

**Testimony of Rich Floersch
McDonald's Corporation**

Chairman Rockefeller and Members of the Committee, I am Rich Floersch, the Executive Vice-President for Human Resources of McDonald's Corporation. My team's responsibilities include determining the various benefit programs that are available to the employees of McDonald's and, in some cases, the employees of the thousands of small businesses that own and operate the nearly 12,500 franchised McDonald's restaurants around the nation.

I am here today to continue the informative discussion we have been having with various policymakers concerning the health insurance challenges facing organizations such as McDonald's and our employees as well as our franchisees and their employees, given the ever-increasing cost of health care in America.

Let me start by describing our organizational structure. McDonald's and its franchisees operate approximately 14,000 restaurants in the United States. Nearly 12,500 of those restaurants are

owned and operated by more than 3,100 independent small business owners—franchisees—throughout the United States. McDonald’s USA owns and operates approximately 1,500 restaurants in the United States. Individuals working at those McDonald’s-owned stores, along with those of us who work for the corporation, are employees of McDonald’s. Our franchisees, and the people who work in the nearly 12,500 franchise-owned restaurants, are employees of these individual small businesses.

For many of our employees, McDonald’s is their first job. Our goal is to provide those employees with competitive compensation and benefits. Health insurance is, of course, but one of a suite of benefits, such as dental, vision and retirement savings, provided to our employees. We have sought to match the health insurance options we make available to the needs, desires, and capabilities of our employees. Indeed, to understand the options we provide to our employees, it is important to understand a little bit about our employees.

At restaurants owned by the company, over three quarters of our crew employees work part-time, averaging slightly less than 18 hours per week. There is considerable turnover and the tenure of crew employees tends to be rather short—lasting about 17 months. Most often by 18 months the employee has either left McDonald’s, perhaps to return to school or take another job, or been promoted to a more senior position. At McDonald’s we are proud of our long tradition of promoting from within. Many employees who started out as members of a restaurant crew have moved on to supervisory or management positions. Today 70% of restaurant managers, 50% of corporate staff and indeed, 40% of our top 50 executives are remarkable individuals who started their career in an entry-level position at a McDonald’s restaurant.

We have worked hard to find affordable health insurance plans that meet the needs of our restaurant employees. We utilized the services of noted experts in this field. We believe that we have achieved the best result that the marketplace allows. When we surveyed our crew

employees about their health care needs, they told us: 16% would not pay for any health insurance; 18% were covered under another plan; 35% would be willing to pay \$5-\$10 per week for health insurance; 20% would pay \$11-20 per week while 7% said they would pay \$21-\$35. Only 3% of our crew indicated they would pay more than \$35 per week for health insurance.

For the crew at company-owned restaurants, nearly 80% of which are hourly part-time employees, we offer four choices for health insurance. Three are low cost limited benefit plans and one is a higher cost comprehensive medical option. The comprehensive plan provides significantly higher benefit levels, but naturally at a higher premium. If the employee elects any one of these plans, McDonald's contributes \$10 a month during their first year of employment and \$20 per month thereafter until such time as the individual is promoted to a longer term, full-time position with eligibility for our core benefit plans.

The three limited benefit plans have different annual benefit limits—\$2,000, \$5,000 or \$10,000—and correspondingly higher

premiums. McDonald's works hard to make sure that its employees understand the coverage limitations as well as the benefits provided by these plans. All of the documentation provided to employees details the limited nature of the coverage.

Whether or not an employee has reached their annual insurer paid benefit limit, and very few do, they continue to benefit from their participation in the plans. They receive significantly reduced prices for prescription drugs and health care services through negotiated discounts with providers, as well as access to a 24-7 nurse care phone line.

Given the high, and continually increasing, cost of health care, those annual insurer paid benefit limits may appear low. Yet it is important to note that, even though the lowest annual benefit plan is overwhelmingly the most popular choice amongst our hourly employees, approximately 90% of covered employees do **not** reach the annual limit for these benefits. And again, even for those employees who reach the benefit limit of the plan they chose, they continue to receive the

additional benefit of the substantial negotiated discounts on health care services and prescriptions.

Although we do not have the ability to direct franchisees on the wages and benefits they provide to their employees, we did insist that our insurance carrier make available the same plans to our franchisees. We have actively and successfully promoted participation at the franchisee level, indeed, over the past five years, participation in these health plans has increased over threefold and now nearly 80% of franchisees offer these plans.

For those employees who are making McDonald's a career, including all restaurant managers, assistant managers, certified swing managers, primary maintenance employees and corporate staff, we offer several comprehensive plans. These plans are designed so that higher compensated employees are required to pay significantly more in premiums than lower compensated employees.

I know that some criticize limited benefit plans not only for their limits but also with respect to the ratio of benefits paid out compared to

premiums received. These are largely questions for insurance carriers and were the subject of the regulations recently issued by HHS—but I would offer the following observation regarding our experience. Based on numbers provided by our carrier, the loss ratio for the limited benefit plans offered to McDonald’s hourly employees apparently has ranged from a low of 78% to a high of 91% over the past five years, with the most recent year being 86%, and would appear to be comparable to the goals established in the recent legislation.

Earlier this fall, the Department of Health and Human Services granted over 100 “temporary waivers” from certain statutory benefit targets. Those waivers specifically exempted plans made available to employees by many businesses and unions. At the time there were press reports that speculated on what McDonald’s would do if our current health insurance carrier stopped offering limited benefit plans. The removal of these options only weeks before our next open enrollment period for employees would have been highly disruptive to the Company and our employees. We would have been forced to go back into the

insurance marketplace and obtain the best available affordable options to offer our employees. We feared those options would not measure up to those we currently offer. But we would have taken action to make sure that our employees were provided the best health insurance options available.

At McDonald's we are proud of the benefits that we offer to our employees. We cannot control the rising cost of health care, we cannot dictate what insurance products health insurers are willing to offer—but what we can do, and what we are committed to continue doing, is to strive to make available to our employees, and those of our participating franchisees, benefit options that fit their needs. Thank you.