



Designing and testing a Return on Investment tool for EAPs

Final report

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Context and project aims

The increased concern among employers about the health and wellbeing of their employees is, in part, a reflection of the increased need for support which these employees have, and a growing willingness for them to ask for it. This has had a number of consequences:

1. What gets defined as a 'health' issue in modern workplaces has undergone something of a transformation with a recognition that a narrow clinical model might not be sufficient to reflect the wider family, caring and financial challenges which confront working-age people at different lifecycle and career stages.
2. There is more of an appetite for supporting individuals to take more control over their health and wellbeing, and a shift away from wholly paternalistic interventions and towards those which promote self-management, lifestyle and behavioural change.
3. More employers are looking to develop both a moral and business case for investing in workplace health interventions – informed by a recognition that supporting employees in these ways is both the 'right thing to do' and a sound business investment in an appreciating asset.

This is not to say that the business case for investing in workforce health has become any less important, especially among the approximately one in five of organisations who still need to be convinced that the investment can ever yield a worthwhile. Likewise, there are some who retain the conviction that, beyond their legal duty of care, the health of their employees is none of their business. Sadly, even among employers who do take workforce health seriously enough to dedicate resources to promoting it, many still find it hard to evaluate the impact of their efforts and to establish whether they get any kind of return on their investment (ROI).

Employee Assistance Programmes (EAPs) are the most commonly used workforce health intervention in the UK with close to half of the workforce (a total of almost 14m) having access to an EAP via their employer – an increase of 300 per cent in just over a decade. Despite their popularity and the faith that so many employers place in them, very few providers or their clients are able to collect systematic evaluation data beyond 'take-up' or utilisation statistics and satisfaction surveys. In a 2016 the Employee Assistance Professionals Association (EAPA) -funded review of current usage in the UK (Bajorek, 2016), the Work Foundation found that there were a number of methodological barriers to conducting detailed and systematic evaluations of ROI. Nonetheless, it suggested that most EAPs, at minimum, covered their costs and that more work could be conducted to identify the main components of both costs and benefits at employer level. In response, EAPA asked the Institute for Employment Studies (IES) to carry out further applied research building on the Work Foundation analysis and focused on the development and testing of an accessible, spreadsheet-based ROI tool for employers. This report briefly summarises the findings of this work.

Objectives of the project

The project had three objectives:

1. To identify the data sources which might be routinely available to quantify both direct and indirect costs and benefits of EAP use at workplace level.
2. To develop a simple, spreadsheet-based costing tool which can be used by HR professionals to capture workplace data on employee sickness absence and productivity losses, to estimate the impact of EAPs on these outcomes and to quantify the net benefit from increasing take-up.
3. To produce a simple online user guide and 'calculator' tool which employers can access with their own data to assess the potential benefits of investing in EAPs.

The next section explains how the tool was developed, the source material and assumptions which underpinned it.

Developing and testing the ROI tool

In developing an ROI tool, IES carried out the following activities:

1. Scan of ROI literature.
2. Design of a data collection instruments.
3. Drafting the spreadsheet tool.
4. Testing and refining the tool.

Each stage is described in more detail below.

The ROI literature

It is no longer controversial to say that healthy workers are productive workers (Coats and Max, 2005). Yet employee health is a business priority only infrequently. It should be acknowledged, however, that a growing number of employers in the UK are adopting measures aimed at promoting health and wellbeing among their employees. These, often larger, organisations have recognised that the workplace can be used to promote or reinforce healthier working practices and lifestyle choices. They also know that they can influence several aspects of their employees' physical and psychological wellbeing in ways which can improve their productivity, commitment and attendance. This includes providing good quality jobs which allow employees more control, autonomy and involvement in the way their work is done (Coats and Lekhi, 2008). However, these enlightened employers are still in the minority.

Many others see employee health and wellbeing as the private concern (and responsibility) of workers, or narrowly confined to the need to comply with health and safety legislation. This can amount to a '*do no harm*' mentality which is all too common among many organisations today. Yet, there are many who argue that employers cannot justify this somewhat short-sighted position for much longer.

Dame Carol Black (2008), in her report to the UK government on the health of the working-age population concluded that, among other things, UK employers are bearing a significant proportion of the wider economic costs of ill-health, chronic disease and incapacity. If anything, Black argued, the situation is likely to get significantly worse over the next two or three decades as the workforce ages and as the burden of chronic disease increases (Vaughan-Jones and Barham, 2009).

Overall, then, the evidence suggests that the '*do no harm*' philosophy is likely to be unsustainable on its own and that more employers – especially small and medium-sized employers (SMEs), where most people in the UK work – will need to re-think their role in promoting wellbeing as both a business imperative and as part of their wider social responsibility. But, why would employers devote energy or resources to interventions

aimed at improving the health and wellbeing of their employees? What evidence is there that business benefits will accrue from such ‘investments’ and, in any case, isn’t employee health primarily the responsibility of healthcare providers, social insurance schemes and individual employees themselves?

There are at least eight domains where there is powerful evidence to support a so-called ‘business case’ for investment (Cooper and Bevan, 2014):

- Reduced sickness absence from work.
- Reduced accidents at work.
- Improved employee retention.
- Higher employee engagement and commitment.
- Higher labour productivity.
- Reduced ‘presenteeism’.
- Enhanced employer ‘brand’.
- Greater employee resilience.

One of the challenges in this field, however, has been to capture data of sufficient quality to demonstrate that interventions to improve workforce health are both effective and justify their costs. There has been a steady flow of literature on the return on investment of a variety of workplace health interventions over the last 30 years. Much of it originates in the USA where employers bear significant healthcare costs and have a direct financial interest in improving workforce health and promoting early intervention/referral and rapid return to work. While this work is helpful in building an understanding of the components of cost and the nature of the benefits which can be derived, much of this literature is of only limited use in the UK context because:

1. It is frequently conducted by providers and, as a result, may be of questionable independence and rigour.
2. The larger range of costs borne by US employers makes the transferability of the findings of only limited value.

Nonetheless, some of the studies, especially those with worked examples from real businesses can shed some helpful light on the methods which can be used to calculate a return on investment. For example, Flanagan and Ots (2009) identified three types of potential financial benefits from EAPs to assess an employer’s financial ROI: a healthcare value component, a human capital value component (representing savings in reducing sickness absence, presenteeism and labour turnover, and improving productivity and engagement), and finally the organisational value component – for example, cost savings relating to lower safety risks, reduced grievances and legal claims and positive benefits from improved employee engagement. A summary of further studies highlighted by Bajorek (2016) appears in Annex 1.

In summary, our examination of previous research has found that, although EAPs have the potential to improve the health and wellbeing of organisational employees, employers

are increasing their attention and focus on how EAPs can provide services which also demonstrate economic effectiveness and a Return On Investment (Jacobson and Jones, 2010). However, currently there are a limited number of research studies looking at the economic costs and benefits of EAPs. What's more, many of the studies conducted, because of the methodologies used to undertake the research, have led to tentative conclusions (McLeod, 2008). The studies that have been undertaken, in general, suggest that EAPs do cover their costs in terms of economic savings for organisations, but it is clear that many questions regarding the ROI of EAPs (and whether this changes over time) are yet to be answered. Research into ROI has been slow but is becoming of greater importance as there is a growing concern that some providers are now competing on price and may be compromising quality as a result.

Design of a data collection instrument

In designing an accessible data collection tool which could help employers estimate the ROI of EAPs, it has been important to balance the need for robustness and credibility with the need for straightforward functionality; and to be based on data which employers actually hold and can lay their hands on quickly. This has meant trying to overcome some deceptively complex methodological challenges.

When attempting to calculate the financial impact of a workplace health intervention, there are two common challenges which need to be addressed. The first is the estimation of the direct and indirect costs of sickness absence to an employer, and the second is to establish a credible approach to quantifying the costs (and benefits) of productivity losses (and gains). In developing the EAPA/IES tool we have taken into account a number of considerations drawn from previous research.

Sickness absence costs

Only a minority of UK employers routinely calculate the cost of sickness absence and, if they do, they are most likely to multiply the number of working days lost by the direct daily salary costs of the employees who are absent. Broadly, this is known as the 'human capital' method and it is, by some margin, the simplest to calculate and the easiest to understand.

Building on this approach, some studies (Bevan and Hayday, 2001) have attempted to add to the utility of this measure by differentiating between the direct and indirect costs of absence. This takes the direct costs of salaries paid to absent workers and includes supplementary items such as National Insurance costs and the costs of benefits, bonuses etc. Other indirect costs such as the costs of overtime payments or temporary staff caused by the need to organise absence 'cover', and the so-called 'displacement' costs of line management and HR time in dealing with the consequences of absence have also been added. Interestingly, it is frequently the case that absence among more senior staff is not 'covered' by colleagues or temporary staff whereas the work of junior or 'support' staff is. This means that the indirect costs of absence can be higher (as a proportion of salary costs) for more junior absentees.

It is often argued, however, that even this more nuanced human capital approach to costing sickness absence only rarely realistically reflects the way that businesses get the work of absentees done and the way they organise cover. The argument is that the human capital approach can overstate the costs of absence and that the so-called ‘friction cost’ method is a more accurate way of capturing the real cost incurred by employers (Koopmanschap et al, 1995). This method makes assumptions about how long the work of an absent employee is left undone and recognises that productive and value-generating work outputs can be produced even when the employee is absent. The conundrum here is that the friction cost method is often more accurate than the human capital method, but that it is far more complex to calculate, and it is not a simple or reliable way of comparing absence costs within an organisation, and especially not between organisations. In practice, therefore, the human capital approach is simpler, although estimates based on its use may be exaggerated. In this project we have used the human capital approach but have sought to add realism to cost estimates based on it by making assumptions about the balance between direct and indirect costs.

Presenteeism and productivity costs

In recent years the evidence base with regard to ‘presenteeism’ has grown significantly (Johns, 2010; Ashby and Mahdon, 2010; Garrow, 2016). In addition, the robustness of the measures used to quantify the extent and costs of presenteeism – especially lost productivity – has improved considerably (Centre for Mental Health, 2007; Bolge et al, 2009).

One challenge is to find a reliable way of estimating the productivity gains associated with improved wellbeing and in designing the EAPA/IES ROI tool we were keen to find a widely accepted method for calculating labour productivity costs and gains. Here, it is becoming increasingly common to borrow a method of conducting utility analysis from the field of human capital measurement and personnel selection.

The so-called ‘standard deviation of job performance’ approach to valuing employee productivity is based on experts, mostly supervisors, reviewing a range of employees and estimating the monetary value of different points on presumed-normally-distributed job performance. Usually, the 15th, 50th and 85th percentiles have to be specified. The mean of the differences between the 50th and 15th, and between the 85th and 50th percentile, is used as the standard deviation estimate, provided the differences do not differ significantly. The 50th percentile is sometimes provided as an anchor.

Rules for valuing employee productivity using this method were developed by Hunter and Schmidt (1982), who reviewed empirical studies providing estimates of standard deviation and concluded that the average falls in the range of 40 per cent to 70 per cent of average salary. This simple proportional rule has been used in many utility studies since it is an easy to use method. Indeed, most studies use the lower figure (40%) to use as an estimate of productivity gain (or loss) in studies relating to wellbeing, sickness absence and presenteeism (Holling, 1998). As we will see, this estimate of productivity as a proportion of average salary has proved a useful basis for the development of the IES/EAPA ROI tool.

Drafting the spreadsheet tool

In the initial stages, IES contacted three organisations to gather data about their patterns of absence, their absence costs and the ways that absence was managed. This allowed us to assess the types of absence data which were routinely being recorded and reported, and to examine the extent to which employers were able to estimate the productivity benefits of interventions such as EAPs and the areas of the organisation or staff groups where the cost burden of absence was higher or lower.

We then drafted a spreadsheet tool which:

1. aimed to collect data likely to be available in most organisations;
2. enabled employers to include reasonable estimates where they did not have precise data;
3. built plausible assumptions based on previous research into the 'formula' cells of the spreadsheet; and
4. allowed the editing of the key data input fields so that scenarios could be explored by the user.

The main elements of the tool are as follows.

Input page

Here the user is required to input data or informed estimates into the following fields:

- Number of employees.
- Annual cost of EAP per person.
- Absence data:
 - Days lost per employee per year.
 - Absence costs per employee (if the employer does not have this figure, a default figure based on Chartered Institute of Personnel and Development (CIPD) data is included).
 - Reduction in absence levels estimated to be attributable to EAP use (again, if no data is available, default figures are used based on results from previous research).
- Productivity data:
 - EAP utilisation rates – the percentage of staff using the EAP in the current year.
 - Productivity – the value of a fully productive employee (based on the Holling (1998) estimate described above).
 - An estimate of the increase in productivity assumed to be achieved by reducing absence and presenteeism levels (again, assumptions based on research studies are included as a default and to guide scenarios).

Results page

This page provides a simple table of results based on the data entered by the user. It includes:

- Absence costs (annual costs – based on the human capital method but with a composite measure of direct and indirect costs based on previous studies). These costs are presented as estimates for both before and after the EAP intervention.
- Income from productivity gains – again, a pre- and post-EAP cost is calculated.
- Cost of the EAP intervention across the organisation per year.
- An estimate of the ROI – this is based on a simple estimate of the additional productivity benefits gained per £1 of intervention costs.

In addition to these results there is also a 'slider' facility on this page which allows the user to vary the value of each input value to ask 'what-if' questions. For example, it allows the assumption about the cost per employee of an EAP to be varied or the utilisation rates of EAPs to be raised or lowered. It is also possible to remove the data about productivity gains or losses completely from the tool so that an ROI figure based only on salary costs saved can be calculated.

Testing and refining the tool

The draft tool was presented at the EAPA AGM at the Health and Wellbeing at Work Conference in Birmingham in March 2018. A working version of the tool was placed on the EAPA website and employers were encouraged to explore the tool and to submit their data.

These data have been logged and aggregated and IES is now about to analyse an anonymised data set to identify:

- Patterns in the data – including an assessment of the range of values entered, input fields which have missing values, common errors or outlier values which suggest errors.
- The range of scenarios and ROI estimates which are derived by the use of the tool and the extent to which these vary according to the size of the employer, the kind of EAP product being used and the EAP utilisation patterns reported.
- Areas where the inputs to the tool might need to be refined, simplified or have more options added.
- Areas where the reporting of results (eg the way that the ROI values are expressed) might need to be updated or simplified.

The aim is to produce a fully revised and updated version of the tool based on these data, to update the instructions pages and to publicise the updated tool to a wider group of employers in order to build up a richer set of data.

Early indications from the data collected thus far suggest that the ROI of EAPs is very positive, and this is the case even with lower absence and utility figures.

Once a credible dataset including sufficient numbers is obtained, it is envisaged that EAPA/IES will publish a short paper highlighting the core findings and discussing ways that employers can include a more informed view of the likely ROI implications of purchasing decisions in relation to EAP options.

Annex 1: Key points from Bajorek, 2016 Literature Review

The Work Foundation report (Bajorek, 2016) summarises a number of other ROI studies:

- 'Highley and Cooper (1994) provide a description of the McDonnell Douglas study, who commissioned a cost-benefit analysis involving a longitudinal analysis of costs related to healthcare claims before and after the implementation of an EAP. The research did not attempt to calculate measures that could not be objectively measured, and the study found that the overall saving for the EAP population (compared with a control group) was \$5.1 million, and there was a Return On Investment of \$4:1. However, Masi (1997) reported this study compared employees who used the EAP for alcohol treatment with those who used their own mental health programme, and thus determined the alcohol treatment was most cost-effective.
- Maiden (1988) described a study undertaken by the US Department of Health and Human Services Employee Counselling Service, with an emphasis in the cost-benefit of the EAP service provided to all employees. The employees who had not used the EAP were viewed as the control group. The cost-benefit analysis showed that the programme should realise a Return On Investment of \$7:1 (predicted after six months of use).
- McClellan (1989) conducted a cost-benefit analysis of the Ohio state EAP, finding that the implementation of the EAP did not reduce health insurance costs or employee sickness absence, and there was no Return On Investment (the EAP did not offset its cost to the state government). However those who used the service did value the therapeutic services received, and rated the EAP highly.
- Blaze-Temple and Howat (1997) found that the EAP provided significant cost-savings, especially in terms of reducing sickness absence and employee turnover. When a cost-benefit ratio was calculated for those who had received counselling compared to those without, the EAP had paid for itself (1:1 ratio). However, the study also reported that those who had attended self-arranged counselling outside of the EAP also increased in organisational productivity, and the cost-benefit ratio was more beneficial than the EAP counselling.
- Dainas and Marks (2000) found an overall 2:1 cost saving was reported in favour of an organisational EAP, as those employees (and family members) who had used an EAP had lower general medical costs and overall healthcare costs (although their mental health costs were still higher than those who had not used the EAP). Similarly, Klarreich, DiGiuseppe and DiMattia (1997) calculated a cost-benefit ratio of 2.74:1 for organisational EAPs, in a study using the cost of supervisor times and absenteeism as factors measured.

However, with the increased interest in understanding whether organisations generate a ROI from their EAP, providers are concerned about pricing (Cekiso and Terblanche, 2015), as purchasers may be quoted differently for the same service. As a result, providers may submit lower prices. Therefore organisations may not only have to consider the price of EAPs, but also the quality of the service provided (Sharar and Hertenstein, 2006). Sharar and Hertenstein (2006) argue that the issue of the pricing of EAPs needs to be addressed, and what the cost should be for a quality service, otherwise price may become how organisations choose their EAP provider, rather than service provision, thus losing sight of the original mission of EAPs (Cekiso and Terblanche, 2015). Developing a method through which EAP providers can demonstrate ROI, will both aid an organisations decision to use EAPs, and reduce the probability that EAPs may be removed from organisations when they experience financial problems.

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