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Emerging Risk Bulletin
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The Society of Actuaries (SOA) has brought together several leading enterprise risk management (ERM) actuaries to identify the top concentrated areas of risk in 2012 and provide insight on how ERM programs can be used to hedge against those systemic risks. With rigorous training in identifying, managing and mitigating risk, actuaries are well-equipped to discuss the areas of risk that need attention as we work to rebuild the financial system post-crisis.

The Biggest Healthcare Cost Risk…A Missed Opportunity

With excessive medical, disability and mortality costs pegged at $300 billion for a single year by a recent study[1] commissioned by the Society of Actuaries Committee on Life Insurance Research, it's no surprise that virtually every organization today – public as well as private – is exploring ways to cut its healthcare cost line. Many organizations increase employee co-pays and deductibles or incentivize employees to lose weight or quit smoking. There is a silver lining in the dark cloud of ever-rising employee healthcare costs however, and it is a "missed opportunity" for too many companies – well-structured, integrated wellness programs.

"More than 81 percent of America's businesses with 50 or more employees have some form of health program, the most popular being exercise, stop-smoking classes, back-care programs and stress management," according to The Wellness Council of America (WELCOA), but it says, "… only worksite health promotion stands out as the long-term answer for keeping employees well in the first place. Worksite wellness is health care reform that works."

Fifty-two percent of employees surveyed about their wellness programs agreed that they had more energy to be productive at work, and 41 percent agreed that wellness benefits encouraged them to work harder and perform better[2], according to the Society of Human Resource Management (SHRM).

Too many companies – despite their best intentions – work against their own best interests. They encourage company cultures that work against the health of employees… a fast food lunch at the desk, late working hours, and skipping a meal or exercise to beat a deadline or serve a client. Working harder and longer hours is viewed as heroic, the stuff of corporate legends in many business cultures.

Traditionally, actuaries have been called upon to model the implications of ever-rising healthcare costs for employers, detailing rising cost scenarios and illustrating the potential financial benefits of incremental changes such as increased deductibles and co-pays. Ironically, it is actuaries who have the skills and tools to deliver the good news by illustrating the potential benefits from improved employee health and productivity, according to Andrew Sykes, ASA, and Chairman, Health At Work Wellness Actuaries, Chicago.

"Too many American companies are missing a very real, potentially profitable opportunity that also can give them a competitive edge in the marketplace," said Sykes. "C-suite executives frequently are surprised to discover the "math of wellness" when the opportunity side of health is modeled for them." Watch video here.

While most research focuses on the risk side of healthcare's rising costs, there is significant existing research on the opportunity side that makes a compelling case for integrated wellness. A team of researchers led by Leonard L. Berry of Texas A&M University, Ann M. Mirabito of Baylor University and William B. Baun of the University of Texas MD Anderson Cancer Center, reported that "the return[3] on investment from comprehensive, well-run employee wellness programs can be as high as six-to-one, when the programs were designed on six essential pillars." These researchers looked at "10 companies in a variety of industries, including American icons, such as Johnson & Johnson and Lowe's, as well as lesser-known companies such as Comporium Communications. What they found is that employee wellness programs built on all six pillars have resulted in lower costs, greater productivity and higher morale."

To better understand the potentially positive impact on both costs and employee performance, executives need only turn to actuaries who can model the potential returns from integrated wellness programs. Using their mathematical modeling and risk management skills, actuaries can assess the changes to ever-increasing healthcare costs and bring into focus a fresh perspective on the equally important positive impact of improvements in employee productivity and health.

In some respects, this new perspective is similar to what has happened in the quality improvement arena, said Sykes. Once executive decision-makers shifted their the focus from "flaws and the loss rates" to the systemic benefits of improving quality, not only did their loss rates go down, but overall quality and productivity improved throughout the system.

In the midst of the extensive debate swirling around healthcare, many CEOs and CFOs understandably have taken a "wait and see" position on changing their healthcare programs. What they are missing out on is the opportunity to start today to build their longer-term, improved healthcare cost – and productivity – profiles.

For more information, please contact:

Lisamarie Lukas
The Society of Actuaries
847.706.3566
llukas@soa.org

Mary Pettersen
Burson-Marsteller
312.596.3519
mary.pettersen@bm.com

[1] http://www.soa.org, *"Obesity and its Relation to Mortality and Morbidity Costs"* December 2010

[2] http://www.shrm.org/hrdisciplines/benefits/articles/pages/easethepain

[3] http://www.businessnewsdaily.com/419-employee-wellness-programs-have-healthy-roi.html