Health management ROI:
It's time for a fresh approach

A call to action

Imagine having written a book with just one chapter. While the narrative was gripping and the audience was intrigued, you left them wanting more.

The health management industry's value proposition for wellness programs is not unlike that abbreviated book. We've spent decades writing the first chapter, which focused on demonstrating return on investment primarily through medical cost savings.

Compelling? Yes.

Complete? No.

Now is the time for industry leaders to begin writing the next chapter — one that articulates a more complete story about the total value of health management.

This paper will explore how dramatic changes in health care are beginning to challenge the traditional value proposition for health management programs. It also suggests how we can expand on ways of measuring the impact of these programs. Ultimately, we hope to shed light on the exciting opportunity awaiting employers and health management partners who want to write that next chapter.

The next chapter: Moving beyond medical cost savings

Approaching ROI (return on investment) only through the lens of medical cost savings has several drawbacks:

1. **Tip of the iceberg.** We are focusing only on the tip of the iceberg when we estimate the impact of health management programs by focusing on medical cost savings alone. Many other financial and nonfinancial gains or losses need to be quantified in order to fully understand the value of health management programs. Impacts on productivity have already been documented in the literature. However, impacts on quality of life (at home and at work), employee turnover, and the financial and reputational metrics of interest to company staff and leaders all need to be quantified.

2. **Inflated expectations.** ROI expectations for wellness have been arbitrarily inflated and not based on standard investment returns. As we continue down the path of monetizing the value of our programs, we must right-size expectations, while strengthening research methodology to more adequately evaluate program impacts.

3. **Law of averages.** Less emphasis should be placed on a single ROI figure. Virtually all ROI figures are measures of average value. There is likely to be a lot of variation around each average — some people or groups of people will be served in ways that lead to higher returns, while others will yield lower returns. We need to better understand how to maximize returns by knowing which factors are associated with higher and lower savings or other outcomes of interest. Once we know this, we can use that information to find better candidates for our programs and to generate better programs for all individuals.

The time is ripe

Health care reform

In the wake of the Patient Protection and Affordable Care Act (ACA), employers are examining new strategies to finance and deliver health benefits and services, including leveraging defined contribution plans and/or moving to the provision of health insurance through state-level or private health insurance exchanges. Those employers responding to the rise in health care costs via these approaches may reinvest savings in other areas, such as expanding existing health and wellness initiatives. In fact, 64 percent would use savings from private health exchanges to expand existing health and wellness initiatives according to a recent AON Hewitt survey.[1]

However, their perspectives on the value of these initiatives will likely change when they are no longer shouldering as much of the burden of yearly health care cost increases. As a result, the value conversation needs to encompass factors beyond medical savings and the industry will need new ways to justify investment.

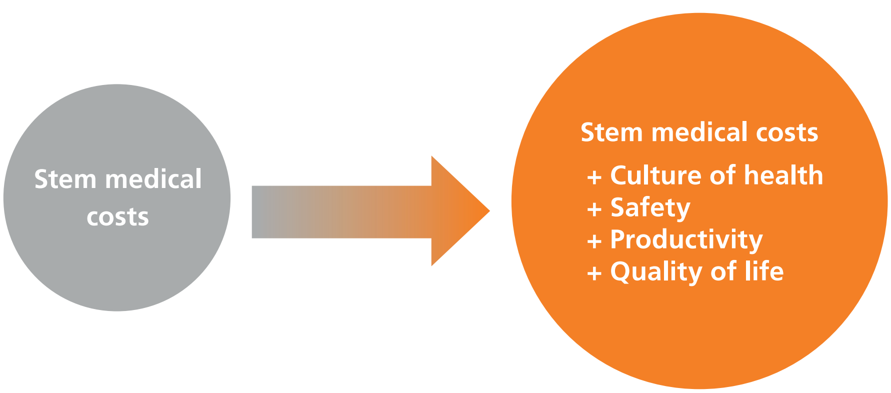
According to a survey by the International Foundation of Employee Benefits Plans, 20% of employers are increasing their emphasis on wellness initiatives and incentives due to the impact of the ACA.

Evolving health management philosophies

Companies are still adjusting to the post-health care reform environment. Already, however, we are seeing an evolution in the way some employers think about health management programs.

In the past, many employers implemented health management programs and incentives primarily as a way of stemming the rise in health care costs. Although that is still an important objective, many employers are now broadening their vision by building a culture of health, safety, productivity and enhanced quality of work life — and they want health management programs to be key enablers of these. For example, according to a recent Optum/*Employee Benefit News* survey of HR professionals, 86 percent believe it is important to create a "culture of health." They leverage these programs to compete for talent, encourage healthy choices and stimulate peer interaction, in addition to containing costs.

According to a 2013 Optum/EBN survey of HR professionals, 86% believe it is important to create a "culture of health."



Helen Darling, president of the National Business Group on Health, sums up this potential paradigm shift: "These programs aren't just there to save money, per se. It sends a message that this company cares about people. It will attract people who want to work for a company that demonstrates a culture of health."[2] Demonstrating a commitment to health helps companies recruit talented workers, providing a competitive advantage.

While it is still too early to know how this evolving "culture of health" philosophy will play out, change is clearly coming and will greatly affect the value proposition of health management.

Programs that are designed to improve health should focus on "people metrics" and "business metrics."

Expanding the metrics universe

Without question, it is still necessary to consider medical cost as a component of ROI when determining program success. But alone, that is not sufficient. Ultimately, programs that are designed to improve health should focus on many other metrics, most of which can be categorized as either "people metrics" or "business metrics."

People metrics (outcomes affecting employees personally):

- Quality of life (job satisfaction, morale, family life, relationships, emotions)
- Energy level, mood
- Net health risk reduction
- Job safety and ergonomics
- Personal health care expenditures
- Health benefit program satisfaction

Building a value proposition around these metrics is critically important. By giving these metrics the same credence as the "business" metrics listed below, employers can communicate a powerful message that says "we care about you," rather than simply "we want to lower health care costs." That, in turn, can help build employee engagement.

Business metrics (outcomes impacting organizational performance):

- Company stock price, total revenue per employee, shareholder value, earnings multiples
- Absenteeism/presenteeism/productivity
- Accident rates, other safety metrics, disability program use
- Return on invested capital
- Recruitment/retention
- Health care costs (medical, Rx)
- Industry-specific operational business metrics (through-put, claims handling, inventory turnover)
- Health care utilization (emergency room, inpatient stays, readmissions, pharmacy, etc.)

Connecting these business performance metrics to health management programs is important for an often-overlooked reason. For many business line managers — chief operating officers, sales vice presidents and business unit general managers — medical cost savings may not be a priority because they don't connect health management initiatives with their business objectives. As a result, human resource departments often find it challenging to attract their interest in these initiatives. But by demonstrating how health management programs can help improve business performance metrics, human resource leaders can build greater support across the organization.

By demonstrating how health management programs can help improve business performance metrics, human resource leaders can build greater support across the organization.

Overall, consideration of both people metrics and business metrics will lead to a more complete valuation of health management programs.

Potential new success measures

While more research needs to be done, some initial efforts have attempted to connect health management interventions with improvements in metrics other than medical cost savings.

Consider:

Revenues

Companies with highly effective wellness programs generate industry-adjusted average revenues that are 40 percent higher than competitor companies with low-effectiveness wellness programs, yielding a difference of $132,000 per employee annually.[3]

Shareholder returns

Companies with the most effective health and productivity programs experienced 28 percent higher shareholder returns.[4]

With regard to revenues and shareholder returns, and probably other key financial metrics measured at the company level, we need to better understand whether these returns are higher because of successful health management programs, whether more successful firms offer better health management programs, or both.

Other evidence of success relates to these factors:

Absences

Companies with the most effective health and productivity programs experienced 1.8 fewer days absent per employee.[5]

Productivity

Average productivity savings per health management program participant is $353 per year.[6]

Health risk reduction

Individuals completing both a telephonic wellness coaching and online health coaching program were:[7]

- 64 percent more likely to reduce risk for obesity than those in the control group
- 56 percent more likely to reduce risk for physical inactivity than those in the control group
- Risks can go up or down, and a meaningful net decrease in risk is what will define the most successful programs

Generating a realistic ROI

Regardless of which new metrics the industry settles upon, there will always be a need to convert some of them to a financial savings model. The good news: It is possible to generate solid ROI in well-designed health management programs. Results, of course, can vary depending on how outcomes are measured and how rigorously the ROI analysis is conducted.

However, it's time to rein in expectations. Unrealistic expectations about wellness program ROI have been a challenge for the health management industry for years. Indeed, some health management companies and employers anticipate savings to be three or more times as high as program costs.

This is much higher than returns from other corporate investments, however, and may not be realistic, particularly in the initial years of a wellness, disease management or high-risk case management program, which tend to produce returns over a longer-term horizon.

Consider these ROI benchmarks in the financial services industry:

- A respectable 10 percent return in the stock market corresponds to an ROI ratio of $1.10 per dollar spent. Over three years, that ROI will be $1.10 to the third power, or $1.33.
- The annual investments made by every U.S. company and individual since World War II has yielded approximately a three percent gain — an ROI of about $1.03.
- Even among leading U.S. companies, ROI is fairly modest. The 52-week high for Apple. [Inc.] is about $1.57 to $1, and Google's 52-week high ROI is roughly $1.64 to $1.

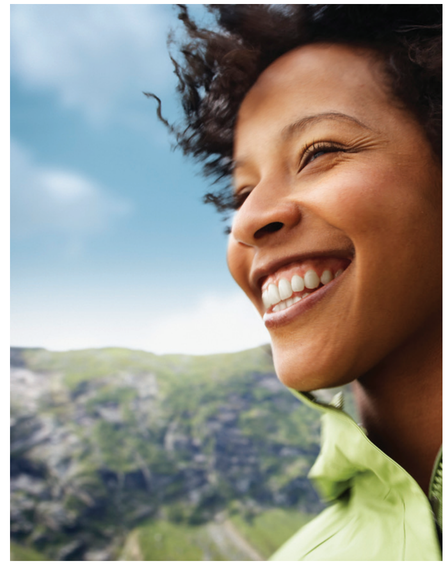
Expectations for health management program ROI should be in line with the ROI from all other employer investments — equipment purchases, personnel, financial investments, disability insurance and other employee benefits. Assessing returns from other investments provides a useful benchmark for comparison, thereby leading to a more thorough discussion of financial risks, expectations and returns. Once the comparison is made, a company can refine investments accordingly — in health management as well as other programs — in order to maximize returns overall.

Expectations for health management program ROI should be in line with the ROI from all other employer investments.

As mentioned earlier, it is important to remember that all ROI figures for every type of benefit or investment are averages. Thus, an ROI of 1 to 1 means, on average, every dollar spent on wellness programs or other investments yields a dollar in benefits. Since it's an average, there is a distribution around that average. Thus, a particular program will likely yield higher-than-average savings for some participants, and lower-than-average savings for others.

More research is needed to determine who gains more from our programs, and who gains less. Armed with that data, we can begin to tailor health management programs to increase returns for everyone.

How quickly can ROI be achieved?



In addition to readjusting expectations regarding health management program ROI, it's also important to understand that some programs typically yield faster returns than others.

Thus, programs with a limited time horizon, such as those involving decision support services, Centers of Excellence and network-based initiatives may yield relatively quick returns. These include:

- NurseLine℠ triage call-in programs
- Treatment decision support programs that help prepare individuals for hip/knee/back or other types of elective surgery
- Emergency room decision support programs that encourage appropriate use of the ER
- Advanced illness support programs for people near the end of their lives
- Cancer and transplant management programs

Other programs should be viewed as longer-term investments because participants typically need time to fully understand how the programs work; additionally, there is a learning curve as participants and vendors start interacting with each other. Not surprisingly, because of the complexity of the medical conditions and the lifelong need for proper management of participants in many of these programs, outcomes often take longer to achieve. These include:

- Disease management programs for heart disease, diabetes and other conditions
- High-risk case management for people with multiple conditions and comorbidities
- Lifestyle coaching for those with multiple health risks

The most successful strategy is likely to entail a combination of many of these programs to help improve the lives of participants.

Looking ahead

For too long, the health management industry has promoted medical expenditure savings while downplaying other key metrics. The result is an incomplete understanding of the value these programs generate. The focus is beginning to shift, however.

It is critical for the industry to reboot by engaging corporate executives in a wider, more relevant conversation that demonstrates value in new ways, such as by boosting productivity and safety, lowering absenteeism, improving quality of life, reducing health risks, and enhancing key business metrics like shareholder returns and revenue.

Beyond that, further research is needed to test the hypothesis that a healthier workforce can improve a company's stock price and other operational metrics. These are next-generation measurements that employers, wellness companies and industry consultants should embrace, so health management programs can evolve to better fulfill their promise.

Contact us:
Call: 1-866-386-3408
Email: resourcecenter@optum.com

www.optum.com

Author:
Ronald J. Ozminkowski, PhD

Ron Ozminkowski is senior vice president and chief scientific officer at Optum, where he leads health care analytics in support of Optum client relationships. He is internationally recognized as an expert in the evaluation of health and productivity management programs and has published widely on these and related issues.

Before coming to Optum, Dr. Ozminkowski served as director of health and productivity research at The Medstat Group and as associate director of the Institute for Health and Productivity Studies at Cornell University. He also served as senior economist at Abt Associates Inc. and as research fellow at the National Center for Health Services Research and the Agency for Healthcare Policy and Research. His teaching experience includes work as visiting instructor in Health Economics at Eastern Michigan University and at Mercy College of Detroit.

Ron holds a doctoral degree with an emphasis in health economics and a master's degree in applied economics and health services administration, both from the University of Michigan.

Sources:

1. Aon Hewitt. Corporate Health Care Exchange Survey: The Time Is Now – Rethinking Health Care Coverage. 2012.

2. Carrns, A. (2014, January 6). Study raises questions for employer wellness programs. *The New York Times*.

3. Towers Watson and National Business Group on Health. Pathway to Health and Productivity 2011/2012 Staying@Work™ Survey Report.

4. Towers Watson & National Business Group on Health. The Health and Productivity Advantage: Staying@Work, 2009/2010.

5. Towers Watson & National Business Group on Health. The Health and Productivity Advantage: Staying@Work, 2009/2010.

6. Mitchell, R.J., Ozminkowski, R.J., Serxner, S. (October 2013) Improving Employee Productivity Through Improved Health. Journal of Occupational and Environmental Medicine., 55(10). 1142-1148.

7. Optum. Health Risk Reduction Study. Report. 2013

OPTUM™ T 866.427.6845 | **www.optum.com**

13625 Technology Drive, Eden Prairie, MN 55344