



The Manufacturing Council

WASHINGTON, D.C. 20230

Subcommittee on the US Workforce

Position Paper

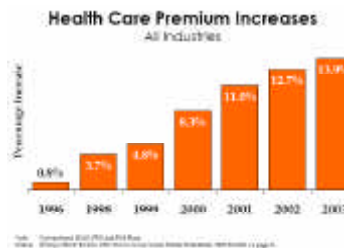
- Chairman: Fred Keller, Chairman and Chief Executive Officer, Cascade Engineering
- James McGregor, President, Morgal Machine Tool and Ohio Stamping and Machine
- Scott Thiss, Chairman and Chief Executive Officer, S&W Plastics

EXECUTIVE SUMMARY

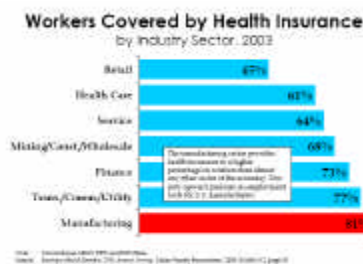
The Health Care Problem

With healthcare costs increasing at annual double digits rates, Healthcare has become an “Achilles heel” for manufacturers. In an environment where suppliers are expected to decrease costs on the order of 2 to 5% per year, health care providers are increasing costs on the order of 10 to 18% per year. These rising costs cannot be explained by improvements in the quality of care.

- Health Care costs are increasing at alarming rates for all industries



- Manufacturing provides Health Insurance to a higher percentage of workers than almost any other sector



- Costs to employers and employees among Council members now amounts to as much as 46% of wages earned for entry-level workers. The benefit is costing the employer up to \$4.60 per hour for coverage.
- The smallest firms are paying the highest percentage of the base pay for coverage. Both because they lack leverage and because they often are the source of lower wage entry level jobs
- The number of uninsured Americans continues to rise to over 43,000,000. Some firms on the council report employees declining coverage because the employees 25% portion of the expense is considered too expensive.
- In real terms, this costs the consumer more. For example Ford Motor estimates that \$1000 is added to the cost of each vehicle manufactured in the US due to Health Costs.
- The rise in Health Care costs is a significant contributor in making US manufacturers less competitive in the global marketplace.

The Solution

Long term:

- Most proposals simply shift the burden of “who pays” from one source to another. The real solution needs to identify and eliminate wasteful practices and needs to create the appropriate forms of national competition in treatment results of specific diseases
- Create consumer incentives to make choices based on quality and cost
- Unfounded “frivolous” law suits add non-value added costs and need to be eliminated through Tort reform

Short Term:

- Provide opportunity for small firms to band together to reduce risk and lower cost.
- Provide for more individual responsibility for paying for the costs of healthcare
- Manufacturers with their emphasis and knowledge of Lean Manufacturing and Six Sigma waste reduction efforts are willing and able to connect with Health Care providers in their local areas to help eliminate waste and reduce costs together. Create tax credits for employers who spend resources to participate in this form of “grass roots” health care quality improvement process.
- Standardized electronic medical records could reduce errors and speed patient handling.

BACKGROUND ADDENDUM

Since the late 1940's the US Manufacturing sector has been losing jobs. Once over 40% of US jobs were in the manufacturing sector. Today that number is approximately 12% and declining. Until about the last decade, this job loss could be explained by traditionally strong productivity gains and the very occasional loss of an industry to lower wage countries. The movement of the manufacturing base for the textile industry and the toy industry are examples of whole industries changing their global locus from the US to other countries. In the past decade the job loss has continued both on the strength of productivity gains and the continued loss of industrial strength in several important sectors.

As globalization has taken root, it has become increasingly clear to the industries that are left that a critical mass of important skills could in fact disappear from our shores.

In response to this potentially dangerous and difficult situation, the Bush Administration has responded with a plan to strengthen our manufacturing base with a series of initiatives contained in a report issued by the Department of Commerce in January 2004 entitled "Manufacturing in America – A comprehensive Strategy to Address the Challenges to U.S. Manufacturers".

Among the recommendations already implemented from this report is the creation of this council and the appointment and confirmation of Assistant Secretary of Commerce Al Frink. The first meeting of the council was held in June at Cascade Engineering in Grand Rapids Michigan. This subcommittee was formed in August of this year and asked to address the issues facing the Workforce in America in the following areas:

- Education
- Retraining/21st Century Jobs
- Economic Diversification
- Health Care (Costs and Predictability)

This report is designed to give perspective to the issues and in particular address Healthcare concerns for the manufacturing sector.

Perspective

The workforce in manufacturing has a tradition of being considered the most powerful, talented, and creative workforce in the world. As its numbers have been reduced through intense internal and external competition it has increasingly become necessary for this workforce to become increasingly skilled and knowledgeable. Manufacturing continues to provide some of the highest wages for all levels, but it no longer is the place where someone without education can find a job. That lower wage sector is increasingly shifting to the service sector. Increasingly there is a trend away from what used to be termed "unskilled labor" to more highly skilled more technical jobs. Production jobs frequently require a great deal of post high school education. And the number of these "touch" labor jobs are increasingly in the minority in any manufacturing environment as more and more skills are proportionately needed in Engineering, Supply Chain, and other "non-touch labor" categories. Indeed the title of this subcommittee could very well be

changed to “human capital” to avoid the antiquated stereotype of manufacturing being a smokestack, dirty grimy industry where only people who cannot find a job elsewhere would work.

Another dimension of the workforce of today is the increasing need to be performing as “high performance teams”. The idea that people come to work, do a job as they are told to do it, and go home is now an old notion and frankly just not workable in today’s manufacturing plants. Manufacturing environments thrive best when cohesive teams work together to accomplish their objectives and solve problems. These “soft” skills are increasingly the difference between success and failure in the manufacturing sector.

Issues facing the Manufacturer

Education

To support this increasingly technical work being done in high performing teams the manufacturers of today are faced with needing better and better incoming employees. In many areas across the nation this is increasingly hard to find as core city school systems have declined in the past decade.

Re-education and training

Once hired the employer in one way or the other needs to provide for the re-education of its employees. No longer is the concept of basic education enough for the skills required and no longer is one education cycle enough. Continuous education is the norm as educational facilities of all types provide for the continuing education of the workforce.

Economic Diversity

Increasingly towns and cities across the U.S. have been faced with plant closings due to one large industrial employer either moving operations overseas, closing plants and consolidating, or simply going out of business. This results in severe disruption and could be avoided if there were better diversity of jobs and opportunities in these smaller areas

Healthcare

With healthcare costs increasing at annual double digits rates for the last decade, Healthcare has become an “Achilles heal” for manufacturers. In an environment where suppliers are expected to decrease costs on the order of 2 to 5% per year, health care providers are increasing costs on the order of 10 to 18% per year. These rising costs cannot be explained by improvements in the quality of care.

According to a Kaiser Family Foundation survey, the average family health insurance premium increased to \$9,068 in the spring of 2003. The Health Research and Education Trust reported that between 2002 and 2003, monthly premiums for employer-sponsored health insurance rose

13.9%. For small firms (3-9 workers), the rate was 16.6%. Of the many factors leading to increased overhead cost, Healthcare continues to grow at the fastest rate, and with little indication of slowing.

Most manufactures indicate a willingness to continue to provide healthcare benefits. Providing such benefits makes for a more motivated and productive workforce. In addition, company loyalty leads to reduced costs in hiring and training and healthy employees allow for reduced lost time and greater productivity. Maintaining a healthy workforce is good for business, but rapidly increasing healthcare costs impact the bottom line and erode global competitiveness.

As cost continued to rise, various approaches have gained popularity used to reduce costs. These approaches include:

- Elimination of retiree health coverage
- Tiered reimbursement (usually in drug coverage)
- Consumer-driven health plans (high deductibles and Health Spending Accounts)
- Association health plans (Joint purchasing to increase bargaining power)

These approaches have met with limited success due to being implemented on a small scale. The Subcommittee on the Workforce needs to develop a comprehensive plan to address the various root causes for healthcare costs and lack of coverage among all sectors of the Workforce Matrix.

Reasons for Healthcare Costs Increases

There are numerous reasons that healthcare costs are increasing. These reasons include:

- New and more costly prescription drugs are being introduced.
- Doctors' expenses are increasing, with malpractice insurance being a major concern.
- Government mandates and regulations.
- Increased consumer demand
- Inadequate preventive care
- An Aging society
- Lifestyle choices
- Physician fees tied to increased treatment
- Extensive diagnostics
- Third party payments
- Inappropriate competition

The Solutions

A report by Michael Porter and Elisabeth Teisberg in the June 2004 issue of the Harvard Business Review entitled "Redefining Competition in Health Care" makes a credible argument for inappropriate competition in the health care industry. They argue that "In a healthy system, the competition at the level of diseases or treatments becomes the engine of progress and reform" and "the locus of competition has to shift from "Who pays?" to "Who provides the best value?"

The point made is that extensive work in the health care sector is needed and we would add that since Manufacturers are a major payer of health care costs we could and should help in the reform process.

Perhaps the greatest impact manufacturing could have on healthcare is to offer the expertise and advice of the years of knowledge in becoming a LEAN enterprise. This subcommittee should initiate the development of measurements in productivity and standardization of processes within the healthcare industry. From this platform, additional solutions can be addressed.

Other possible “short term” actions that could be addressed

- Expansion of Health Associations
- Health Savings Accounts (balance rollover & mobile)
- Tort Reform (medical and product liability)
- Enactment of Class-action reform
- Enactment of Asbestos reform