Health Care Reform “Lookback”

Workforce Health—The Transition From Cost to Outcomes to Business Performance

Although employers can shift the cost/risk of health care to external claims payers through insurance, they can never shift the broader impacts of health-related well-being, lost time and performance outside of their organizational boundaries. This article traces the evolution of employer strategies to manage health, addressing what research tells us about the broader impacts of health and well-being on outcomes and establishing a broader framework for connecting health to business performance. The challenge that employers now face is to integrate a much broader set of factors to meet the goals of improved workforce health, well-being and business performance. Regardless of how employers decide to provide health benefits, these broader issues are a business imperative for every employer in the 21st century.

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The New Employer Setting

The Affordable Care Act (ACA) is a line of demarcation for employers. Decisions about their role in health benefits—walk away from providing health coverage and pay requisite fines, cap expenditures and liability through public or private exchanges, invest in workforce health—will speak volumes about whether employers see workforce health only as a cost or as an investment in their businesses.

In 2013, employers were firmly focused on complying with the requirements of the new legislation. We expect that in the coming months, employers will begin to broaden their focus to more strategic and related tactical decisions of how (or if) to more effectively manage workforce health. It is critical that employers understand a single fundamental truth: Decisions about financing health and health coverage are different from decisions about managing health and related dimensions and understanding outcomes. Although employers can shift the cost/risk of health care to external claims payers through insurance, they can never shift the broader impacts of health-related well-being, lost time and performance outside of their organizational boundaries.

As benefits professionals ponder these issues, chief financial officers (CFOs) also are in transition. They are expanding how they think about health, its business impact and the type of information they need to make sound health investment
decisions. To a growing number of CFOs, health is more than health care costs.¹

Concurrently, over the past decade, another employer reality has changed. Benefits professionals who manage health and related programs (such as absence, disability, Family and Medical Leave Act (FMLA) leaves and workers’ compensation) have come to understand the limits of managing claims in separate program silos. Costs of population health cannot be controlled by focusing only on claims management.

The purpose of this article is to take the strands of these changes into a single narrative by briefly tracing the evolution of employer strategies to manage health, addressing what research tells us about the broader impacts of health and well-being on outcomes and establishing a broader framework for connecting health to business performance.

How—and Why—Employer Health Management Strategy Has Changed

In charting a new course, it is imperative to know where we have been, why and what it means for the future. Over the past 15 years, employers have gone through a transformation in their strategy and approach to managing workforce health (Figure 1).

- **Health benefits as a cost of doing business.** It wasn’t that long ago that employers simply treated health benefits as a cost of doing business. As health care costs grew—especially relative to growth in corporate income—the value, and perhaps rationale, for providing health coverage rested primarily on the goal of attracting and retaining employees. As long as health care costs were not seen as a “significant” and unacceptable part of operating expense, employers could maintain this single perspective.

- **Plan design changes shift costs and risk.** When medical cost growth became untenable, employers turned to plan design changes to dampen the impact of their share of the financial burden. Here, the primary objective was to manage claims costs or insurance premiums; health care was seen as a commodity where lower costs were available to discerning purchasers. Strategies included negotiating greater discounts, changing health benefits from indemnity to preferred provider organizations (PPOs) to health maintenance organizations (HMOs) and, more recently, to high-deductible plans or tiered and narrow provider networks. Strategies also included cost-shifting to benefit enrollees, often with accompanying hikes in deductibles and copays. As long as those changes did not lead to significant erosion in their goal to attract and retain key talent, employers had little reason to change.

- **The gestalt from analyzing claims data.** As employers and their benefits partners began to closely examine claims data, they realized that a relatively small number of claimants were driving an inordinate share of health care costs; thus, the Pareto group of employees (the 20% of employees who are the source of 80% of health care costs) began to get increased attention from employers. In response, employers turned to disease management as a way to improve management of chronic conditions. Disease management has provided some benefits toward this goal.² The challenge to employers, however, was the very nature of disease management—It tended to focus on a relatively small number of people with serious chronic health conditions and ignored the health of the rest of the workforce. So the disease management strategy essentially targeted costs of a specific group of health care users but did little to prevent employees from developing chronic conditions.
• **An expansion to health risks.** With the growing recognition that managing claims was no strategy for managing underlying health costs, employers turned to a new question: “How can we be more active in anticipating and managing health care costs?” Shepherded by Dee Edington, Wayne Burton and other researchers, a new body of research emerged that characterized the link between health risks and health care costs.\(^3,4,5\) The population health management perspective emerged as a systematic strategy for workforce health management. Many employers have been slow to adopt this approach, particularly those with part-time or short-tenured workforces. Other complicating factors have gotten in the way: the changing nature of work in many organizations, along with an increasing proportion of employees without benefits, particularly in the retail and service sectors.

• **More bang for the buck.** The growing recognition by employers that it is difficult to save medical dollars by spending medical dollars, particularly in the short term, led to a new question: What are all the outcomes of improved health beyond health care costs and how can those outcomes be brought into the equation of the broader value of health investments?

Addressing this broader question, employers realized that there were two additional health outcomes beyond health care expenditures, each of which had consequences for bottom-line organizational impact. Absence from work often is health-related and drives two types of additional costs: (1) wage replacement payments (e.g., sick leave, short-term disability, workers’ compensation disability, long-term disability and, to a growing extent, FMLA) and (2) additional costs related to the financial impact of how the employer responds to absent employees (such responses include having a larger workforce in place to fill in, using temporary help or overtime and/or losing revenue opportunities because key, irreplaceable employees are missing from work). These “opportunity costs” are well-known to employers (at least conceptually) and have been well-documented.\(^6\)

Reduced employee performance while at work due to health (termed **presenteeism** in the research literature) is the other health outcome that often accompanies health problems. Presenteeism has cost implications for employers because they are faced with making up for the loss of this human capital in meeting business or operational goals. Although, conceptually, presenteeism also represents an opportunity cost to employers, it is harder for them to observe, measure and respond. Nonetheless, it still represents a real and significant cost.\(^7\)

The opportunity costs from absence and presenteeism have been conceptualized as “lost productivity” because the financial assets used by the employer in responding to these health-related outcomes are no longer available to invest in the productive business enterprise.

This simplified representation of the “full model” of health encompasses leading indicators of health on the left side of the equation, indicators of medical care and delivery in the middle and outcomes (or lagging) indicators of health on the right side of the model (Figure 2).

**What Does Research Tell Us?**

A word search on “health and productivity” or related terms in research search engines such as PubMed or Web of...
Science results in literally thousands of scholarly articles on the topic. In fact, we cataloged 156 relevant studies published since 1990 that each have been cited at least 100 times in the peer-reviewed literature—and together have been cited more than 38,000 times. It is beyond the scope of this commentary to summarize the entire literature in this field; however, it is useful to identify the key themes that emerge in this work that now drive both the scientific and the business conversations about health and productivity. Those themes include:

• Health risks impact medical costs, absence, presenteeism, performance and associated employer costs.
• Particular chronic health conditions (such as depression, diabetes, rheumatoid arthritis and back pain) increase total health-related costs and often are untreated or undertreated in the medical care system.
• The employer bears liability for both wage-replacement payments and for the “opportunity costs” (business impact of lost productivity) for lost work time associated with employee health.
• When properly structured, health and related interventions (including worksite-based programs) can reduce medical expenses, absence and presenteeism and their related costs.

Expanding the Framework to Address Business Value

Highlighting what the research evidence tells us about the impact of health on productivity misses an important question when thinking about what’s on the horizon: “What doesn’t the evidence tell us thus far about the impact of health on individual and business performance?”

If employers are going to stay in the business of health care (and make no mistake, in one way or another, every employer is in the business of health care), the conversation must change from one of cost to one of value. Research to date tells us a great deal about all the costs associated with poor workforce health and about their antecedents. Even the way the literature addresses health-related lost productivity is cost-based: the opportunity costs of lost work time, whether from absence or loss of performance. But research to date tells us little about top-line business performance impacts—how healthier employees may influence business results and how other health-related factors the employer has influence over can contribute to business outcomes. There is little doubt that CFOs care about costs and the bottom line. There also is little doubt they are intensely interested in strategies to grow top-line revenue. Health-related factors under the employer’s influence that are related to health and can accomplish this goal will undoubtedly get the CFO’s attention.

Over the past decade, Integrated Benefits Institute (IBI) has published three studies of CFOs and their views on health, health care and business-related issues. Over that time, CFOs have steadily broadened their view of health, its impacts and its importance to their organizations. They also have greatly expanded their perspective on the kinds of health-related information that would be helpful as they make investment decisions about workforce health. At the
same time, a growing body of literature focuses on a much broader set of social factors that are determinants of health. How are we to bring these elements together in the employer setting? This requires the integration of the traditional “health and productivity” model with the broader set of factors that employers can influence. Those factors include (1) corporate culture and structure, (2) employee well-being and (3) employee health engagement.

Corporate Culture and Structure

As the saying goes, “Corporate culture eats policy and strategy for lunch.” Jeffrey Pfeffer, professor of organizational behavior at Stanford University Graduate School of Business, said in a keynote address to the Great Place to Work Conference attendees in New Orleans recently: “Many of the individual behaviors you are focusing on in your health and wellness programs, such as stop smoking, eat better, exercise more, are, in fact, the consequences of the environments in which employees are working.” How employers organize work, the demands they put on employees and the work-life balance they create not only directly affect business performance but also influence employee health and cut against the very things the employer is trying to achieve as a business.

In addition, the extent to which employee health-related benefits programs—such as group health, disability and workers’ compensation—are integrated and managed will also play a key role in these broader issues. The degree to which one program ignores activities or health status of employees in the others or, worse yet, simply shifts cost and risk across programs will interfere with what the business is trying to achieve. The underlying health of the workforce directly affects the costs of programs, such as disability and workers’ compensation, as well as employees’ ability to perform their jobs effectively. Recent research at Duke University on the impact of obesity on workers’ compensation experience is a prime example.

Employee Well-Being

Surveys of workforce engagement have clearly demonstrated the connection between employer attentiveness to workforce well-being and employee work engagement. In fact, the survey shows that the most significant factor driving workforce engagement is the employee’s perception of the employer “sincerely caring about my well-being.”

It is perhaps not surprising, then, that workforce well-being is increasingly being recognized as a significant contributor to individual performance. This broader construct incorporates psychological health as one of several different dimensions not typically addressed in traditional wellness programs, which
deal largely with physical health issues. The domains of behavioral health, financial status, social status and purpose or career are increasingly being appreciated as having material impact on individual and business-unit performance.\textsuperscript{16,17,18}

More recent efforts have refined this approach to include workplace well-being—the employee state of mind when at work—as another important consideration impacting workforce performance.\textsuperscript{19} This domain is a reflection of employers creating a work environment where employees can feel most productive. In contrast to the intrinsic attributes of well-being as described above, workplace well-being is a more immediate and situational contributor to employee well-being.

**Employee Health Engagement**

Experience has told employers that if employees are not engaged in managing their own health, health benefits programs will have little chance of success. Health care consumerism, incentives and value-based benefit designs have been widely adopted as means to foster health engagement, with varying degrees of success. Proponents have encouraged more widespread use of incentive strategies with the goal of ensuring that employees have "skin in the game," while detractors claim that these approaches do little more than foster employee resentment.

What does appear clear, however, is that individuals respond to employer efforts to enhance their well-being while considering a variety of organizational factors that influence both health and well-being. Further, employees who are engaged at work are also more likely to participate in employer-provided programs that enhance their well-being, including those that influence workforce health. Additionally, it may be that compensation strategies that substantially reward employees for their performance may also serve to promote employee engagement in health-related programs, thereby improving the likelihood of greater earnings and future job opportunities.

**The New Integration**

Over the last decade, employers have been searching for ways to better manage health and improve outcomes. The development of the "health and productivity" model has been a result of leading employers pushing the envelope in these key areas. More recently, benefits professionals have started from the fundamental point of employee health: moving "upstream" to better manage health risks and moving "downstream" to better understand and quantify outcomes that flow from improved health beyond health care cost.

Senior executives in their organizations, however, take a different approach—They start with business performance and ask themselves, "What levers do I have at my disposal to help improve workforce and, consequently, business performance?" Improved health is one of those levers, and so are corporate culture and structure, employee well-being and employee engagement (Figure 3).

A caution: Employers must be aware of the danger in overstating the business impact of health. Several recent surveys of employers have shown that employers with healthy workforces and strong cultures of health also tend to have better business results. The implication is that there is a direct and causal relationship between health and business success. The alternative explanation, of course, is that successful companies always are looking for ways to continuously invest profits back into their organizations and see health improvement as one way to do so. Thus, the causal relationship more likely is business to health, rather than health to business. Even with the healthiest workforce, a bad product, poor marketing or ineffective service delivery may doom a company.

Many factors, of course, influence company profitability, stock price, revenue per employee and related business metrics. The challenge in the health arena is to better understand the link between the "proximal metrics" that link health to business performance. For example, American Express has established statistically that employee health risks are linked to customer service scores—Healthier employees tend to have better scores.\textsuperscript{20} Better customer service leads to improved business performance and better profitability. Employers are better served by establishing in their own organizations these key proximal metrics and better understanding how health influences them as they make the case for the business value of health improvement.

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