributions at 2006 levels.
  - Effective January 1, 2008, for retirees aged 65 and over or Medicare eligible due to age or disability, we credit health reimbursement arrangements (or HRAs) in the amount of \$1,800 per member per year. In order to ease retirees' transition into the competitive individual Medicare market, Ford provides retirees with an electronic enrollment and advocacy service that assists them in finding the coverage that best meets their needs and preferences, thus easing the paperwork burden. While planning this transition assistance program, we have received invaluable advice from State Health Insurance Program (SHIP) consumer assistance groups such as the Michigan Medicare/Medicaid Assistance Program (MMAP).
  - For new hires (those hired or rehired on or after June 1, 2001), in addition to providing coverage while they are an active employee, we credit HRAs with up to \$800/year for each year they work at Ford. Upon meeting the age and years-worked criteria for vesting, when these employees leave the Company, they will be able to draw upon their HRA for reimbursement of eligible medical expenses.

## **Continuing Challenges**

While these measures are necessary to ensure our ability to continue offering health care benefits to our employees and retirees without compromising financial viability of the company, we are still concerned with the rate of U.S. health care cost increases which are projected to exceed overall inflation rate. The Centers for Medicare and Medicaid Services expects national health care spending to double between 2007 and 2017, increasing from \$2.25 trillion in 2007 to \$4.28 trillion by 2017.

Although there is no shortage of proposals on how to manage cost increases, a majority of the effective actions should be implemented only after careful deliberation and consensus development by all key stakeholders with strong leadership at the federal level.

To address the challenges at hand, I would like to share with you some of the steps we have taken at Ford, some independently, and some in collaboration with other stakeholders. I will then share some specific suggestions on areas where federal leadership would be most helpful.

## **Company Initiatives**

### **Creating a Culture of Wellness Through Education and Providing Necessary Tools**

Among the key drivers of health care costs are aging and declining health status. Therefore, we are creating a culture of health and wellness for our employees and their families as a central component of our health care strategy. As the first step, we started providing resources and tools to

improve their health status and help them make sound choices about health care services and coverage and help them understand the benefits of being a better health care consumer. We aim to work with our vendor partners on the creation of benefit options that engage people in improving their health status and making wise choices. We also aim to ensure that employees have the information they need to make the selections that are best for their individual situations. We concentrate on three main areas: 1) engaging the consumer in their health, 2) providing user-friendly tools to encourage wellness, and 3) creating partnerships to strengthen the health care delivery system and improve technology transfer. Our efforts include:

- An internal wellness campaign to encourage and motivate employees to take control of their health by:
  - Providing the skills that will help them understand their risks, and improve their health habits; and
  - Encouraging them to be better health care consumers by using health care quality information.

Currently, we are redesigning this campaign to substantially increase the outreach and expand the scope. Employees are encouraged to complete health risk assessments, prepare advance directives, and engage in a personal health plan with their primary care physician. We are also working to provide a more supportive at-work environment (e.g., more nutritious cafeteria selections, a hand-washing campaign to decrease cold and flu outbreaks, engaging Wellness Ambassadors in plants, etc.).

- An employee health improvement program and website, called "*Healthy Highway*," to prevent and manage illness, which includes:
  - Disease management,
  - Individualized health coaching programs,
  - Health appraisals, and
  - 24-hour phone access to nurse and on-site screening services.
- Online benefit comparison guide with educational information, which includes quality ratings of health plans, prescription drug information and links to important health care information websites.
- Managing prescription drug costs: prescription drug coverage of our self-insured health plans requires substitutions whenever chemically identical generic alternatives are available. Such requirement benefits both employees and the company since:
  - Employee co-pays are at least 50% lower for generic drugs, and
  - On average, cost per prescription for generic drugs is about one-fifth of cost per prescription for brand-name drugs.
- Community Initiative projects in Kansas City and Louisville with our UAW partners to improve the health of not just Ford workers but all members of the community by working to spread best practice guidelines, and to create partnerships to improve the quality and value of care.

### **Improving Infrastructure**

We recognized one of the important tools our employees need to improve their health status and become a more informed health care consumer is the infrastructure to facilitate information gathering. We determined that the most effective approach for building such an infrastructure is through a regional collaboration with key stakeholders:

- In 2004, Ford -- jointly with GM, Chrysler, Blue Cross Blue Shield of Michigan and Medco Health Solution -- created the *Southeast Michigan e-Prescribing Initiative* (SEMI). The SEMI

initiative, which is one of the largest employer-driven e-Prescribing initiatives in the country, is focused on promoting the adoption and use of e-Prescribing, and validating the impact of e-Prescribing technology on improving patient safety and reducing prescription drug costs. Through this initiative, we are promoting e-Prescribing infrastructure service and offering a nominal financial incentive to any physician practicing in Southeast Michigan who signs up.

To date, 2,897 physicians have enrolled in SEMI, and they have written over 8 million electronic prescriptions. SEMI physicians changed prescriptions 39% of the time to less expensive generics, when a formulary alert was presented at the point of care. More than 1 million alerts were sent on moderate to severe drug-to-drug risks, resulting in 41% of those prescriptions being changed or canceled by the physician. This initiative has helped move Michigan into the top 5 of e-Prescribing states.

A recent survey of physicians in the program revealed that improved patient safety and quality of care topped the list of key benefits of the technology:

- 75 percent of prescribers believe strongly that e-Prescribing improves safety for their patients, and nearly 70 percent say it improves the quality of care.
- More than 80 percent of all prescriptions written by those surveyed are currently written electronically; four of 10 practices now only write e-Prescriptions.
- More than 70 percent saw a reduction in communications with pharmacies over prescription questions.
- More than half strongly agree that e-Prescribing saves clinicians' time and increases productivity.

These survey results clearly demonstrate e-Prescribing decreases errors, increases quality, and creates value.

- In 2006, we led the formation of ***Southeast Michigan Health Information Exchange (SEMHIIE)***, also with GM and Chrysler to create the infrastructure needed for transmission of health care information among the health care providers and patients throughout the region. This initiative has since expanded to 46 participants, which include most major hospitals, insurance plans, several physician organizations and other key stakeholders in the region.

Last year, the initiative received \$1.4 million planning grant from the State of Michigan to assist formation of a formal entity and governance structure, drafting and approval of a business plan, and all other activities needed prior to implementation of the regional health information exchange. The effort is progressing to complete this planning phase by this fall but we face a significant challenge in raising start-up funding.

Our leadership in this area is well recognized throughout the State of Michigan, as evidenced by Governor Granholm's appointment of a Ford Manager to represent employers at the thirteen-member Michigan Health Information Technology Commission. This Commission is charged with formulating strategies to promote adoption of information technology by health care system in Michigan.

### **Involving Physicians**

We also recognized that in many cases, our employees with chronic diseases need greater involvement by their primary care physicians to plan and implement programs for improving their health status. However, physicians are often overwhelmed by simply providing regular care. Therefore, we have agreed to take a leadership role in Michigan's participation in ***the Improving Performance in Practice (IPIP) Initiative***, sponsored by the Michigan Primary Care Consortium through a grant from the American Board of Medical Specialties and the Robert Wood Johnson Foundation. The steering committee for the Michigan initiative, which is composed of all of the

allopathic and osteopathic primary care organizations in the state, is chaired by Ford Motor Company's Medical Director.

The initiative's key goals are:

- Provide primary care physicians the necessary tools to ensure patients receive recommended chronic disease and preventive services (such as peer-reviewed practice guidelines and reportable metrics).
- Provide physicians tools to improve their practice's efficiency. This way they can allocate more time for more serious health conditions. This involves using quality improvement health care professionals trained to review physician offices and recommend process improvement.

So far, we have accomplished:

- Adoption of one set of state guidelines for diabetes and asthma management,
- Development of one set of metrics for determining adherence to the guidelines, and
- Receipt of seed funds from a variety of sources and identifying automotive industry quality coaches for training. For this purpose, Ford is devoting a "Six Sigma master blackbelt engineer" for the next eighteen months.

We are scheduled to place the quality coaches in ten primary care offices in late June, followed by twenty more offices in September. One hundred more practices will be added to the initiative next year.

### **Communicating Expectation of Accountability by Insurance Plans and Providers**

Finally, we continuously communicate our expectations to our major health care suppliers, through conferences and individual meetings. We meet with the senior leadership of virtually all of Ford's health plans and major providers (hospitals and physicians) to convey the importance of improving efficiency and safety.

Importantly, we have made substantial progress in incorporating the Four Cornerstone tenets outlined by President Bush and HHS Secretary Leavitt in our contracts with health plans and we will hold them accountable for performance and outcomes. These fundamental principles are key to quality and value and we commend the ongoing effort by the Department of Health and Human Services in establishing the framework and championing a true multi-stakeholder initiative.

### **Policy Recommendations**

I hope this helps you better understand the challenges that employers face providing health care coverage and the roles that employers can play in addressing some of the challenges. As our overall business environment continues to be extremely challenging due to strong global competition, new fuel economy standards, and recent credit market constrictions, it is critical for us to continue seeking every innovative approach to manage health care costs in order to ensure our business remains viable.

Finally, I'd like to leave you with some policy suggestions on how Congress and the federal government could assist employers to continue offering health care benefits.

- **Focus on Affordability**

Much recent discussion on health care reform has justifiably centered on uninsured population. However, we believe too much of that discussion focuses on mechanisms to expand coverage such as financing, modifying insurance markets, and mandates.

We suggest a better approach is to improve health care coverage affordability by evaluating the key cost drivers of health care and how to address them. Simply subsidizing excessive health care spending does not offer a long-term solution to our health care problems. In fact, it may well exacerbate them. Instead, by first making health care coverage more affordable, the entire health care population -- uninsured and insured alike -- would benefit both immediately and over the long-term.

- **Address Prescription Drug Costs**

Over the last several years, generic substitution has allowed us to control the rate of increase of our prescription drug costs. However, one element of our prescription drug costs that continues to increase rapidly is biopharmaceuticals or biologics. For those suffering life-threatening and chronic illnesses, biologics provide great hope, but their price – often well over \$100,000 per patient per year – can put them out of reach.

Since there is currently no regulatory pathway to approve generic versions of these biologics, prices remain prohibitively expensive in perpetuity. While we support maintaining drug companies' ability to profit from new life-saving products, monopoly pricing has been balanced in other drugs. Therefore, we urge the Congress to enact a legislation to give the FDA authority to approve safe and effective biogenerics that balance profit with patient safety.

- **Remove Legislative and Regulatory Barriers on Wellness Programs**

Incentive-based wellness programs are currently limited to 20% of the cost of coverage. Raising this percentage to a higher level would allow greater incentives for people taking an interest in wellness behaviors. This is good for them, good for us, and good for the country.

Additionally, the current wellness regulations require that employers treat equally those who succeed, and those who try but fail to change a voluntary behavior (e.g., losing weight, quitting smoking, etc.). To prevent gaming of the system, we suggest modifying regulations regarding voluntary behaviors to enable wellness programs to offer differential rewards based on whether an outcome is achieved. This would allow employers to reward those who actually do the hard work to improve their health status and adopt better health practices. It is important to note that we would advocate this approach only for voluntary behaviors and habits – things that we as individuals can accomplish with dedication.

- **Enable Breakthroughs that Improve Patient Care**

Similarly, we recommend a strong leadership at the federal level for establishing one set of standards for health care quality and one set of best practice guidelines for improving the population's health status. The federal government, including the Center for Medicare and Medicaid Services, can provide a central leadership role by adopting constructive policies, which can then – and certainly will – be replicated in the private sector. Areas where the federal government could play this pivotal role include:

- Adoption of a comprehensive set of standards for meaningful comparisons of health plan, hospital, and physician cost, quality and satisfaction performance that are publicly available.
- Creation of a knowledge management and data base system on outcomes and effectiveness that can better guide the extent that proposed new technology and drugs improve treatment outcome. The Agency for Health Quality Research is charged with this critical work but much more needs to be done and additional resources need to be provided.
- Addressing the issue of end of life care, patient preferences, and creating more humane experiences in the last stages of life. Studies estimate 30% of Medicare spending goes for

care of patients in their last year of life. Often, patients' preferences are needlessly disregarded.

- Creation of a mandatory anonymous error reporting system to allow us to learn from our mistakes on a national basis. This approach has produced dramatic improvements in other areas and offers great promise for medicine as well.

- **Provide Funding to Assist Start up of Regional Health Information Exchange (HIE) Initiatives**

Many benefits stem from adoption of health information technology (HIT):

- Improved care delivery as treating physicians have access to a patient's complete medical information, not just information stored in their offices, and
- Elimination of duplicative tests and procedures.

These are only achievable if there is an infrastructure allowing electronic storage and exchange of such information.

This is why we are leading the initiative in Southeast Michigan to create such an infrastructure. But as I stated earlier, we face a significant challenge in raising start-up funding. We suggest federal assistance for such start-up funding. Funding through state grants would enable each state to evaluate the viability of each regional HIE initiatives before offering financial support. It would be each regional HIE initiative's responsibility to formulate a sustainable plan for on-going operation so our suggestion on support is strictly for the start-up funding.

- **Preserve ERISA and Promote Uniformity**

As an employer that offers health care benefits in all fifty states, it is critical that we have the ability to offer and maintain uniform benefits throughout the United States. This flexibility to determine how to best meet the needs of our employees and retirees is crucial to our employees and to Ford. Congress understood this critical need when it enacted ERISA, which provides multi-state employers with a consistent approach to administration and design of nationwide health benefits. Therefore, this federal framework must be not only preserved, but strengthened where appropriate.

## **Closing**

I'd like to thank you once again for the invitation to share our experiences with you. I commend you for examining this very critical issue. I am grateful for your interest in Ford's experience in health care benefit provision. Quality and value are integral to our core business and equally vital to health care. We offer our firm commitment of partnership to work with you on constructive solutions.

This completes my statement, Mr. Chairman and I'd be happy to respond to your questions.