ROI-Based Analysis of Employee Wellness Programs

The Problem...The Cost...The Solution

Organizations of all sizes and from all industries are investigating ways to save money in the form of health care, disability, sick time, recruitment and retention costs. This document looks at the problem facing employers, the cost attributed to that problem, and the critical components a wellness program must incorporate in order to provide a long-term, high ROI solution to that problem.
ROI-based Analysis of Employee Wellness Programs

Executive Summary

The cost of health care to the bottom line of a large majority of corporations in America has clearly reached a pinnacle. The outdated model of focusing resources exclusively on treating those who are already sick or disabled can no longer be supported in an era of shrinking margins, global outsourcing and the rapidly escalating cost of treatment.

A growing number of employers (and a percentage expected to almost double in the next 12 months) are taking a preventative approach to these costs by providing employee wellness programs as a standard employee benefit. The research clearly demonstrates that by encouraging healthier choices among their current employees, they are reaping long term savings in terms of sick time, disability and health care costs. Further ROI analysis demonstrates that these measurables are only a portion of the cost savings. In reality, companies that have effectively developed a wellness culture also realize cost savings in reference to retention, recruitment, reputation and employee “presenteeism” (engagement).

There are a number of components and approaches available to employers with a measurable wellness quotient. Each individual organization must carefully examine the options available in order to select the program that is a best fit for their specific long term goals and objectives.
ROI-based Analysis of Employee Wellness Programs

The Problem

Employers are at a crossroad. With the costs of health care expenditures increasing at a rate of 8-14% annually, this expenditure literally threatens the profitability and survival of companies of all sizes. Both privately held and Fortune 500 companies are realizing health benefits are not only one of the single largest line items on their P & L, but are growing at a rate that is clearly not sustainable.

The latest data brings clarity in regards to the causes – intake and output. Only one in twenty adults consistently engage in the five most important health behaviors:

- Regular exercise
- Healthy levels and types of fat intake
- Five daily servings of fruits and vegetables
- Moderate drinking
- Non-smoking

Over two-thirds of adults in the United States are either overweight or clinically obese*. Combined, this constitutes over 90 million Americans, and a 7-10% increase in less than five years.

The prevalence has steadily increased over the years among genders, all ages, all racial/ethnic groups, all educational levels, and even all smoking levels. From 1960 to 2002, the prevalence of overweight individuals increased from 44.8 to 65.2 percent in U.S. adults age 20 to 74. The prevalence of obesity during this same time period more than doubled among adults age 20 to 74 from 13.3 to 30.5 percent, with the majority of this rise occurring in the last 20 years. From 1988 to 2002, the prevalence of extreme obesity increased from 2.9 to 4.9 percent, up from 0.8 percent in 1960.

Overweight and obesity are known risk factors for:

- diabetes
- coronary heart disease
- high blood cholesterol
- stroke
- hypertension
- gallbladder disease
- osteoarthritis (which is degeneration of joints)
- sleep apnea/other breathing problems
- some forms of cancer
According to the National Health Care Statistics, the typical American diet is responsible for most of the preventable diseases, including 91% of diabetes, 82% of heart disease, and 71% of colon cancer.

However, it is not just the American diet at fault. Rather, lack of activity and exercise play a strong role as well. According to the Center for Disease Control, only 15% of adults engage in regular vigorous physical activity, and 60% report getting essentially no exercise whatsoever from a regular leisure activity.

The lack of exercise has also been shown to contribute to ten serious health conditions including stroke, diabetes, cancer, osteoporosis and mental health decline. In a groundbreaking study of 5700 women, it was found that those who were unable to reach 85% of their age-predicted exercise capacity had twice the risk for serious heart disease and death.

**Figure 1. Overweight and Obesity by Age: United States, 1960–2002**

According to the Industrial Physical Capability Services, Inc, new hire data demonstrates that applicants under the age of 40 actually have a greater prevalence for obesity than those over the age of 40.

Source: CDC/NCHS, Health, United States, 2005
These are not just interesting statistics. Chronic illness, including heart disease, diabetes and obesity, accounts for 75% of health costs, according to the American Public Health Association.

Unfortunately, these problems are not going away. According to the Industrial Physical Capability Services, Inc, new hire data demonstrates that applicants under the age of 40 actually have a greater prevalence for obesity than those over the age of 40.

Smoking, apparently off the radar screen for many employers due to the prevalence of non-smoking buildings, restaurants and bars, is far from being a minor issue itself. 22% of Americans continue to smoke, with men averaging almost 25% and women at 20%. Cancer is now the leading cause of death for those under the age of 85 and continues to have close ties to smokers. The Surgeon General reports that cigarette smoking significantly harms almost every major organ of the body and has been directly linked to a new series of diseases including leukemia, cataracts, pneumonia and cancers of the kidney, cervix, pancreas and stomach. In addition, smokers are also 33% more likely to develop asthma.

*Note: For definition purposes, obesity statistics are based around Belgian statistician and anthropometrist Adolphe Quetelet’s BMI (Body Mass Index) calculation as follows: Divide the subject’s weight in kg by the square of height in meters. Or, weight (lbs) x 703/height (inches). From that calculation, the following categories are provided based on the following BMI levels:
  - Normal Weight: 18.5 – 24.9
  - Overweight: 25.0-29.9
  - Obese: 30.0-39.9
  - Severely or Morbidly Obese: 40.0 or higher
Originating after World War II, employer sponsored health care plans became almost universal by the mid-1960’s. Approximately 150 million Americans (roughly 50% of the population) currently receive their health benefits through an employer-sponsored plan. As a result, employers now foot the bill for the majority of non-Medicare/Medicaid health care expenditures in this country, and this isn’t a minor line item.

According to the Wall Street Journal, health care costs per capita will reach $7,500 this year, more than double the $3,470 per person in 1993. Of most concern is the fact that the rate of inflation in this arena continues to grow at an unsustainable annual rate of 8-14%.

Excluding the indirect costs, the U.S. spent 15.3% of the entire Gross Domestic Product (GDP) on health care in 2004, a figure that is clearly expected to escalate as newer data becomes available.

Potentially more disturbing for organizations is the data related to Work Comp or Disability costs. In a Duke University study involving 11,700 individuals, the increased costs tied to BMI (Body Mass Index) were eye-opening. When cross-referencing the work comp costs with employee BMI, a consistent trend appeared. Compared with employees with normal BMI, the WC costs were significantly with each step up the BMI scale, as demonstrated in the following representation:
While the WC costs noted above for the severely obese clearly jump off the page, there may be an even more important discovery represented within the data. When analyzing the difference between employees with normal BMI with those considered simply “overweight,” the WC costs still almost double, moving from $7,500 to $13,300. It must be noted that this “overweight” category (excluding all obese levels), represent well over 30% of the entire population, comprising an immense cost to employers.
While significant, this data also should be an encouragement to employers who are considering the option of a company-wide wellness program. The resultant cost-savings clearly can be significant with improvement across all ranges of BMI.

Keep in mind that direct health care costs are far from being the only expenses tied to a corporation’s bottom line. Several other factors play a notable role as well, including:

- Unscheduled Absenteeism
- Productivity and what is commonly referred to as “Presenteeism”
- Turnover
- Customer Satisfaction and Loyalty
- Recruitment

Productivity on the job is a basic component to value. However, when health and personal or work-life problems affect this, it is considered “presenteeism” issues. The *Harvard Business Review* (Hemp, 2003) highlighted this as an employee being present in the position but “out of it.” In a study of 370,000 employees, Goetzel et al (2004) found that presenteeism losses accounted for the majority of per person annual total costs for 9 out of the top 10 most expensive health conditions, with only heart disease having the majority of total costs attributed to medical claims. This means that except for heart disease, the cost of presenteeism exceeded medications, medical care and services for the vast majority of health conditions.

In reference to turnover, national data shows that employee turnover ranges between 21-24% for firms of 1,000 or more employees. The actual dollar cost of turnover varies based on a variety of factors, but estimates range from $25,000 per individual and a range of 75% to 150% of an employee’s annual salary (Johnson, 2001).
The ROI-Based Solution

One of the foundational tenets of the field of corporate wellness is that it is clearly better to prevent health problems than to treat them later on. An editorial published in the *Journal of Environmental Medicine*, a Wake-up Call for Corporate America states that “past attempts to control increases in health care costs have failed in the long term and that health care costs are on target to double in the next five years.” Further, a crisis is on the horizon unless dollars are focused on health enhancement programs and services that optimize employee health, which can reduce health care use, moderate cost increases, reduce illness absenteeism and improve work performance (Whitmer, 2003).

Statistically, the results of a commitment to an employee wellness program are notable, including:

- Reduction in health care costs by 20-55%
- Decrease in short-term sick leave by as much as 32% (Ceridian Prop ROI Tool, 2003)
- A savings of between $3 and $6 for every $1 invested in wellness (U.S. CDC)
- Drop in work comp and disability by as much as 30%
- Enhanced recruitment and retention for all positions

Examples of companies that have pursued a model of wellness are expansive and growing quickly. 11% of companies have full-fledged wellness programs as part of their employee benefits, and an additional 8% plan to add wellness in the next 12 months. Successful programs include Bank of America, Pacific Bell, Coca Cola, Prudential, DuPont, Johnson & Johnson, to note just a few.

As highlighted in the Kansas City Business Journal in an article entitled *One Wellness Program Doesn’t Fit All Businesses*, the key to a successful wellness program is developing a customized program that meets the individual goals and needs of each individual organization. While an on-site facility might work well for (at least a small percentage of employees) in a large, centralized corporate base, it may be ineffective for a more decentralized organization.

Key Questions

In developing an employee wellness program, the following questions can be beneficial in narrowing your search among the vast choices available:

- How customizable is the program? Does it address the needs of a few or the majority of the employees within our company?

- How time consuming is the start-up process to us and our team? Or is everything provided through the wellness organization?
✓ What objective data will the wellness organization provide to me on a quarterly schedule (or upon request)?

✓ Does an on-site facility make the best sense in meeting the wellness needs of our entire organization at this time?

✓ Will the wellness program require capital expenditures and additional FTEs? If so, will we be able to commit to these for the long term?

✓ Is the wellness program a “one size fits all” or is it individualized to meet each employee’s specific goals and approaches?

✓ What ongoing tools are utilized to launch, grow and sustain a true wellness culture over time?

✓ Are the individual temperaments, goals and pursuits of participants taken into account as part of the process? How is that done?

✓ What difference will I see in my employees? Who responds to this?

✓ Do you only focus on my “at risk” employees? Or can you bring benefits to the healthy employees in order to help keep them healthy?

✓ What levels of participation can be expected with this program?

Using the above questions, you and your team will be able to clearly identify the organization that can best meet your needs in developing your new – or different – corporate wellness program. They will assist you in identifying and objectifying your specific ROI-based goals and the best options and tools that will help you in effectively achieving those key indicators and outcomes.
Conclusion

At the current rate of increase, the cost of health care to employers will likely be the single most significant detriment to profitability and viability over the next decade. Annual increases of 8-14% in direct costs, in addition to the even more notable indirect costs, cannot continue without catastrophic outcomes.

However, forward-thinking companies across the country have already implemented successful wellness programs, with notable results. Decreased sick time, enhanced engagement or “presenteeism,” lowered disability and overall health care costs, and improved recruitment and retention have all been clearly demonstrated on both a case by case and broader research basis.

US Corporate Wellness, Inc. is the premier national provider of customized employee wellness programs for organizations of all sizes. While offering the full range of standard wellness services such as disease management, Health Risk Assessments and Health Fairs, the focus is on improving the health and wellness of every one of your employees for the long haul. This is accomplished through a personalized approach with each individual on your team, coming alongside the employee in a way that provides not only exceptional accountability and tracking, but also the encouragement and full range of tools to allow each person to be successful.

While such an approach may sound expensive, our rates are actually comparable (or better) than the more generic approaches available in the market. When truly comparing apples to apples, you will not find a greater ROI available for your organization.

The focus of the US Corporate Wellness team is on results, at both a micro and macro-organizational level, utilizing a variety of outcome-based approaches to achieve those results. For a strategic analysis of your needs or other information, please contact us directly at Results@USCorporateWellness.com or 800-910-9425.
References


O’Connor, J. Warning: Lack of Exercise Hazardous to your Health. HealthGuidance.com


Biskupic, Joan. Disability claims related to obesity could rise with Americans’ weight. USA Today (p. 1), June 13, 2007.

