The ROI Calculator

A new tool to help you calculate your wellness return on investment

BY Troy Adams PhD
 HAVE YOU EVER WATCHED A YOUNG CHILD PICK UP A FULL GLASS OF PUNCH AND START WALKING? The outcome is inevitable...there will be punch on the carpet. How can you know what the outcome will be? After all, this may be the first time you’ve ever watched this child handle punch and yet, somehow you know what is going to happen. The outcome is predictable before the actual event because we’ve all seen the same thing happen in the past. So, based on what we have seen and experienced in the past, we can be confident about what will happen in the near future.

Our best and only predictors of the future come from the past. It’s true for kids and punch, it’s true for investing in the stock market, and it’s true for employee health care costs. The best predictor of future health care costs is past health care costs.

There is no question that most employers consider employees as their most valuable assets. After all, employees help produce every good or service, and they control the use of all other company assets. But employees also cost money. Companies are finding it hard to live with them, but know they can’t live without them.

Each year health care costs increase, and each year employers struggle to handle the added financial burden. Health care cost increases are worse than the cost increases associated with labor, materials, or energy. According to a recent business roundtable survey, CEO’s rank the cost of health care as the single biggest threat to company profits.1 Yearly increases in employee medical care costs are on the radar screen of every successful worksite.

So what can be done? Well, the first step to managing these costs is to understand how past trends can be used to forecast future employee health care costs. A warning though—health care cost forecasting can be a sobering experience. Sometimes the dollar amounts are so large that they seem unrealistic.

The second step is to adopt strategies that will help decrease costs. One of the more commonly used strategies has been cost shifting—passing the increases along to employees or customers. From a company perspective these tactics do reduce the health care cost burden for the company, but they do not address the core of the problem; the high demand and high cost of health care.

Worksite wellness programs are effective at reducing the demand for health care and this lowers cost. Wellness programs make sense, they have been shown to work, yet they are rarely included in any discussions about future health care costs. This oversight can usually be explained by one reason—a lack of appreciation for the strength of the business case for wellness. The fact is, the return on a wellness program investment is nearly always positive. And even when an investment of $1 yields a meager return of just $1, that means that the benefit is essentially free! Who wouldn’t provide such a benefit?

So whether you are unconvinced of the value of wellness programs, or you are considering an investment in employee wellness, wouldn’t it be helpful to see how these programs can realistically impact your bottom line? If you already have a wellness program, wouldn’t it be nice to know what kind of reductions you can expect in future medical costs? No matter where you are in your thinking with respect to an employee wellness program, perhaps you could use a simple, accurate way to forecast how an employee wellness program can impact employee health care cost trends at your company.

There are some forecasting tools on the market that require a team of actuaries and accountants to use, while others require most of your employee population to complete a lengthy, expensive Health Risk Appraisal. At WellSteps, we have created several research-based forecasting tools that we call Return on Investment Calculators. These calculators forecast how employee wellness programs can impact future health care costs, absenteeism, and productivity.

The ROI calculator for healthcare costs can help you determine whether an investment in a wellness program makes sense for your company. Just go to wellsteps.com and click on the Tools link at the bottom of the page. There you’ll find the ROI calculator and several other tools. All of our tools are free.

Yes, you read correctly...free. Why would we spend months researching, designing, and programming an ROI calculator only to give it away for free? We’re tired of seeing punch spilled on the carpet! Based on past experience and the published research, we’re confident that well planned wellness programs can lower health care expenditures.
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We would love to help your employees change the behaviors that lead to chronic diseases and high health care costs. In fact, that is our basic business model at WellSteps. But if WellSteps doesn’t interest your company right now, that’s fine. The ROI calculator and all of our other tools are free because we really want to help change public health in America on a large scale. We believe that helping companies recognize the value of wellness programs is part of our larger goal of improving the health of people on a national scale.

We invite you to give the WellSteps ROI Calculator a try. After you have used it, feel free to share it with your colleagues. Before you use it though, you should know what this tool is not. First, it is not a crystal ball. There is really no way to predict the future except to forecast from the past. Successful companies will do their best to be prepared for what the future holds.

Second, the ROI calculator may not apply to every company in every situation. The truth is that not all companies are created equal. We have done our best to consider a variety of possible differences between companies as we constructed the calculator. What it will do is produce conservatively accurate forecasts given the data you enter.

So here is how it works. Go to wellsteps.com and click on ‘Tools’ toward the bottom of the page. Then, click on “ROI Calculator.” You will need just three pieces of information: 1) your company’s total health care costs over the past 12 months, 2) the total number of benefited employees, and 3) the percentage change in health care costs each year for the past 5 years. It would be good, but not necessary, if you knew the percentage of your employee population who were smokers and who were obese.

Once you have entered this information, press “calculate.” You will get several graphs. First, you will see the “Cost of doing nothing.” This is what will happen to health care costs over the next several years if you do nothing. This forecast is based on the notion that health care cost increases will continue as they have. Of course, it is possible that the rate of increase may slow or accelerate. We just don’t know what direction costs will head, so we have assumed that things will continue as they have in the past. Remember, absenteeism and lost productivity are not included in these projections, so the total cost of doing nothing is probably bigger than you think.

Second, because we have a very good idea of the independent costs of smoking and obesity, the ROI calculator can project about how much you would save if you decreased the percentage of employees who smoke and the percentage of employees who are obese.

Third, the ROI calculator will project what you would save versus the cost of doing nothing on employee costs after implementing a low, medium, or high intensity wellness program.

What is the scientific rationale behind all this? Well, here is what we did. First, we completed an exhaustive search for reputable, published journal articles dealing with the economic returns of wellness programs. We included 25 studies and grouped each according to the intensity of the intervention that was administered. We listed the references for these studies at the end of this article.

We called a wellness program low intensity if it included only a Health Risk Appraisal, marketing campaigns, and/or printed materials. Programs that also included any type of intervention were considered medium intensity, and those that also included cultural or environmental components were considered high intensity.
Next, we calculated the average ROI at each intensity level and made some conservative adjustments based on the approximate PEPY wellness costs at each intensity level and on a few other factors. One of these factors was that new wellness programs sometimes yield no return in the first two years of operation. We then used these adjusted ROI values to forecast cost savings over time at each of the three levels of intensity.

To project the cost savings of reducing cigarette smoking or obesity, we assumed, unless you knew these figures, that the rates of smoking and obesity in your company were roughly the same as the national averages (22% and 33% respectively). We based our estimates on a two very large studies. These references are also included at the end of this article.

We know this tool will be useful. In many ways, it justifies our existence by giving our wellness efforts a visible, financial presence. It helps wellness move from a fun, employee perk, to a core business strategy, which is something every successful company should consider if they are to stay competitive. In a way, this calculator can help bridge the gap between your efforts to help employees live a better and healthier life, and the broader, every present, bottom line.

REFERENCES:

To learn more about the ROI Calculator, visit WellSteps.com

http://www.wellsteps.com/resources/resources_tools_roi_cal_health.php