Is Your Business Healthy?

a primer on the economics of health and productivity

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Is your business healthy?

The phrase "our employees are our most important asset" has been heard in many a company gathering. Yet when it comes to the maintenance of that asset to produce revenue for the organization there seems to be a conundrum. The current business strategy often appears to be one of cost avoidance rather than viewing employee health as a tangible resource in which to invest. However, over the past decade many successful organizations have realized that improved health and productivity go hand-in-hand with improved business performance.

This primer provides a synopsis of how aggregate workforce health and business profitability have co-existed in the past, how past and present health management practices impede organizational growth, and what are emerging as "best practices" for levering human capital for business sustainability.

The Changing U.S. Workforce

The U.S. workforce is changing rapidly. As a society we are moving toward a knowledge-based economy that relies heavily upon the creativity, mental stamina, and intellectual capacity of workers. Our economy is becoming much more dependent on "knowledge" workers as many traditional service and manufacturing jobs migrate to other countries. Work is becoming less physically strenuous but more demanding intellectually, continuing a century-long trend toward a more-conceptual and less-physical economic output. At the same time, in order to stay competitive, organizations are adopting a "lean workforce" philosophy and many traditional manufacturing jobs are being transported overseas.

Fortunately, the overall productivity of American workers has risen dramatically over the past several decades and especially in recent years. For example, in 2002, output per worker hour grew at an annual rate of more than 2.5 percent, compared with a rate of roughly 1.5 percent during the preceding two decades. More recently, productivity has increased an astonishing 4.5 percent annually since the beginning of 2001.

Clearly, a large portion of these productivity gains can be attributed to the billions of dollars spent on new technology and capital investment. Yet, another significant portion is a consequence of improvements in individual

and organizational efficiencies, in many cases forced upon organizations that strive to remain competitive in a global market. As noted by former Federal Reserve Chairman Alan Greenspan, *"It is, of course, difficult to separate rates of return based on the innovations embedded in new equipment from the enhanced returns made available by productive ideas … From an accounting perspective, efficiency gains, broadly defined as multifactor productivity, have accounted for roughly half the growth in labor productivity in recent years."*

The Current U.S. Healthcare Delivery System

Employer-sponsored health benefits are often described as an albatross around the neck of U.S. companies competing against counterparts in countries with publicly financed, state-directed healthcare systems. The U.S. spends more of its gross domestic product (GDP) on healthcare than all advanced capitalist democracies (15.3%) and this is expected to rise to 20% within 10 years. We currently spend $2 trillion annually on healthcare which translates to more than $6000 per capita. Other industrialized countries spend much less than the U.S. amount on a per capita basis. Switzerland (11.6%), Germany (10.7%), Canada (9.7%), France (9.5%), the United Kingdom (8.3%), Japan (8.0%), and Taiwan (6.3%) all spend less of their GDP on healthcare but still provide greater healthcare access for all of its citizens. Yet despite our expensive healthcare system the U.S. ranks in the bottom quartile for life expectancy among industrialized nations; and when compared to Australia, Canada, New Zealand, UK, and Germany, the U.S. is an outlier in such health indexes as medical error rates, inefficient care, and high access and cost barriers.

However, the U.S. healthcare delivery system is still the envy of in the world when it comes to medical treatment for debilitating diseases such as cancer, stroke and heart disease. This is the best country in the world in which to be seriously ill. We have the best disease care system in the world, but that is different from health care. It is unfortunate that the U.S. experiences twice the incidence of costly chronic diseases such as heart disease, high blood pressure, obesity and cancer compared to Europe. It seems the U.S. can learn from the age-old phrase that "an ounce of prevention is worth a pound cure".

The disease treatment system of "healthcare" in the U.S. is proving to be unwieldy costly to U.S. employers. The cost to provide employer-based health care benefits has been rising at an ever accelerating rate to levels that threaten the competitiveness of American business in a global economy. Even though the percentage of covered workers has dropped from a high of 90% in 1950 to 60% today, the costs of healthcare for employers has continued to rise, and the situation is getting worse, not better!

If you think gasoline prices are bad, consider that employer health insurance premiums have risen at a rate nearly twice the rate of general inflation, with an average employer cost per employee of $7,983. Costs have been increasing 10-12% annually. Since 2000, healthcare premiums have increased by 73%. This does not bode well for the future. The baby boom generation is aging. The available pool of Americans ages 44 to 62 will continue to increase significantly over the next few years, and at the same time the number of Americans ages 25 to 44 is projected to decrease. The net result is an aging workforce with increased risks of diabetes, heart disease, and other chronic illnesses. This has the potential to financially paralyze a company!

The Organizational Response

Organizations have responded to date in a variety of ways, none of which is geared towards solving the crisis. Employers focus mainly on their unsustainable rising healthcare costs. They are appropriately worried that rising healthcare costs will erode their profitability and make them less competitive in a global market place. According to the consulting firm Deloitte and Touche and a survey conducted by the Benefits Roundtable, about 90% of senior mangers rate "protecting employers from rising healthcare cost" as their number one or two priorities. Employers currently pay about 84% of employee healthcare premiums. Organizations have addressed the issue in the short-term by increasing the employee portion of the expense by increasing co-pays, increasing deductible amounts, and increasing reliance on consumer-driven health plans – plans that are designed to offload much of the cost of care by introducing higher thresholds for submitting medical claims and requiring employees to pay a larger portion of their bills.

Another response has been to change providers' behavior by negotiating additional discounts for services, offering incentives for more efficient care practices, rewarding providers for adhering to evidence-based treatment guidelines, and channeling patients away from less-cost effective and unsafe practices.

Organizations are also moving towards a change in end-user consumer and patient behaviors by encouraging individuals to use fewer services or use services more efficiently, and supporting their efforts in self-care and smart consumerism.

The financial impact of the US healthcare delivery system to employers and employees is further compounded by the manner in which organizations manage available health initiatives. Employee health is managed in most companies by a variety of internal and external service providers that rarely communicates strategies and outcomes among one another. As a result, organizations have been slow to recognize the health and financial interdependency of the traditional suite of health benefit initiatives. More recently, organizations have been also slow to correlate the measurable aggregate health of the workforce with its measureable impact upon productivity. This is understandable since the departments who have traditionally been charged with management of employee health, namely human resources and benefits, have not been charged with managing employee productivity. Productivity management has been in the realm of operations and finance. Trying to manage employee health within the separate silos of employer health cost categories is being identified as a flawed strategy that is, at best, missing an opportunity and, at worst, contributing to the problem. Organizations facing difficulties struggle with inadequate data, internal organizational silos or barriers, a lack of senior management support, and challenges in developing a sound business case and strategy for investment in employee health.

The True Cost of Impaired Health and Productivity

It is important to understand the cost of neglected healthcare and siloed management practices of the workforce, especially in regards to chronic health conditions. Sixty-five percent (65%) of the American workforce has at least one chronic health condition many of which are improperly managed. As examples, 77% of hypertensive's are undiagnosed or

improperly managed; less than 2% of diabetics adhere to recommended standards of care; 40% of antibiotic use is questionable; and 28% of heart attack victims are not on beta-blockers. In total more than 60% of health claim dollars are associated with chronic condition healthcare. Unfortunately, a large proportion of the American workforce has more than one chronic condition, and the rate of short-term disability and workers' compensation claims doubles as the number of chronic disease risk factors increases from 0-2 to 5 or more. At the center of the problem is the way in which chronic health conditions are managed, or more appropriately not managed. Americans receive only one-half of recommended medical care for most chronic conditions.

Chronic health conditions greatly impact the productivity and profitability of the organization. Absenteeism and presenteeism are two of the many indicators of lost productivity. Absenteeism is rarely tracked with respect to healthcare outcomes, and presenteeism is even less acknowledged as an organizational concern. Only 12% of companies now track absenteeism as a tool to identify health risks, and ultimately to increase productivity.

Presenteeism can be defined as active employee engagement in work. It is inclusive, with a focus on cognitive, emotional, and behavioral engagement during work. Presenteeism is impacted in one of two ways by chronic health conditions; an inability to complete work and an inability to avoid distractions resulting in decreased productivity. Presenteeism, like absenteeism, is cost measureable. For most chronic conditions studied, the cost associated with performance based work loss greatly exceeds the combined costs of absenteeism and medical treatment costs.

An increasing number of employers have quantified the cost contribution of absenteeism and presenteeism in considering their broader costs of poor health. In one seminal study of a large U.S. employer, the total cost of chronic conditions was determined to be 10.7% of the total labor costs, and 6.8% was attributable to decreased presenteeism alone. Workdays lost due to absenteeism ranges between 1-10 days per year depending upon the condition. There can be a doubling cost or more associated with absenteeism, especially if a team effort is required for completion of the work product. First there is the cost associated with wage replacement for the absent employee; but secondly, there is the cost associated with the productivity reduction associated with that employee's lost work product.

This cost ranges from the highest amount as a result of zero work output to the cost associated with a less efficient replacement output, e.g. overtime work, contract labor. More important, workdays lost due to decreased presenteeism ranges from 18-91 days per year. Studies have shown that on average employers incur $3 of health-related productivity costs (absenteeism and presenteeism) for every $1 of medical or pharmacy claims costs.

Surprisingly, the full cost of poor health is driven by different conditions than those driving medical and pharmacy costs. A recently published study compared the total cost associated with the top ten health conditions for several organizations of varying size. The study examined the cost for each condition associated with medical treatment, pharmacy, absenteeism, and presenteeism. The top ten conditions included depression, anxiety, fatigue and sleeping problems. It was the combined impact of absenteeism and reduced presenteeism that pushed these conditions into the top ten.

High employee turnover is one of the arguments heard against developing a strategy to invest in active organizational engagement in the recognition and treatment of chronic health conditions. The line of thought is that employee turnover is too high in today's marketplace to realize short-term payoffs in this type of employee investment. It is reasoned that employees with chronic health conditions will take their "condition" to the next employer before it becomes a major health issue of the current employer. This argument is flawed on several levels. Several studies have shown that employees with the most unmanaged health risk factors incur annual healthcare costs 10 – 70% higher than employees without these risk factors. These same employees are also known to be less productive due to increased absenteeism and decreased presenteeism. Alarmingly, employees with multiple risk factors for some medical conditions such as heart disease, stroke, and psychosocial problems incur annual healthcare costs 85 – 225% higher than those without these risk factors. These costs are incurred by the employer long before the employee is actually diagnosed with the clinical form of the chronic conditions.

Finally, it was stated in the beginning of this paper that the U.S. workforce is changing rapidly. It is becoming more imperative for employers to attract and retain the workforce it needs to generate revenue. Several employers have found it easier to attract and retain quality employees as a result of

advancing a healthy workforce culture. In the final analysis for employees, they desire to retire with health and with wealth, both of which are positively impacted by an organizational strategy to address health and productivity.

The Solution – Health and Productivity Management (HPM)

Many companies are starting to "solve" the problem of increasing healthcare cost and limited human capital ,by turning it into an opportunity – treating employee health like the human capital asset it actually is, increasing its value and productivity. It may seem like a new concept, but health and productivity management has its roots in the foundation of this country.

The idea that healthy people will work better was advanced over 200 years ago by Adam Smith in his book, *The Wealth of Nations*: "…*that men in general should work better when they are ill fed than when they are well fed, when they are disheartened than when they are in good spirits, when they are frequently sick than when they are generally in good health, it seems not very probable. Years of dearth, it seems to be observed, are generally among the common people - years of sickness and mortality, which cannot fail to diminish the produce of their industry*."

HPM can be defined in its simplest form as an integrated strategy designed to improve and/or maintain the aggregate health of the workforce and directly relate aggregate health outcomes to organizational profitability and sustainability.

As in the past, various topics have a way of coming in and out of favor, but HPM will not be one of them. HPM is here to stay by economic necessity! Today's economists now have more evidence to support Adam Smith's concept that health improvements stimulate economic development. In the past 30 years it seems that U.S. industry had directed prevention and health promotion activities as an effect of success, as opposed to being considered a reason for the success of the organization.

As an example, most companies today offer wellness and disease management programs to their employees, just as they did in the 1980's in Houston, TX. Unfortunately, these valuable programs were the first casualties of Houston's oil industry-induced recession. They were not considered value-added initiatives to the bottom line and were quickly

eliminated. Will the same thing happen again as our economy is sluggish, or have we learned something in the past 25 years?

Over the past decade a plethora of evidence has been generated to demonstrate that good employee health leads to increased profits. This "newer" way of thinking, despite the comments of Adam Smith, supports the concept that increased health is another aspect of human capital that enters into production. From this broad perspective one can conclude that investing in the health of the workforce should be an essential ingredient to the success of any organization.

The profit motive for HPM as a business strategy is supported by fact. A 2007 Watson Wyatt study clearly demonstrates that organizations with more effective HPM practices enjoy higher revenue per employee (20%), experience greater returns to shareholders (57%), and have a higher market value (16%) than their less effective peers. These same top performing organizations are also more likely to enjoy lower program costs as well as a reduced incidence of short- and long-term disabilities; and are 3.5 times more likely to have experienced lower healthcare costs in the prior year than their less effective counterparts. In point of fact, companies with worksite wellness initiatives average ~$4 of medical care costs savings per $1 invested. The ten health and productivity program dimensions identified for the Watson-Wyatt survey were:

- integrating delivery of benefits
- senior and middle management support
- incentives to encourage employees toward a healthy lifestyle
- health improvement resources and programs for employees
- addressing lifestyle-related health risks in employee populations
- improvements in workforce health
- reductions in chronic disease across the population
- managing the impact of lost time
- improving the performance of employees at work
- employee engagement in workplace safety

From the perspective of the individual company, demonstrating the total financial impact of health conditions is critical for budgetary priorities,

including the amounts allocated for employee benefits such as health insurance, health promotion programs, and disease management interventions. It seems that employers are now ripe to begin the process of developing a comprehensive HPM strategy. According to a 2004 IBI survey of senior executives from more than 600 companies nation-wide, "More than 85% of employers want to link health and group medical data to employee absence, lost productivity and company financial performance." If this is indeed a true statement it is reasonable to ask, "Why have not more companies developed a comprehensive HPM strategy?" The IBI reported in 2007 that 44% of companies had no HPM strategy, but that 56% had or at least were planning an HPM strategy within the next year. The IBI found that the major reason cited among senior management for not having an integrated HPM strategy was lack of knowledge (41%). Other major reasons cited were other business priorities (35%), lack of benefit/cost evidence (25%), and inadequate data (24%). Senior management leadership (16%) was not considered an impediment towards the development of an HPM strategy. To the contrary it seems the C-Suite has not been in the loop on this important topic. According to the IBI, top levels of management charged with profitability, i.e., the CEO, CFO and COO, have not received the information needed for support of an integrated HPM strategy. However, a 2005 IBI survey of 350 CFO's indicated they would take appropriate action if this information were provided. It seems that senior management will act responsibly if given the chance.

As the C-suite is becoming more aware and knowledgeable about the benefits of organizational health and productivity management as a business strategy they are increasingly requesting their human resource and benefit groups to take the lead within the organization. Those industries that market their services and products to organizational purchasers are just now beginning to be asked by their clients to present the productivity and ROI metrics of these services and products. Insurance providers benefit consultants, and health promotion and disease management providers should be able to make this information to their clients. The best numbers to have are the organizations own numbers, but there is a plethora of case studies to reference for comparison purposes.

HPM 101

The discussion to this point has been macroscopic. The larger picture of the changes in the U.S. workforce, a healthcare delivery system in need of change, and the current organizational response has been painted. It is now time to examine the architectural development of a comprehensive HPM strategy. At the highest level I like to use the "4 I's" model. The 4 Eyes and their Webster's definition are: **Instill** "gradually but firmly establish an idea or attitude"; **Incentivize** "motivate or encourage one to do something"; **Integrate** "combine one thing with another so that they become whole"; and **Improve** "achieve or produce something better than". To achieve the financial return of improved workforce health, namely increased organizational profits, requires the teamwork of all within the organization. The CEO, CFO, HR, Benefits, Medical, external providers, and employees must function as a team with a common goal.

It is in the company's best financial interests to **instill** a culture of health and fitness. In today's fast-paced business world the company with the best and healthiest "corporate athletes" will be most profitable. The employee "sidelined" or not at full strength will not be able to help the team at his/her highest level of performance. Achieving total value depends on increasing the personal accountability of employees and empowering them to make the right decisions. Key to employee empowerment is a cultural shift from one of benefits entitlement to that of shared ownership in personal health and organizational health. The company must create a culture that values health. It must provide education, benefits, programs, incentives, and policies that support that value. When done right, it actually will bring a significant short-term payoff in terms of decreased absenteeism and increased productivity.

The company should **incentivize** employees to maintain or regain full functional capacity. Incentives can range from direct cash payments, to company perks, to significant insurance premium discounts for achievement of specific health goals. The objective of incentives is to get employees more engaged in their own health. Many studies have shown that employees who are informed about their own health metrics are more participatory in their own health and lifestyle choices.

There is no reason with today's IT technology to not **integrate** the function, processes, and data from all the health initiatives offered by the company. "What gets measured gets done", is at the heart of HPM. In order to realize total value and total return the company must first understand total costs, and this requires integration of the entire platform of company initiatives intended to maintain and manage employee health. The improvements in delivery efficiency and outcome effectiveness will be apparent in the short-term. The specific elements that should be integrated and correlated are group health, health risk assessments, wellness programs, disease management programs, absenteeism, presenteeism, employee assistance program, health-safety-environment, and employee morale.

Aside from the direct link to productivity outcomes, there is a lot of low hanging fruit that can be harvested by tracking absenteeism and presenteeism. These metrics serve as a valuable tool in the design of health benefit programs because they can be directly correlated to healthcare utilization and the impact of initiatives intended to improve aggregate workforce health. These metrics also act as an early warning system for expensive healthcare conditions that can occur in the aggregate and on an individual level in the future. These warning signals can be used to pre-empt the insidious onset of costly health conditions within an organization.

Finally, part of the comprehensive strategy will be to continually **improve** the health of the organization. HPM is not a static set of programs. The HPM system must be constantly monitored and challenged with a goal of having the healthiest and most productive workforce possible. This is a win for company shareholders and a win for company employees who desire to retire with health and wealth. Most companies will realize demonstrable improvements in health outcomes, productivity outcomes, and profit outcomes in less than 1-year after embarking on its HPM strategy.

It is unrealistic to expect a company that is lagging behind HPM leaders to make up lost ground in one step. It takes time, but just because it takes time does not mean that immediate health and financial benefits are not realized. The process by which most companies achieve a successful transition to an integrated HPM system is relatively simple. The company first comes to understand the interdependency of ALL of its current processes, functions and data connected to health management. This requires teamwork and senior leadership support. At the same time,

benchmarking of current company practices with respect to cost, efficiency and effectiveness can be completed.

The most important initial benchmark is that which describes current organizational health and financial outcomes. In essence, it sets the internal bar, but it may also present an opportunity to benchmark against external industry peers. As an example, a company may choose to participate in the EMPAQ Program sponsored by the National Business Group on Health. EMPAQ stands for Employer Measures of Productivity, Absence, and Quality, and allows direct comparison to others within the same NAICS category. The company can then proceed to develop a comprehensive strategy based on the results of the initial assessment and benchmarking. An organization cannot realize total value without understanding its own total costs.

A company will often implement one aspect of the HPM strategy such as a disability management program or a pilot disease management study before implementing the complete strategy. This is necessary to understand the quirks inherent within any organization and to continue to gain full management and employee support. A 6-month disability management pilot is a good start. It can demonstrate the scope of health issues while at the same time provide immediate benefits. Pilot results are can then be compared to expected outcomes. The value of the strategy should now be readily apparent and all other elements can be implemented as dictated by other company initiatives. The expected ROI of health and productivity management initiatives will be at least 4 to 1 within 18 months depending upon current outcome metrics.

There are many resources available to organizations and their suppliers that can be tapped. A number of national organizations, academic institutions, and U.S. companies are responsible for moving forward the discussion and implementation of health and productivity management as a business strategy. Nationally, the Institute for Health and Productivity Management (IHPM), the National Business Group on Health, and the Integrated Benefits Institute (IBI) are linking together all stakeholders in this important dialogue of change and integration. In the Houston market the Greater Houston Partnership and the Houston Wellness Association are beginning to address this challenge and opportunity. Leading companies such as Dow Chemical, Pitney Bowes, International Truck & Engine, Intel, Pacific, Deere, and Cisco

Systems are transforming employee health from a cost of doing business into a source of value for the business.

The encouragement of business and individuals to become more involved in the preventative aspect health promotion is not a new concept. In 1903 American inventor Thomas Edison made a famous prediction for the future of healthcare, when he stated, *"The doctor of the future will give no medicine but interest his patients in the human frame, in diet and in the cause of disease"*. His prediction has now become an economic necessity for American business, albeit more than 100 years later in implementation.

About the Author

Dr. Chris Skisak founded CHMS after spending more than 20 years developing and directing successful corporate health and medical programs for Fortune 100 companies. His experiences allowed him to see firsthand the inefficiencies and lost opportunities that result from the lack of a comprehensive HPM strategy. CHMS Corporate Health Management Solutions is available to consult and work with organizations, benefit providers and health service providers who share a common belief and desire to demonstrate that good health is good business.