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Is Your Organization a **Healthy Enterprise?**

Pg 4

A Look Into MD Anderson Cancer Center's Wellness Program **Pg 20**

**Health Risk Assessments~
A Waste Of Time And Money** **Pg 45**

Return on Investment Models for Employee Wellness ~ **Fact or Fiction?**

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Corporate wellness programs have been reported to improve employee health, increase productivity, and yield a significant return on investment for the employer. Wellness trade publications, conference presentations, and employer and vendor studies are chock-full of case studies claiming the impressive ROI of employee wellness programs.

Portions of these reports and studies are very solid. But even data from the most respected corporations are incomplete. None come close to proving that, as a whole, their wellness programs are working. Furthermore, both vendors and employers are applying wildly unrealistic financial goals. Even some of the most esteemed proponents of wellness as a worthwhile investment have acknowledged privately that the real ROI of employee wellness programs is probably in the range of 1.1:1 to 2:1.

Despite the apparent logic of wellness programs (Keep people healthier and they'll need less health care), many companies continue to be skeptical about their value. CFOs and other decision-makers are not convinced by projected expenses. They demand, and rightfully so, a reduction in real medical claims costs, not in



theoretical dollars.

In order to persuade senior management, especially chief financial officers, of the value of wellness programs, corporate benefits managers need to begin using real data with solid evidence, and setting realistic ROI goals.

This paper outlines the current problems with wellness and prevention ROI studies, and offers suggestions for achieving accurate and meaningful results.

Flaws in Current Wellness/Prevention Studies

Many of the strategies utilized to determine wellness program ROIs are flawed and would



not stand up in a respected, peer reviewed medical or financial journal. Methods are suspect, studies are poorly designed, and assumptions are often shaky. Some of the fundamental flaws in the methodologies used to support the case for positive wellness ROI are as follows:

- **Biased Research** - Most of the studies demonstrating positive ROI have been conducted by wellness vendors and by the companies implementing the programs. Not only does this bring the objectivity of the findings into question, but it also leads to publication bias. Neither vendors nor employers are motivated to publish results showing negative results—only the

studies showing positive outcomes are being published.

- **Use of Projected, Not Actual Savings** - Many case studies demonstrating the payoff of wellness programs are based on projected, not actual, health care expenses. For example, annual health care costs for obese employees are, on average, \$1,723 higher than costs for healthy weight employees. It's tempting to argue, then, that \$1,723 is the actual annual savings for weight loss. But \$1,723 is not an actual saving—it is an average, or a projected cost.

Similarly, we find case studies arguing that reduced health risks per employee mean dollar savings. If

health risk factors are reduced from 5 to 4, the argument goes, and each risk factor costs \$1,000, then program savings are \$1,000 times the number of participants. But, again, a risk factor is not an actual dollar saving.

- **Difficulty of Measuring Productivity Savings** - Most ROI studies attach a high value to the calculated benefits of productivity improvements. Most ROI models claim that productivity gains in dollars are two to four times as large as health cost savings. However, because productivity can only be measured indirectly, productivity metrics are the weakest link in any ROI model. Assigning a link between improved health and productivity, though possible, is not a straightforward proposition. Rather than assigning possible real dollar savings from productivity, wellness program managers would do well, instead, to utilize simple, more easily calculated measurements such as absenteeism.

- **Failure to Include Significant Factors** – Most ROI studies omit a variety of significant factors, most notably benefit design and changes in employee health demographics. Any solid assessment of wellness ROI, including changes to health claims data, needs to take into account many variables beyond the wellness program itself.

- **Use of Biased Study Groups** - Employees participating voluntarily in corporate-sponsored wellness programs create a skewed, preselected group. Such employees are already motivated to change. They want to improve their healthy behaviors more than those in the non-participating group. Even with no wellness intervention at all, the preselected participants will show a better health risk profile over time as compared to non-participants. Therefore, an ROI model that uses non-participating employees as a control group is bound to be faulty.

- **Failure to Include All Expenses** - When vendors conduct ROI studies, it's not entirely

clear which expenses they include in their analyses. Often, vendors include in ROI studies only fees for their services (such as health risk appraisal and health coaching services). In doing so they often neglect significant, though worthwhile, costs to the employer. For ROI calculations to have any credibility, they must include at least the following costs:

- Employer's time spent managing the vendor
- Employee participation hours (completing health risk assessments, coaching sessions, etc). For example, if 8,000 employees take 30 minutes of work time to complete an HRA, and their average pay is \$25 per hour, that's a \$100,000 salary expense.
- IT costs associated with providing web access
- Costs of incentives and communications

Recommendations for Evaluating Wellness ROI

Bear in mind that executives often must select from numerous strategies that may achieve a comparable, or superior, ROI to wellness programs, such as purchasing new equipment, investing in new product lines, and acquiring other businesses. How can wellness proponents make a strong case for their programs as compared to these other options?

Accurate and persuasive evaluation of wellness ROI should include the following steps:

1. Focus on real (as opposed to projected or average) healthcare cost savings linked to individual employee claims data.
2. Avoid putting a dollar amount on projected productivity gains. Instead discuss the inherent benefit of improved productivity in subjective terms.
3. Keep in mind that a control group of non-participating employees will not yield a



true, unbiased controlled study. In other words, when comparing a group of participants with non-participants, be sure to use statistically accurate measures that account for the bias associated with “pre-selection.”

4. Avoid the confusion of other factors. Measure the ROI of a program during a period when there have not been substantial changes in the plan design or significant employee turnover.

5. In planning for wellness intervention, look for targeted interventions that have a high probability of realizing short term results.

6. Consider having an outside vendor perform a meticulous ROI analysis of your wellness program.

In summary, wellness initiatives aimed at a corporation’s workforce do hold enormous promise for addressing escalating healthcare costs. But the industry has a long way to go in accurately measuring ROI for these initiatives. Before widespread investment by corporate America is to be expected, both proposals and ROI measurements must be based on solid data and careful study, using proven statistical methods and realistic goals.

Bio

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