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Do 'Free' EAPs Offer Discernible Value?

A survey of human resources managers, benefits consultants, and EAP providers reveals that free EAPs are here to stay but attitudes toward them can be changed through research.

by John Burke, M.A., and David A. Sharar, Ph.D.

There has been a clear trend in recent years for health insurance companies, disability carriers, group retirement plans and payroll management organizations to bundle employee assistance program services into their core products and offer the EAP as "free" (Burke 2008; Sharar and Masi 2006; Holman 2003). Under this arrangement, the insurance plan buys an inexpensive EAP from a vendor partner or provides an EAP within an affiliated division or department, then embeds the EAP in the plan to create product distinction and a competitive advantage.

Of course, the EAP is not truly free, but the minimal cost of the program allows the insurer to easily absorb the cost into the overall plan fee. Employers thus pay the EAP premium as part of their insurance plan fee, but many of them find it convenient to contract with one provider for two or more insurance products and not have to pay a separate bill for EAP services.

The free EAP is a variation of the "loss leader" concept in marketing, whereby products are sold at or below cost to attract attention to higher-margin products (Miller 2008). The original idea was to use the free EAP offer as a differentiator in the market and provide an inexpensive perk to an employer (Sharar and Masi 2006; Holman 2003). However, in the current marketplace,

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the free EAP is so commonplace that many insurers recognize that their competitors also have free or low-cost EAPs embedded in their plans (Burke 2008).

How is the trend toward free EAPs understood and viewed from the perspective of key stakeholders? In this article, the authors seek to describe the perceptions and observations of three separate groups of respondents: (1) human resources (HR) managers, (2) benefits brokers or consultants, and (3) EA professionals. Their perceptions and observations were obtained through semi-structured interviews of 30 individuals from each group. The research findings are presented by aggregating general themes among the overall population surveyed and among the specific groups.

GENERAL POPULATION THEMES

The three populations surveyed agreed with each other more often than not. First and foremost, they recognize that free EAPs are a market reality and indicative of forces that influence all industry sectors. They also see the following factors at work:

Cost and the economy. Cost is a significant factor, and quite likely the primary factor, for many employers when considering a free or embedded EAP. This trend is being driven by budget cuts, the administrative efficiencies of using a single vendor for multiple services, and the reduction in time required for a human resources or benefits manager to oversee the service.

Perceived or realized value. The value (either perceived or realized) that an employer derives from an EAP was the dominant discussion point in the survey. High EAP value is associated

with efficient and effective vendor responsiveness, innovative approaches to meeting the needs of employers, and quantifying the results or outcomes of the services provided. Low value is associated with low utilization, limited visibility, and minimal involvement with management or those responsible for EAP oversight.

Large versus small employers.

Small employers (fewer than 500 workers) are more likely to embed or opt for a free EAP. Their financial and human resources are more limited and, while they sometimes appreciate value, cost drives their decisions. For larger employers, economics is a factor, but value is more likely to be the driving force.

Visibility and knowledge.

Although EAPs have become common within U.S. organizations, employers report that workers have limited awareness of them and lack a deep understanding of the full scope of EAP services. According to a recent Buck Consulting report, "Employers are stepping up communication with their employees about wellness and employee assistance programs available to them and are not planning to make significant cuts in the budgets for those programs, according to a survey."

Free and fee-based services.

Employers are generally familiar with the primary services offered through an EAP and know that typical utilization rates range from 5 to 10 percent. When examining descriptions of the services provided by a free EAP as compared to those of a fee-based EAP, the programs appear very similar (if not identical). The survey found, however, that fee-based EAPs actually provide the services adver-

tised and achieve expected utilization rates, whereas the typical free or embedded EAP provides limited services and achieves utilization of 1 percent or less.

Future trends. Employers, consultants and providers all forecast the continuation of free or embedded EAPs. Employers have multiple factors to consider, including perceived value, cost, and desired outcomes, when determining the best arrangement for an EAP. Many EAP providers understand these factors and are participating in the provision of free or embedded services by contracting with insurance companies to provide the free EAP portion of the insurance plan.

THEMES AMONG CONSULTANTS

Consultants generally recognize EAPs as a viable and essential service for employers. At the same time, they feel that many employers are oblivious to the full benefits of an EAP or see it as somewhat redundant to an outpatient mental health counseling benefit. As one consultant remarked, "Being a strong advocate of an EAP does not necessarily translate into the effective implementation and oversight of an EAP."

Most consultants pointed to the need for providers of EAPs to better demonstrate and quantify their value. They recognize that utilization rates are increasing as EAPs are promoted as a resource in difficult economic times, and they understand that EAPs are routinely called upon when employers experience a critical issue in the workplace. They also see a linkage with total health and productivity management, but do not always understand it or routinely take advantage of it.

Consultants view the EAP marketplace as extremely competitive and see EAP providers continually lowering prices to retain business. Service expectations, however, are remaining the same or increasing, creating an untenable position for EAP providers. The lack of quantitative performance impact data has led to a perception among employers of marginal value, which directly correlates to diminishing price points. Consultants generally recommend that EAP providers retool or expand their services

beyond a simple employee counseling model into a broader health and productivity framework.

Consultants see large employers (>5,000 employees) as value purchasers and report that the majority of them recognize the service limitations of a free EAP and intuitively understand they will gain more value from an EAP that builds internal relationships, actively promotes services, customizes services to meet unique needs, consults with all levels of management, provides routine data reports, and generates case utilization in the 5 to 10 percent range. Consultants recommend a free EAP when it appears to be the only way an employer will agree to retain the program when faced with mandated expense reductions. They predict free EAPs will continue to be marketed for the foreseeable future but could diminish as progressive EAP providers begin to better demonstrate and quantify their value.

Consultants recognize that integrating and embedding services are significant trends. Employers theoretically gain from these trends by having a single vendor, gaining favorable pricing, and improving outcomes by establishing communication linkages between the various benefits silos.

At the same time, being a component of a much larger plan can result in an EAP being easily overlooked and even invisible, and a few consultants raised cautions about the potential for service dilution. As one consultant stated, "The embedded program runs the risk of less focus than was historically provided by the prior fee-based, stand-alone program, so the actual results of the 'free' EAP as embedded in the overall plan don't match up to the claims."

Consultants also noted that when an EAP is incorporated into a specific benefit offering such as a disability management program, the EAP can become limited in scope. In this example, the focus of the EAP can become strictly limited to "disability" cases and not the broader needs of the entire workforce.

THEMES AMONG HR MANAGERS

Human resources managers seem to recognize an EAP as a standard offering for

employees and their dependents, but their expectations of service offerings differ significantly when comparing large employers with small or mid-size businesses. HR managers in small and mid-size organizations seem less sophisticated when examining the differences between fee-based and free programs.

A small percentage of HR managers see EAPs as an essential part of the fabric of an organization; others view them as "an evil but necessary part of the benefit plan." With so many HR departments understaffed or overburdened and lacking specific expertise in EAPs, most HR managers end up focusing on cost savings and ease of administration.

Indeed, cost is the defining issue and at the forefront of decisions made about EAPs. The cost of an EAP is a microscopic part of the total benefits budget, but employers still want perceived value for what they spend. EAPs that have limited visibility, minimal man-

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agement support, and low utilization get little or no attention.

HR managers indicated that fee-based EAPs they had cancelled were usually responsive and beneficial, but not really evaluated or monitored. These HR managers had been satisfied with the fee-based EAP, but not in such a way that would dissuade them from moving to a cheaper or free embedded program. They did not ardently advocate for retaining their fee-based EAP when faced with the free alternative.

In today's cost-cutting environment, the option of a free EAP can be particularly enticing. The opportunity to embed the EAP within a larger plan and manage only one provider creates an even greater motivation to switch. Many small employers do not know where to go to explore EAP service options, so when a health or disability plan proposes an embedded offering that will reduce a benefit expense, the decision can be automatic. Although some HR managers expressed concern about switching to a free EAP, most made the choice without much attention to or awareness of the differences between the free program and the fee-based program.

Despite the distinct differences in service levels between fee-based and free EAPs, one HR manager reported receiving a much higher level of service from the free EAP and better levels of accountability. Others who switched from a fee-based to a free program noticed some negative differences with the free program but seemed content to stay with it since an EAP is a low-profile program and low-budget priority. The most common complaint was not receiving any utilization reports and not having an assigned account manager to call with the occasional request or question.

Despite these shortcomings, HR managers with a free EAP said they likely would not go back to a fee-based program. Particularly among smaller and mid-size employers, the message seems to be that vendor decisions are primarily about cost, especially when the components of the fee-based and free programs are so similar on paper that differences are not readily apparent or appreciated.

THEMES AMONG EAP PROVIDERS

Representatives of EAP providers that do *not* deliver free EAPs expressed concerns about poor quality and a lack of workplace emphasis in free EAPs and voiced frustration in trying to persuade consultants and employers that quality problems exist within them. They also emphasized the need to broaden the scope of EAP services to maintain or enhance revenue generation. Some even talked about developing third-party distribution relationships with insurance plans whereby the EAP provider would deliver "back end" services for a free EAP offering.

There is a pressing need for empirical research to shed light on the relative risks, benefits and actual costs of fee-based and free programs.

These representatives believe free EAPs are eroding the integrity of the EAP field and contributing to the continuing deflation of EAP rates and the reduction in vendor margins and business volume. Specifically, this segment of EAP providers feels that free EAPs typically have the following characteristics:

- Little or no regular promotion, which leads to utilization ceasing;
- Few or no utilization reports, leaving the Human Resources Department unable to decipher employee needs and actual EAP activity;
- Critical incident response is unavailable except as a "buy-up" service;
- No management consultations or referrals;
- Intervention is limited to telephonic or online assessments and referrals (referrals are not usually customized or specific to select providers);
- Face-to-face counseling is offered but

rarely provided; and

- Infrequent follow-up with clients, meaning there is no way to know whether employees have improved or received additional help.

A common theme among these representatives was that the underpinnings of the EAP field's emphasis on workplace intervention are tangential at best in free programs. Formal management referrals (and training on how to conduct them), which are the "bedrock" of employee assistance, are thought to be completely missing in the free program.

These representatives all lamented the lack of a coherent strategy to educate purchasers about the shortcomings of free EAPs and better define what employee assistance entails (and what it doesn't). They are frustrated by their inability to convince employers that quality problems exist in free EAPs and can have serious consequences.

Representatives of EAP providers that *do* provide free EAPs on behalf of insurance plans characterized their business as a "money maker." They are able to make money because the EAP is buried in the insurance plan and is promoted by the insurance company, so utilization is low or nonexistent. Based on our interviews, the insurance plan pays providers anywhere from \$0.10 to \$1.20 per employee per month (PEPM), whereas the typical fee-based EAP can cost \$1.50 to \$2.50 PEPM. Because revenues are fixed under the capitated model, providers rely on their ability to predict utilization and service activity.

Every provider we interviewed has lost business to free EAPs, some more than others. Providers of free EAPs also have lost fee-based accounts to other free EAP plans. In the majority of cases, the losses have been among small to mid-sized employers wanting to embed services and reduce costs. The providers all seem to view the introduction of free EAPs as a sign of a maturing industry and have considered or undertaken different strategies to define and demonstrate value.

Like consultants/brokers and HR managers, providers recognize that demonstrating value and quantifying

outcomes are necessary if they are to compete with free EAPs. Despite this recognition, there is little evidence of any investment in approaches to empirically measure outcomes. EAP providers continue to emphasize value propositions centered upon building loyal relationships with key employer stakeholders and providing a greater depth and scope of service, attributes rarely seen in a free EAP.

Providers also recognize the need to educate employers and benefits consultants that EAPs are much more than a set number of counseling sessions and have the potential to improve workplace performance or intervene with vexing employee problems. Because many purchasers have a limited definition of an EAP, some providers are broadening their range of services, rebranding the term "EAP," and attempting to create new value propositions.

IMPLICATIONS OF THE FINDINGS

The free EAP is projected to be an option for employers to consider well into the future. Although the cost of an EAP is miniscule when compared to a comprehensive benefit plan, it is still a significant factor and will always affect the final decision. The motivation for providing services can range from a recognition of the impact an EAP can have on health and performance to simply wanting to make a commonplace benefit available. The specific motivation has a direct relationship to the monetary value placed on the service.

While employers know that nothing is truly free, many seem intrigued by the opportunity to receive a "free" benefit. It removes one expense line from a budget and enables the embedding of an EAP, thus reducing the number of vendors and the time and effort required to monitor and manage the service. Employers who accept a free EAP seem to know they were drawn into a kind of "cost shifting" game but are under immediate pressure to reduce costs. Value-based purchasers, on the other hand, realize that few services (especially human services) are true commodities and believe competition for such services should focus on demonstrating results.

The future of the fee-based EAP will be challenged if purchasers do not clearly understand how it differs from the free offering. There is a pressing need for empirical research to shed light on the relative risks, benefits and actual costs of fee-based and free programs. Some type of comparative effectiveness research is needed to inform purchasing decisions and substantiate the claim that free EAPs are, as one survey participant put it, "passive, empty, and delusive."

Although value was the predominant theme among the three sectors, it is mostly subjective, anecdotal and intuitive at this point. In the current economic environment, the more that EAP services provide only subjective value, the lower the price points become, making a free EAP even more attractive. In the future, value needs to be defined as the demonstration and quantification of impact and outcome.

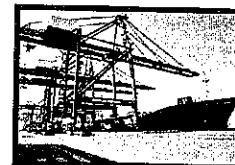
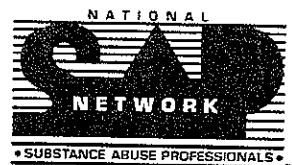
Some providers are trying to articulate a different value proposition for their services. These providers are taking the

time to better understand the "anatomy" of the purchaser and the purchasing decision. Purchaser education and proof of impact will be two keys to vitality and success in a marketplace that is price sensitive and in which a free EAP is an attractive option. ■

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