



Why You Should Care About Wellness Programs



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Executive Summary

ADP commissioned a study to determine employers' views and behaviors related to the escalating costs of health care, the "just starting to recover" economy, and employee morale and retention – with a special emphasis on *wellness*.

The study uncovered that employers are, indeed, very concerned about the cost of health care – so much so that it appears to impact strategic business decisions, like the size of the workforce. Employers indicate they have tried several strategies to control health care costs (for example, reducing expensive

plan options, shifting costs to employees, and reducing the number of employees who are eligible for benefits), but recognize that there is a potential downside to these strategies.

Employers appear to be turning toward wellness programs as their "next best hope" for promoting a healthy workforce which, in turn, promotes productivity in the workplace and the containment of health care expenses. Employers seem to be willing to accept a variety of success measures and are encouraged by employee participation.



In many ways health is the ultimate outcome or the final state – and wellness is the strategy used to get there.

Findings Introduction

“Wellness” is an often used, yet little-understood term. Is wellness the same as health? Actually, no. The definition of “health” as contained in the constitution of the World Health Organization is broad and culturally neutral. They define it as, “the state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.”¹ What this definition fails to consider is the individual’s commitment to healthy behavior which is so crucial to wellness.

Merriam Webster’s Dictionary offers a compelling definition of wellness tied to a definition of health, “The quality or state of being in good health especially as an actively sought goal.”² This definition of wellness is arguably more consistent with a contemporary view, which encompasses the actions taken by an individual or organization seeking good health.

In many ways health is the ultimate outcome or the final state – and wellness is the strategy used to get there. The ADP Research Institute, a specialized group within ADP, conducted the ADP / HR Benefits Pulse Survey on Wellness in October, 2011. We used the following definition of wellness programs: “Those activities separate from medical insurance – that your company makes available to employees to help them pursue a healthy lifestyle, to identify and reduce health risk factors, to balance their work and personal lives, and to deal with substance abuse and mental health issues.”

The survey sought to understand why companies are engaging in wellness programs and what results surveyed companies achieved.

The survey definition was broad enough to include well-established programs like Employee Assistance Programs (EAPs) and newer ones like social gaming and incentives. We examined the relationship between cost sharing, return-on-investment (ROI), morale, and retention.

Wellness programs make claims about employee job satisfaction, but what do employers’ results actually indicate? Do employees consistently participate in these programs? And, when they do, does it affect health care costs? Do wellness programs have any relationship with productivity and absence management programs in an employer’s view?

For the purposes of this survey and discussion, midsized employers are those with 50 – 999 employees, and large employers are those with 1,000 employees or more. In some instances we will make distinctions between these groups. When this is the case, we’ll make that clear in the text.

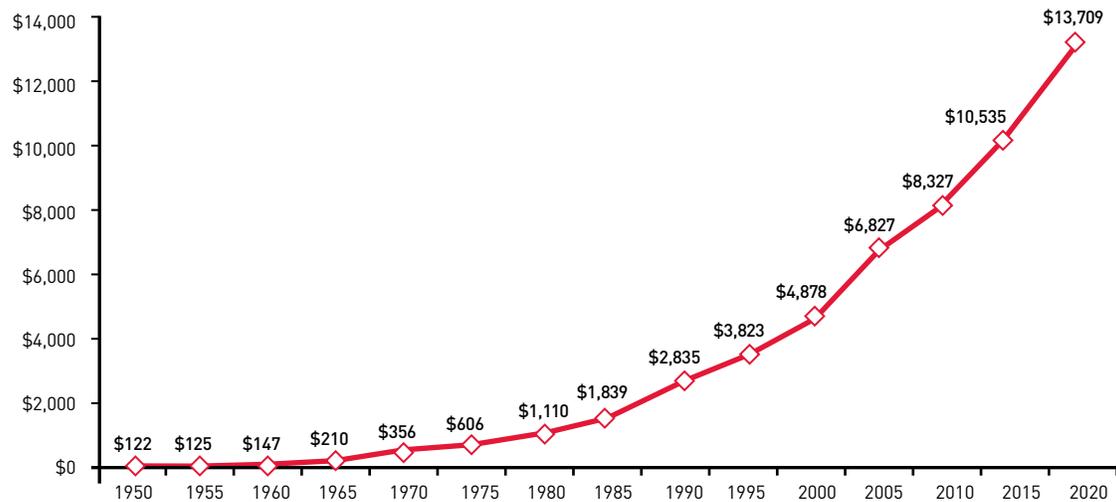
¹ Constitution of the World Health Organization, forty-fifth edition, October 2006.

² “wellness” Merriam-Webster.com, Merriam-Webster, 2012

Controlling Costs

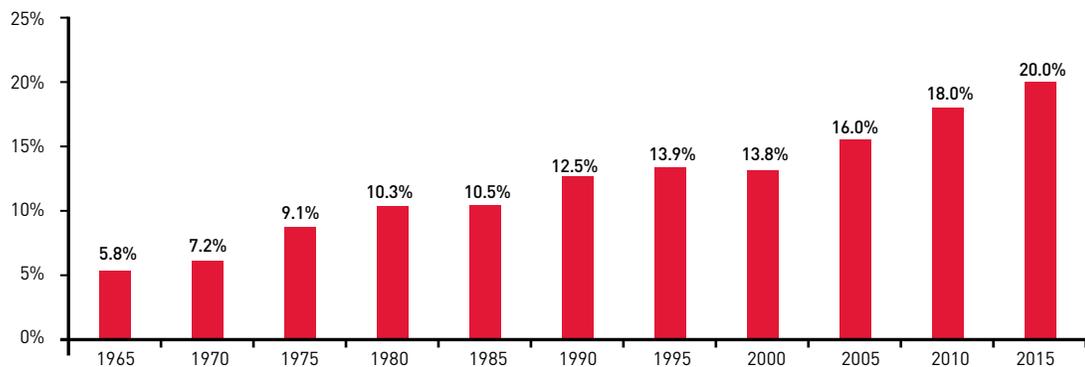
Not only has the cost of providing health care risen consistently every year since 1965, the cost of health care as a percentage of Gross Domestic Product (GDP) has also risen.³

Fig 1. Per Capita National Health Expenditure



Source: Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis

Fig 2. National Health Expenditure Share of GDP



Source: Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis

³ Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis.

Our survey findings align with the results from government sources cited in Figures 1 and 2. Seventy percent of mid-sized companies and 60 percent of large companies experienced a significant to moderate increase in the cost of providing health care benefits to employees over the last year, and the majority anticipated continued increases in 2012.

Many employers are making a “bet” that improved health achieved through wellness activities will exert downward pressure on health costs. Intuitively, this makes sense. If people are well, the majority of their expenses are related to preventative care and screening for early diagnosis. A thorough review of the drivers of health care costs reveals a very complicated picture.

A study commissioned by the Kaiser Family Foundation and reported in kaiserfamily.org reveals three drivers: (1) technology and prescription drugs, (2) rise in chronic diseases and (3) administrative costs.⁴ Wellness programs are anticipated to have an impact on the use of prescription drugs while helping to diminish the impact of chronic diseases. However, they aren’t expected to have an impact on the cost of technology and administrative expenses.

Containing the rising cost of health care is a business imperative. In fact, the vast majority of HR / benefits decision makers interviewed in the ADP Wellness survey (91% in mid-sized companies and 90% in large companies) cite controlling the costs of health care as either a medium or high priority.

Three strategies are used by employers to control costs:

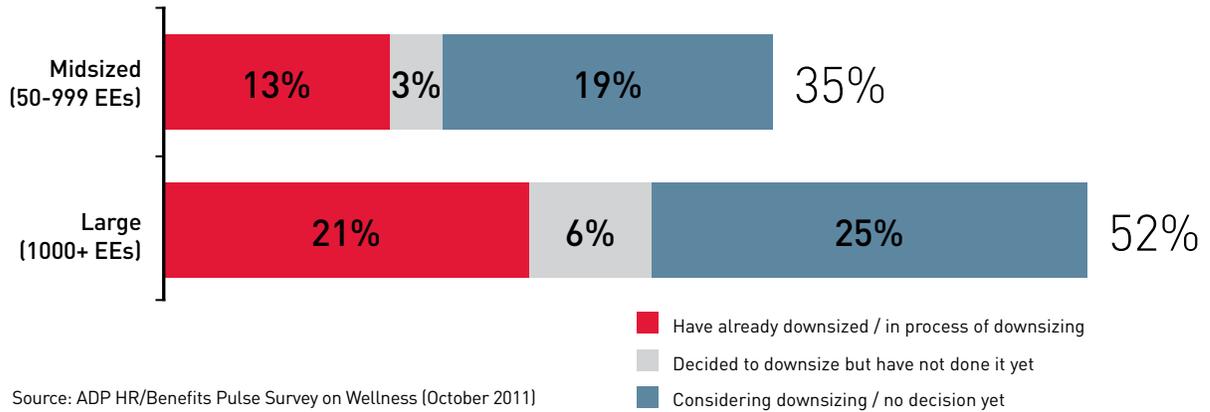
1 Reducing the number of employees	2 Eliminating expensive plan designs in favor of less costly options	3 Shifting costs to employees
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Perhaps the most dramatic indication of the importance of controlling health care costs is reflected in our survey by the number of companies (13% mid-sized and 21% large) who have *already* downsized their workforce as a direct result of health care costs. The survey indicates that an additional 3% of mid-sized and 7% of large employers have already made the decision to downsize in response to health care costs, but have not yet done so. Most startling is the number of companies still considering downsizing who have not yet made the decision – 19% of mid-sized and 25% of large employers.

Overall, our survey found that large employers are more likely than mid-sized employers to take actions directly impacting the size of the workforce as a result of rising health care costs.

⁴ <http://www.kaiserfamily.org/Issue-Modules/US-Health-Care-Costs/Background-Brief.aspx#footnote6> (Congress of the United States, Congressional Budget Office. Technological Change and the Growth of Health Care Spending, January 2008)

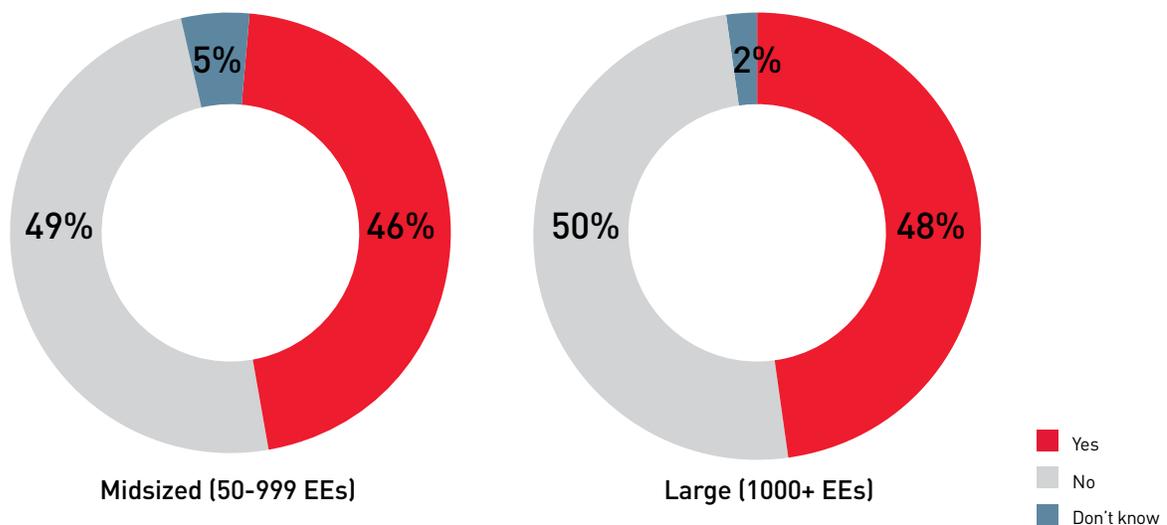
Fig 3. Impact of Health Benefits Cost on Downsizing



Another strategy used by employers is to eliminate higher-cost plan options and designs. The survey results show that just under one-half of HR / benefits decision makers in mid-sized and large companies indicate that the cost of providing employer-sponsored health benefits has reduced the number of plan options that they make available to employees.

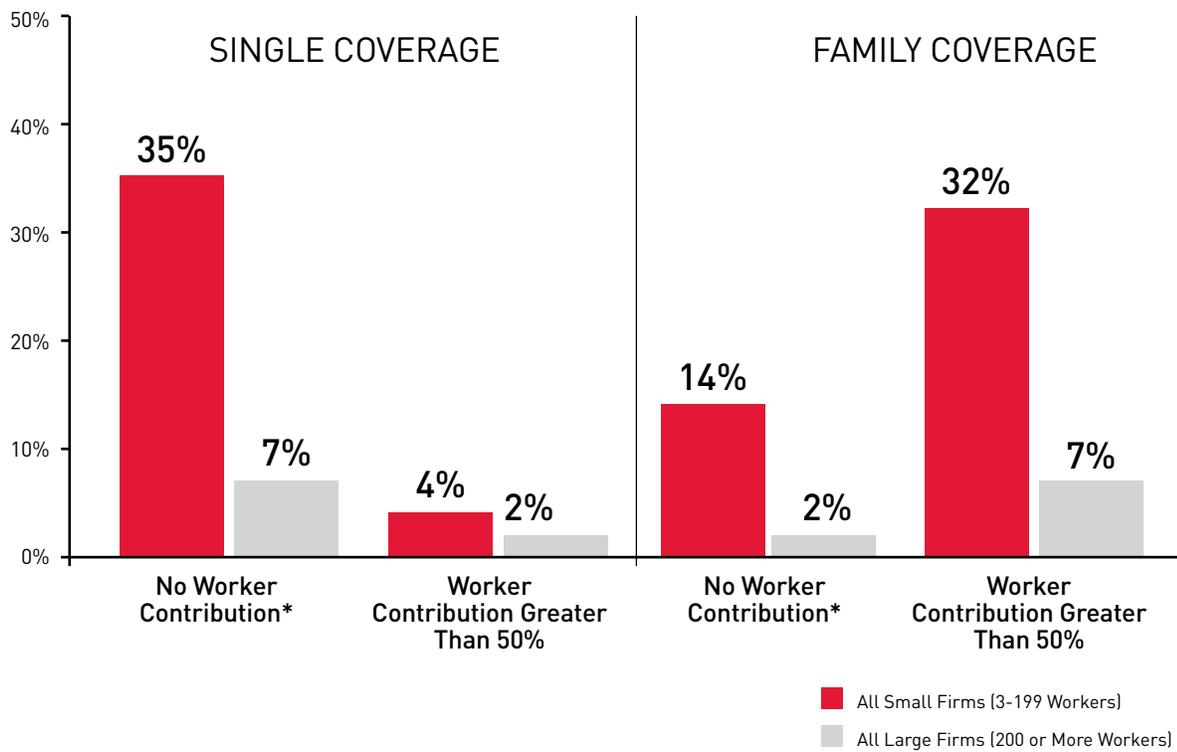
Evidence from our survey shows employers are, indeed, offering fewer plan designs to employees. We can infer their reasons. Anecdotally, we know employers are trying to control costs (often by eliminating high-cost plan options) and secondarily reduce the complexity of maintaining multiple relationships (with their related difficulties).

Fig 4. Cost Impact on Number of Plan Options



Some employers are still supplying health insurance at no cost to employees; more often for single coverage; less so for family coverage. It is also true that the number of employers who require employees to pay for 50% or more of their premium cost is significant.⁵

Fig 5. Percentage of Covered Workers with No Premium Contribution or a Contribution of Greater than 50% of the Premium, 2011

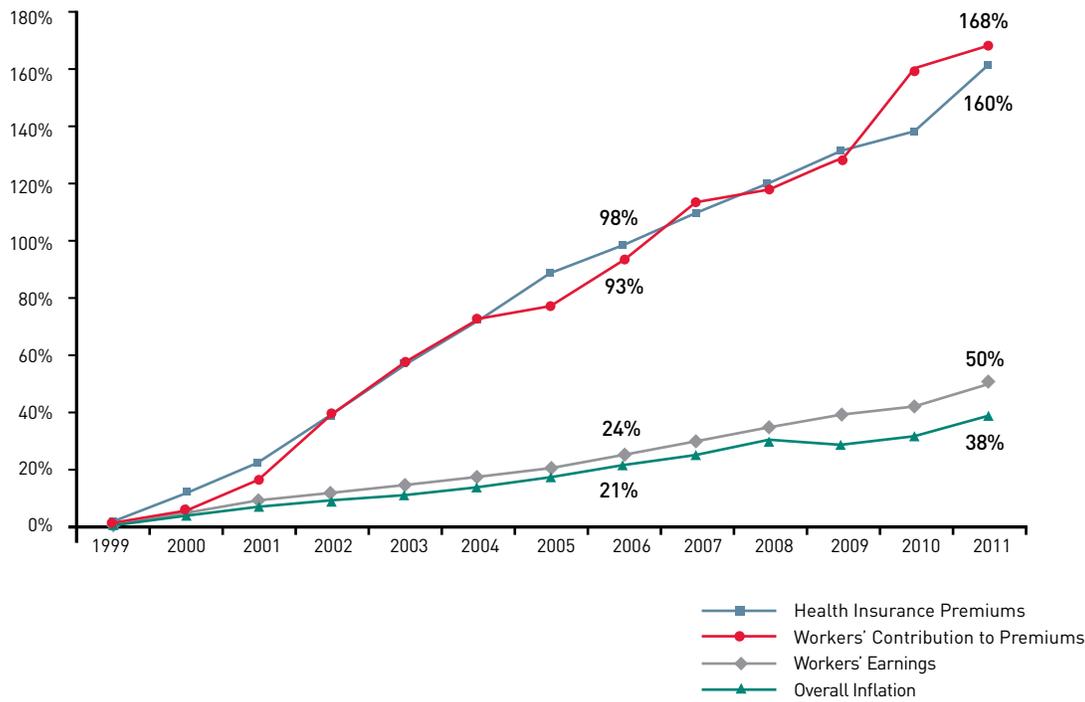


*Estimate is statistically different between All Small Firms and All Large Firms within category ($p < .05$).
 Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2011.

⁵ Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2011. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation, 1999-2011; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2011.

Data from the Kaiser Family Foundation and the Health Research and Educational Trust shows employee contributions rising at nearly the same rate as those of employers – and at a rate greater than the increase in wages.⁶

Fig 6. Cumulative Increases in Health Insurance Premiums, Workers' Contributions to Premiums, Inflation, and Workers' Earnings, 1999-2011

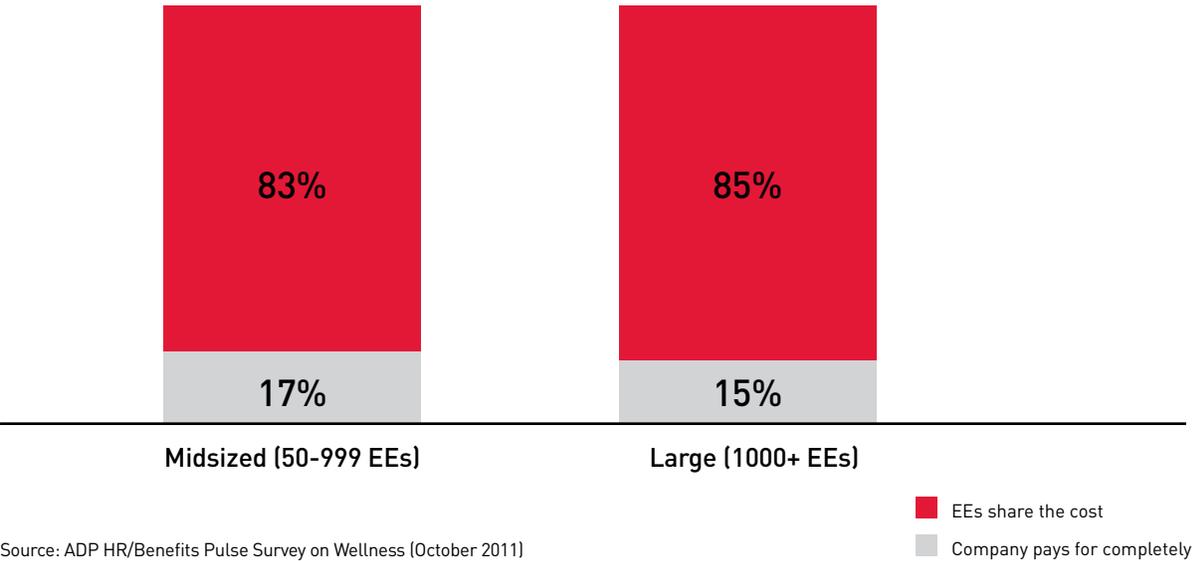


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2011. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation, 1999-2011; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2011.

⁶ Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2011. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation, 1999-2011; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2011.

More recently, employers have asked employees to share or increase their share in those costs. In fact, our findings show that today only 17% of mid-sized companies and 15% of large companies pay the total cost of health insurance for their employees.

Fig 7. How Health Insurance for Employees is Paid For



This cost-sharing arrangement has reduced the health care cost burden on employers. But, have there been unintended consequences in employing these strategies?



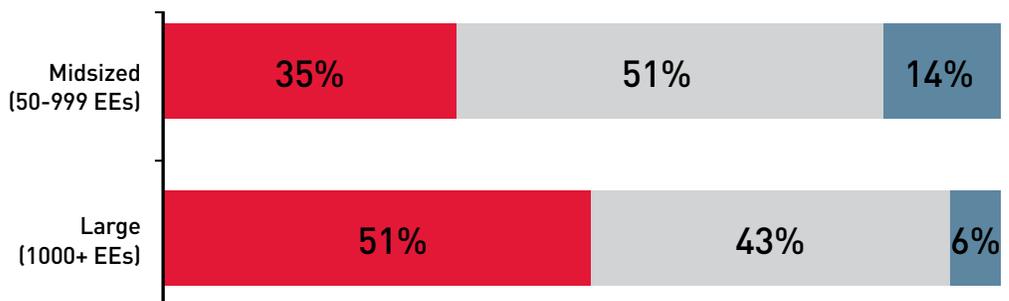
Morale and Job Satisfaction

MetLife conducts an annual survey of employee morale.⁷ The last published results demonstrate alarming statistics, which some believe are related in part to the recent recession. Employers admit they have been absorbed in the recession for the past three years. This is not surprising, as protecting the financial vitality of the business is their first priority. But, some would assert that this indicates employers may not have been attending strongly enough to the vitality of their workforce.

The MetLife survey also shows employee loyalty has declined year over year, and is now at a three-year low. On the other side of the same coin, employees perceive less loyalty from their employers than the year before. Employees may be right about this. The same survey shows that employers assume unwavering loyalty and appear to be unaware of the downward trend in employee loyalty. Employers may be taking employee retention for granted.

Notably, the MetLife survey shows that one in three employees is a “flight risk.” What does this have to do with health care benefits? We wanted to find out. Thirty-five percent of the HR / benefits decision makers we surveyed in mid-sized companies and 51% in large companies indicate that shifting the cost of health care to employees has had a negative impact on morale and job satisfaction.

Fig 8. Negative Impact on Employee Morale and Job Satisfaction



Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

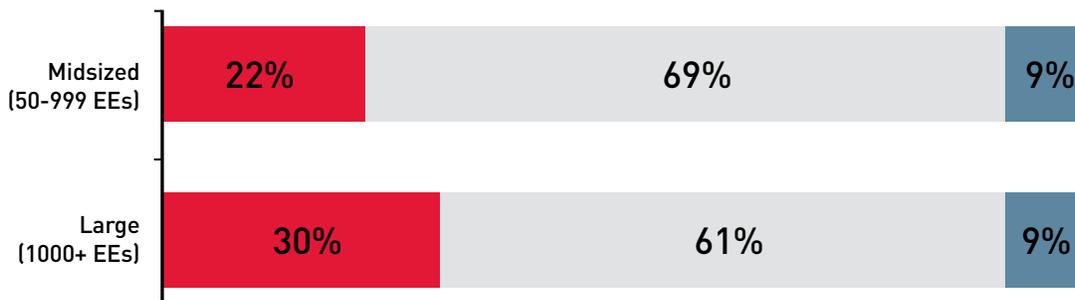
Yes No Don't know

⁷The 9th Annual MetLife Study of Employee Benefits Trends, 2010

Retention

Does shifting the cost of health care to employees mean employees will leave their current employer? The survey results reveal that employers don't think so, at least they don't believe employees will leave in huge numbers.

Fig9. Negative Impact on Employee Retention



Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

■ Yes ■ No ■ Don't know

However, if we compare this result with the results of the MetLife Eighth Annual Survey of Employee Benefits⁸ we may be surprised. In this MetLife survey:

- 49% of employees agreed with the statement, “The employee benefits offered to me were an important reason why I came to work for this employer.”
- 60% of employees agreed with the statement, “The employee benefits offered to me are an important reason why I remain with my employer.”

This contrast might be characterized as “employers beware” and indicates that employers should be mindful of the importance of benefit costs to their employees.

⁸ MetLife 8th Annual Study of Employee Benefits Trends, 2010

Productivity and Absence Management

One might assume that employees who experience low morale and low job satisfaction and are considering leaving their job might also be absent more often. A review of various literature on the topic generally does not find this to be true – at least as reflected in several meta-analyses^{9,10}.

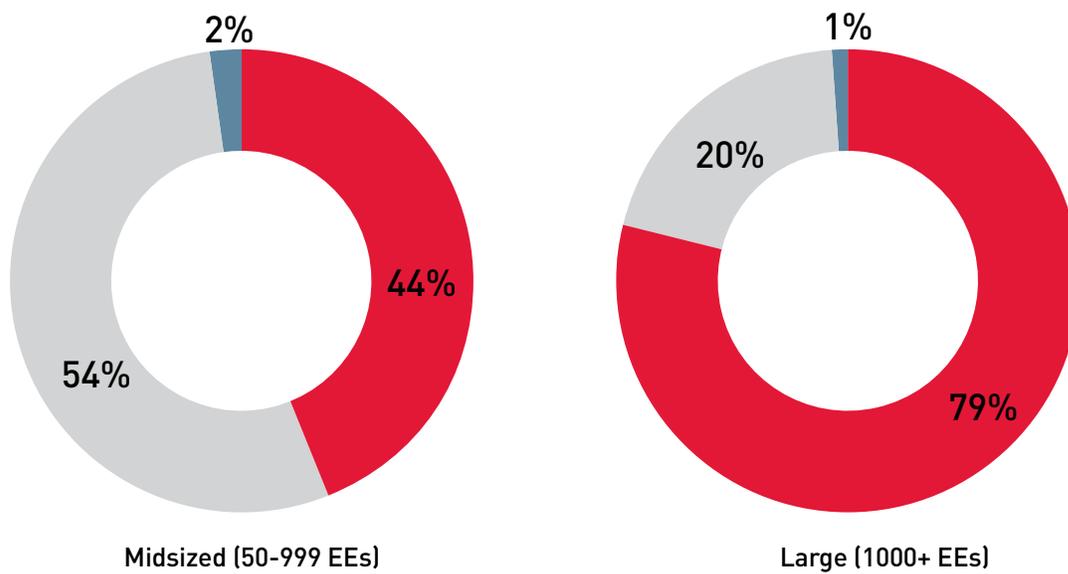
According to our survey, respondents indicate excessive absenteeism is a concern for only one-quarter of mid-sized and large companies. Not surprisingly, they're not thinking about engaging absence management programs, either.



Wellness

In our survey, 44% of mid-sized and 79% of large employers who responded indicated they are offering wellness programs.

Fig 10. Are Wellness Programs Offered to Employees?



Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

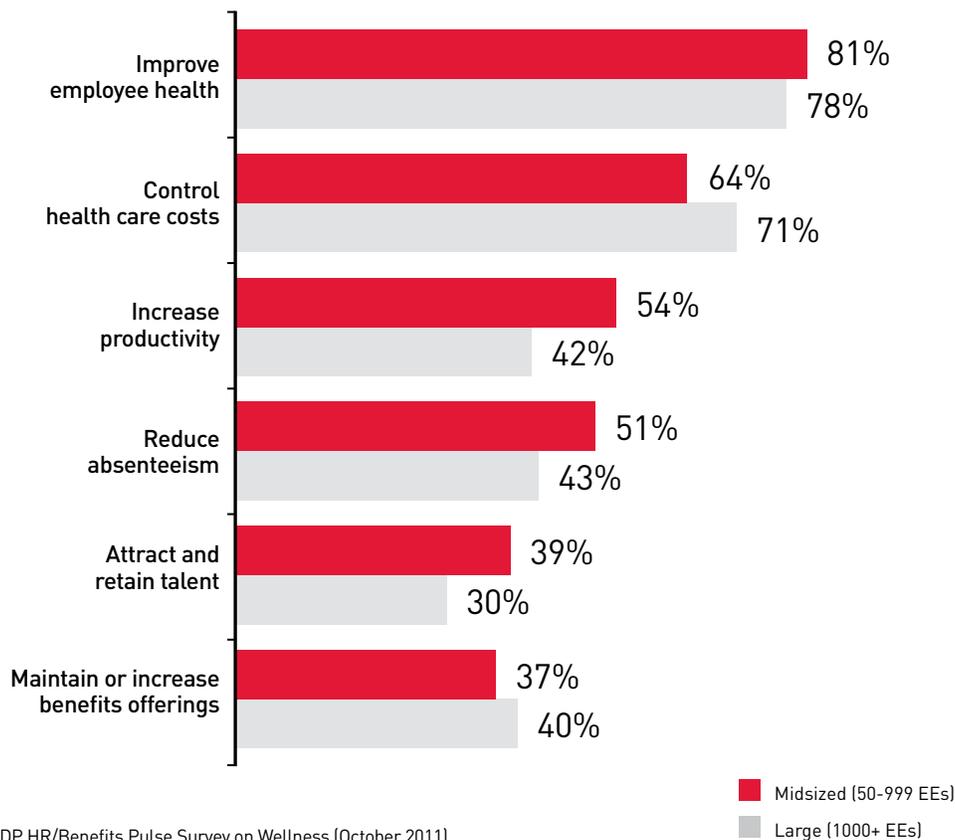
Yes No Don't know

⁹ Griffeth, R.W., Hom, P.W., & Gaertner, S. (2000). A meta-analysis of antecedents and correlates of employee turnover: update, moderator tests, and research implications for the next millennium. *Journal of Management*, 26, 463-488.

¹⁰ Harrison, David A. & Martocchio, Joseph J. (1998). Time for absenteeism: A 20-year review of origins, offshoots, and outcomes. *Journal of Management* 24, 305-350.

Reasons for doing so are varied. Employers are most interested in improving employee health, closely followed by controlling health care costs. Additionally, a third or more are interested in attracting and retaining employees, and maintaining or increasing benefits offerings.

Fig 11. Why Wellness Programs Are Offered



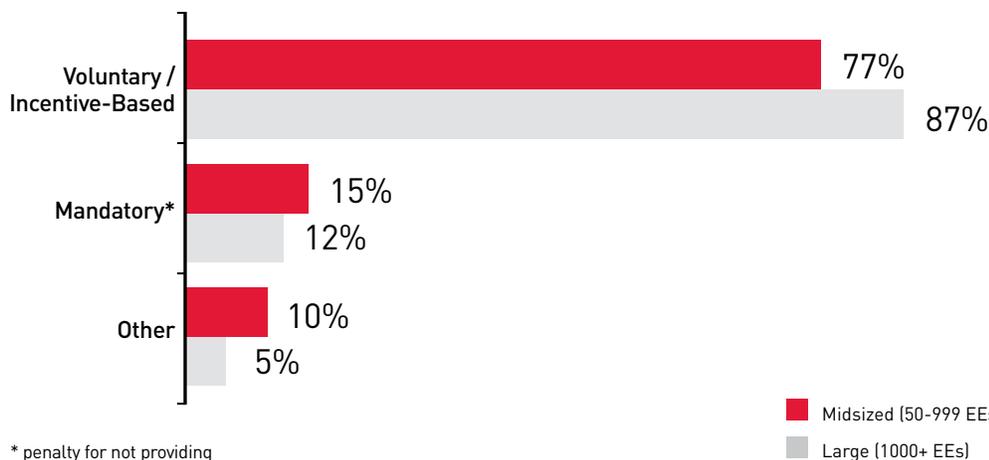
Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

Does this mean that a wellness program is the answer to the dilemma faced by employers who must control health care costs while maintaining morale and job satisfaction? We did not address this in our survey, and the results in various pieces of literature in the marketplace are not conclusive. It does appear, however, that employers are making a bet on wellness programs as evidenced by the high percentage of employers offering them.

Our survey indicates that midsized companies have been offering wellness programs to employees for about six years and large employers for about six and a half years. More impressive is that an average of 51% of employees in midsized companies and 39% of employees in large companies participate in these programs.

Why are employees participating? Because programs offer services employees value? Because employers are providing incentives or making the programs mandatory? Because the programs are promoted by employers? We don't know the answer to these questions, but we do know that employers perceive wellness programs as important enough to establish and maintain them for many years and invest in incentives either directly (payment for certain behavior) or indirectly (through contributions to related programs, etc.).

Fig 12. Types of Wellness Programs Offered

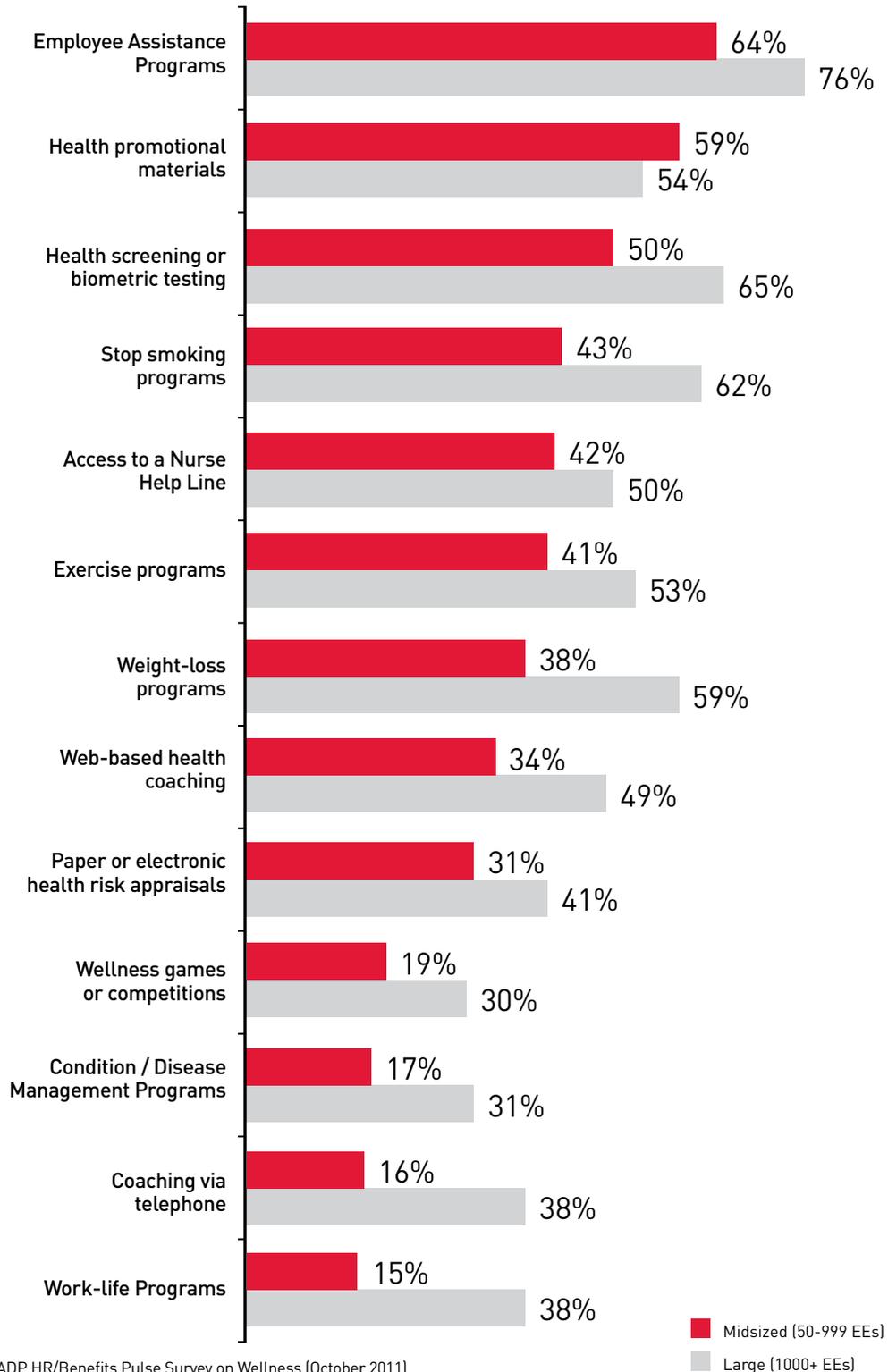


Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

A large variety of programs and interventions make up the various types of wellness programs offered by midsize and large companies today.

Our survey finds that wellness programs offered in midsize companies include an average of five programs or interventions and in large companies the average is six. Employee Assistance Programs (EAPs) are the most common component of wellness programs in both midsize and large companies. Other programs and interventions vary by company size.

Fig 13. Components Included in Wellness Programs



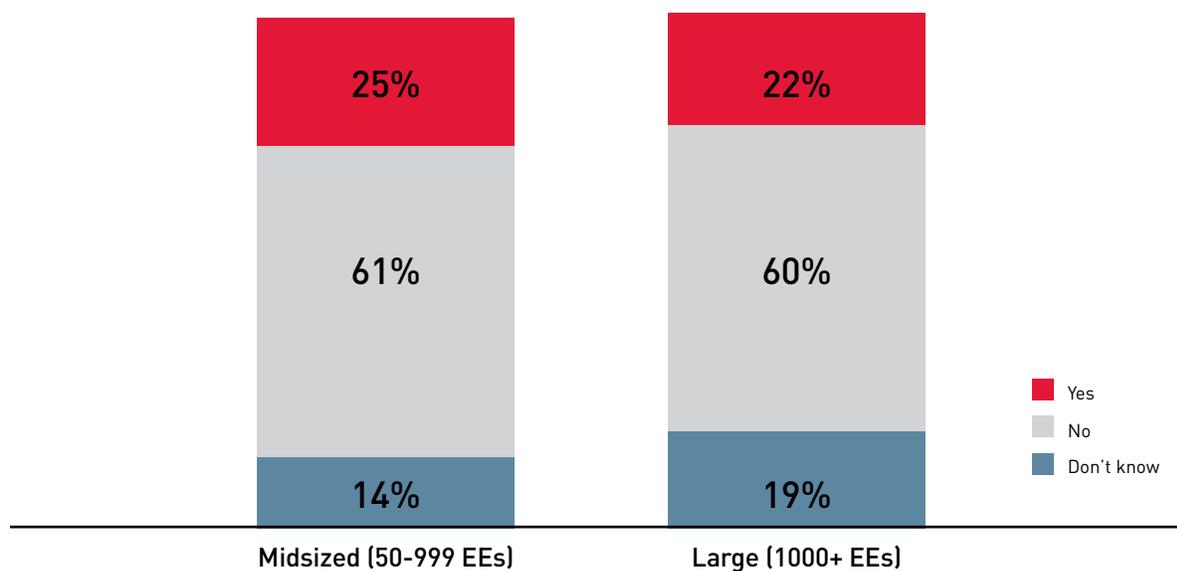
Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

Assessing Value

Return on Investment (ROI) is still the “gold standard” in assessing the value and effectiveness of a wellness program, but it appears there is interest in softer measures as well.

Our survey results show that, currently, one-quarter of midsized companies and slightly more than one-fifth of large companies measure the ROI of their wellness programs. Among all companies who offer wellness programs 30% of midsized companies and 25% of large companies do not measure ROI and don't plan on doing so.

Fig 14. Return on Investment (ROI) Measured



Source: ADP HR/Benefits Pulse Survey on Wellness (October 2011)

Whether or not an employer measures ROI, the data indicates they are keeping track of what their senior executives think. A majority of midsized companies (53%) and large companies (60%) report that the wellness programs they offered met or exceeded expectations in regards to reducing overall health care costs.

Conclusion

Wellness program offerings appear to be of value to employers as they seek to address employee health, the rising cost of health care, employee morale and satisfaction, and, to a lesser degree, productivity.

Wellness programs are viewed positively by employees (at least as assessed by the number of those who participate) and deliver an acceptable Return on Investment (ROI) – or at least to the point where senior executives are satisfied with the results.



About the Survey

The ADP Research Institute conducted the ADP HR / Benefits Pulse Survey on Wellness in October 2011. This survey is one of the quarterly thought leadership studies conducted among HR and benefits decision makers on topics of current interest.

Decision makers in midsized (50-999 employees) and large (1000+ employees) organizations, across the United States, were surveyed to better ascertain the incidence of and attitudes toward the role of wellness programs within their overall benefits structure.

Research Methodology

The ADP HR / Benefits Pulse Survey on Wellness in October 2011 includes input from 507 HR / benefits decision makers in U.S. enterprises. These respondents include 254 participants from midsized organizations (those with 50-999 employees) and 253 from large organizations (those with 1,000 or more employees).

Statistically projectable samples of 254 midsized respondents were interviewed in each of two size groups: enterprises with 50-99 and 100-999 total U.S. employees; and 253 large respondents were interviewed in each of three sizes: 1,000-2,499, 2,500-9,999, and 10,000 or more total U.S. employees. The resulting data achieved statistical reliability at the 95% confidence level both overall and in each of the size groups.

Respondents had to be key decision makers (evaluators, recommenders, final decision makers) for employee benefits policy or major benefits system or service purchases within their enterprises.

Five out of every 10 (50%) midsized respondents and 4 in every 10 (40%) large respondents were the actual heads of HR or employee benefits within their organizations.

About the ADP Research Institute

The ADP Research Institute is a specialized group within ADP that conducts studies on current topics of interest to Human Resources and payroll professionals.

About ADP

Automatic Data Processing, Inc. (NASDAQ: ADP), with about \$10 billion in revenues and approximately 570,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging over 60 years of experience, ADP offers a wide range of human resource, payroll, tax and benefits administration solutions from a single source. ADP's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world. For more information about ADP or to contact a local ADP sales office, reach us at **1-800-CALL-ADP (1-800-225-5237)** or visit the company's website at **www.ADP.com**.





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