

GETTING FIT

WITH

CORPORATE

WELLNESS

PROGRAMS

By Peter C. Brewer, CPA; Angela Gallo; and Melanie R. Smith

IT'S OFFICIAL! The United States has cracked the \$10,000 barrier, up from \$5,386 in 2002. No, we aren't talking about the average annual pay raise per employee. We're referring to America's average annual healthcare spending per employee, according to the "2010 Health Care Cost Survey" by Towers Watson. Also, the Congressional Budget Office reported that U.S. annual healthcare spending has ballooned to more than \$2.2 trillion, or 16% of the gross domestic product (GDP). And the U.S. Department of Health and Human Services reported in "The Power of Prevention: Reducing the Health and Economic Burden of Chronic Disease" that modifiable health-damaging behaviors (such as tobacco use, lack of physical activity, and poor eating habits) account for 33% of all U.S. deaths, or about 800,000 per year. These alarming statistics make it clear that our collective declining physical fitness has created an escalating financial crisis and a diminished quality of life for a growing portion of our population.

At this point, you may be thinking that while this is undoubtedly an important topic, what does it have to do with your organization? What's the business case for corporate wellness? Consider the following three facts. First, in 2007 the U.S. Department of Health and Human Services estimated that for every 100 employees in all organizations (including yours):

- ◆ 44 suffer from stress
- ◆ 38 are overweight
- ◆ 31 use alcohol excessively
- ◆ 30 have high cholesterol
- ◆ 26 have high blood pressure
- ◆ 25 have cardiovascular disease
- ◆ 24 do not exercise
- ◆ 21 smoke
- ◆ 12 are asthmatic
- ◆ 6 are diabetic

Second, employees with five or more of these risk factors generate almost three times more health-related costs than employees who possess one to two risk factors (see the report "The Health & Economic Implications of Worksite Wellness Programs" from the American Institute for Preventive Medicine). Third, companies that have implemented high-performing corporate wellness programs have annual healthcare costs that are \$1,800 less per employee than organizations without such programs, the Towers Watson report found. In a company that employs 10,000 people, this translates to an annual cost savings of \$18 million.

Perhaps now you're beginning to wonder what it would take for your company to become a high-performing corporate wellness organization. Towers Watson boils it down to the five attributes shown in Table 1. The common theme underlying these attributes is that corporate wellness must be a *strategic imperative*. It isn't a peripheral distraction relegated to the Human Resources department—it's a coherently managed, strategically driven investment in an organization's most valuable asset, its people.

Accountants and financial professionals in business are in an excellent position to help their companies move ahead in this area. We'll tell you how in the remainder of the article, which will strengthen your knowledge of corporate wellness programs so that you can assume a leadership role in the implementation of such a program. We'll also explain how to create a performance measurement system that tracks the success of your organization's current or future corporate wellness efforts and describe how to compare the cost savings generated by a corporate

wellness program to the costs incurred to administer it using return on investment (ROI) and net present value (NPV) calculations.

What Is Corporate Wellness?

Rather than defining wellness as a static state of being, we prefer to think of it as a continual process of making lifestyle choices that maintain or improve our physical and mental well-being. Figure 1 summarizes the three ways that corporate wellness programs assist employees in this continual process: They *motivate* employees to pursue healthy lifestyles, *educate* employees about health risk factors and about how reducing these factors can improve their health, and *facilitate* employees taking actions that improve their physical and mental well-being.

Motivation

A company's senior leaders motivate employees to pursue healthy lifestyles by creating an organizational culture that reinforces two beliefs: (1) Employee wellness is a strategic imperative, and (2) senior management and front-line employees share responsibility for achieving results. Senior leaders act on the first belief by creating a cross-functional wellness management team and a rigorous performance review process that includes goals, milestones, budgets, roles and responsibilities, and performance measures. They authenticate the spirit of cooperation by empowering employees to help define the wellness program's goals and means of achieving them, by investing in resources that enable positive lifestyle changes, and by creating peer communication channels that enable coworkers to positively reinforce each other.

Table 1: Characteristics of High-Performing Corporate Wellness Organizations

These organizations:

1. View employee health as a critical component of superior business performance.
2. Commit to building a culture of health in their organizations.
3. Promote a culture of shared responsibility and accountability.
4. Build connectivity across all their health-related programs and vendors.
5. Rely on measures to build action plans for performance improvement.

Source: Towers Watson, "2010 Health Care Cost Survey."

Figure 1: An Overview of Corporate Wellness Programs

MOTIVATE	EDUCATE	FACILITATE
<p><u>CULTURE:</u></p> <ul style="list-style-type: none"> ◆ Strategic imperative <ul style="list-style-type: none"> • Top-management support • Cross-functional involvement • Goals, milestones, and budgets • Roles, responsibilities, and performance measures ◆ Shared responsibility <ul style="list-style-type: none"> • Top-management ownership • Grassroots empowerment • Peer-support groups/blogs 	<p><u>TOPICS:</u></p> <ul style="list-style-type: none"> ◆ Exercise ◆ Nutrition ◆ Stress management ◆ Health risk management <ul style="list-style-type: none"> • Cholesterol • Hypertension • Diabetes • Obesity ◆ Illness prevention ◆ Injury prevention/ergonomics ◆ Personal financial planning ◆ Medical self-care 	<p><u>ENVIRONMENT:</u></p> <ul style="list-style-type: none"> ◆ Amenities <ul style="list-style-type: none"> • On-site fitness facilities • On-site healthy food choices • Ergonomically correct workstations • On-site walking tracks ◆ Policies <ul style="list-style-type: none"> • Flexible break opportunities • Flexible working hours • Continuing education opportunities
<p><u>INCENTIVES:</u></p> <ul style="list-style-type: none"> ◆ Financial <ul style="list-style-type: none"> • Immediate cash rewards • Future cash rewards • Gainsharing • Fringe benefits • Avoided cash outflows ◆ Nonfinancial <ul style="list-style-type: none"> • Merchandise • Well days off • Special privileges • Travel opportunities • Massage therapy 	<p><u>METHODS:</u></p> <ul style="list-style-type: none"> ◆ Printed materials <ul style="list-style-type: none"> • Newsletters • Articles • Brochures • Posters ◆ Prepackaged audiovisual materials <ul style="list-style-type: none"> • DVDs • Web-based ◆ External speakers/educators <ul style="list-style-type: none"> • Seminars/programs • Webinars 	<p><u>ACTIVITIES:</u></p> <ul style="list-style-type: none"> ◆ Health risk appraisal <ul style="list-style-type: none"> • Medical history questionnaire • Biometric screening ◆ Exercise <ul style="list-style-type: none"> • Group fitness classes • Personalized fitness training ◆ Counseling <ul style="list-style-type: none"> • Wellness coaching • Nutrition and meal planning • Smoking cessation • Stress management

Creating incentives that reward wellness-oriented behavior is another motivator. Financial incentives include immediate cash rewards, such as paying a fixed sum of money to employees who attend a wellness-related educational seminar. They also include providing future cash rewards to employees who achieve wellness-related goals; gainsharing arrangements where a portion of corporate healthcare cost savings is reimbursed to employees; fringe-benefit rewards, such as higher 401(k) contributions, life insurance payouts, or disability payouts; and avoided cash outflows, such as reduced healthcare-coverage premiums for qualifying employees. Nonfinancial rewards include free merchandise, days off from work for staying well, special privileges such as

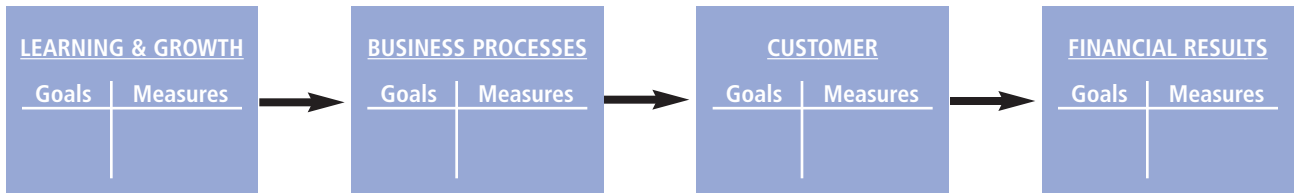
access to a convenient parking space, travel opportunities, and massage therapy.

Education

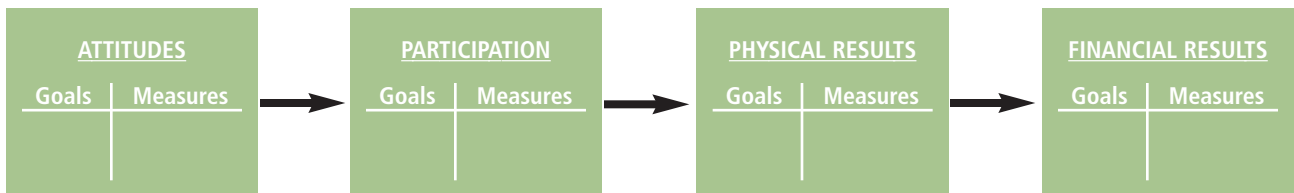
Companies that are committed to corporate wellness also make significant investments in educating their employees about the meaning of healthy living. The primary methods of delivering educational content include printed materials, prepackaged audiovisual materials, and external speakers hosting on-site seminars and webinars. The key to effective wellness education is to broadly define the body of knowledge to include any adverse influences on an employee's physical or mental well-being and suggestions on how to counteract them. Topics can

Figure 2: Linking the Balanced Scorecard to the Wellness Scorecard

THE BALANCED SCORECARD:



THE WELLNESS SCORECARD:



include exercise, nutrition, stress management, illness prevention (e.g., cancer screenings), injury prevention and ergonomics, personal financial planning, and medical self-care. Medical self-care refers to educating employees about how to prevent, detect, and treat minor illnesses at home. The report mentioned earlier from the American Institute for Preventive Medicine shows that 241 million physician visits per year (at an average cost of \$121 per visit) and 63 million emergency room visits per year (at an average cost of \$560 per visit) are unnecessary.

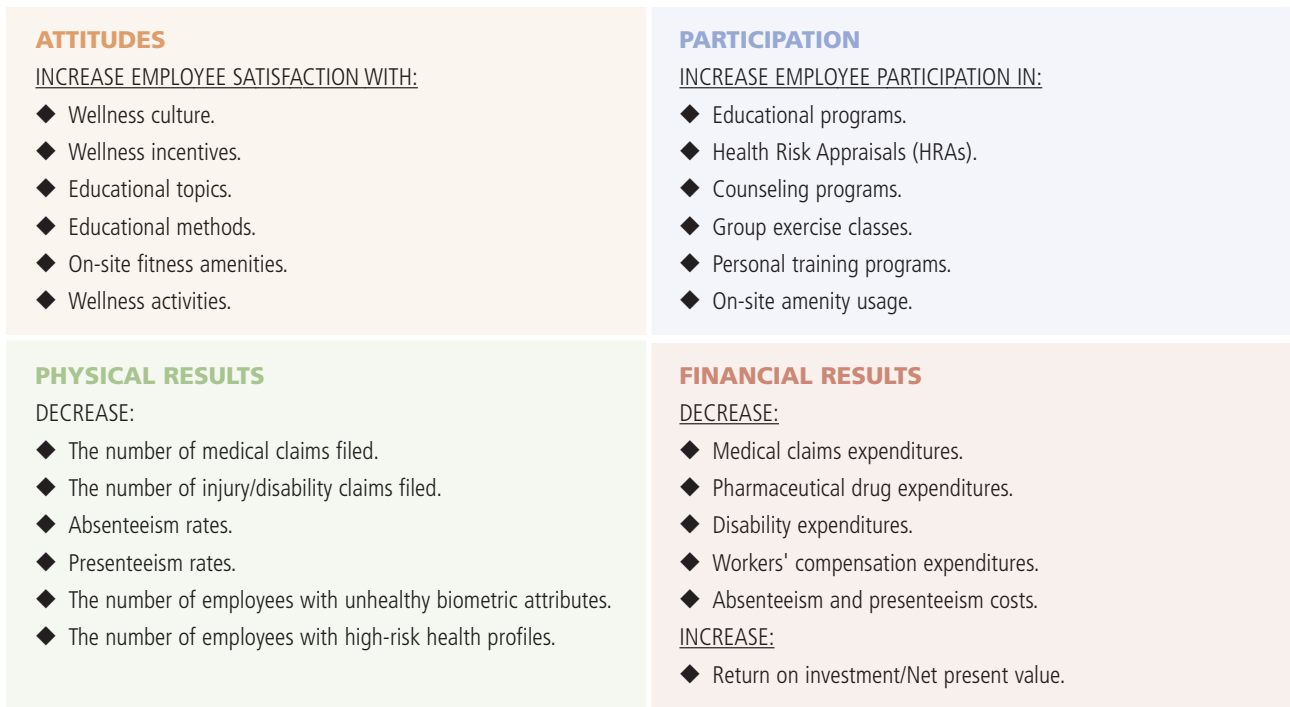
Facilitation

A company's senior leaders facilitate employee wellness by creating a workplace environment that offers healthy choices. They invest in tangible assets such as on-site fitness centers, healthy food choices, ergonomically correct workstations, and walking tracks; enable flexible breaks and working hours and also fund continuing education opportunities; and sponsor activities that help employees achieve optimal health improvement.

The first activity that's essential to starting a corporate wellness program is creating an incentive for employees to complete a confidential health risk appraisal (HRA). An HRA requires employees to complete a medical history questionnaire and a biometric screening (that measures variables such as blood pressure, blood glucose, body weight, and cholesterol). The confidential data, which is gathered and retained by an independent vendor, enables individual employees and the company as a whole to identify their most urgent risk factors and to target their health improvement efforts and resources accordingly. The HRA data also provides benchmarks for each employee and the company that can be compared to future HRA feedback to quantify the level of health improvement.

Corporate wellness programs also offer activities that leverage the knowledge of experts who can help employees achieve their health goals. Companies often hire outside experts because they realize that many employees

Figure 3: The Wellness Scorecard: Examples of Goals



don't achieve satisfying results when attempting to improve their health on their own. Even those with admirable intentions dramatically increase their likelihood of success if they leverage the knowledge, accountability, and encouragement provided by wellness professionals. The most common activities focus on group exercise classes and personal fitness training, as well as counseling activities, such as wellness coaching, nutrition and meal planning, smoking cessation, and stress management.

The Wellness Scorecard

Performance measurement is a critical component of successful corporate wellness programs because it creates accountability, quantifies progress, and justifies continuing resource allocation during the annual budgeting process. Figure 2 depicts a performance measurement framework known as the balanced scorecard (BSC) and illustrates how it was adapted to create a corporate wellness performance measurement system known as the wellness scorecard (WSC).

The BSC includes four categories of performance measures: Learning & Growth, Business Processes, Customer, and Financial Results. It offers organizations three important benefits: First, it complements short-term financial

measures with nonfinancial metrics that drive long-term financial success. Second, it focuses on nonfinancial performance measures, thereby helping nonaccountants understand and manage the operational levers that drive financial outcomes. Third, the BSC is based on the premise that investments in learning and growth will cause improvements in internal business process performance, which in turn will increase customer satisfaction and ultimately enhance financial results. Its ability to incorporate measures that capture these cause-and-effect relationships helps managers diagnose the root causes of exceptional or unsatisfactory financial performance.

The WSC also contains four categories of performance measures: Attitudes, Participation, Physical Results, and Financial Results. It, too, offers three main benefits to organizations seeking to implement or maintain corporate wellness programs. First, it complements financial healthcare measures with nonfinancial metrics that drive long-term healthcare cost savings. It's reasonable to expect a wellness program to generate financial savings in 12 to 24 months. In the meantime, nonfinancial measures can demonstrate progress that helps maintain momentum toward achieving financial goals. Second, the WSC's focus on nonfinancial performance measures creates a common language that helps corporate wellness partici-

Table 2: ROI/NPV Calculations: An Example

	2005	2006	2007	2008	2009	TOTAL
Return on Investment (ROI):						
Projected health-related costs (15% growth)	\$ 1,150,000	\$ 1,322,500	\$ 1,520,875	\$ 1,749,006	\$ 2,011,357	\$ 7,753,738
Less: Actual health-related costs (6% growth)	<u>1,060,000</u>	<u>1,123,600</u>	<u>1,191,016</u>	<u>1,262,477</u>	<u>1,338,226</u>	<u>5,975,319</u>
Cost savings due to the wellness program	90,000	198,900	329,859	486,529	673,131	1,778,419
Less: Wellness program costs	<u>212,000</u>	<u>224,720</u>	<u>238,203</u>	<u>252,495</u>	<u>267,645</u>	<u>1,195,063</u>
Net financial impact of wellness program (a)	\$ (122,000)	\$ (25,820)	\$ 91,656	\$ 234,034	\$ 405,486	\$ 583,356
Wellness program costs (b)	\$ 212,000	\$ 224,720	\$ 238,203	\$ 252,495	\$ 267,645	\$ 1,195,063
ROI [(a) ÷ (b)]	-58%	-11%	38%	93%	152%	49%
Net Present Value (NPV):						
Net financial impact of wellness program	\$ (122,000)	(25,820)	\$ 91,656	\$ 234,034	\$ 405,486	\$ 583,356
Discount rate (20%)	0.833	0.694	0.579	0.482	0.402	
Net present value	\$ (101,626)	\$ (17,919)	\$ 53,069	\$ 112,804	\$ 163,005	\$ 209,333

pants understand and manage the levers that drive healthcare cost savings. In particular, employees can use attitudinal measures and participation-oriented measures to readily communicate with and motivate one another. For example, if group exercise class participation rates are trending upward, then sharing this encouraging feedback with all employees may motivate others to join the class. Third, the WSC is based on the premise that improvements in attitudinal measures cause an increase in participation rates, which drives progress in employees' physical health. This progress creates favorable financial results for the company. A properly constructed WSC captures these cause-and-effect relationships, thereby helping managers diagnose the underlying reasons for a wellness program's success or failure.

The BSC and WSC begin by establishing goals for each performance measurement category and then selecting measures that assess if the goals are being achieved. Figure 3 contains 24 goals for a corporate wellness program. These goals are meant to help you think comprehensively about how to design a WSC. The six attitudinal goals capture employee perceptions of the organization's culture and incentives, its educational topics and delivery methods for those topics, and its ability to provide beneficial on-site resources and wellness activities. The six participation goals focus on increasing the number of employees completing educational training programs, health risk appraisals, and counseling activities such as programs on smoking cessation and planning nutritious meals. They also include increasing the number of

employees participating in group and personalized fitness training programs and using on-site fitness amenities.

A wellness program's physical results goals include reducing the number of medical, injury, and disability claims filed and decreasing absenteeism and presenteeism rates. Absenteeism refers to a decline in productivity caused by employees being absent from work, and presenteeism refers to declines in productivity caused by employees who come to work but function with suboptimal physical or mental health. Other physical results goals include decreasing the number of employees with unfavorable biometric attributes, such as having a cholesterol level above a predetermined threshold, and decreasing the number of employees with high-risk health profiles.

The financial goals of a wellness program include reducing medical claim, pharmaceutical, disability, and workers' compensation expenditures. Some companies

also focus on a goal of reducing the portion of these expenditures caused by modifiable health-damaging behaviors. Other financial goals include reducing absenteeism and presenteeism costs. The Society for Human Resource Management (SHRM) estimates that presenteeism costs American companies \$180 billion annually, and a study by Medstat and the Cornell University Institute for Health and Productivity Studies estimates that presenteeism costs U.S. companies \$255 per employee per year.

ROI/NPV

Perhaps the most important financial goal of a corporate wellness program is to earn a positive and continually increasing return on investment (ROI). Time-value-of-money concepts can be used to translate ROI to a net present value (NPV). Both measures compare the health-related cost savings of a wellness program to the cash outlays incurred to sustain it. We'll discuss the more commonly used ROI metric first and then NPV.

To compute an ROI for your company's wellness program, you'll need to decide which types of costs you consider relevant to the analysis. One approach is to limit the definition of health-related costs to include only medical costs, such as the costs of pharmaceutical drugs, medical claims, disability claims, and workers' compensation claims. A broader definition may include the costs of absenteeism and presenteeism. Once you've determined the types of health-related costs deemed relevant to your ROI computation, you'll need to calculate the total health-related costs the company incurred during the two to five years that preceded your wellness program implementation. This data will be used to estimate the cost growth rate for future years, assuming your company didn't implement a wellness program. You'll also need to tabulate the total actual health-related costs incurred for each year after you implement a wellness program and all annual expenditures incurred to operate it.

For example, let's assume your company implemented a corporate wellness program in January 2005 and that (1) your health-related costs in 2004 were \$1 million, (2) your average annual increase in health-related costs from 2000 through 2004 was 15%, (3) your wellness program succeeded in reducing your annual health-related cost growth rate from 15% to 6%, and (4) your company invests an amount equal to 20% of its actual health-related costs to administer its wellness program. As shown in Table 2, we can compute an ROI for each year from 2005 through 2009 and for the five years combined.

It's important to understand that the top row of data in Table 2 estimates what your company's health-related costs would have been in 2005-2009 if it did *not* implement a wellness program. Subtracting this row of data from the actual health-related costs quantifies the estimated cost savings resulting from the wellness program. The net financial impact of the wellness program is computed by subtracting the cost to administer the program from the cost savings it provides. The ROI is computed by dividing the net financial impact of the wellness program by the cost to administer it. In our example, the ROI in 2005 and 2006 is negative, but it climbs quickly in the next three years. Over the five-year time span, the ROI is 49%.

The NPV of a wellness program can be calculated by multiplying each year's net financial impact of the wellness program by its corresponding discount rate. In our example in the bottom portion of Table 2, we've assumed a 20% discount rate, and the NPV over the five-year time span is \$209,333.

Take the Lead to Good Health

Escalating healthcare costs are probably causing major headaches in your organization. Are you willing to step outside your normal responsibilities in the finance function to take a leadership role with respect to this issue? Though your traditional management accounting skill sets focus on debits and credits, cost analysis, budgeting, and the like, you have a great opportunity to expand your sphere of influence to help your organization take control of its spiraling healthcare costs. Perhaps you'll find that helping your coworkers improve their productivity and quality of life offers one of the most rewarding experiences of your career. **SF**

Peter C. Brewer, CPA, Ph.D., is a professor in the department of accountancy at Miami University in Oxford, Ohio, and is a member of IMA's Cincinnati North Chapter. You can reach him at (513) 529-6271 or brewerpc@muohio.edu.

Angela Gallo is president and founder of Total Nutrition Technology, Inc., in Charlotte, N.C., and is a registered dietetic technician and licensed sports nutritionist. You can reach her at (877) 868-9355 or angela@tntgetfit.com.

Melanie R. Smith is cofounder of Next Level Performance in Asheville, N.C., and is a certified personal trainer. You can reach her at (888) 324-6398 or melanie@reachingyournextlevel.com.

Copyright of Strategic Finance is the property of Institute of Management Accountants and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.