Why Wellness Matters: The Health/Wealth Implications for Employers and Employees

A White Paper by Manning & Napier

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Introduction

It is no secret that health care costs have ranked among the top concerns of employers for much of the last decade. There is good reason for this concern. Health care costs have outpaced inflation for years, and employers often bear the brunt of these costs, straining limited company resources and limiting their ability to help employees prepare for a successful retirement. If this trend continues unchecked, employers run the risk that their benefit plans will fail to meet either business objectives or employee objectives. We believe that a holistic approach to benefits that considers both health and retirement – and the impact each has on the other – is needed to ensure that objectives are met and benefits budgets are not wasted. As a key ingredient to meeting plan objectives, employers should investigate strategies that impact the source of runaway health plan expenses – unhealthy behaviors.

U.S.A. - Unhealthy States of America

Generally speaking, rational purchasers expect to see improved results when they increase their spending. Yet, despite health care costs consuming an ever-increasing share of company budget dollars, employers are not seeing a return on their investment in the form of improved employee health. In fact, the opposite has been the case. The U.S. population has experienced a significant increase in the incidence of serious health conditions and their accompanying high medical costs, as evidenced by the following trends:

- Over 18% of U.S. adults smoke, and health care costs related to smoking total more than $96 billion per year.[1]
- The percentage of obese Americans has tripled since 1960.[2] The prevalence of obesity has a significant impact on medical spending in the U.S., and is expected to continue its dramatic increase in the future.[3]

Obesity statistics[3]	**2008**	**2018 projection**
% of obese Americans	34%	43%
Weight-related medical costs	$147 billion	$344 billion
% of total U.S. health care spending	9.1%	21%

- From 1995 to 2010, the incidence of diabetes increased by 50% or more in 42 states, and by 100% or more in 18 states.[4] Diabetes accounted for $116 billion in medical costs in 2007,[5] up from $92 billion in 2002 and $44 billion in 1997.[6]
- Nearly 30% of young adults age 18 to 25 have a diagnosable mental health disorder, and 5% of U.S. adults have a mental health-related disability that seriously impairs their daily functioning. Behavioral and mental health issues comprise approximately 6% of total health care costs.[7]
- Baby boomers, while living longer than the previous generation, are actually sicker. A study by the American Medical Association reports that baby boomers have more illnesses, experience more disabilities, and need more medical care, prescriptions, and durable medical equipment than their parents did. Forty percent are obese and 52% get no regular exercise, compared to 29% and 17%, respectively, of their parents' generation.[8] Average per employee medical claim costs for employees age 60-64 are more than double the costs of employees age 35-39.[9]
- Eight in ten Americans in a 2009 study reported money and the economy as significant sources of stress,[10] and the cost of health care has been found to be 46% higher for employees with high levels of stress.[11]

Implications for Employers

Why should employers care about, and invest company resources in, the health and well-being of their employees? Different employers have different objectives for their employee benefit programs. For example, some may be primarily focused on cost containment, while others are more concerned with employee satisfaction, or attracting and retaining top talent. Regardless of objective, the chances of success can be seriously hindered by unhealthy behaviors.

If cost containment is the primary objective, employers need to be aware of the significant impact of employee health issues, even beyond the obvious concern of direct health plan costs. Employee health issues can also have a significant impact in other areas, such as absenteeism, productivity and "presenteeism" (being physically present at work, but functioning at less than full capacity due to illness, stress or other personal issues).

Some studies suggest that these indirect costs actually surpass the direct costs of medical care, with one in particular estimating that for every $1 spent on medical and pharmacy costs, an additional $2.30 is spent on health-related productivity costs.[12] With employers paying a significant share of these dollars, employee health issues have a considerable impact on the bottom line.

As discussed, the incidence of chronic illness in the U.S. is on the rise. Consider the following additional statistics on the impact this illness has on employers in terms of lost productivity:

- In addition to medical expenses, obesity-related absenteeism costs employers over $6 billion per year.[2]
- Diabetes accounted for $58 billion in indirect costs in 2007 (i.e., lost work days, restricted activity days, mortality and disabilities).[5]
- $260 billion is lost annually in productivity due to sick days, with 69 million workers reporting missing work because of illness.[13]
- The total cost of unplanned employee absences exceeds 9% of payroll costs, taking into account both the direct costs (disability, salary continuation, etc.) and indirect costs, such as replacement labor expenses and lost productivity.[14]
- As noted previously, baby boomers have significantly greater incidence of medical issues and disabilities than those of the previous generation.
- The 2008 Associated Press and AOL Health Poll reported that employees suffering from financial stress are more prone to a variety of health risks, as shown in the chart below.

Health issue[15]	High financial stress	Low financial stress
Migraines/headaches	44%	15%
Severe depression	23%	4%
Insomnia/sleeping problems	39%	17%
Severe anxiety	29%	4%
High blood pressure	33%	26%
Heart attack	6%	3%
Ulcer/digestive problems	27%	8%
Muscle tension/low back pain	51%	31%

In addition to increased medical expenses, these employees can add to employer costs in terms of missed work time due to medical issues, and lost productivity caused by spending work time worrying about financial issues and dealing with personal financial matters. Financial distress has been noted as one of the strongest predictors of workplace absence.[16]

The cost of these unhealthy behaviors and related chronic medical conditions will be felt by the employer's health plan, either through direct claim payments under a self-funded plan, or through premium increases under an insured plan. Dependents' health issues can also have a significant impact on an employer's costs, in terms of direct health care expenses (if covered on the health plan), absenteeism for the employee to care for the dependent, and lost productivity. Even employees not covered on the company's medical plan can still cost their employers through absenteeism and lost productivity caused by their own or their dependents' health issues.

Looking beyond the health plan, retirement plans may also suffer if company resources are continually diverted to cover health care costs and productivity losses. Ultimately, if employers are forced to make cuts to their overall benefits package in order to fund rising health care costs, it may negatively impact employee satisfaction and their ability to attract and retain talented employees.

Implications for Employees

Employees are not immune to the impact of rising health costs. They too may be negatively affected in a number of ways

- More than ever, employees are being asked to shoulder a larger share of the cost of their employer-sponsored health coverage, through higher deductibles and co-payments, and a higher cost sharing on the health insurance premium.
- The higher contribution to health care may translate to a decreased ability to save for retirement, which impacts the ability to retire on schedule.
- Higher health care expenses often result in an employer cutting in other areas, such as pay increases and company contributions to retirement plans.
- Increased health issues can lead to decreased income due to absenteeism and disability, impacting both current income and future retirement income.

Retirees can expect to spend a significant portion of their retirement income on health care expenses. In 2013, estimated health care costs for a married couple in retirement ranged from $151,000 on the low end to a high of $360,000,[17] while the average 401(k) account balance in 2012 for participants in their sixties was less than $148,000.[18] Stated another way, a healthy couple retiring in one year may need to spend 69% of their Social Security benefits on health care expenses, and that figure could rise to 98% if they are retiring in 10 years.[19] With costs of this magnitude, employees need to take steps to lower their health costs, including changing behaviors that can lead to chronic health conditions, and making wise decisions when purchasing health care services.

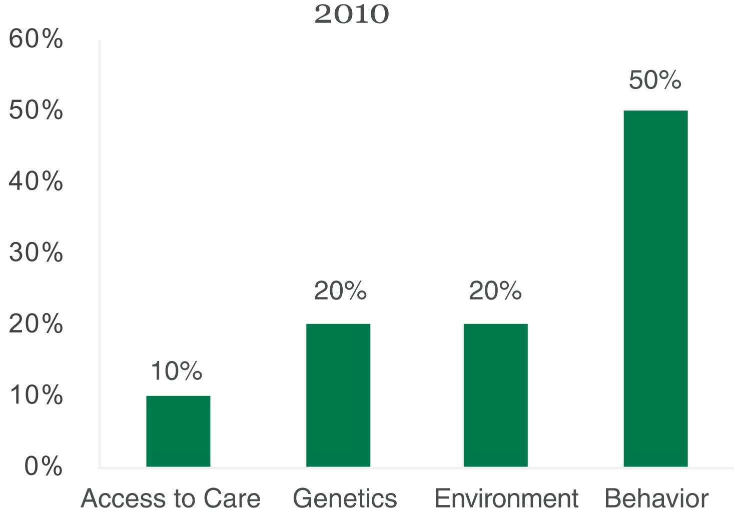
What Can Employers Do?

These alarming statistics should be a wake-up call for employers. Unhealthy behaviors may impact employers in many ways, including increased medical costs, absenteeism and lost productivity, and a reduced ability to provide a competitive benefits package. Simply put, unhealthy behaviors may considerably reduce the chances of an employer meeting their overall benefit plan objectives. On the positive side, employers have the ability to help change the course of these rising costs by making proactive changes to their health plan design, as well as providing tools and solutions to help employees lower their health risks and the associated costs.

Behavior is a significant driver of health care costs. In fact, according to the CDC (Centers for Disease Control & Prevention) and the IFTF (Institute for the Future), behavior is the major determinant of health, having as much effect as genetics, environment, and access to care combined.

Determinants of Health[20]

2010



The CDC estimates that more than 75% of U.S. health care costs are due to chronic conditions that are largely preventable by reducing behavior-based risk factors. For example, at least 90% of diabetes cases are type 2, which can often be prevented through behavior change.[4]

The good news is behaviors can be modified, and employers can help employees by providing the appropriate tools to promote changing unhealthy behaviors and adopting new, healthier behaviors that help them achieve their goals. Employers can also adopt plan designs that capitalize on the connection between behavior, health, and the cost of health care and help employees take steps to ensure they lower health risks and costs, and ultimately increase their ability to fund a secure retirement.

Health Plan Design

Plan designs can help to change behaviors and alleviate cost increases in a number of ways.

Consumerism aims to change behavior and reduce costs by giving employees more responsibility for managing health care dollars and making wise consumer choices in how they spend them. Examples include high deductible health plans with health savings accounts (HSAs). The HSA provides a tax-preferred savings vehicle for funding current and future health care expenses. Employees who make healthy behavior changes and wise purchasing decisions can potentially lower their own health expenses, leaving unused dollars in their HSAs to fund the cost of their future health care, even into retirement. In addition, employers with limited overall benefits budgets may have the ability to allocate more toward the company's retirement plan, to the extent that they are lowering their health plan expense through reduced employee health risks and the lower premiums typically associated with high deductible health plans.

Another important aspect of consumerism is providing employees with tools that help them to "shop" for health care by comparing the cost of common procedures by provider in their geographic area. Costs can vary widely, and price transparency tools enable them to make better decisions when purchasing health care services.

Value-based plans provide incentives to encourage the appropriate use of high-value services and providers that ultimately lead to better health and reduced catastrophic claim costs. A common example is lowering – or eliminating – the prescription cost-sharing for certain medical conditions, to encourage compliance with prescription treatment and reduce the likelihood of a catastrophic claim resulting from failure to properly manage the condition. Another value-based plan design option is the use of tiered provider networks, where the plan pays higher benefit levels for services from providers with the best performance on cost and quality measures.

Health Promotion

Many employers offer health promotion programs designed to improve the health status of employees and their covered dependents, and potentially lower health plan claim costs. Seventy-seven percent of employers offering health benefits in 2013 also offered at least one type of wellness program.[21]

Disease management programs are geared toward individuals with chronic health conditions. The goal of these programs is to educate and reach out to affected members to keep them in compliance with treatment and avoid the potential high costs related to non-compliance. Conditions commonly covered by disease management programs include diabetes, hypertension, asthma, high cholesterol, and depression.

Wellness programs are designed to improve or maintain the health of all members by focusing on prevention and lowering health risks, as well as managing existing conditions. Successful programs stress the importance of proper preventive care – in addition to adherence to treatment plans – to improve employee health and reduce the incidence of high-cost chronic illnesses. Screening rates for breast, cervical and colorectal cancers are currently below the national targets, and preventive services have been shown to have short-term and long-term benefits related to health, productivity and the nationwide cost of health care.[13]

Wellness programs have typically included rewards and incentives for participation in certain events (e.g., completing a health risk assessment, participating in an on-site screening event, joining a gym, or logging nutrition and exercise data). Fifty percent of wellness programs include some type of financial incentive.[22] More recently, programs are including outcomes-based incentives rather than just participation-based, with the goal of impacting behavior and health care costs. Wellness programs, in particular those with outcomes-based incentives, are subject to compliance with a number of regulations, including HIPAA, GINA, ADA, COBRA and ERISA.

The health care reform legislation passed in 2010 (Patient Protection and Affordable Care Act) increased the maximum allowed incentive to 30% of the full cost of coverage in an employer health plan, and up to 50% for tobacco cessation programs, beginning in 2014. The full cost of health coverage includes both the employer and employee shares of the premium. This legislative change, along with the increasing focus on the effect of behavior on health, has provided momentum for growth in the offering of wellness programs as employers seek ways to change behaviors and mitigate future increases in their health care expenses.

Financial Wellness

The economic difficulties faced by many in recent years have taken their toll on the health of Americans (see the chart on page 3). To help combat this added stress, employers may want to incorporate a financial wellness program alongside their health promotion program. The focus of a financial wellness program is improving saving and spending habits to help employees reach their financial goals.

Employees may be struggling to save for both retirement and ongoing health care expenses, as well as meeting day-to-day financial demands. A financial wellness program can help them to look at their benefits holistically and make choices that further their overall financial goals, which can, in turn, positively impact their health. Providing education on this connection between health and wealth issues can improve both physical and financial wellness, potentially lowering health care costs and leaving more money available for retirement savings.

Financial wellness programs can include:

- education on productive saving and spending habits
- financial literacy tools
- budgeting tools
- financial coaching
- life event planning
- online assessment tools
- modeling tools to show how small spending changes can translate into significant wealth accumulation over the long-term
- education on employer-provided benefits and how they can best help employees to achieve their goals
- investing basics

Wellness Program Design Considerations

Employers have many options to choose from when designing a wellness program for their employees. Listed below are some common components that may be included, as well as issues for employer consideration.

Typical Components:

- Health risk assessments – detailed questionnaires completed by employees to determine their health risk based on health habits (e.g., nutrition, exercise, smoking, drinking, drug use, stress, depression, sleep, and safety)
- Biometric screenings – to assess current risk status and potential areas for coaching (e.g., BMI, blood pressure, cholesterol, triglycerides, glucose, and nicotine)
- Health coaching – one-on-one support for employees who are at risk for certain health issues, or for low risk employees to maintain their health
- Incentives – for participation and/or outcomes, to motivate employees to change unhealthy behaviors (see Compliance section on next page)
- Web tools – to help participants stay engaged and interested (e.g., tracking tools, challenges and competitions, educational modules, and general health information)
- On-site programs – to improve communication, employee engagement, accessibility, and compliance with recommended screenings and immunizations (e.g., educational seminars, health coaching, immunizations, or full on-site health clinics with a variety of services)
- Targeted communication – personalized messages based on an individual's specific health risks, diagnosis with a specific medical condition, age, gender, etc. (e.g., automated reminders for recommended treatments, preventive screenings, prescription refills, recommendations for coaching, and referrals to appropriate on-line resources)
- Financial wellness programs – to help employees achieve their financial goals and understand the connection between financial and physical health

Culture of Health

In addition to the typical components, the most successful programs involve a culture of health that is visible throughout the organization, in ways such as:

- Senior leadership support and buy-in of the program, as well as active participation in the program
- Campaigns/promotions to focus on particular wellness topics at different times of the year
- Competitions among employees
- Employee wellness committees
- Healthy food in cafeterias and vending machines
- Opportunities to be active (e.g., exercise breaks, on-site fitness centers, treadmill workstations, walking paths, etc.)
- Social networking to increase employee engagement
- Including everyone, even dependents and employees who are not currently enrolled in a company health plan

Additional Considerations:

Results Measurement (ROI)

A key component of any wellness program is measuring results. Yet most companies offering wellness programs do not have a formal process in place for measuring ROI – the savings achieved by the program compared to the cost of implementing and managing it. Only 17% of companies in a 2011 survey strongly agreed that their program effectively tracks ROI.[23] Another study found that 88% of companies surveyed had insufficient data to measure ROI.[24] While few would argue against the importance of measuring results, the difficulty lies in determining what to measure, how to measure it, and whether the results can be definitively attributed to the wellness program. Complexities arise as health plan costs as a whole may continue to increase even though health risks are being reduced, and employers struggle with how to measure cost avoidance (if claims are never realized due to early detection or changes in behaviors brought about by the program).

While it may be difficult for employers to determine with certainty that any positive results obtained are the direct result of the wellness program, it is important for companies to establish a baseline from which to measure future improvements and determine future changes to the program. Most experts agree that a multi-year measurement period is needed to see results and a return on investment. Some key areas where companies can focus their measurement efforts include:

- Participation rates
  - Biometric screenings
  - Health risk assessments
  - Health coaching
  - Web tools
- Changes in health risk status
- Changes in per employee claim costs
  - Participants vs. non-participants
  - Lifestyle-related claims (i.e., claims that can be prevented by changing behavior)
- Increases in recommended preventive care
- Decreases in unnecessary care (e.g., emergency room visits for non-emergency care)
- Compliance with treatment (i.e.,reduced gaps in care)
- Decreased absenteeism
- Disability claim statistics
- Employee satisfaction rates
- Increased 401(k) and HSA savings rates (for financial wellness programs)

Different employer objectives will lead to different measurements to determine the success of the program. For example, an employer whose main objective is cost containment may be more focused on health claim costs, absenteeism and disability claims, while an employer with an objective of employee satisfaction may be more concerned with changes in health risk status and satisfaction rates. Similarly, a primary objective of recruiting and retention may lead an employer to measure success by increases in employee savings and satisfaction rates, for both the wellness program and the benefits package as a whole.

Compliance

A wellness program can help an employer to meet their benefit plan objectives; whether that objective is improving employee health and reducing the risk of future high cost claims, increasing employee satisfaction, or improving recruiting and retention efforts. However, such programs, if not properly implemented and managed, can run afoul of various legislation, namely HIPAA, GINA, ADA, COBRA and ERISA. Given the many legal ramifications of providing a wellness program, employers should consult with their legal counsel to ensure their program is fully compliant.

RFP Process

A thorough request for proposal (RFP) process is essential to finding quality vendors to partner with in managing a comprehensive wellness program. A health plan broker or consultant with wellness program experience can help employers with that process, as well as with management of the chosen vendor. A retirement advisor can also be a good resource for establishing a financial wellness program. Important considerations in evaluating potential vendors include not only their fees, but also their abilities in the following areas:

- Communication support
- Compliance support (plan design, plan documents, etc.)
- Reporting capabilities
- Performance guarantees tied to improved outcomes
- Coordination with other vendors
- ROI measurement
- Advancing the health/wealth convergence philosophy and the importance of behavior change

Conclusion

Wellness matters to employees, and it should be equally concerning to employers. With health care consuming a considerable portion of many employers' budgets, it only makes sense for employers to protect their investment by helping employees to optimize both their health and wealth outcomes, and ensuring that their benefit plans meet their primary objectives.

Employers have much to gain from investing in the health of employees and their dependents, and they have much to lose if they don't, in terms of:

- Health plan cost increases
- Increased absenteeism and disability rates
- Lost productivity and employee engagement
- Reduced ability to fund retirement and other employee benefits
- Reduced ability to compete for talented employees

Employees also have much to gain, including:

- Improved health – both physical and financial
- Increased ability to save for retirement – including health care expenses – and to retire on time and with dignity
- A more secure financial future for themselves and their families

A well thought-out wellness program – including both health promotion and financial components – can be a key part of a holistic benefits plan designed to achieve specific employer and employee objectives. Taking proactive steps now to prevent or reduce the incidence of chronic illness, and giving employees tools to assist them with planning for their future health and wellbeing, can produce a positive return in the form of a healthier, more productive workforce that is prepared for a successful retirement.

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