How to Measure the ROI of Wellness Programs

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Introduction

It's no secret that employers' medical costs are increasing. In 2011, average annual premiums for family plans rose nine percent, to $15,073, and average premiums for single coverage climbed eight percent, to $5,429, according to a survey by the Kaiser Family Foundation. Premiums for family plans have more than doubled since 2001, the foundation noted. A number of factors are contributing to the surge in healthcare costs, including advances in medical technology, administrative expenses and the increasing incidence of chronic illnesses.

Most healthcare dollars are spent on treating illnesses rather than preventing them, which Scott Foster, president of Wellco, likens to paying only the interest on a credit card bill. Without paying down the principal, the underlying debt remains. Similarly, without addressing the underlying health risks that cause these chronic illnesses, employees remain unhealthy and rack up future health bills, Foster said.

Forward-thinking organizations are addressing this problem with employee wellness programs, which are designed to reduce the modifiable risk factors that lead to chronic illnesses and other health issues. Such programs can involve a broad array of initiatives; for example, they may be designed to help workers quit smoking, lose weight or improve their diets. The idea is that if employees get healthier, they will use fewer medical services and healthcare costs will drop.

One way to track the effectiveness of these programs is by measuring the return on investment (ROI) that they generate. ROI, often expressed as a ratio, is simply a comparison of financial benefits and expenses. University researchers have found that ROI for such programs can be as high as 6:1, although the experts interviewed for this white paper said it is typically around 2:1 to 3:1.

"The more you can do to tailor your program specifically to what's affecting your population, the more likely you are to see an ROI there," said Carolyn Calvey, who heads the wellness and communication practices for Riverside Consulting Group.

Measuring ROI can be challenging, but it is possible for those willing to devote the necessary time, effort and resources to do so. This paper will explore the basic methodology involved and explain how to overcome some of the common issues that may crop up along the way.

Understanding the Concept of Wellness ROI

The key assumption underpinning the logic of wellness programs is that there is a connection between employees' modifiable health risk factors and their medical costs. This assumption makes sense intuitively, because one would expect employees who are in poor health to go to the doctor more often. Research, including one prominent study from 1998, has validated this idea. The study identified a link between certain risk factors – including high blood pressure, stress and obesity – and increased health expenditures.

Wellness programs may make financial sense if they encourage employees to adopt behaviors that reduce these risk factors. For example, a program that focuses on nutritious eating could decrease the incidence of obesity within an employee population. After taking part in the program, the employees might require fewer medical services.

In theory, by tracking the change in employees' health risks and medical claims over time, organizations can determine how much money a wellness program saves. However, one problem with this approach is that it can be hard to single out the impact of a particular initiative. For example, even if several employees quit smoking after you implement a smoking-cessation program, it could be the case that they would have quit anyway.

If possible, it's a good idea to compare participants in wellness programs with nonparticipants. If participants tend to decrease their health risks by a greater margin than non-participants do, or if they require less medical care, there is a strong indication that the wellness program is doing its job.

Of course, the costs matter too. A wellness program that reduces risk factors by only a small margin and costs millions of dollars to implement might not be worthwhile. Thus, it is only by comparing the benefits to the costs that an employer can determine the value of a wellness program.

Measurement Techniques

Before evaluating the effectiveness of a wellness program, you have to figure out what data you are going to track and establish a baseline measurement, experts said. To measure ROI, this data must be relevant to the wellness program, and it must be able to be converted into a financial value, said David Chenoweth of Chenoweth & Associates.

A number of tools, including health-risk assessments and biometric screenings, can be used to measure employees' risk factors and associated costs. Health-risk assessments are questionnaires that "generally include questions about medical history, health status and lifestyle," according to the Kaiser Family Foundation. Biometric screenings, meanwhile, may collect information about blood pressure and cholesterol, in addition to other vital statistics. Costs can also be analyzed in a more direct manner by examining health claims data, which organizations can request from healthcare providers, according to the Centers for Disease Control and Prevention. However analyzing this data can be "time and labor intensive," the CDC notes.

Which tool is right for your organization? In part, that decision depends on the resources at your disposal, but the techniques need not be exclusive. By combining biometric screenings with medical claims data and health-risk assessments, you may be able to get a more complete picture of the risk factors prevalent in your workforce." My advice is to get hold of as much data as possible so you can triangulate the problem," said Ron Goetzel, the director of the Emory University Institute for Health and Productivity Studies and vice president of consulting and applied research for Thomson Reuters.

Absenteeism and Presenteeism

Health risk factors don't only raise medical costs; they may also make employees more prone to miss work. One fairly straightforward way to measure the impact of absenteeism on your organization is to multiply the number of sick days an employee takes by their daily wage, Chenoweth said.

A less obvious cost of poor health is known as presenteeism. Presenteeism refers to the idea that, even when they do show up for work, ill employees tend to be less productive. Measuring presenteeism can be tricky, but there are surveys that attempt to quantify it by asking employees how productive they have been during a particular period of time, Chenoweth said.

Presenteeism can be a significant cost, but executives may view it with skepticism, Foster said. Whether or not you choose to measure presenteeism, the key takeaway is that if you measure only medical costs, your ROI calculation probably understates the benefits of your wellness program by a significant margin, he said.

Assess the Costs

Adding up the costs associated with a wellness program may seem like a fairly straightforward task, but different organizations have different methods for counting costs. Some expenses are obvious – if you hire a wellness vendor to administer your program, the money that you pay them is clearly a cost – but others are less clear cut. In general, you should consider the costs to be the expenses that you would have avoided if not for the wellness program, Goetzel said.

Calculate the ROI

By comparing changes in health risks and medical claims between participants and nonparticipants over an appropriate time frame, an organization can determine the financial benefits associated with a wellness program. Combining this information with spending data completes the ROI calculation. For example, an ROI of 3:1 indicates that a company saved $3 for every $1 spent on wellness initiatives.

To get an accurate assessment of a program's ROI, it's important to track its performance over a long enough time span. Experts interviewed for this paper recommended using a time frame of a year or more, and some suggested longer. There are several problems with measuring ROI over shorter periods of time. For example, once employees are made aware of potential health problems, they may use more medical services in the short term.

Challenges

The basic concept of ROI is not complicated, but there are a number of challenges to be aware of, both from a statistical and practical perspective. For example, it's important to be aware of the Health Insurance Portability and Accountability Act, commonly known as HIPAA, which lays out rules restricting the use of employees' health information, experts said.

Even if an employer is in compliance with the law, it may be difficult to get employees to fill out health-risk assessments or take other required actions due to privacy concerns. One way to address this problem is by clearly communicating that personal data will be kept confidential, said Jennifer Benz, the founder of Benz Communications, a firm that focuses on developing messaging related to employee benefits. "By really addressing this head-on you can get over one of the barriers that stops people from participating," she said.

There are also statistical challenges to overcome, Goetzel said. One potential problem is self-selection bias, which refers to the possibility that some fundamental difference between participants and nonparticipants will skew the ROI calculation. "The worst case scenario is that all of the sickest employees will join a truly effective program, and make it look like the program causes increased healthcare claims cost," according to a report from the Alliance for Wellness ROI, which was founded as a collaboration among major companies including BMW North America, Kraft Foods and MasterCard Worldwide. To eliminate some of the statistical problems, participants are often matched with nonparticipants with whom they share many similar characteristics for the purpose of analysis.

Since measuring the ROI of wellness programs can be challenging, it may be wise to hire a consultant to make sure your ROI calculation is handled properly and within the bounds of the law. In addition, bringing in a consultant allows the program to be judged by an outsider who has no vested interest in its success, Chenoweth said.

Conclusion

While ROI is important, it isn't the only factor to consider when evaluating a wellness program. Such programs can have far-reaching effects that stretch beyond the bottom line. A successful initiative may improve employee morale and make it easier to attract and retain top talent, Goetzel said. "Wellness programs can really add a lot to a company's culture and make the employees feel like they're taken care of," Benz said.

Still, savings remains a prime motivator for implementing wellness programs, and the good news is that a healthy body of research has confirmed their financial value. By tracking the savings and costs associated with such programs, it is possible to evaluate their ROI and justify their existence.

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