Corporate Wellness Programs as a Means to Reduce Corporate Health Care Costs

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Introduction

It comes as no surprise that the cost of health care in the United States is rising at a rate substantially higher than that of inflation. Estimates have put this increase between 8-9%, while inflation holds steady around 3%. The cost of employee health care benefits has risen just as much, and employers are looking for new and creative ways to combat such increases. Examples of some recent strategies include raising employee contributions, restructuring insurance plan designs, implementing consumer-driven health plans (CDHP), reducing health plan choices, and building corporate wellness programs. All have proven successful to varying degrees. However, as in the case of plan restructuring and premium increases, the changes are at the expense of increasing costs to employees. Many strategies, specifically CDHP and corporate wellness programs, have introduced elements of individual responsibility and ownership to the health care benefit program.

This paper will focus on corporate wellness programs as a means to lower health care costs for both employers and employees. For the purposes of this paper, disease management programs will be included as a form of corporate wellness in cases that employers provide such services. This paper will discuss the trends of rising health care costs in the United States as a driver for this initiative, discuss the prevalence of such programs, provide examples and strategies used by companies, introduce the market opportunities for third-party, or outsourced, wellness providers and finally outline the pros and cons of such programs.

Rising Health Care Costs:

The National Coalition on Health Care provides some startling facts on the rising cost of health in the US, specifically for employers and employees. In 2004 alone, national healthcare spending rose 7.9% to $1.9 trillion. The average premiums for employer-based insurance rose 7.7% in 2006. Smaller employers experience 8.8% increases and those with less than 34 employees a 10.5% increase[1]. Employers' costs increases have slowed in the last year, but still outpace inflation by two to three times. In 2006, the average premium charged to an employer covering a family was $11,500 and $4,200 for a single employee. These costs have not been completely absorbed by employers, as the employees are now paying $1,084 more per year in premiums as compared to 2000[1]. By 2001, health care expenditures accounted for 14.4% of GDP, a 1.1% increase from 2000[2]. This trend has continued to increase, partially as a result of technological advances and an aging population[3].

As such, the need to control health care costs has become increasing important, both to companies and employees. In fact, the cost of health care coverage is the primary factor driving companies' health benefits strategies heading into 2007[4]. The subsequent section will discuss the history and importance of corporate wellness programs as viewed by corporate America, and the prevalence of such programs.

History and Prevalence:

The true origins of corporate wellness programs are not certain. In the 1970s, wellness programs in the US were created to keep top executives in shape. By the 1980s it spread to the larger workforce[5]. However, variations of corporate wellness programs

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[1] Facts on Health Care Costs, National Coalition on Health Care, http://www.nchc.org/facts/cost.shtml

[2] Hoffman ED, Klees BS, Curtis CA. Brief Summaries of Medicare and Medicaid. US Department of Medicare and Medicaid, November 2003.

[3] FTC Executive Summary.

[4] Reducing Corporate Health Care Costs 2006 Survey. Human Capital Practice of Deloitte Consulting LLP and the Deloitte Center for Healthcare Solutions. 2006.

[5] Collins J. Workplace Wellness. Business & Economic Review: October-December 2004.

can be traced back as far as 1920 Japan, as workers began their day with calisthenics[6]. Since the 1980s, the prevalence of the programs has continued to grow. Some estimates indicate 81% of employers with 50 workers or more offers some form of wellness program, though the extent of the programs do vary[7].

While shifting the cost of premiums to employees is overwhelming the most common policy for cost control among companies, there has been a fundamental change in the overall strategy for cutting costs. In 2003, 65% of companies surveyed by Deloitte indicated a plan to shift costs to employers. However, that percentage decreased to 49% in 2006. In 2006 38% of employers have moved to encouraging employees to be better health consumers through disease management and wellness programs as compared to only 21% in 2003[4].

Examples of Corporate Wellness Programs and Implementation Strategies:

While upwards of 81% of employers offer some variation of a wellness program, the extent of such programs vary significantly. As can be expected, small companies have fewer resources to devote toward such programs as compared to multi-national, multi-billion dollar corporations. While the return-on-investment for any employer is significant, as will be discussed later in this paper, so too are the up-front costs of implementing a large-scale, multi-faceted program.

This author's previous employer, a company with annual revenue of $100 million, simply offered discounted memberships at a local fitness center for its employees. Larger companies, however, are investing millions of dollars in large-scale initiative. Scott

[6] Mochari I. Belt-tightening: Can coaxing employees to live health keep the bottom line in shape? CFO Magazine: 22 February 2005.
[7] The Cost Benefit of Worksite Wellness. The Wellness Councils of America. http://www.welcoa.org/worksite_cost_benefit.html

Miracle-Gro Co. recently completed a 24,000-square-foot fitness facility across the street from its corporate headquarters. Costing $5 million to build, the facility provides a drive-thru prescription drug pick-up in which generic drugs are given to employees for free. Two full-time doctors, five nurses, and various other health professionals are employed at the facility; which also offers fitness classes and state-of-the art equipment[8]. Scotts' does not limit access to only its employees, but rather encourages spouses to join[9]. This practice is not uncommon, as most employer health plans cover workers' entire families so naturally companies are looking to improve the health of all plan members.

The services provided at many companies go well beyond daily fitness. Colonial Life and Accident Insurance Company, a pioneer in corporate wellness offers flue shots, mammograms, prostate screenings, blood pressure and cholesterol checks; all at little or no charge to employees. They even go so far as to pay for a portion of the cost of Weight Watchers classes employees enroll themselves in[10].

Employee Participation and Incentives:

Employee participation is, of course, critical to the success of any wellness program. Because participation by employees provides benefits to the companies that implement them, many offer various types of incentives to encourage participation among employees. A survey by Deloitte Consulting estimates 40% of employers offer an incentive to employees for their participation. Over 55% offer a gift or prize, while another 30% do so in the form of reduced medical contributions or HAS/HRA contribution.

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[8] Conlin M. Get Healthy – Or Else: Inside one company's all-out attack on medical costs. BusinessWeek; February 26: 58-69

[9] Tozier D. Scotts raises bar on corporate wellness. Employee Benefit News; 15 June 2006. 20: 1-73

[10] Collins J. Workplace Wellness. Business & Economic Review: October-December 2004.

Other incentives include fitness center discounts, waiving deductibles or copays and additional vacation[11]. Humana, who partners with a firm specializing in foodservice for companies, prices healthy foods in vending machines 15-20% below those of traditional junk food through subsidies to encourage employees to make the healthy choice. As Patty Guist, Director of Associate Programs and Services for Humana say, "We've seen an incremental increase in vending participation – sales increased by 19.3 percent – which offset the subsidy."[12] Some companies, such as Fairview Health Services offers cash incentives for participants[13].

Market opportunity for third-party providers:

Though wellness programs have been on the rise in recent years, many corporations do not have the expertise necessary to fully implement a program on their own. As such, a market has arisen for companies who specialize in the formation and implementation of wellness programs.

A simple Google™ search will bring over eight sponsored links and another six non-sponsored on the first page alone for companies that specialize in the design of corporate wellness programs. There are even search engines that allow an interested company to compare and contrast up to 30 corporate wellness companies at the same time. The services range from overall wellness program implementation, to menu design and food distribution. Examples include Aramark, a company that provides a range of services to businesses, including food services[14]. Whole Health Management, manages

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[11] Reducing Corporate Health Care Costs 2006 Survey. Human Capital Practice of Deloitte Consulting LLP and the Deloitte Center for Healthcare Solutions. 2006.

[12] Boss D. Corporate wellness programs can encourage healthful habits. Nation's Restaurant News: 12 December 2005.

[13] Mochari I. Belt-tightening: Can coaxing employees to live health keep the bottom line in shape? CFO Magazine: 22 February 2005.

[14] http://www.aramark.com/

on-site primary care and fitness centers for numerous corporations, as well as analyzes health insurance claims data to help companies identify health trends within their organization[15].

Pros:

The benefits of corporate wellness programs to both employers and employees are significant. Many are directly financial, while others are more subtle and indirect. Several estimates have placed the return-on-investment as high as 3:1[16]. Fairview Health Services, for example, has tracked the costs health care for employees from 1996 to 2003 and has found a 2.43:1 return on investment. Specifically, they have saved $5.6 million annually for the $2.3 million invested in their program each year[17].

The difference in the rate-of-return is often a result of companies choosing to outsource their wellness programs versus create one in-house. In the case of Florida Power & Light Co, they have achieved a 325% rate of return over 5 years. They credit this higher-than-usual return to in-house operation and 84% employee participation[16]. A high ROI also depends on the extent of the program and up-front investment paid by a company. Most of the companies that have experienced 3:1 returns have also invested millions of dollars in their program.

Some financial gains come from the direct reduction in costs paid for employees to see doctors and other direct provider costs. Others gains come in the form of decreased absenteeism and increased productivity. The former can be directly measured

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[15] Conlin M. Get Healthy – Or Else: Inside one company's all-out attack on medical costs. BusinessWeek; February 26: 58-69

[16] Hall T. CEOs Take on Wellness as Corporate Strategy; Rising Costs of Chronic Diseases Hurting Corporate Profits and Productivity, Finds PricewaterhouseCoopers. 5 February 2007. http://www.pwc.com/extweb/ncpressrelease.nsf/docid/9DB255EB6BD9D8CF85257280006A618F

[17] Mochari I. Belt-tightening: Can coaxing employees to live health keep the bottom line in shape? CFO Magazine: 22 February 2005.

through changes in employee sick days and worker compensation claims. The latter, however, are more difficult to quantify.

Additional, yet less quantifiable, benefits include reduction in presenteeism (the loss in productivity from unhealthy employees), a happier and more efficient workforce and more effective recruitment processes. A healthier, more energetic employee is happier and therefore more productive. A company that emphasizes health and wellbeing is appreciated by its employees, who return the favor through increased productivity. In the case of Colonial Life and Accidental Insurance Company, they have had increased success in recruiting new employees as well as increased retention rates among current employees[18].

Cons:

The benefits of corporate wellness programs are significant, but there are drawbacks. One such problem is the return-on-investment delay often associated with the implementation of such program. Often executives and Wall Street analysts expect immediate financial results upon implementing wellness program. However, it can take years for the results of such programs to come to be realized[19].

In line with the delay in returns that comes from implementing such programs is the difficulty in measuring many of those returns. While few will argue against the increases in productivity that come from healthier and happier employees, measuring such effects can be challenging. So many factors affect the productivity of a worker, it is all but impossible to measure the direct effect a wellness program may have. As

[18] Collins J. Workplace Wellness. Business & Economic Review: October-December 2004.
[19] Mochari I. Belt-tightening: Can coaxing employees to live health keep the bottom line in shape? CFO Magazine: 22 February 2005.

discussed earlier, certain measures can provide insights, such as the change in sick days taken by employees, but those only tell part of the story.

Aggressive promotions of wellness programs do lead to higher participation rates and greater financial gains for a company, but they also lead to privacy concerns. As some programs offer employees access to doctors, nurses and other health care professionals, some employees worry their life outside of work could affect their relationship with their employers[20]. For this reason, third-party assistance has become more attractive as a way to alleviate privacy concerns; yet the feelings of privacy-lost still remain.

Scotts Co. is currently in a lawsuit with a former employee who had been fired by the company for smoking cigarettes. Other employees have found the policies surrounding the program to be intrusive, as Scotts requires employees to fill out a survey asking personal questions, including their smoking and drinking habits[21]. Additionally, Scotts has a policy to simply not hire smokers in states where such actions are legal[22].

Those who are critical of such aggressive hiring decisions as Scotts cite the slippery slope that has been created. Harvey Schwartz, the lawyer for the former Scotts employee who has brought the lawsuit says:

> Where will this all end? The consumption of alcohol, failure to exercise, skydiving, excessive television viewing, eating processed sugars, owning dangerous pets, flying private aircraft, mountain climbing, downhill ski racing, singlehanded sailing or spreading toxic chemicals on lawns[20]?

Most large fitness centers built by companies are located at their corporate headquarters. Those workers are branch offices are not as likely to have access to such

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[20] Mochari I. Belt-tightening: Can coaxing employees to live health keep the bottom line in shape? CFO Magazine: 22 February 2005.
[21] Conlin M. Get Healthy – Or Else: Inside one company's all-out attack on medical costs. BusinessWeek; February 26: 58-69
[22] Tozier D. Scotts raises bar on corporate wellness. Employee Benefit News; 15 June 2006. 20: 1-73

facilities. Additionally, low-wage, blue-collar and minority workers often do not have access to wellness programs either. As Collins points out, these are the very workers that suffer from an abnormally high proportion of the chronic health problems that such programs are meant to address[23].

Conclusion:

Health care expenditures in the United States have risen every year and the costs to companies providing benefits to their employees are no exception. As such, companies are constantly looking for ways to decrease health care spending. One such way that has gained significant traction is corporate wellness program. The vast majority of employers offer their workers some form of wellness program. The scope of programs vary significantly among employers, ranging from simple gym membership subsidies to full-blow corporate fitness centers staffed with licensed health professionals.

These programs, especially large-scale initiatives, have provided significant financial gains to companies; in some cases the return-on-investment is as high as 3:1. Additional benefits include decreases in worker absenteeism and increases in productivity. But these programs are not entirely positive. They raise tough questions about the extent of corporate involvement in the personal lives of employees and are viewed as a Pandora's Box by many who fear the slippery slope created by the more aggressive policies implemented by some companies.

Pros and cons aside, the rapid evolution of these programs is evidence that, like consumers, employers are looking for ways to combat the rising health cost of health care.

[23] Collins J. Workplace Wellness. Business & Economic Review: October-December 2004