THE TRUTH ABOUT WELLNESS ROI & THE COST OF DOING NOTHING

by Dr. Robert Grant

Abstract

The fact that it is not always possible to specify a predictive ROI for workplace wellness programs in no way means they are not worthwhile. An abundance of evidence exists to show that comprehensive and well-run wellness programs can result in significant returns for employers. Furthermore, outcomes based programs offer a way to guarantee immediate returns and high levels of engagement. Doing nothing and expecting healthcare costs to drop is no longer an option. It is time to take action.

The general assumption surrounding the popularity of workplace wellness programs is that they are worthwhile for two reasons: first, they benefit the health and well being of the employee population which improves productivity and overall workplace culture; second, they bring down health care and associated costs for businesses[1].

Not only do wellness programs improve the health and vitality of your workforce – which is always a good thing – the assumption is that they also make financial sense.

The potential financial savings associated with wellness programs are of interest to any business, but particularly so in the United States where health care costs are the biggest concern for CEOs at the moment according to a survey by the world's leading staffing company Adecco SA[2]. Employers spent more than $8,500 per active employee on health care coverage in 2011. This was 76% of the $11,176 total cost, with employees covering the balance[3]. And this figure is set to increase[4].

Therefore, business leaders now realize that they must be *proactive* in their attempts to control health care spending. Comparing and switching from one insurance plan to another, or just idly waiting for costs to come down is no longer an option. They must take preventative action, instead of waiting for employees to get sick and only then reacting.

There is an abundance of research to suggest that employees who are at high risk for certain lifestyle diseases, or who have developed them, cost significantly more than their healthier colleagues[5]. Average yearly health costs were $1,275 more for smokers than non-smokers and $1,850 more for obese people than those of normal weight[6].

Furthermore, according to the Center for Disease Control and Prevention approximately 75% of healthcare spending is directly related to *chronic lifestyle diseases*[7]. These are diseases that are caused by certain kinds of unhealthy behaviours, e.g. inactivity, unhealthy diet, etc. Hence, they are *preventable*.

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Wellness programs create savings by bringing down such risk factors found among employees and by focusing on *preventing* the onset of chronic lifestyle diseases, e.g. obesity, diabetes, heart disease, etc.

Fewer risk factors among the employee population mean lower healthcare costs, decreased hospital visits, less pharmaceutical purchases, as well as lower rates of absenteeism and potentially greater productivity. Thus, fewer claims made for healthcare dollars and less money lost through employees missing work due to illness.

However, these programs cost money, and while the above description of workplace wellness programs seems intuitively compelling, business leaders – CEOs, CFOs and HR managers – are looking for specific financial justification for investing in these healthy programs; particularly so given the current climate of economic uncertainty.

Are wellness programs worth the investment? Exactly how much will the company save? What exactly is the return on investment for workplace wellness programs?

Wellness ROI

In order to predict potential ROI from a wellness program, one would have to estimate the ratio of medical expenses *not* incurred, including health related absenteeism, to the total costs of the wellness program. That would mean comparing the healthcare costs for those engaged in the wellness program, to a similar (in terms of health status) group who are *not* engaged in the program; or to the estimated healthcare costs had the group not engaged in any wellness program.

It is important to note that potential return on investment from a wellness program depends on whether your company is *self-insured* or goes through an insurance provider. Self-insured companies do not use a health insurance provider but instead pay into a savings account that acts as insurance money for health related claims. The most recent figures show that in 2011, 58.5 % of workers with health coverage were in self-insured plans, up from 40.9 % in 1998 (larger employers are more likely to offer self-insured health plans: in 2011, 68.5 % of workers in firms with 50 or more employees were in self-insured plans[8]). For the most part, the percentage of workers in self-insured plans increased consistently between 1998 and 2011.

ESTABLISHING A VALID ROI FOR WELLNESS PROGRAMS IS A COMPLEX PROCESS WITH A MULTITUDE OF VARIABLES.

Companies that self-insure stand to potentially reap a greater portion of the benefits of a wellness program in that they get to retain the money that is not spent on healthcare costs. Companies that use an insurance provider have a fixed cost already in their premium and the savings associated with medical claims would be passed along to the insurance company who have to pay out less. Companies using an insurance provider do, however, still stand to make significant savings on reduced absenteeism and increased productivity and in the long run, bring down the costs of insurance premiums.

However, regardless of whether we are dealing with a company that self insures or one that is on a plan, establishing a valid ROI for wellness programs is a complex process with a multitude of variables.

Case Studies

There have been numerous attempts made to define this figure of wellness ROI mainly through analysis of case studies: analysis of specific organizations that have implemented wellness programs and then attempted to track the effects of the program, both on health risks of employees and the resulting savings in healthcare costs. Examples include Johnson and Johnson, Citibank, DuPoint, Highmark, Inc., Bank of America, Cigna, Proctor and Gamble, to name a few[9].

However, results from these studies vary from case to case. For example, Citibank tracked their wellness program for three years, and found that for every dollar invested, $4.64 was saved from the wellness program.

However, J&J's program (tracked over a longer period of four years) produced a return on investment for their wellness program ranging from $1.18 to $3.92 saved for every dollar spent[10].

Another highly regarded wellness case study came from health insurer Highmark, Inc., who measured their comprehensive wellness program over 4 years. They found a return on investment of $1.68 saved for every $1 dollar invested[11].

Given the variance of results from case studies, researchers have sought more clarity on the issue. Thus, there have been a number of meta-analyses which combine results from many different studies. This is done in order to identify common patterns and results, and establish a baseline estimate for empirically supported wellness ROI that transcends the particular problems with individual case studies.

The most scientifically credible attempt at a meta-analysis of wellness program case studies, in terms of analytical rigor and empirical standards, comes from *Harvard School of Public Health's* Katherine Baicker. In her meta-analysis, *Workplace Wellness Programs Can*

Generate Savings, she avoids many of the pitfalls of previous case-studies by seeking out only studies that have a well defined comparison group against which to compare the savings associated with the wellness program. Out of more than 100 case studies she selected 36 studies that met this inclusion criterion[12].

In the study, she calculated savings as the difference between healthcare treatment and comparison groups after the intervention, subtracted by the differences between the groups before the intervention.

FOR EVERY DOLLAR SPENT, $3.37 WAS SAVED

Averaging across all programs in which they were reported, Baicker found that the interventions produced $358 in savings through reduced health costs per employee per year, while the program costs the employer $144 per employee per year. The average calculated return on investment across the 15 studies that reported program costs was 3.37 (that is, for every dollar spent, $3.37 was saved).

This figure brings with it a level of scientific credibility not found among individual case studies and confirms the anecdotal evidence for the value of workplace wellness programs in bringing down health care costs. However, it is important to note there are limitations, even with this meta-analysis.

Limitations

While the above analysis attempted to use studies that had a control group, it is still possible that the results were impacted by what is known as *selection bias*. This means that it is possible that the "healthiest employees were those most likely to enrol in voluntary wellness programs, so a comparison of participants and non-participants might suggest that the programs are improving health more than they really are".

Also it can be difficult to quantify the precise effects of a wellness program and whether any changes in health status were directly caused by the program itself and not an outside factor. In some ways, you are measuring "never" events, like heart attacks or diabetes that would likely have occurred without health intervention and this is difficult.

A further difficulty with establishing a predictive ROI for wellness programs is concerned with the unique nature of every organisation. When it comes to health risk status and workplace environment, each organisation has its own specific set of needs and risks, so applying a potential ROI figure from one company may not work for another.

Furthermore, there is little to no standardization among the structure and implementation of wellness programs found among the studies. While most programs do focus on physical activity, smoking cessation and healthy nutrition, they may not do this in exactly the same way and have the exact same effects on an employee population.

These factors explain the disparity in resulting wellness ROI claims and why finding a one-size-fits-all ROI for wellness program implementation is difficult.

However, recent clarifications have shed light on the varying types of programs available to employers, one of which – *outcomes-based* programs – offers a more immediate and substantial return on investment.

ANOTHER DIFFICULTY WITH BOTH THE CASE STUDIES AND META-ANALYSES IS DOWN TO THE UNIQUE NATURE OF EVERY ORGANIZATION.

Participatory and Outcomes-Based Wellness Programs

There are two main ways to structure a program as categorized by HIPAA regulations, finalized in 2006 and also codified in the Affordable Care Act[13].

1. Participatory wellness programs

The first consists of those programs that are available to all similarly situated people and do not require a participant to meet any standard related to health status to receive a reward. These are referred to as *participatory wellness programs*. Such programs offer the same rewards or incentives for participation to every employee, regardless of health risk status. The non-discrimination rules do not limit the level of incentives an employer can provide for participatory wellness programs. The only requirement is that the program be offered to all similarly situated individuals[14].

Examples of participatory wellness programs include gym memberships or tobacco cessation programs offered by an employer without regard to whether participants actually lose weight or quit tobacco use.

Participation based programs are good for a "soft" approach to engaging employees. They rely on the motivation of individuals to take advantage of what's on offer, i.e. health risk assessment, gym membership and so on.

However, a problem with participatory programs is that often employees will simply show up or "go through the motions" for the reward. They may not make a genuine effort to improve their health risks when they get the incentive by just showing up.

Furthermore, since such programs are voluntary, it is often the case that those who choose to participate are those that are *already* health-conscious and, while it is important to keep these employees healthy, they are not the most costly sector of your employees. This means that the wellness program may not achieve its greatest potential impact on health care costs.

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2. Outcomes-based wellness

Then there are the *outcomes-based wellness programs*. These programs place a far higher value on the idea of personal responsibility when it comes to health behaviour and can result in immediate and substantial return on investment.

Outcomes-based programs require a person to actually meet a certain health standard in order to obtain a reward. Rewards are most often in the form of a discount on premium contributions, which can be a significant incentive for employees to reach certain targets[15].

The idea behind outcomes-based programs is that they offer employees a financial incentive to make healthier choices and manage chronic conditions. That is, to take personal responsibility for their health status.

Outcomes-based programs have become very popular in recent years. According to a recent annual market survey, about 35% of companies reported using rewards or penalties based on smoking or tobacco-use status in 2012 and 10% of companies using them for weight management and cholesterol control in 2012. Nevertheless, that number is poised to triple with another 23% of companies planning to implement such incentives in 2013[16].

The recent interest in these programs is caused by two major factors.

Firstly, outcomes-based programs allow for a far greater, and more immediate, return on investment. These programs work by requiring employees to meet certain health targets. If they reach these targets, then they are entitled to a discount on their contributions to their health insurance premiums. If they fail to reach the targets, they may have to pay an increased contribution. The immediate return on investment comes from the fact that often times, particularly in the early stages of the program, many employees will fail to reach all of their targets. Hence, employees will end up taking responsibility for their own health status and paying a larger contribution to their premiums.

Secondly, outcomes-based programs drive up engagement to extremely high levels. Bravo Wellness – leaders in implementing outcomes-based programs – state that companies should expect engagement levels of between 80 and 90%[17].

This is due to employee health status being directly tied to the incentives. When it becomes clear that employee behaviour and lifestyle affects the amount they contribute to their insurance premium, participation rates in wellness programs increases dramatically.

COMPANIES IMPLEMENTING OUTCOMES-BASED PROGRAMS SHOULD EXPECT ENGAGEMENT LEVELS OF BETWEEN 80 AND 90%.

There are many examples of programs delivering savings of between 3 and 10% of current health care spending depending on how the program is structured, within the first year of implementation.

However, there are a number of strict guidelines set out in the Affordable Care Act that must be adhered to for those wishing to implement an outcomes-based program. These rules are explicitly designed to reduce the risk that programs using an outcomes-based approach to incentivize would merely shift costs to high-risk individuals or create premium differentials so large as to discourage enrolment, deny coverage, or create an excessive financial penalty.

The guidelines, in brief, are as follows:

1.) The total amount of rewards cannot exceed 20% of the total cost for coverage for wellness participants. The Affordable Care Act provisions increase the reward total to 30%, effective 2014.

2.) It must be a *reasonably designed program* for promoting health and wellness.

3.) Sponsors of the program must offer qualified individuals the opportunity to qualify for the reward at least once a year.

4.) The reward must be available to all similarly situated individuals. If an individual's medical status makes it difficult to satisfy the standard, there must be a reasonable alternative offered (or a waiver of the standard).

5.) Wellness program communications must include a description of the reasonable alternative standard or the conditions for waiver of the standard.

Highlighting the surge of interest in outcomes-based programs, a recent paper titled *Guidance for a Reasonably Designed, Employer-Sponsored Wellness Program Using Outcomes-Based Incentives* has been published. The authors – six well-established health organisations in America including the *American Cancer Society* , *American Diabetes Association*, and the *American Heart Association* – state that: "Our primary goal in providing this guidance is to help employers to implement programs that engage their workforce, improve employee health, and potentially reduce health care and other related costs over time while also protecting employees from discrimination and unaffordable coverage". So, while outcomes-based programs do offer potentially significant returns, it is essential that they are implemented in a fair way in accordance with the above guidelines.

While participatory programs are a great way to introduce healthy habits to employees, outcomes-based programs delivers high levels of engagement while also offering a unique mechanism for getting an immediate return on investment.

However, it is still essential to have a comprehensive and well structured wellness program that can sustain this early engagement level for a long enough period of time so that real changes in health status can be achieved. Research indicates that incentives work very well to encourage engagement with programs in the short term but more intrinsic motivators are necessary to sustain such engagement[18].

Conclusion

In conclusion, there are many significant difficulties associated with establishing a one-size-fits-all wellness ROI. The unique nature of each organisation, the levels of commitment to the wellness program from leadership, the danger of selection bias, and so on, all contribute to the complexity of reaching a quantifiable, universal, wellness ROI.

However, there is an abundance of evidence – through case studies of comprehensive programs, and meta analysis of many cases – that suggests there is a positive ROI to be gained from investing in workplace wellness programs. Time and again, companies that track their data following the implementation of a wellness program show that there are positive returns to be gained. Ultimately, healthier employees cost less.

Healthcare costs are reaching a point where they will become unsustainable for business and crippling to the national economy. Wellness programs offer hope; a way to directly combat these costs over the long term, while improving the general productivity and vitality of your workplace culture.

Furthermore, the recent clarity on the guidelines for outcomes-based programs offers a way to gain an immediate ROI from wellness programs, while also encouraging very high levels of engagement. When employees take responsibility for their own health care costs, they become more motivated to make real changes to their health behaviors.

Ultimately, well run comprehensive workplace wellness programs bring down risks found among the employee population. When risks come down, costs follow. This is the bottom line when it comes to the value of workplace wellness: supporting your employees to become healthier is good for them, and good for business.

Appendix

1 – http://www.cdc.gov/nationalhealthyworksite/about/index.html

2 – http://www.reuters.com/article/2012/10/22/us-adecco-election-survey-idUSBRE89L12T20121022

3 – http://www.acoem.org/uploadedFiles/Public_Affairs/Policies_And_Position_Statements/JOEM%20Joint%20Consensus%20Statement.pdf

4 – It is worth noting that in a recent survey of global wellness trends by Buck Consultants, the United States was the only region that cited "reducing healthcare costs" as their number one reason for implementing wellness programs.

5 – http://www.gallup.com/poll/150026/unhealthy-workers-absenteeism-costs-153-billion.aspx

6 – http://health.usnews.com/health-news/news/articles/2012/04/13/obese-workers-health-care-costs-top-those-of-smokers

7 – http://www.cdc.gov/chronicdisease/resources/publications/aag/chronic.htm

8 – ebri.org Notes • November 2012 • Vol. 33, No. 11

9 – http://www.slideshare.net/epalmer/2011-corporate-wellness-program-roi-report

10 – http://healthfitness.com/wp-content/uploads/2012/11/Johnson-and-Johnson-corporate-wellness-program.pdf

11 – http://www.businessgrouphealth.org/pub/f31285d7-2354-d714-5163-a51591ca2745

12 – http://dash.harvard.edu/bitstream/handle/1/5345879/Workplace%20Wellness%20Programs.pdf?sequence=1

13 – http://www.dol.gov/ebsa/faqs/faq_hipaa_ND.html

14 – http://www.mcgrawwentworth.com/Reform_Update/2013/Reform_Update_54.pdf

15 – http://healthaffairs.org/healthpolicybriefs/brief_pdfs/healthpolicybrief_81.pdf

16 – Watson T; National Business Group on Health. Employer Survey on Purchasing Value in Health Care; Orland Park, IL: The Horton Group; 2012.

17 – http://www.blueadvantagearkansas.com/employers/bravo_wellness.aspx

18 – Guidance for a Reasonably Designed, Employer-Sponsored Wellness Program Using Outcomes-Based Incentive

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GetHealth increases employee engagement in wellness programs, which ultimately creates substantial reductions in the costs associated with an unhealthy employee population. The application allows users to check-in to their daily health tasks under the Move, Munch and Mind categories. They can then earn points for achieving personalised health-goals, while collaborating with, and competing against, friends and colleagues. By making the task of getting healthy simple, social and fun, GetHealth facilitates the creation of lasting behavior change in users which results in healthier employees and a healthier overall culture

If you have any questions please contact us at: hello@gethealthapp.com

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