



The Wellness Councils of America Presents...
A WELCOA Expert Interview

The Cost Of Wellness

Wellness Expert: "Investing \$100 to \$150 Per Employee, Per Year Can Generate \$300 to \$450 ROI"



Ron Goetzel

Director, Cornell University Institute for Health and Productivity Studies and Vice President of Consulting and Applied Research, Medstat

In a recent interview, WELCOA President David Hunnicutt, PhD sat down with health promotion guru Ron Goetzel, PhD to talk about the cost equation of worksite wellness programs. In this exclusive interview, Drs. Hunnicutt and Goetzel talk about the costs of worksite health promotion programs, how such programs can be paid for, what program elements employers should receive for their investment and what types of results worksites can expect based on their investment in health promotion.

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ABOUT THE WELLNESS COUNCILS OF AMERICA

The Wellness Councils of America is one of North America's most trusted voices on the topic of worksite wellness. With over a decade of experience, WELCOA is widely recognized and highly regarded for its innovative approach to worksite wellness.

Indeed, through their internationally recognized "Well Workplace" awards initiative, WELCOA has helped hundreds of companies transform their corporate cultures and improve the health and well-being of their most valuable asset—their employees.

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Topics Covered

- Q1:** In health promotion, we focus much of our attention on program outcomes, and much less on program costs. How much do worksite health promotion programs cost employers?
- Q2:** In terms of working with vendors, what do typical payment structures look like, and what can employers expect to pay for such programming?
- Q3:** What types of programs can worksites expect to see for a \$100 to \$150 per employee, per year investment in worksite health promotion?
- Q4:** If employers invest \$100 to \$150 per employee, per year in health promotion, what can they expect to experience as a return on their investment?
- Q5:** When employers learn they need to invest \$100 to \$150 per employee, per year, what type of reaction do you see? Are they surprised by it; think it's low or maybe think it's too high?
- Q6:** If you take that \$100 to \$150 per employee, per year cost of health promotion programming, what's an appropriate percentage to spend on program evaluation?
- Q7:** How should practitioners factor the use of incentives into the cost of worksite health promotion programs?
- Q8:** What advice do you have for wellness practitioners looking to sell sophisticated wellness programming models to senior level managers within a more business-oriented context?

SIDEBAR:

Investing In Prevention:

Johnson & Johnson's Benchmark Incentive Program

As a long time leader in worksite health promotion, Johnson & Johnson demonstrated that their worksite wellness program did, indeed, positively impact healthcare utilization and expenditures.



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Ron Goetzel, PhD
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Ron Z. Goetzel is responsible for leading innovative research projects and consulting services for healthcare purchasers, managed care, and pharmaceutical clients of The MEDSTAT Group. He is a nationally recognized expert in the field of health management, data analysis and applied research.



Ron also serves as the Director of the Cornell University Institute for Health and Productivity Studies.

Dr. Goetzel earned his doctorate in Organization and Administrative Studies, his M.A. in Applied Social Psychology from New York University and his B.S. degree in Psychology from the City College of New York. He can be reached at ron.goetzel@medstat.com.

Q1: In health promotion, we focus much of our attention on program outcomes, and much less on program costs. How much do worksite health promotion programs cost employers?

GOETZEL: There are a number of ways to address this question. I like to start by asking employers how much they're currently spending on healthcare per employee during the course of a year. Most employers have a good handle on their costs, but it varies from organization to organization. Depending on the size and quality of an organization's benefit plan, they'll spend anywhere from \$2,500 to \$5,000 per employee, per year on healthcare delivery. The next question I like to ask is, "How much of what you're spending on healthcare should be invested in disease prevention and health promotion?" A long pause usually follows this question because most employers haven't thought about healthcare spending in terms of prevention. Off the cuff, 10 percent is a

common response among employers. If you do the math, 10 percent of \$2,500 or \$5,000 is a pretty generous amount to spend on prevention. In most cases, however, employers just aren't spending enough on disease prevention and health promotion.

The cost of health promotion programs also depends on the types of services and programs employers offer to employees. Most employers providing health promotion and disease prevention programs offer annual checkups and screenings based on the United States Preventive Services Task Force guidelines—which makes very good sense. In fact, these screenings should be covered 100 percent so employees are more likely to take advantage of them. At the same time, however, employers can skip expensive, full-workup physical exams. For the most part, these exams are a waste of money because they don't meet any national health or screening recommendations. And because these workups include EKGs, X-rays and a whole number of different blood tests, they can cost anywhere from \$300 to \$400 per employee. The average healthy person just doesn't need this type of workup on an annual basis. Quite frankly, employers are better



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David Hunnicutt, PhD
President,
Wellness Councils of America

David Hunnicutt, PhD, was named President of WELCOA in 1995. Under Dr. Hunnicutt's guidance, WELCOA routinely distributes millions of publications each year to its corporate membership of over 2,500 companies, and over 700 Well Workplaces. These publications are designed to increase quality of life, enhance employee productivity and improve personal health, and well-being.



Known for his pragmatic approach and strong background in organizational development and corporate leadership, Dr. Hunnicutt is widely recognized as a national wellness advocate. By dedicating his professional energies to advancing the cause of corporate wellness, Dr. Hunnicutt consults with hundreds of organizations each year including Merrill Lynch, Caterpillar, and the United Nations to help them link health promotion objectives to business outcomes.

taking some of that money—not all of it, but certainly some of it—and devoting it to building an effective health promotion program.

Another consideration for employers when deciding about the cost of health promotion programs relates to whether they want to spend their money internally, developing programs and hiring a staff to implement these programs, or whether they want to go with an outside vendor to design and deliver the program. There are pluses and minuses to either approach.

One of the advantages of developing an internal worksite wellness program is being able to design, shape and tailor the program to the organization's specific population and that population's particular needs. Employers are intimately familiar with their organizational culture; they know what's doable and they know the politics and other important factors behind such decisions. Internal programs are also often less expensive because employers can hire great people for much less money than they'd pay a vendor or contractor to do the same job. Moreover, internal programs present a great staff development opportunity, and allow for organizational team building.

On the flip side, hiring an outside vendor to design and implement worksite health promotion programs may be the right choice for many employers. The plus side here is you're hiring an organization whose full-time job is to provide such services—it's what they do for a living, so they need to do it well in order to survive. Part of their infrastructure is devoted to developing new programs, mechanisms and technology for delivering health promotion programs, so these vendor organizations are often leading edge. They also have systems to not only deliver programs effectively but also to measure and monitor them, thus allowing organizations to continually develop a better understanding of program outcomes. Lastly, when things go well with a vendor, it's easy to renew the contract. But if things don't work out, an organization can just as easily fire the vendor at the end of the contract. It's a much simpler process than having to hire or fire internal staff.

Q2: In terms of working with vendors, what do typical payment structures look like, and what can employers expect to pay for such programming?

GOETZEL: There are two common payment models: the per-eligible employee model and the per-participant model. In most cases I think vendors prefer the per-eligible employee model. With this model, worksites pay a flat fee per eligible employee regardless of the types and amounts of services offered. For example, if a worksite employs 100 people, the employer pays X dollars per eligible employee, and it's the vendor's responsibility to improve the health and well-being of that population. The employer doesn't say how many people should be in high-risk versus low-risk programs, they don't dictate how many



people get counseling calls, and they don't direct who gets tailored communications, how often and the content of communication materials. This is the vendor's responsibility, and the employer holds the vendor accountable for improving the health of those 100 people in a very cost-effective manner.

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I believe this model is preferable for most vendor organizations. It holds everybody's feet to the fire in terms of improving health for a given fee. It's also the kind of capitated managed care model that works very well for healthcare delivery services.

The alternative is the per-participant model where an employee population is divided by risk factors: high-risk, medium-risk and low-risk. Some people receive one-to-one counseling, others have materials sent to them and others may just access an internet website—interventions are determined by risk level and specific risk factors, so each employee receives a slightly different program based on his or her needs. The program is delivered in a piecemeal fashion where program costs differ depending on participant needs and the services delivered. Employers are often more comfortable with this model because they're paying X dollars for specific programs and interventions.

I'm not convinced, however, that the per-participant model is the most effective way of improving the health and addressing the health risks of a given employee population. This model often provides a number of opportunities for employers to cut corners and costs by delivering certain aspects of a program and skipping others. In the end, when things don't work out, the vendor can say, "Well, you wouldn't allow me to do this or that, and that's why we didn't achieve outcomes X, Y and Z." So, I prefer the per-eligible model—it's more efficient because it holds vendors accountable for outcomes.

Now, to address the cost portion of your question, I think a good ballpark estimate is somewhere in the neighborhood of \$100 to \$150 per eligible employee, per year regardless of whether the program is delivered in-house or by a third party vendor. I believe this a good amount of money to invest in a bona fide health promotion program.

Q3: What types of programs can work-sites expect to see for a \$100 to \$150 per employee, per year investment in worksite health promotion?

GOETZEL: Employers should expect a high participation rate. And by high participation rate, I'm talking greater than 50 percent. Obviously, the higher the participation rate the better. Second, employers should expect that health risk appraisals (HRAs) be administered to every eligible employee. Here, too, participation is very important. Lastly, employers should expect to receive tailored, targeted feedback and follow-up intervention programs for their employees. It's not enough to offer employees a program every couple of months—interventions should be ongoing and touch employees as often as possible during the course of a year.



Employers should also expect to see the creation of a referral mechanism for connecting employees to community resources. In other words, employees need to know there are fitness programs, Weight Watchers, stress management and other programs available in the communi-

a standard health promotion program. With a fitness center, employers not only have the cost of building and outfitting the fitness center but also the ongoing costs of utilities, staffing and maintenance. So, fitness centers have the tendency to increase wellness program costs rather dramatically.

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ty where employees can turn for additional, individualized support services.

For \$100 to \$150 per employee, per year, an employer should receive everything—the marketing, the mailing, the administration and so on—they need to get a worksite wellness program underway. As a general rule, \$100 to \$150 includes both programming and administration costs including a wellness practitioner's salary or the cost of the vendor contract. It doesn't include, however, costs for running a fitness center, which I see as a separate category.

Building and maintaining a fitness center is an added expense above and beyond

Q4. If employers invest \$100 to \$150 per employee, per year in health promotion, what can they expect to experience as a return on their investment?

GOETZEL: When you look at the literature published on health promotion outcomes, the average ROI is somewhere around a \$3 for every \$1 invested. At the most elementary level, if you take the \$100 or \$150 we've been working with, you can expect a \$300 to \$450 savings per employee, per year. Worksites typically don't realize these returns, however, until about three years into the program. So, if an organization is willing to wait two or three years, it will be capable of achieving this magnitude of ROI. Again, if it's a well-designed, well-implemented, science- and evidence-based program with a good staff, achieving such an ROI is very possible.

The way worksites measure this type of ROI is relatively simple. Let's assume roughly half of the population is engaged in the program while the other half isn't. The entire population begins at the same point in terms of healthcare utilization and costs. And at the end of three years, costs are measured and compared again. Savings means finding a \$300 to \$450 difference in the annual healthcare costs between program participants and non-participants. This difference is the realized net savings, which can then be compared to program costs to calculate an ROI. And actually, it's a cumulative savings over the course of the three years. If you spent



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\$100 per employee, per year for the program, you can expect to get back \$300 per employee, per year, or \$900 per employee at the end of three years, on only a \$300 investment.

Q5: When employers learn they need to invest \$100 to \$150 per employee, per year, what type of reaction do you see? Are they surprised by it; think it's low or maybe think it's too high?

GOETZEL: I think most employers don't see it as being all that expensive given the rising costs of healthcare today. Most employers see annual healthcare increases that far exceed \$100 or \$150 per year. I suppose \$100 per employee looks much larger to an organization paying \$2,000 a year per employee for healthcare compared to an organization paying \$5,000 per employee, per year. As healthcare costs continue to rise, that \$100 to \$150 investment becomes a smaller and smaller share of healthcare expenditures.

Ten years ago, employers were looking for very, very inexpensive programs in the \$25 to \$50 range. Nowadays, these same employers have come to the realization

that they need to invest more if they're going to achieve any semblance of tangible results. Earlier programs just couldn't do it for them.

Q6: If you take that \$100 to \$150 per employee, per year cost of health promotion programming, what's an appropriate percentage to spend on program evaluation?

GOETZEL: I think a fair percentage is somewhere around 5 percent. If you're looking for detailed or extravagant evaluation, then 10 percent of the total budget could be set aside for evaluation. Again, it depends on the magnitude of the program. If it's a million dollar program, 5 percent goes further than it would in a hundred thousand dollar program. It's also important to spend more money upfront, establishing baseline measures against which to compare results at the end of the first year. In sum, I would recommend 5 to 10 percent of a wellness budget be dedicated or earmarked for program evaluation.

Q7: How should practitioners factor the use of incentives into the cost of worksite health promotion programs?

GOETZEL: There are two ways of handling incentives in terms of program budgeting. One is to include incentives as an incremental cost to the program. Let's say, for instance, a worksite spends \$150 per employee, per year and wants to offer a \$50 incentive. Such a design increases the costs of the program from \$150 to \$200 per employee, per year—depending on the number of employees, it can be a huge jump in program costs. I'm not a supporter of this model. I believe work-



sites should find ways of building incentives into their medical premiums or developing other benefit premium structures that prevent added costs associated with incentives. We need to look at developing programs where, in essence, non-participants actually underwrite the health promotion program for participants similar to the program in place at Johnson & Johnson (see sidebar below). My advice to practitioners is to build an incentive program where there are no additional costs, and incentives are built-

in to attract participants.

I would also encourage worksites to build performance incentives into health promotion programs. In other words, whether it's an internal staff or a vendor, there should be incentives for increased participation rates, health improvement outcomes and incentives based on cost neutrality, or even better, cost savings. Such incentives encourage practitioners—internal or external—to produce concrete, tangible outcomes. I believe it's critical to have people accountable for what they intend to or say they're going to deliver. There are plenty of vendors open to this idea. In fact, the Federal Government is essentially doing this very thing with their health and disease management programs. I really believe it should be the norm for corporate wellness initiatives as well.

INVESTING IN PREVENTION

Johnson & Johnson's Benchmark Incentive Program

As a long time leader in worksite health promotion, Johnson & Johnson demonstrated that their worksite wellness program did, indeed, positively impact healthcare utilization and expenditures. In fact, results reported in a recent issue of the Journal of Occupational and Environmental Medicine indicated a reduction in medical care expenditures of \$224.66 per employee, per year.

As for how they accomplished such significant savings, Jennifer Bruno, Director of Business Planning for Health and Wellness at Johnson & Johnson says, "A large part of how we've been able to achieve this success is by incenting the completion of a health risk profile. We offer employees a \$500 discount on their medical insurance costs if they are willing to take the health profile, and it's worked very well. We saw participation rates for completion of the health profile jump from less than 26 percent without the incentive, to over 93 percent with it. We're very pleased with those numbers."

Q8: What advice do you have for wellness practitioners looking to sell sophisticated wellness programming models to senior level managers within a more business-oriented context?

GOETZEL: Senior management is most interested in the rationale or numbers behind investments others ask them to make. In other words, practitioners need to put numbers or evidence behind their arguments—here's our budget, here's how much we're going to spend and based on the following data, assumptions and literature, we believe we can achieve this kind of savings if we do things right. If a practitioner can organize this information in a spreadsheet and present it to senior management—you don't always need a ton of information, just one, two or maybe three compelling slides or spreadsheets—health promotion will make great business sense to senior management, and practitioners will ultimately be successful in implementing programs that work.



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