

# Employee Benefit ■ Plan Review

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# Good Health Is Good Business

RONALD LOEPPKE

With the financial markets slumping and the economic future for many businesses remaining uncertain, employers today are looking to manage costs in every way possible. In their quest to control expenses, many may be missing a key area of cost control—a healthy workforce. In today’s marketplace, healthy employees are a key financial asset—and should be valued as human capital.

Managing this capital requires every bit as much business acumen, insight and strategy as managing a multi-million-dollar portfolio. As with other components of an operation, excess cost follows excess risk. Therefore, business executives today need to bear in mind that improving health helps to manage risk, which in turn helps to lower costs.

Employers who are most successful in this endeavor will take steps to:

- Understand the organization’s true cost drivers;
- Focus on lowering the burden of risk and illness among employees and their dependants;
- Emphasize prevention and wellness;
- Incorporate a personalized approach to changing behaviors;
- Become a champion for quality health care; and
- Consider return on investment (ROI) within the broader context of Value of Investment (VOI).

## IDENTIFYING THE TRUE COST DRIVERS OF POOR EMPLOYEE HEALTH

The process of managing human capital begins with identifying health factors that are driving the majority of cost. Typically, most employers look at data based on medical and pharmacy costs as the primary cost components of providing health care benefits to employees. In reality, when health care costs are viewed either in a silo or without the broader context of the “full cost” of poor health, the financial impact of a given health condition may be seriously underestimated.

A recent multi-employer study conducted by the American College of Occupational and Environmental Medicine (ACOEM) and the Integrated Benefits Institute (IBI) examined more than one million medical and pharmacy claims. When looking only at medical and drug costs, the study found the top 10 conditions driving costs were:

### Top 10 Medical/Pharmacy Expenses by Condition

1. Cancer (other than skin cancer)
2. Back/Neck Pain
3. Chronic Pain (other than back/neck pain)
4. High Cholesterol
5. Depression
6. Coronary Heart Disease
7. Arthritis
8. Diabetes
9. Hypertension
10. GERD (gastroesophageal reflux disease)

However, when productivity costs were added to the study model using a specialized employee survey instrument, combined with a health-related productivity assessment method, the top 10 health conditions driving not only medical/pharmacy costs, but also presenteeism and absenteeism costs, changed significantly.

### Top 10 Total Health Care Spending Drivers

1. Depression
2. Obesity
3. Arthritis
4. Back/Neck Pain
5. Anxiety
6. GERD (gastroesophageal reflux disease)
7. Allergy
8. Cancer (other than skin cancer)
9. Chronic Pain (other than Back/Neck Pain)
10. Hypertension

When a more comprehensive level of analysis is conducted, it shows that health-related productivity costs are on average between two and three times higher than medical and pharmacy costs. In short, for every \$1 spent

on medical expenses, there are \$2 to \$3 more being spent on total health-related productivity loss.<sup>1</sup>

### **IMPORTANCE OF NEW APPROACH TO IDENTIFYING TOTAL COST OF ILLNESS**

In the past, strategies used by employers to control health care costs typically focused on the financial transactions of health care—tactics such as changing benefit plans, moving to consumer-driven plans, elevating copays, etc. However, these very cost reduction tactics may have unintended consequences of increasing total health-related costs for the employer.

For example—because of the increasing shift of cost to the consumer through higher co-pays and deductibles, some early adopters of consumer driven health plans (CDHP) found their employees avoided or delayed care.<sup>2</sup> The delay of necessary care until more severe symptoms develop can lead to more ER visits or hospitalizations. As a result, productivity decrements while at work or absenteeism from work occur from medical conditions and health risks not being well managed. So, unless the consumer is empowered to be a wise consumer of care, even though the employer thinks they lower their medical/pharmacy costs, they can find their total health-related costs increase.

The lesson to be learned is that businesses can no longer rely on medical and pharmacy claims data alone; that approach is like using radar to identify an iceberg. What is needed is a sonar-like technique that can highlight what's under the proverbial water line with regard to health-related productivity losses.

### **LOWERING THE BURDEN OF RISK**

The good news is that there are new strategies today to help businesses identify cost drivers. Self-reported and validated health-related productivity measurement instruments show health conditions that

are having a significant impact on productivity at work as reported by employees.

Such self-reporting tools are much more insightful than medical and pharmacy claims data. For example, being overweight or obese rarely shows up in medical claims and yet we know by objective and subjective data that the prevalence rates of obese and overweight people are high and increasing. About two-thirds of adults in the United States are overweight, and one-third are obese, according to data from the National Health and Nutrition Examination Survey (NHANES) 2005 to 2006.<sup>3</sup>

To provide employers with an accurate picture of cost drivers, health plans and health management companies must be able to identify not only incidences of illness or disease, but also functional outcomes related to productivity. For example, absenteeism costs for obese employees are almost double that of lean workers.<sup>4</sup> It is important to note that not every obese employee will have high cost illnesses or higher rates of absenteeism. But clearly many do; and clearly programs to address those illnesses will ultimately benefit the employer.

Of equal importance to understanding the impact of functional outcomes on productivity is the effect of clinical recommendations. The current interest in evidence-based medicine (EBM) suggests the evidence from effectiveness studies and evaluation research provides sufficient evidence to support the recommendation of certain prevention, diagnosis or treatment guidelines.

However, it is now being recognized that the “evidence” base that is being considered, needs to go beyond just clinical and financial outcomes and include functional (health-related productivity) outcomes. Employers and consumers increasingly want to understand not only the implications of medications, treatment regimens or disease management interventions

on the quality of the care and the quantity of the cost, but also the impact on health and human performance. Do they make employees healthier? Will they improve productivity?

Some clinical recommendations may indeed have a negative impact on productivity. Several years ago, many employers began switching formularies to lower-cost anti-histamines as opposed to higher-cost non-drowsy formula medications; the goal was to save money on drug costs. The result was employees became less productive and on-the-job injuries increased due to the sedative effects of the lower-cost antihistamines.<sup>5</sup>

Clinical interventions and benefit changes overall must be analyzed carefully including the potential impact on productivity—early on in the process—to ensure they are producing the desired outcomes.

### **AN OUNCE OF PREVENTION...**

Maintaining a healthy workforce goes well beyond returning employees to work after an illness or injury. It is also about prevention. Key steps to preventing injury or illness include:

- Primary prevention: Keep healthy people healthy (health promotion/wellness);
- Secondary prevention: Early screening, detection and diagnosis; and
- Tertiary Prevention: Early intervention and evidence-based treatment, which reduces morbidity, mortality and disabilities.

All of these actions will help lead to another important goal for employers: the ability to move higher-risk employees to lower risk categories and ultimately create a higher percentage of employees with a low level of health risk factors.

In a research study funded by a CDC workplace health initiative grant, a major employer undertook

a comprehensive and integrated health management program designed to improve the health of their employees. It was found that many of the employees had multiple co-morbidities—not just one health condition. Employees with diabetes often also had hypertension, heart disease or other conditions. The interventions included a health risk assessment, health coaching and healthy living programs, 24-hour nurse triage, demand management support, and disease management. This employer also invested in building an overall culture of health in the organization with frequent health-oriented communications throughout the company with support of senior management.

After three years of this integrated health enhancement initiative, for employees with medium risk at baseline, 30.2 percent remained at medium risk, 59.5 percent moved to low risk and 10.3 percent moved to high risk. For employees in high risk at baseline, 52.8 percent remained at high risk, 25.0 percent moved to medium risk and 1.5 percent moved to low risk. For employees in low risk at baseline, 87.2 percent remained at low risk, 11.3 percent moved to medium risk and 1.5 percent moved to high risk.

Furthermore, the improvement was persistent; almost 80 percent of the employees who transitioned from medium to low risk within a two-year period maintained that low-risk status in the third year.

These results show a strong population movement from higher to lower risk levels with minimal reverse flow. (See Figures 1 and 2.)<sup>6</sup>

The most notable changes in health risks included:

- Lower cholesterol rates;
- Improvement in diet;
- Reduction in drinking;
- Management of high blood pressure;
- Improved stress management;
- Increased exercise rates;
- Fewer smokers; and
- Drop in obesity rates.

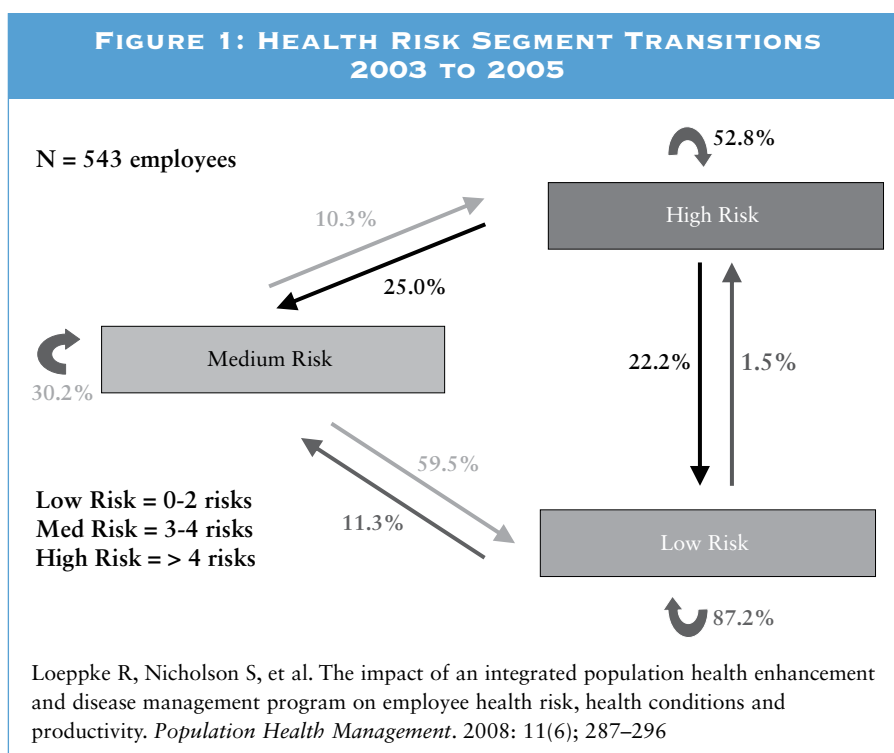
#### A NEW APPROACH TO CHANGING BEHAVIORS

These goals cannot be achieved by simply passing out brochures and pamphlets promoting healthier lifestyles, or even by changing drug

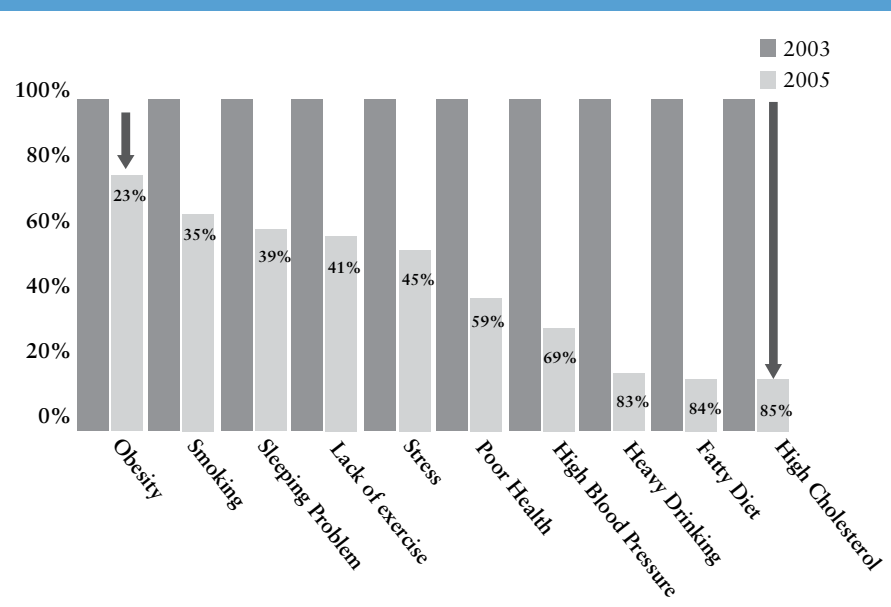
therapies or benefit design. They require a personalized integrated approach to changing individual behaviors that involves identifying what areas each individual is willing to work on and then helping the individual make small, incremental changes over time.

#### IMPORTANCE OF QUALITY HEALTH CARE IN REACHING GOALS

Along with incorporating a more personalized approach to changing behaviors, employers need to ensure that their health care benefit programs provide the highest level of quality. Employers will want to provide effective, targeted interventions, such as health coaching that employs motivational interviewing and the application of science-based behavior-change principles to help individuals make key lifestyle changes. Behavior changes must be determined based on the individual's health status, combined with his or her comfort level, personal goals and readiness to change.



**FIGURE 2: % OF EMPLOYEE COHORTS WHO REDUCED RISKS FROM 2003 TO 2005 BY SPECIFIC HEALTH RISK**



Loeppke R, Nicholson S, et al. The impact of an integrated population health enhancement and disease management program on employee health risk, health conditions and productivity. *Population Health Management*. 2008; 11(6); 287-296

As population health can only be achieved at the individual level, health management programs will need to successfully engage the interest and involvement of each person by providing interactions with health care professionals based what is relevant to that person as opposed to unhealthy lifestyle behaviors that the person needs to change. An employee’s commitment to making healthy changes is reinforced by the programs that focus on closing the gaps in the quality of the care and built on the proven principles of evidence-based medicine.

For example, evidence shows that when patients are on beta blockers after a heart attack or if diabetics are regularly tested for Hemoglobin A1c levels to help manage them to optimal ranges, care is improved and overall costs are reduced. However, only 45 percent of the time do people receive evidence-based care for diabetes.<sup>7</sup> When creating benefits programs and working with health plans and pharmacy benefit managers, it will be important for

employers to stress the importance of incorporating evidence-based outcomes approaches—including those functional outcomes of the impacts on productivity—into their value-based designs of their benefit program. An emphasis on health care quality will lead to a healthier workforce and lower overall costs.

#### A NEW APPROACH TO ROI

In today’s economy, finding ways to manage costs will remain the primary goal for employers. Determining the return on investment (ROI) remains the primary tool employers use to gauge the value of programs and services. However, when it comes to health care, it is time to move beyond a simplistic approach to ROI. It is time for employers to add a new element to cost analysis—the VOI or *Value* of the investment in health.

In addition to looking at financial indicators, employers must look at the health care benefit in terms of other performance indicators. Are those indicators moving in the right

direction? Are more people receiving recommended therapies at the right time? Are health risks going down? Is the health status improving? In terms of key clinical indicators, are diabetics getting their Hemoglobin A1c tests, and are those levels moving toward optimal management ranges? In considering utilization indicators, have ER and hospital visits been reduced? And finally, closely examine productivity. Is it increasing; are absenteeism and presenteeism rates improving? Quality-focused health management organizations and health plans should be able to provide employers with reports detailing this level of data.

There was a time when health care benefits were of interest primarily to benefit managers or HR executives. However, because of the far-reaching financial implications, the total cost of poor health and the value of good health are increasingly becoming a boardroom and executive “C-Suite” issue.

The key is to provide such information using the terms and language

that is meaningful to top executives. One large employer presented a business case to its executive team by estimating the company's total health-related costs (medical/pharmacy/presenteeism/absenteeism costs). The data showed the employer was likely experiencing a potential of eight days of lost health-related productivity (absenteeism and presenteeism) per full-time equivalent employee (FTE) per year, at a cost of \$2,598 per employee. When multiplied by the number of FTEs in that workforce, the modeled health-related productivity cost for that employer totaled \$153 million dollars per year. Those are numbers clearly understood by any CEO or CFO.

However, such data also begs the question, what if? What if we took that same employer and created a workplace environment incorporating a culture of health and the proven principles of quality health care and health improvement? Data analysis indicates with the right integrated health enhancement programs, if that same employer could reduce health-related productivity loss by one day per FTE per year, it would add \$18.8 million dollars to the bottom line earnings before income tax, depreciation, and amortization (EBITDA). Furthermore, given the multiple that company's stock was trading on Wall Street, the \$18.8 million improvement in EBITDA impact would translate into \$244.4 million increase in market cap valuation; and with 292 million shares outstanding that would yield \$0.84 value per share improvement.<sup>8</sup>

This example is not simply theoretical; it can apply in the real world of business today. In a 2007–2008 Staying@Work Report (National Business Group on Health/Watson Wyatt) that surveyed 355 large employers, a study revealed that employers with highly effective health and productivity programs

experienced superior performance, including:

- Yield 20 percent more revenue per employee;
- Demonstrate a 16.1 percent higher market value;
- Deliver 57 percent higher shareholder returns; and
- Have cost increases that are five times lower for sick leave, four and a half times lower for long-term disability, four times lower for short-term disability, and three and a half times lower for general health coverage.<sup>9</sup>

### PROFITABILITY BEGINS AND ENDS WITH A HEALTHY WORKFORCE

Gaining a competitive edge and maintaining financial stability in today's economy will take a new approach to virtually every facet of a company's operations. Perhaps the single most important tactic to reach that goal is to ensure the health, and therefore productivity of the workforce.

Building a healthy workforce requires quality health care and a personalized approach to helping employees stay healthy and become healthier. Businesses must remember that their most important asset is the human capital of their employee base. By building a corporate culture that provides personalized coaching to promote good health, employees will become empowered to participate in programs that can reduce the prevalence and morbidity of illness and disease. Ultimately, this can lead to a better quality of life for the individual as well as higher levels of job satisfaction and increased productivity for the employee and employer.

To bring about real change to the corporate bottom line, employers must look beyond health care benefits as a cost to be managed. The benefits of good health are

investments to be leveraged, like any other valuable asset. Ultimately, a healthier more productive workforce can help drive greater profitability for employers as well as a healthier economy for our nation.<sup>10</sup> To put it more succinctly, good health, will always translate into good business. 🌟

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