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McDonald's May Drop Health Plan

By JANET ADAMY

McDonald's Corp. has warned federal regulators that it could drop its health insurance plan for nearly 30,000 hourly restaurant workers unless regulators waive a new requirement of the U.S. health overhaul.

Audio

McDonald's May Drop Health Plan: The chain has told regulators it may ditch its plan unless a new health-care requirement is waived, Janet Adamy reports.



Editorial writer Joe Rago on McDonald's threat to drop its health plan.

The move is one of the clearest indications that new rules may disrupt workers' health plans as the law ripples through the real world.

Trade groups representing restaurants and retailers say low-wage employers might halt their coverage if the government doesn't loosen a requirement for "mini-med" plans, which offer limited benefits to some 1.4 million Americans.

The requirement concerns the percentage of premiums that must be spent on benefits.

While many restaurants don't offer health coverage, McDonald's provides mini-med plans for workers at 10,500 U.S. locations, most of them franchised. A single worker can pay \$14 a week for a plan that caps annual benefits at \$2,000, or about \$32 a week to get coverage up to \$10,000 a year.

Last week, a senior McDonald's official informed the Department of Health and Human Services that the restaurant chain's insurer won't meet a 2011 requirement to spend at least 80% to 85% of its premium revenue on medical care.

McDonald's and trade groups say the percentage, called a medical loss ratio, is unrealistic for mini-med plans because of high administrative costs owing to frequent worker turnover, combined with relatively low spending on claims.

Democrats who drafted the health law wanted the requirement to prevent insurers from spending too much on executive salaries, marketing and other costs that they said don't directly help patients.

McDonald's move is the latest indication of possible unintended consequences from the health overhaul. Dozens of companies have taken charges against earnings—totaling more than \$1 billion—over a tax change in prescription-drug benefits for retirees.



Noah Rabinowitz for The Wall Street Journal

McDonald's says the new health law threatens coverage for many workers, like these in Times Square.

More recently, insurers have proposed a round of double-digit premium increases and said new coverage mandates in the law are partly to blame. HHS has criticized the proposed increases as unwarranted.

Democrats, looking toward midterm elections in which the health overhaul is an issue, say it already has stopped insurance practices they call abusive, has given rebates to seniors with high out-of-pocket prescription costs and has allowed parents to keep children on their insurance plans until they turn 26.

McDonald's, in a memo to federal officials, said "it would be economically prohibitive for our carrier to continue offering" the

mini-med plan unless it got an exemption from the requirement to spend 80% to 85% of premiums on benefits. Officials said McDonald's would probably have to hit the 85% figure, which applies to larger group plans. Its insurer, BCS Insurance Group of Oak Brook Terrace, Ill., declined to comment.

McDonald's didn't disclose what the plan's current medical loss ratio was.

The issue of limited-benefit plans has also hit colleges, which face the same 80-to-85% requirement beginning next year.

"Having to drop our current mini-med offering would represent a huge disruption to our 29,500 participants," said McDonald's memo, which was reviewed by The Wall Street Journal. "It would deny our people this current benefit that positively impacts their lives and protects their health—and would leave many without an affordable, comparably designed alternative until 2014."

The health law expands Medicaid and offers large subsidies to lower-income people to buy coverage, but those provisions don't kick in until 2014.

Plan With Limits		
McDonald's offers hourly workers a set of health-insurance plans that have low weekly premiums and low annual benefit caps. Details of the plans for individual policies for crew members:		
	Premiums	Maximum annual benefit
BASIC PLAN	\$13.99 (weekly) \$727.48 (yearly)	\$2,000
MEDIUM BENEFITS	\$24.30 \$1,263.60	\$5,000 (outpatient; \$1,500)
HIGHER BENEFITS	\$32.30 \$1,679.60	\$10,000 (outpatient; \$2,000)
What all of the plans pay for, up to annual maximum: <ul style="list-style-type: none"> •100% of visit to primary-care or specialist doctor, after \$20 co-pay •100% of prescription drug costs, after \$5 co-pay for generic and \$50 co-pay for brand •70% of inpatient hospital services 		
Source: McDonald's benefit handout		

Federal officials say there's no guarantee they can grant mini-med carriers a waiver. They say the answer may not come by November, when many employers require employees to sign up for the coming year's benefits.

The government is waiting for the association of state insurance commissioners to draft recommendations. The head of the association's health-insurance committee, Kansas Insurance Commissioner Sandy Praeger, said she doesn't think these types of mini-med plans deserve an exemption.

"If they are sold as comprehensive coverage, we expect them to meet the same [medical-loss ratio] standards as other health plans," she said.

Without Coverage

Some options for low-wage workers if they don't get health insurance on the job

Steven Larsen, the HHS official who received McDonald's email memo, said the department doesn't want employers to drop

Under current system:

May be eligible for Medicaid, the federal-state program for the poor, especially families with children

Can purchase private insurance on individual market, but premiums are likely to be too costly
n Hospital emergency rooms must treat all comers without regard to ability to pay.

Some 1,200 federally funded community health centers offer low-cost basic care.

Starting in 2014 under health overhaul:

Everyone with income up to 133% of federal poverty level will be eligible for Medicaid.
(Poverty level for individual is \$10,830 in 2010.)

People with income between 133% and 400% of poverty level will be eligible for subsidized health insurance. Premiums are capped at 2% of income for those at the lowest end of that scale and 9.5% of income at the highest end.

Additional \$11 billion spent on community health centers

coverage over the law. The agency says it has already given the carrier for McDonald's and others the chance to seek exemption from new annual limits on benefit payouts.

Insurers say dozens of other employers could find themselves in the same situation as McDonald's. [Aetna Inc.](#), one of the largest sellers of mini-med plans, provides the plans to [Home Depot Inc.](#), [Disney Worldwide Services](#), [CVS Caremark Corp.](#), [Staples Inc.](#) and [Blockbuster Inc.](#), among others, according to an Aetna client list obtained by the Journal. Aetna also covers AmeriCorps teaching-program sponsors, who are required by law to make health coverage available.

Aetna declined to comment; it has previously indicated that the requirement could hurt its limited benefit plans.

"There is not any issuer of limited benefit coverage that could meet the enhanced MLR standards," said Neil Trautwein, a vice president at the National Retail Federation, using the abbreviation for medical loss ratio.

A spokeswoman for McDonald's said it would look for other insurance options if it couldn't get the waiver. The company's chief people officer for the U.S., Steve Russell, said, "McDonald's will continue to be committed to providing competitive pay and benefits."

The chain has offered a limited benefits plan for more than 10 years. The current version provides outpatient, inpatient, preventive-care and prescription-drug coverage. McDonald's says 85% of participants have less than \$5,000 in medical expenses a year.

The new rules at issue apply only to fully insured health plans and not those where the employer absorbs the risk and directly pays out medical claims. The rules wouldn't affect [Wal-Mart](#)

[Stores Inc.](#), for instance, because it is self-insured.

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DISCUSS

*This is yet another example
of the numerous unintended
consequences of the
legislation that no one read -
what a joke!*

—Larry Trevor

Benefit consultants anticipate that, by 2014, most employers will stop offering mini-med plans. Such plans likely wouldn't meet the definition of adequate coverage for full-time workers. Under the law, midsize and large employers that fail to offer such coverage will have to pay a fine.

Until 2014, workers on mini-med plans would have few affordable alternatives for coverage. According to a survey by the Restaurant Opportunities Centers United, workers without health insurance were three times as likely to visit the emergency room without being able to pay as their counterparts with health insurance.

"The packages maybe could be better, but for a start, they're quite good," said Jerry Newman, a professor at State University of New York at Buffalo, who worked under cover at McDonald's to write "My Secret Life on the McJob." He added: "For those who didn't have health insurance through their spouse, it was a life saver."

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