Perspectives on Commodity Pricing in Employee Assistance Programs (EAPs): A Survey of the EAP Field

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Employee Assistance Programs (EAPs), as an employer-sponsored benefit, help employees and dependents with work, personal and behavioral health concerns such as marital, family, emotional, job stress, drug and alcohol, legal and financial problems. EAPs typically offer some form of professional support, assessment, brief counseling and referral services using easy access and work-performance issues to drive those in need to seek help at the earliest possible time. EAPs are a first entry point for millions of American employees seeking professional assistance, predominantly provided to employers by outsourced vendors.

The Theory, Delivery Mechanism and Benefits of EAP

These outsourced EA vendors' predominate delivery model is a telephone call center as a "central" access point for service requests, along with the decentralized network of subcontracted, professional clinicians for face-to-face counseling in locations where the EA vendor has covered employees. EA vendors typically sell this model to employers at a capitated "per-employee-per-month" (PEPM) rate and then pay subcontracted clinicians (also know as "affiliates" or "network providers") at a fixed hourly rate, when they are used. Employees or dependents who request assistance with a personal problem usually endure a process similar to making a hotel reservation. They place a call and provide demographics to a "phone intake counselor" and, if phone counseling is deemed inappropriate, the client is given another phone number or transferred to a subcontracted clinician in or near his or her community of residence.

Many organizations adopt and maintain EAPs out of a widely held perception that they yield positive results, which may or may not be the case, depending on the vendor, the EAP model and other variables. The theory of an EAP is to provide help in areas where employee personal problems and employer performance and productivity concerns overlap. This theory assumes that employee personal problems, which may not necessarily be a diagnosable mental-health disorder, can progress into a disorder and result in higher medical, disability, workers' compensation and lost productivity costs over time. If employees (and eligible dependents) are encouraged and invited to access an EAP at the earliest possible time, before the problem worsens, the organization will mitigate or avoid unnecessary financial and human capital costs. The goal is to encourage employees to "self-refer" to an EAP before unresolved personal problems affect job performance issues. Since EAPs are "free" and confidential to covered employees, the absence of copayments, deductibles and out-of-pocket expenses makes them attractive to employees who like "hassle-free" access and do not want to file a claim or pay for services.

Of course, a segment of marginally performing employees who are unresponsive to normal supervisory action and do not "self-refer" to an EAP may have underlying personal, family or behavioral health problems interfering with effective job performance. These "troubled" employees may begin to face their problems when constructively confronted with the facts of unsatisfactory performance, a clear demand for improvement and a sincere offer of help through an EAP referral. In this situation, supervisors can confront employees on the basis of declining performance and motivate "in denial" employees or employees who are reluctant to ask for help to voluntarily pursue the use of a "free and confidential" service. This "supervisor referral" approach relieves supervisors of inappropriate diagnostic responsibilities and allows management to deal with employees with unresolved personal problems fairly and, at the same time, leave the decision to seek help via the EAP entirely up to the employee.

In both the "self" and the "supervisor" referral, the EAP's mission is to help employees who are distracted by the range of personal problem, to better cope with these problems, ultimately enhancing job performance, safety and productivity. The context of EAP intervention is not necessarily the personal restructuring associated with psychotherapy or addiction treatment, but the effects of problems on individual coping and occupational life. The theory of EAP intervention contends that EAPs can and do contribute to expense reduction and effective risk management, beyond the subjective testimony of improved clients and satisfied HR managers. Organizations with effectively implemented EAPs should eventually see outcomes such as reduced absenteeism, decreased medical and disability claims, fewer disciplinary problems and enhanced productivity.

Despite the growth and popularity of EAPs among U.S. organizations, benefits and HR purchasers have not studied these programs with the same intense scrutiny as other employer-sponsored health and welfare programs. Both employee assistance (EA) professionals and benefits purchasers lack information on the most critical issue facing the field, "commodification" (that is, treating EAPs as a commodity for purchase) and pricing as well as why this issue is critical. This qualitative study is an interpretation of perceptions of the top critical issue in EAPs from the point of view of key informants working in diverse roles in an EAP, based on a recent national field study. The paper reviews the methods of the study and analyzes the data relative to the foremost critical issue in the EA field — pricing.

Methods

This nonrandom sample began with the identification of key informants and leaders in the field to interview a diverse and representative sample. The initial list of participants contained several "experts" with varied and long-tenured leadership roles in the EA field, including:

- Executives in external national/international EA firms (mostly investor-owned companies offering EAPs and specialty insurance products and other services)
- Executives in external local/regional EA firms (EAPs based in not-for-profit health systems or proprietor-owned practices)
- Directors or labor representatives for internal programs (EAPs based within a company or government entity as a department)
- Researchers, consultants or program auditors (participants who do not operate an EAP but conduct research or evaluate EAPs)
- Board members or staff for an EA's professional associations.

The initial list was telephoned at random until at least one participant from each stratum (defined groups of participants) agreed to be interviewed. Access to these participants was enhanced via collegial networking and introductory e-mails and letters describing the study, along with appropriate informed consent materials. Participants identified other potential participants with extensive experience in the EA field and recommended others until the data seemed redundant. A total of 30 participants were interviewed in all regions of the 48 contiguous United States.

A simple interview containing an agenda for the conversations and some prepared questions was developed. The agenda was open-ended and viewed as a way to generate dialogue rather than a packaged approach to gather information. The interview guide posed the following three questions:

- What are the three most critical issues facing the EA field?
- What steps should the field take to address these issues?
- What are your predictions for the future of the field?

Data was evaluated through a process of content analysis and the identification of emerging themes. A template was constructed by examining field notes and responses to the set of questions, probes and prompts used by each interviewer. Chunks of data were sorted and clustered around nonredundant themes.

The study revealed four major themes:

(1) Commodification and pricing
(2) Demonstrating effectiveness through research
(3) Elevating quality through standards enforcement and
(4) Dilution of service from expansion and integration with work-life services.

The balance of this paper focuses on the first and most prevalent theme, commodification and pricing.

Primary Finding — Commodification and Pricing

The foremost issue confronting the field is commodification and pricing of EAPs, according to 94 percent of participants. Participants used the term "commodity" to mean that the characteristics of one EA provider are so similar to others that program differentiation and brand mean little, leaving low price as the critical factor in purchasing decisions. Commodification in this context is for purchasers to treat EAPs like they are mere commodities, such as basic products of agriculture. From the purchaser's perspective, EA vendors seem to have "product parity," so purchasing decisions become similar to traditional commodities such as corn and wheat. In proposals and marketing materials, EA vendors appear to have similar affiliate provider networks, call centers, promotional materials, online services, training manuals and so on. Buyers of EAPs have no reason not to overlook the financial (and even human) consequences of choosing one vendor or program model rather than another. When differences in quality are unapparent, purchasers believe they have a fiduciary obligation to frequently base decisions on the lowest bid.

One participant remarked: "From the human resources or benefits purchaser perspective, one EA provider and proposal is basically the same as the next one … vendors are essentially interchangeable … so purchase decisions are naturally based on the lowest price."

Current EAP Pricing

As previously mentioned, outsourced EAPs provided by vendors are typically calculated and bid on a capitated basis (that is, per-employee-per-year or per-month), although infrequently a fee-for-service plan is used. It is important to note that paying EA vendors on a fee-for-service basis provides a financial inducement to provide more services, while the financial incentives under capitation are to provide fewer services. Because revenues are fixed under capitation given the contracted volume of employees, EAP vendor profits rely on their ability to contain costs and service activity. An EAP vendor may suffer financially if usage exceeds projected thresholds and demands for services are higher than expected. An example from a participant who is employed by a large, national vendor illustrates how financing mechanisms affect vendor behavior. This participant conducted some internal, proprietary research that indicated his employer's capitated EAP plan with a six-session counseling model averaged less than two sessions per case. Conversely, his employer's fee-for-service plan, with the same six-session model, averaged nearly four sessions per case.

Based on data reported by Burke (1999), French et al. (1997), Melek (2002), Oss (2004) and the Corporations Against Drug Abuse (2005), Figure 1 presents annual ranges for EAP rates, although rates vary depending on several factors such as region, size of company, number of worksites, expected utilization and range of included services.

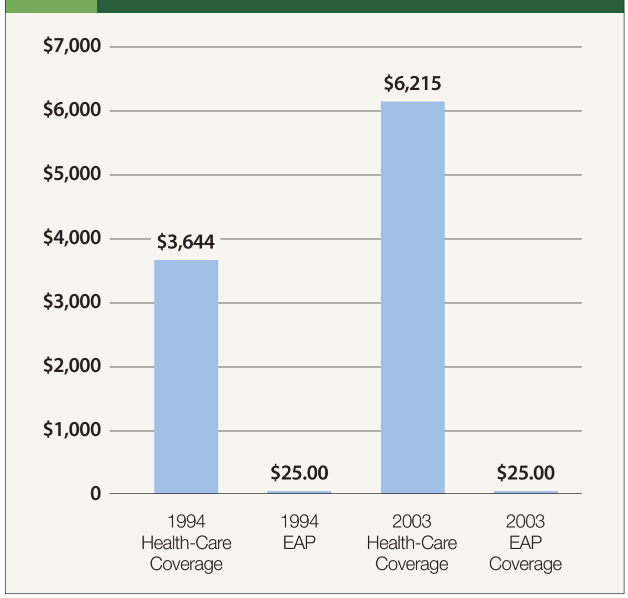
FIGURE 1 Annual Ranges for EAP Rates

▶ 1-3 sessions	\$19.00 – \$23.00
▶ 1-6 sessions	\$23.00 – \$25.00
▶ 1-8 sessions	\$25.00 – \$32.00
▶ Integrated EA/Managed Care Plan	\$64.00 – \$156.00

Why Prices Remain Low

Even though enrollment in EAP rose during the past decade, covered employee-per-year rates decreased (Oss 2004). While rates for employer-sponsored health care rose dramatically, the average price for an EAP declined. Deflation of EAP rates is in stark contrast to self-funded, employer-sponsored health costs, which have risen dramatically. Consider that the average cost per employee for health benefits coverage in 2003 was \$6,215, according to Mercer Human Resource Consulting, compared to \$3,644 in 1994 (See Figure 2). To put this in perspective, EAPs are far less than one-half of 1 percent of an employer's per-capita health-benefits cost, explaining why they perform their functions, albeit important, without close management oversight. EAPs are considered a minuscule part of the benefit budget, but EAPs are still vulnerable during budgets reviews and competitive bidding processes.

FIGURE 2 Cost Comparison of Health-Care Coverage and EAP Per Employee, 1994 and 2003



Participants do not understand how this has happened, although many suspect that competition and an oversupply of EA firms caused many EA providers to submit unrealistically low bids. Lacking a solid justification for price increases, EA vendors seem to rely on expanded sales, new geographies and cheaper applications for service delivery as primary strategies to address diminishing returns. The assumption is that providers hope to recoup the shortfall by (a) selling the employer a collateral product with a higher margin, such as executive coaching or organizational training, or (b) tightly manage costs by underresourcing the program. Participants suggest that underresourcing can manifest itself in ways that are insidious and concealed from the employer, such as:

- fail to promote the EAP
- provide mainly less-expensive telephone intervention
- offer six visits and average one (sell a six-visit model with the intention of only using one visit per case) and
- inflate utilization rates.

A couple of participants urged employers to consider what proportion of a capitated payment is actually spent on direct service delivery versus profit loads and administrative overhead.

Another contributing factor to commodification mentioned by several participants is the trend for EAPs to be bundled and sold through benefits brokers as add-ons or even free throw-ins with other employee benefits products, such as life or disability insurance. Lacking a sophisticated understanding of the benefits and the value of an effective EAP, some brokers obscure the essential ingredients of an EAP to purchasers, displacing true programs with cheap phantoms. One participant commented: "Historically, EAPs were sold via a direct discussion between an EA provider and a company decision maker or HR/labor advocate. Now, they are frequently buried in the general mix of employee benefits and sold by brokers as an afterthought... a kind of offer to help the employer save a few bucks and still have a pseudo-program. Once a purchasing decision based on the notion of corporate citizenship and good will, EAPs are now commodities based on low price, surviving in the shadows of large, national-managed care and insurance firms with little or no commitment to maintaining fidelity to a model that works."

Participants were divided into three groups regarding the question of who bears responsibility for the commodification of the EA industry. The first group targeted large, nationally managed behavioral health-care firms dominating the EAP market, claiming these vendors created the current predatory pricing environment. Driven by their intense desire to garner market share and recover the difference with volume, national vendors forced the evolution of the EAP into

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a commodity benefits plan. On the surface, these national vendors appear to offer clinical infrastructure, geographic coverage, appealing new "add-on" benefits and low prices to the uninformed benefits purchaser who may not be a "sophisticated" purchaser of EA services. This first subgroup of participants claims that large, nationally managed behavioral health vendors are adept at driving covered employee populations to "lower dose" and "cheaper" levels of service. This may take the form of "steering" clients to telecounseling or online approaches that are much cheaper than arranging and paying for face-to-face services with an affiliate network provider. The latter typically costs the vendor $65 to $95 per visit, excluding overhead expenses such as contracting and credentials verification. Despite this subtle shift in counseling mediums, utilization reports continue to proclaim high or acceptable levels of utilization in a specified employee population. According to one participant, "These reports are routinely submitted to human resources and benefits purchasers without any indication of how they were derived or what medium was used, reducing decisions regarding the EA provider's merits on unknown assumptions." Data contained in a report may represent a vibrant program with a 10-percent utilization rate, when in fact actual face-to-face counseling utilization is less than 1 percent and the balance of service requests is contained in telephone inquiries and Internet hits. The distinction between telecounseling and face-to-face visits is significant when telecounseling is used as a hidden method to ensure that capitated revenue exceeds expenses.

The second group criticized the EA field, including large, medium and small vendors, for their tendency to underprice and overpromise, being too eager to procure new contracts and then forced to squeeze the quantity and quality of services to keep costs within the capitated rate. With an abundance of entrepreneurs and a shortage of professional researchers, the field has been unable to relate an EAP cost to the outcomes it produces, relying instead on marketing rhetoric and even desperate attempts at contract acquisition and retention. This group dismissed the debate regarding size, location and type of vendor as a "lot of marketing rhetoric used by smaller players as a way to distinguish their case in the absence of a compelling argument," according to a participant who worked for a large vendor. Another participant remarked, "Playing the bidding game I call 'how low can you go' may be the demise of the EAP field, but all types of players engage in these pricing wars that ultimately erode value."

The third group traced the problem to apathetic or naïve employers, or HR and benefits purchasers, whose impact on decisions related to choosing price rather than quality. They argue employers are the only stakeholders in a position to advance quality by making purchasing decisions on factors other than price. EA providers are not dictating the service model; they provide whatever program design and client care processes employers decide upon. This group alleges that criticism should be expanded to include corporate purchasers (and their consultants) who view low price as the main criteria for selecting an EAP vendor and ultimately control the amount and type of benefits available to an individual. Many expressed a high level of exhaustion about continual efforts to persuade purchasers to buy their EAP on the basis of quality and values when the decision is reduced to the cheapest price. The lowest-price bidding game seems to be endemic and widespread in the procurement process, fueling a type of rhetorical marketing competition among EAP vendors themselves and their competitors. Perhaps the problem can be traced to purchasers who have subtly deliberated that EAP is not a budget or "human capital" priority. A few participants commented that large, multilocation employers are under the illusion they are "buying" intelligently when they delegate purchasing decisions and oversight to brokers and consultants who are not really aligned with the employers' efforts to maximize value and solve vexing employee problems. Some employers, they contend, are ignorant or apathetic conspirators in a troubled selection system. As one participant mentioned, "By farming out request for proposals (RFP) to general health-care consultants who collect a lot of information online and in reality know little about what an EAP is supposed to accomplish, employers are deluded into thinking they are making objective and informed decisions."

Reforming the Price-Driven Market

When asked how the EA field should break free of this commodity, price-driven market, participants mentioned three primary reforms that are closely intertwined with other critical issues facing the field, such as quality and effectiveness:

- Educate both purchasers and EA professionals to sell and buy on the basis of compliance with quality standards rather than the lowest price.
- Conduct conclusive, evidence-based research that compares the effect of various EAP models and the costs of these models on productivity losses and treatment outcomes.
- Design and implement new pricing schemes that blend elements of capitation and fee for service with meaningful performance guarantees and risk-sharing.

Participants suspect that with the extended period of restraint on premium increases in the EA field, it is counterintuitive to think that the quality of EA services is improving. However, this intuition does not overcome the problem that even for EA providers with the lowest capitated rates, we have no empirical evidence of a reduction in service quality or outcomes. Instead, anecdotal stories and reports suggest that predatory pricing scandals, deceptive sales practices and marginal quality programs are on the increase. Although the field urgently needs a solution to the problem of low-ball pricing, the solution's worth largely depends on supporting evidence and making a business case that higher-cost, higher-quality EAPs provide a productivity payback to employers. In a market that is relatively insensitive to differential outcomes among different types of providers, EA vendors providing superior methods to prevailing ones soon discover their superior alternative can be billed to no one under the field's dominant capitated pricing scheme. This creates an environment where marginal EAP service receives the same rate as optimal service. Ironically, some of the most progressive companies in the U.S. that acknowledge innovation is crucial to success may be discouraging innovation among EA vendors by viewing a nominal price increase as an expense to be suppressed.

Implications and Significance

With the costs of employer-funded behavioral health services dropping from approximately 10 percent of total medical costs more than 10 years ago to approximately 3 percent now (Jeffrey and Riley 2000; Melek 2004), this theme of pricing must address what an appropriate cost should be for a comprehensive, decent-quality EAP. While the field engages in primarily competition-based pricing, or selling programs at a price based on assumptions about what competitors will charge, this question will probably not be acted upon. Thus, EAP buyers likely will remain myopic and overemphasize the importance of price.

This analysis suggests that both employers and EA providers have a long way to go before EA purchasing decisions are based on the highest-quality program at the most efficient cost. Sellers of EAP have missed the chance to demonstrate the true financial value a "quality" EAP could offer an organization. One participant, who seemed particularly enthusiastic with a new sales approach, offered this type of mock presentation to a potential buyer of an EAP: "Please be aware of something right from the beginning.

Perhaps the biggest challenges facing the field are finding avenues to help already burdened HR professionals and benefits managers understand and appreciate the true potential of an effective EAP and overcome low expectations about what an EAP can accomplish.

When it comes time to propose a price for your program, I can guarantee you we will not be the lowest price. I intend to demonstrate to you why that does not matter. I will help you evaluate how my program will reduce your costs in areas other than price, so your total cost picture will be more attractive, even with my higher price. In fact, I will put up guarantees that this program will save you money in other areas."

Perhaps the biggest challenges facing the field are finding avenues to help already burdened HR professionals and benefits managers understand and appreciate the true potential of an effective EAP and overcome low expectations about what an EAP can accomplish. Many HR and benefits purchasers, while supportive of the EAP concept, are too distracted or preoccupied with other priorities to evaluate the consequences of decisions surrounding various EAP models and types of vendors. Most purchasers are not in a position to understand that an EAP can be overpriced at $1 per-employee-per-month (PEPM), or a tremendous value at $6 PEPM, depending on the outcomes the EAP achieves. In other words, the $6-PEPM program may be less expensive than the $1 program. One participant stated: "EA vendors are not competing on who is really the best at addressing a particular set of employee performance or behavioral health problems, and purchasers are looking at the costs and features of vendors rather than on actual results."

In the present EAP environment, the affiliate network subcontractor probably determines the quality of the intervention more than the primary EAP contractor. Frequently, different EAP vendors' networks are identical and largely based on credentials rather than the affiliate network provider's ability to achieve outcomes valued by the employer.

The current state of EA service delivery is unlikely to change unless we change reimbursement structures and incentives change, and reimbursement structures are unlikely to change unless a business case is made or sold for improved quality and achievement of measurable outcomes. As a collective field, the case has not been made for the alignment of better outcomes leading to better payment. Noticeably absent in the skill set of EA vendors is the ability to measure and provide data on the effects of a particular program's impact on a particular employer's bottom line (such as absenteeism, decreased medical or disability claims, increased productivity, reduced turnover). Despite the difficulties of conducting an empirical evaluation on one's own EAP, a more accurate accounting of the return on investment (ROI) to a vendor's client organizations is needed to reveal the impact of an EAP beyond simplistic variables such as client satisfaction, and subsequently make a case to raise rates. Organizations (and their consultants) want to be assured, using their own data and data obtained by vendors, that marketing claims and conventional wisdom that EAPs have great ROI are applicable to their own workforce.

The strategy of educating and persuading employers will not work and could be risky to the industry, unless the following occurs:

- Employers are convinced that pricing problems in EAPs exist and have serious consequences to the attainment of outcomes.
- Dissemination of what constitutes exceptional outcomes in an EAP is greatly improved.
- EA providers collectively create an infrastructure to define and improve outcomes.
- Perhaps most importantly, employers reward good outcomes with higher prices.

In the meantime, the field will continue to slowly muddle through the complex issue of how to sell a program based on quality, value and outcomes, but not price. As mentioned by one participant, "It's counterintuitive to sustain a pricing scheme where the less you do, the more money you make." WJ

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