

Workplace Wellness: Calculated Risk Reduction

I TOOK A CALCULATED RISK IN MY ACTUARIAL CAREER

a number of years ago when I decided to focus on wellness. Many people consider wellness to be soft and unscientific—certainly not an area of focus for an actuary. In part, this belief may reflect impressions from 10 or more years ago when wellness programs were often unmanaged and unmeasured, viewed more as perks for the health-minded rather than as strategic business initiatives. Metrics consisted of counting how many people came to the blood pressure table at a benefits fair or showed up to claim a free pedometer or T-shirt.

Perhaps rightly, many people assume that common wellness initiatives such as lunchtime walking clubs and after-work yoga classes have little to do with the business-focused, analytical domain of actuaries. However, today's wellness programs have expanded well beyond fun and games.

The dramatic maturation of these programs has been driven by business leaders' appreciation of the financial

value of workforce health and the need to better engage employees in reducing their health risks. As a result, the skills of actuaries are needed on a worldwide basis to design, measure, and evaluate workplace programs that address the health and financial challenges of

employers. As opposed to counting participation, we're calculating the extent to which various wellness interventions are helping reduce health risks, lower costs, and raise productivity.

There are several drivers contributing to the tremendous recent growth in the number and scope of wellness programs worldwide and two major challenges facing employers who consider health and well-being to be a strategic business issue: motivating lasting behavior change and measuring the financial impact of wellness programs. Most of the statistics I use are taken from Buck Consultants' 2009 research report "Working Well: A Global Survey of Health Promotion and Workplace Wellness Strategies." This third annual survey incorporates responses from 1,103 employers from 45 countries, representing over 10 million employees.

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FIGURE 1 | Relative Importance of Wellness Program Objectives—by Geography

OBJECTIVE	AFRICA	ASIA	AUSTRALIA	CANADA	EUROPE	LATIN AMERICA	UNITED STATES
Improving worker productivity/reducing presenteeism	1	2	1	1	1	1	2
Reducing employee absences due to sickness or disabilities	2	3	2	2	3	3	3
Improving workforce morale/engagement	4	1	3	4	2	4	4
Maintaining work ability	3	6	6	7	4	2	8
Furthering organizational values/mission	5	4	8	6	6	6	5
Attracting and retaining employees	6	7	4	5	5	7	7
Improving workplace safety	7	5	5	8	7	5	6
Reducing health insurance care or insurance premium costs	9	9	11	3	11	11	1
Promoting corporate image or brand	7	8	6	9	8	9	9
Fulfilling social/community responsibility	10	10	8	10	9	8	10
Complying with legislation	10	11	10	11	10	10	11
Supplementing government-provided health care	12	12	12	12	12	12	12

More than 10,000 employees

Why Care About Employee Wellness?

If current health trends in the U.S. population persist, the country will continue to see dramatic increases in chronic health problems, associated unnecessary costs, and early mortality due to preventable conditions such as diabetes and heart disease. At the same time, our employer-based health care funding mechanism is stretched to the breaking point. Many U.S. employers see their global competitiveness jeopardized by rapidly escalating health care costs.

Oft-quoted research indicates that 70 percent or more of health care expenditures in the United States are attributable to lifestyle factors that could have been better managed. A recent study indicates that 10 percent of health care costs are attributable to obesity alone (for more on this, see “Growing Up Obese: A National Health Challenge, Page 20), leading to equally alarming consequences measured in lower attendance and productivity and higher workers compensation claims.

U.S. employers are not alone in their concern about lifestyle behaviors that contribute to poor health. An increasing number of employers worldwide

recognize that healthier workers improve their organizations’ competitiveness and bottom line.

But how can employers help their employees become healthier and stay that way? Many pin their hopes on workplace wellness programs (also commonly called health promotion or health improvement programs). These employer-sponsored initiatives aim to improve the health and well-being of employees and their families in order to enhance organizational performance and reduce direct and indirect costs.

An actuary looks at wellness through the prism of a relatively small set of risk factors, including physical inactivity, poor nutrition, inadequate sleep or rejuvenation, excessive stress, and tobacco use. These risks can lead to serious and expensive health problems that, in the long term, reduce the quality and length of life. More immediately, they adversely affect workforce productivity and health care costs.

All of us are affected by some or all of these risk factors to varying and sometimes unknown degrees. For example, most people can’t necessarily assess if they, or others, are getting adequate nutrition or exercise. Today’s wellness programs seek to identify areas of

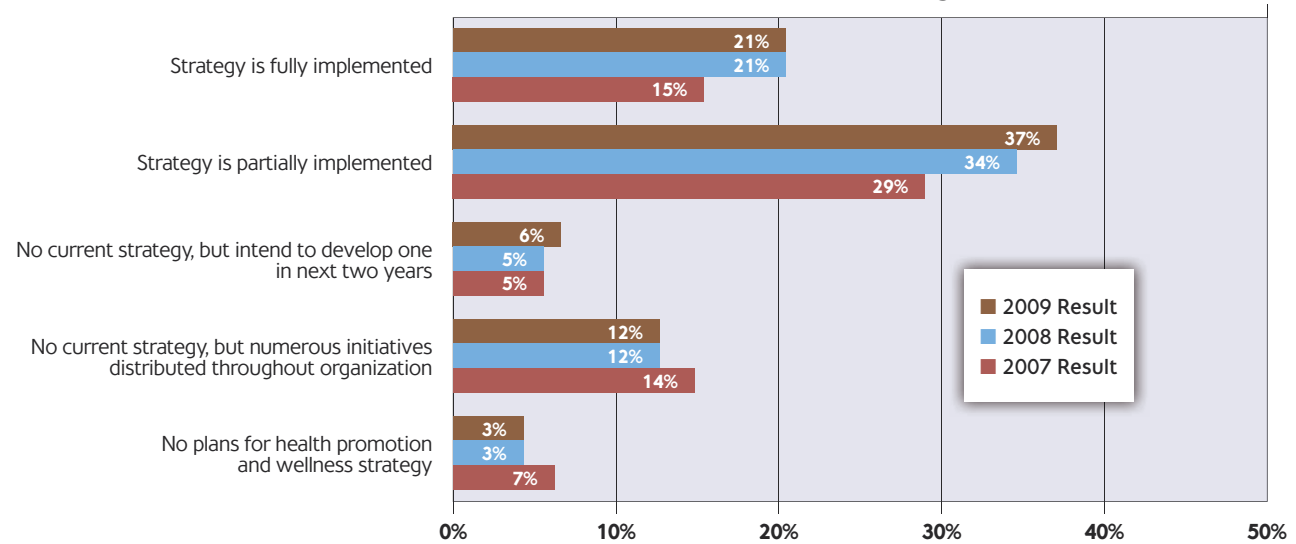
risk and measure the severity of those risks on both the individual and workforce-wide levels. Successful programs then motivate employees and families to reduce or eliminate those risks by adopting healthier lifestyles. Employers also often strive to foster a workplace environment and organizational culture or climate that promote and support healthy living.

Global Business Objectives for Wellness

Although wellness programs are growing in all parts of the world, they are currently most popular and prevalent in the United States. In Buck’s 2009 survey, 75 percent of respondents reported offering wellness benefits to their North American employees.

Although employers around the world share a common interest in wellness programs, the strategic objectives they have for these programs—as well as the specific program components they provide to their employees—vary by region of the world. As shown in Figure 1, employers in all seven surveyed geographies rank improving worker productivity and reducing “presenteeism” (lost productivity due to ill health—see Box) as their most

FIGURE 2 | Current Status of Health Promotion and Wellness Strategy



or second-most important objective out of a dozen possibilities.

Not surprisingly, the top objective for wellness programs in the United States is reducing health care costs. U.S. employers are keenly aware of the impact of rising health care expenditures on their business cost structure, especially when compared with costs of foreign competitors that don't have to directly shoulder the burden of their workers' medical costs.

In Asia, improving workforce morale and engagement is the top objective. Other highly ranked objectives include reducing employee absence, maintaining work ability, furthering organizational values and mission, attracting and retaining workers, and improving safety.

It's notable that for all regions economic issues rank among the highest priorities, indicating that the overarching reasons that employers promote health and wellness stem from competitive business concerns.

Strategic Planning

Although workplace wellness programs have been around for 30 or more years, few employers attempted to manage their programs or measure their effectiveness until recently. Traditionally, only a small percentage of the workforce

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s(often those individuals who were already motivated to improve or maintain their health) participated.

In contrast, current wellness programs are more robust strategic initiatives. Many programs personalize the path to wellness for each participant by incorporating components such as biometric health screenings, health risk assessments, health coaching, and targeted outreach.

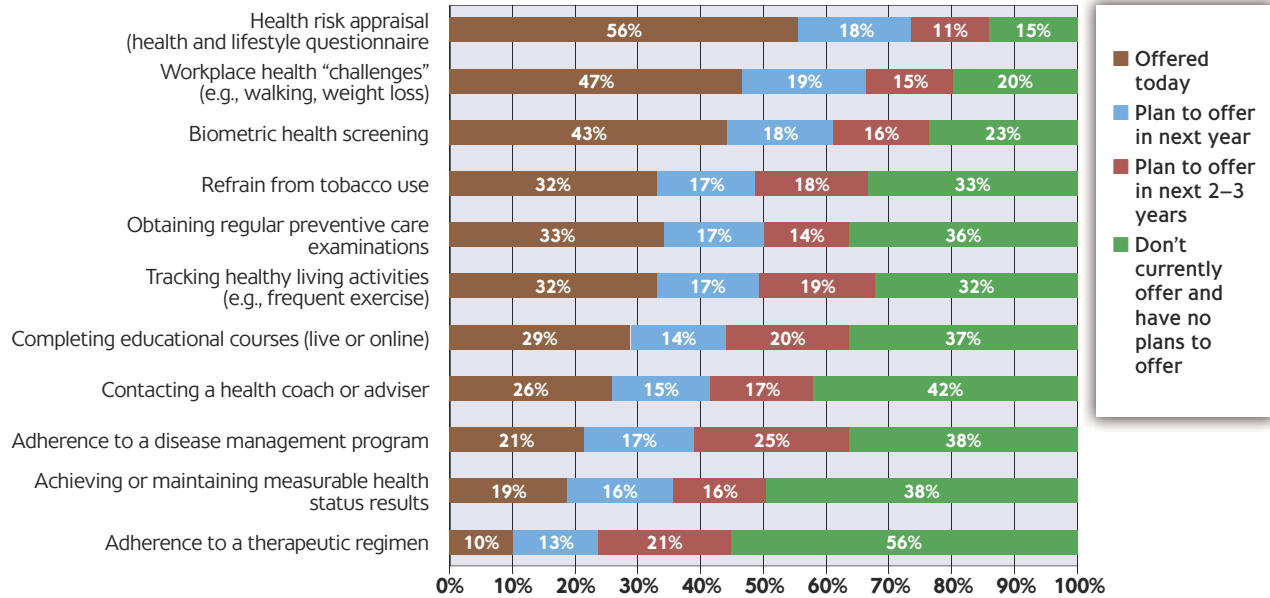
Employers' articulation of their organizational wellness strategies is a hallmark of this new approach. A well-defined strategy typically includes program goals, a multiyear implementation plan, and a clear definition of program ownership, design, vendors, tools, infrastructure, and technology. It also identifies benchmarks for success and indicates how they will be measured and evaluated. Given the competition for resources, metrics are key to demonstrating return on investment. Developing such a business-focused

plan is essential if wellness program sponsors are to secure the significant initial and continued financial support from senior management that these initiatives require. As indicated in Figure 2, 64 percent of organizations surveyed indicate they have such a wellness strategy (an increase from 60 percent last year and 49 percent in 2007), and survey data suggest that many other organizations expect to develop one.

To encourage employee participation in wellness programs, employers utilize a variety of incentives (both financial and non-financial) that reward various personal activities and/or achievements. Some programs also impose penalties for failure to achieve or participate.

The majority of incentives today, as shown in Figure 3, reward participation in or completion of certain activities or screenings. However, an increasing number of health promotion programs require more than just participation. In order to receive a reward, the individual

FIGURE 3 | Activities for Which Incentive Awards Are Offered



must attain specific health-related goals, such as maintaining cholesterol levels or body weight within a healthy range, or abstaining from tobacco use. In this way, employers seek to tie the rewards back to actual reduction in risk. Note that expected growth in incentive rewards is quite high. In most categories, 30 percent to 40 percent of respondents indicate they plan to expand the types of rewards offered in the next three years.

Incentive rewards take a variety of forms. Gifts or merchandise, raffles, and cash payments are among the most popular with employers. Also prevalent are discounts and subsidies for preventive health services (such as annual physical checkups and appropriate preventive screenings) and subsidized membership fees for fitness facilities or wellness classes (such as smoking cessation or weight loss). The practices of directing incentive dollars toward reducing health care premiums and making cash contributions to health care-related spending accounts are growing rapidly, especially in the United States. These practices help employers emphasize to employees a strong connection between healthy living and their ultimate objective of reducing the cost of health care.

FIGURE 4 | Effectiveness of Incentive Rewards at Influencing Behavioral Changes Among Employees

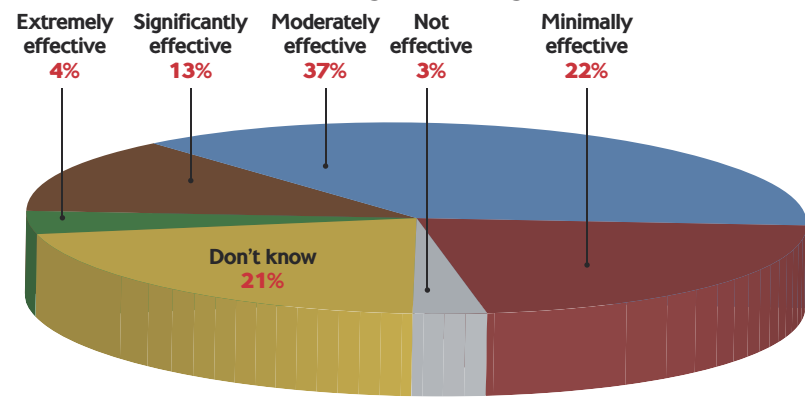


FIGURE 5 | Have Measured Financial Outcomes from Health Programs—by Workforce Size

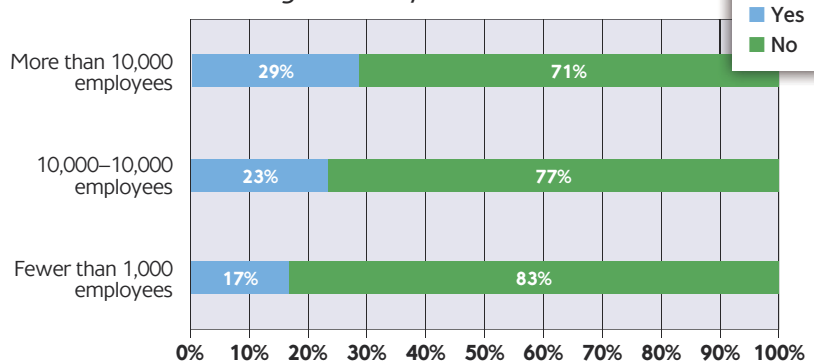


FIGURE 6 Reduction in Health Care Trend Rate—U.S. Employers

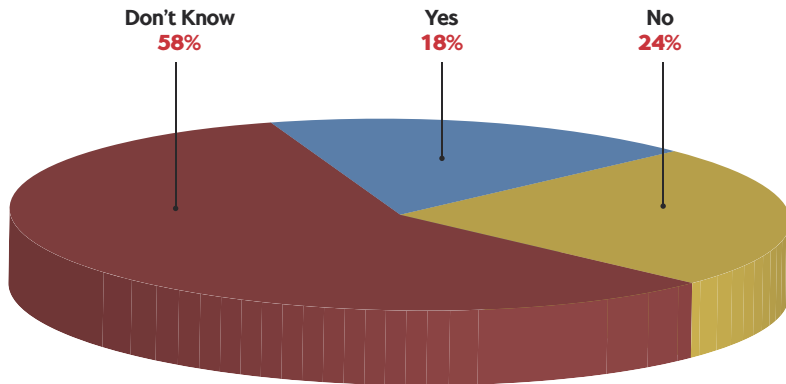
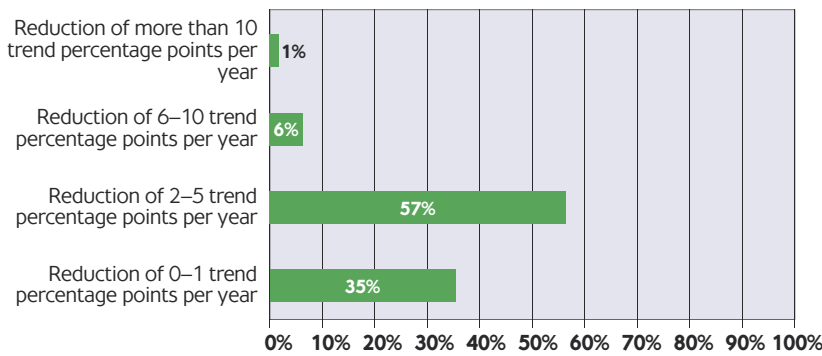


FIGURE 7 Average Annual Reduction in Health Care Trend Rate—U.S. Employers



Despite the growing popularity of incentive rewards, employers’ perception of their effectiveness remains moderate, with only 17 percent of global respondents rating their incentive rewards significantly or extremely effective, and the majority rating them as minimally or moderately effective (See Figure 4). This response may reflect the relative newness of formal incentive systems in the workplace health promotion field, as well as a limited scientific basis and insufficient research and case studies to determine best practices.

In the United States, a number of laws (including the Health Insurance Portability and Accountability Act, the Americans with Disabilities Act, and the Genetic Information Nondiscrimination Act) also restrict how incentives can be structured. Their intent, in part, is to protect individuals from actions based on their health status that could

adversely affect their employment and benefits. However, as indicated in the survey, employers continue to significantly expand their initiatives despite these challenges.

There’s a growing interest in using principles from behavioral economics and social marketing to maximize the motivational impact of incentive rewards (See “Rethinking Rationality, Economics and Human Nature,” July/August 2009 *Contingencies*). These

disciplines provide insight into why people make certain decisions and how those decisions are influenced by social, cognitive, and emotional factors. For example, since people tend to give more weight to small probabilities, an incentive structured as a raffle prize will have a higher perceived value than an equivalent cash reward. (Whether or not this is effective with actuaries remains to be seen.) Another principle, regret aversion (a distaste for missing an opportunity to benefit), could further leverage a raffle by notifying individuals that they would have won the raffle if they had performed the action necessary to qualify. These basic examples suggest how this field of study might be used to increase the effectiveness of wellness programs.

Maximizing Return on Investment

The measurement and quantification of outcomes is probably the most pertinent area where actuarial expertise can be leveraged to address critical issues and questions about wellness initiatives. Employers invest in wellness initiatives because they expect a positive return on investment. They appreciate that in order to achieve long-term benefits, they must make a commitment to a multiyear investment in organizational transformation. However, quantifying specific returns presents some challenges:

- 1. Cost avoidance**—Savings from wellness initiatives are attributable to avoided future costs, due to the prevention of illness and reduction in employee absence and turnover. This requires measuring the cost of events that didn’t happen.



Defining PRESENTEEISM

Presenteeism is a newly coined word that describes lost productivity arising out of poor employee health. In contrast to absenteeism, when employees are absent from work, presenteeism occurs when employees come to work despite illness (such as a seasonal flu or cold) or health conditions (such as depression or obesity) that may negatively affect their work performance. The defined causes of presenteeism are sometimes extended to include health issues of the employee’s family members.



2. Multiyear horizon—Wellness programs typically take several years to begin producing positive returns. In a program's initial years, the required investment is often larger than any reasonably expected savings.

3. Measurement challenges—Obtaining and analyzing extensive claims and risk data can be expensive and time-consuming. In addition, some indirect costs, such as presenteeism and employee disengagement, can be difficult to quantify.

Although most employers don't have the expertise or resources to undertake such analyses, an individual with an actuarial background and skills does.

According to the Buck survey, the majority of employers are not currently measuring the financial impact of their wellness programs, as indicated in Figures 5 and 6. However, some are. Among U.S. employers that measure the effect of wellness programs on their health care cost trend rate, 43 percent attribute a reduction in this trend rate to their wellness initiatives. About two-thirds of those report a reduction of two to five trend percentage points per year or greater—not an insignificant return on investment. For example, an employer with 10,000 employees might spend about \$50 million per year on employee health care. A 3 percent trend reduction produces \$1.5 million in annual savings, which quickly becomes even more significant when accumulated and compounded over multiple years.

There's a middle ground between ideal measurement and no measurement at all. Establishing realistic, incremental, measurable goals over several years that blend participation rates, health outcomes, and financial results can raise the bar each year and create a progression toward longer-term desired outcomes. An example of this approach could be:

Year 1 Goal: Focus on Participation

- 60 percent of employees participate in at least one program element

Year 2 Goal: Add Risk Reduction and Satisfaction

- Health risks improve by at least 2 percent
- 90 percent employee satisfaction with the program

Year 3 Goal: Increase Expectations; Add Cost Reductions

- 80 percent employee participation in health screening and other programs over the last three-year period
- 50 percent spouse participation in health screening
- Measurable reduction in health care costs and/or absence rates, corresponding to health risk reduction

Employers need to adopt metrics appropriate to their situation and resources. But, as this example illustrates, agreeing to—and attaining—goals over several years can be a critical step toward justifying continued investment in a wellness program.

Wellness programs are becoming more prevalent worldwide, especially among employers that believe that a healthier workforce gives them a competitive advantage, and U.S. employers eager for solutions to health care cost escalation. Despite this prevalence, wellness initiatives are not yet considered broadly successful. Many programs still lack fundamental features that are critical to ongoing success, such as:

- A well-defined multiyear organizational wellness strategy;
- A program design that effectively motivates and engages employees and their families to achieve meaningful results;
- Realistic, meaningful target metrics that can be benchmarked and measured.

Still, the underlying financial promise of workplace wellness is sound. Through appropriate investment, focus, and leadership commitment, some employers have achieved significant returns in employee health and productivity, and many others believe they are on the path to positive returns. Further, the prevalence of provisions supporting wellness and prevention in proposed health reform legislation seems likely to propel wellness to even greater attention and investment in the United States.

Given the current focus, and the business needs driving the recent growth in wellness, opportunities abound for actuaries to use their unique skills to address some of the key challenges facing employers as they seek to minimize health risks and maximize financial returns. □

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Resources

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