Measuring What Matters

How to calculate the return on investment for workplace wellness programs

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Why do companies invest in wellness?

More than half of all workplaces in America now offer some sort of employee wellness program.

For companies with 500 or more employees, that figure rises to 92 percent, according to the latest workplace health promotion research. Even among the smallest employers, wellness is becoming a priority in some way.

That's millions of employees with access to health-promotion policies, disease management programs, or perks and incentives for making healthier choices.

And further, that's millions of employers who've made the call to *invest* in the health and wellness of their teams. What are they hoping to achieve? And what does the return on that investment look like?

- **Health Costs:** focus on reducing healthcare spending and claims, while reducing the number of sick or high-risk individuals.
- **Employee Behavior:** targeting work-related behaviors or concerns, including productivity, absenteeism, presenteeism, and employee morale.
- **Recruitment and Retention:** aiming to improve or maintain job satisfaction, hire the right people and reduce turnover, and positively impact company culture.

For some, ROI is all about healthcare savings. But across the industry, motivations and approaches to ROI tend to fall into three main categories: health costs, employee behaviors, and recruitment and retention.

It may seem like only one of those can be measured, but our experience tells a different story.

To understand the *full* return on investment, employers need to know how to calculate both their break-even point and the broader impact of wellness.

How have others measured success?

When we talk about wellness program ROI, most often people are talking about whether or not those initiatives reduced healthcare spending.

In that case, calculating the ROI of a program typically only focuses on the overall healthcare savings achieved from implementing said program, and maybe one or two other measures (such as a reduction in sick days taken by employees).

From that perspective, research on the subject is mixed.

In 2010, right as the corporate wellness market was beginning to thrive, a groundbreaking report by Harvard health economists found that employee wellness programs returned three dollars in health care savings and three dollars in reduced absenteeism for every dollar invested.

In 2018, the Illinois Workplace Wellness Study claimed that despite high participation in one wellness program, there were no significant effects on measures of medical spending, productivity, health behaviors, and self-reported health after the first year of implementation.

> "The benefits of wellness are more complex than just dollars saved."

In 2019, a study published in the Journal of the American Medical Association found that after 18 months of starting a wellness program, employees self-reported higher rates of regular exercise and weight management, but there were “no significant differences in other health outcomes, [and] no improvements in health care spending.”

If the research is inconsistent...why do employers keep running these programs? Because the benefits of wellness are more complex than just dollars saved from reduced healthcare costs.

For example, take the results of a 2015 study by RAND, which included almost 600,000 employees at seven employers.

Like previous studies, their research looked at the effects of a wellness program within the first few years of implementation. And like many companies, the employer in this study used a two-pronged approach to its wellness program: a **lifestyle management component** and a **disease management** one. It's an important distinction, because these programs function differently and work best in tandem.

Lifestyle management wellness programs focus on reducing health risks and preventing the development of chronic conditions. They're more inclusive and can apply to your entire workforce.

Disease management helps a small set of employees who already have chronic diseases. The programs helps them to take better care of themselves and their conditions (for example, by reminding them to take their prescribed medications or communicating gaps in care, such as missed lab tests, to their physicians.)

Disease Management Programs

Example Conditions
- Diabetes
- Heart Disease
- COPD
- Asthma

Changes and benefits seen in **shorter term**

Lifestyle Management Programs

Example conditions:
- Sedentary lifestyle
- Stress
- Poor nutrition
- Lack of exercise

Changes and benefits seen in the **long term**

The ROI calculations in the RAND study were less than Harvard's 2010 study—about $1.50 total return per dollar invested, based on a reduction in health care costs.

Interestingly, returns differ based on what type of program is implemented: $3.80 for disease management for every dollar invested, but only $0.50 for lifestyle management programs.

Additionally, the study concluded that lifestyle management can "significantly" reduce absenteeism, which can also contribute to cost savings over time.

The benefits from wellness programs come in waves, as is clear from the research.

Disease management interventions can address immediate (and costly) health concerns, so you'll see returns in the short-term; lifestyle management gains are more about long-term changes, and so the benefits are seen over time.

"Employers need to be clear about their goals for the wellness program," concluded the authors. "If an employer wants to improve employee health or productivity, an evidence-based lifestyle management program can achieve this goal. But employers who are seeking a healthy ROI on their programs should target employees who already have chronic diseases."

Unfortunately, this research and many others are still lacking in nuance.

Studies fall short in the areas that are more difficult to measure: long-term personal benefits, camaraderie and teamwork, productivity, employee happiness, and more.

The most successful wellness programs combine a disease management arm with wellness lifestyle offerings.

However, smaller companies don't really have the luxury to offer this two-pronged approach, as it is cost prohibitive for many. In that case, a well-designed lifestyle management program will provide the best value for a relatively low cost.

For more insight into how disease management and lifestyle offerings work together, see our comprehensive **Corporate Wellness Product Landscape.**

Creating an ROI measurement framework

Looking solely at healthcare costs is no longer a sufficient framework for measuring the impact of your wellness program.

Instead, today's employers should create holistic measurement strategies depending on your specific goals, and calculate your program's break-even point.

With that structure in place, you can better understand how your program is performing over time. Keep in mind, measuring changes and conducting any ROI calculation will depend heavily on the period of return.

For example, in the first year of any program, returns will be low because it takes time for benefits to materialize.

Contact sales@incentfit.com if you want a sample ROI calculator for your program.

Here are some example measurement strategies for various program goals:

Health Costs:

Review healthcare spending and claims data overall and in specific categories, such as chronic illness or mental health care. Assess how this is changing for populations that are engaging in the program, versus ones that are not.

Employee Behavior:

Track participating employees' productivity and completed work over time, as well as work accuracy and quality.

Run quarterly or annual employee surveys to get feedback on morale, focus, and productivity, assessing responses from those who are participating versus those who are not.

Offer health risk assessments or surveys to track changing health behaviors (such as exercise, healthy sleep, nutrition, etc.). Review changes in the amount of unplanned absences per employee over time.

Recruitment and Retention:

Compare rates of new hire acceptance and employee retention before and after the program. Survey candidates that don't accept offers and employees that leave to gain insight.

Run surveys to get feedback on employee morale, job satisfaction, management, teamwork, company culture, and specific feelings about their benefits. Pay attention to turnover and ask about benefits in exit interviews.

Breaking Even

While getting an accurate measure of ROI is near impossible, measuring a conservative break-even point is substantially easier.

If you're above a conservative break-even point, then that's all you need to prove to justify the expenditure on the program.

How you calculate that point is different for disease management versus lifestyle wellness programs: disease management returns are mainly in **reduced health care costs**, whereas lifestyle programs calculations are about **increased employee productivity**.

Of course there are other benefits to both approaches, however we will assume there aren't for this conservative calculation.

Disease Management ROI

Chronic diseases and related lifestyle risk factors are the leading drivers of healthcare costs for employers. The top five chronic diseases or risk factors—high blood pressure, diabetes, smoking, physical inactivity, and obesity—cost US employers **$36.4 billion** a year because of absenteeism alone, according to the CDC.

To calculate the break-even point on a disease management program, you need to consider how many people are possibly affected by the

Disease Management vs. Lifestyle Wellness

- Helps employees with chronic conditions
- Most expensive to run
- Affects smaller groups of employees
- Returns are mostly in reduced healthcare costs
- Returns appear in short-term
- No possible ROI if company has group insurance

- Helps employees reduce their health risks and avoid disease
- Less expensive to run
- Available to most or all employees
- Requires high engagement to see ROI
- Returns calculated in productivity, reduced absenteeism, employee retention

intervention and how much you're currently spending on them in healthcare costs.

(Keep in mind that there is no ROI for disease management programs for companies that are group-insured because the insurance company keeps all the gains from decreased healthcare costs.)

For example, let's walk through a diabetes program. Diabetes in particular places a high economic burden on employers, both in healthcare costs, and in lost productivity and medical-related absenteeism.

In this example, ACME Corp has 1,000 employees. Twenty-five have diabetes and an additional 100 are pre-diabetic. If they invest in a diabetes management program, that program can only benefit those 125 employees, and the rest of the workforce will be completely unaffected.

In the US, the healthcare costs for diabetics are about $8,000 per year higher for employees with diabetes, and $3,000 higher for pre-diabetics, as compared to your average employee. In the case of ACME Corp, they're paying an additional

$750,000 per year in healthcare costs for employees affected by diabetes ((25 x $8,000) + (1000 x $3,000))

If ACME Corp invests in a diabetes management program that costs $70 per employee per month, their total annual cost is $105,000 ($70 x 12 months x 125 employees).

To break even on this program, it needs to delay people with pre-diabetes from getting diabetes—they must defer 21 employees from getting diabetes this year ($105,000 ÷ ($8,000-$5,000)).

Another way to break even on this program is to reduce the number of diabetic employees being hospitalized.

Hospital visits are expensive, but the cost and length of treatment is greater for a person with diabetes than a person without, even if the reason they're in the hospital is not related to diabetes.

For someone with diabetes, the average cost of a hospitalization is $10,000 (compared with $8,746 for patients without diabetes).

To break even based on hospitalizations, ACME Corp's diabetes management program would need to prevent 11 people with diabetes from being hospitalized this year ($105,000 ÷ $10,000).

A good diabetes management program should be able to do that and much more. It's also easy to measure break-even on this type of program, simply through the data that's automatically captured by your claims data. You can run this analysis on your claims data yourself, or use a healthcare analytics firm.

"Studies have shown that employees feel about 20% more productive at work when they get regular exercise."

A good healthcare analytics firm can also help you assess your programs by letting you compare your data to other companies in your industry, geography, demographics, etc.

But what about the 9,875 *other* employees not affected by this program? This is where a lifestyle wellness program can add additional value and savings.

Lifestyle Management ROI

To calculate the ROI for lifestyle programs, let's pose a question: Do you feel more productive when you exercise?

Would you say you feel 1% more productive? How about 5%? Overwhelmingly people say yes!

Studies have shown that employees feel about 20% more productive at work when they get regular exercise.

The break-even calculation for a lifestyle wellness program is simple. First look at the average cost per employee per month (PEPM) to run your program, and calculate how much productivity gain you'll need in order to justify the cost of the program.

Let's say the average employee costs your company $70,000 per year (including salary, benefits, administration, etc). If your exercise-based lifestyle wellness program costs $10 PEPM (including incentives and administrative fees), that means your annual cost is $120 per employee. To see a positive ROI, you need to create at least $120 in additional value from that employee.

So again, do you feel at least *one percent* more productive when you exercise?

A fundamental part of measuring success is iteration! Employers must keep updating and improving their program based on feedback.

We recommend running an internal employee survey at least once per year and adjusting your program based on responses. **Contact us for a template.**

Since $120 is less than one percent (it's actually only 0.17%) of the $70,000 cost of the employee, as long as your employees are participating in the program and exercising, then it's pretty clear you will have a positive ROI.

Of course this math is based on the *average* employee. In reality, there are employees who don't participate at all, and those who participate a lot. There are employees that would have done those healthy things anyway, and those that wouldn't have.

Let's break it down a bit more.

ACME Corp has 1,000 employees. Three hundred of those employees participate in the program (a 30% engagement rate, which is below average for IncentFit customers).

But within that group, 80% of the participating employees were already healthy and physically active, and would have done healthy activities whether you had a wellness program or not. In that case, only sixty people have had a meaningful behavioral change thanks to the program.

That changes the break-even point to an increased productivity of 2.8%. As long as just those sixty people increase their productivity by 2.8% on average, the entire program has a positive ROI; and that's before you factor in decreased absenteeism and increased morale. Even if the other 9,940 don't increase their productivity at all, you'll still break even.

You can change the inputs a bit for your company—maybe you have a lower average employee salary, or lower participation rates—but that doesn't change the outcome a whole lot.

With any semi-realistic set of inputs, the math works out to show you that you only need a **small increase in productivity** from the engaged population to have a positive ROI.

How to maximize ROI: 8 recommendations

1. You need **incentives** to get engagement in a program, and you need engagement to get ROI. Choose a program that includes meaningful incentives for participating.

2. Be sure that the bulk of your program spending is going toward those incentives, and **not on administrative fees.**

3. Incentivize activities that have known **positive health outcomes,** such as regular exercise, flu shots, and annual check-ups.

4. Choose a **activity-based model** versus a reimbursement-based one. Activity-based models can verify that your employees complete the activities you want them to do (for example, with exercise tracking or gym check-ins).

5. Calculate and assign a dollar value to other metrics, such as **employee satisfaction, productivity, or absenteeism**. Maximize your returns in those areas as well.

6. While not all insurance providers offer **wellness dollars**, many of them do. Check with your provider and negotiate for wellness dollars and/or price decreases based on the success of your program.

7. **Run surveys** often, and review those results. Listen to your employees' feedback and take their needs and wants into account.

8. Make sure your program **evolves over time.** Check-in with your vendors regularly to address concerns and ask their suggestions for improvement.

Need to be able to prove ROI to your management team? Contact sales@incentfit.com for a free spreadsheet template to help you easily show your break-even point.

Conclusions

What are the implications for employers?

Don't just focus on dollars spent and dollars saved. To truly measure the success of a program, one must focus on the impact of the program as a whole.

That includes cost savings, but it also includes improved morale, happiness, job satisfaction, reduced absenteeism, and your company's culture of wellness.

Create your own measurement framework based on the goals of your program, and then pay attention to what changes over time.

To determine whether a program is a good financial investment, calculate your break-even point and assess how likely you are to hit it.

Seek out vendors who can prove the value of their services, who can provide evidence of program engagement, and don't charge you extra with proving that employees are actually participating.

And finally, iteration is the key to success. To maximize your ROI, you need to consistently evaluate what's working and what's not, and then adjust course in order to hit your goals (and avoid wasting your investment).

IncentFit is a health and wellness benefits company. Founded in 2013 as part of New York's BluePrint Health accelerator and nowheadquartered in Philadelphia, IncentFit supports hundreds of employers and health insurance providers across diverse industries—from Fortune 500 firms to manufacturing powerhouses, to public universities and nonprofits.

Visit IncentFit.com to explore wellness options and speak with a benefits expert.

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