
Return on Investment for Offering Employer- Sponsored Insurance

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Avalere



Avalere Health
A Member of Fishawack Health

1201 New York Ave, NW
Washington, DC 20005

P | 202.207.1300
avalere.com

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I. Executive Summary

In support of the Protecting Americans' Coverage Together campaign, the US Chamber of Commerce commissioned Avalere Health to estimate the return on investment (ROI) employer-sponsored health insurance (ESI) provides employers with 100 or more employees. Avalere estimates that ESI provides benefits that equal or exceed costs for three-quarters of industries in 2022, rising to nine-tenths of industries in 2026.

According to Avalere's analysis, ESI will provide an estimated 47% ROI to employers with 100 or more employees in 2022 and a 52% return in 2026. Key drivers of ROI include \$275.6B from improved productivity in 2022 and \$346.6B in 2026, \$101B from a reduction in direct medical costs in 2022 and \$108B in 2026, and \$119.2B from tax benefits in 2022 and \$139.7B in 2026.

II. Introduction

For the purposes of Avalere's analysis, ESI refers to health coverage offered to employees and their dependents by employers. In 2021, ESI covered approximately 155M nonelderly individuals in the United States.¹ As part of its analysis, Avalere estimates the benefits that companies offering ESI may receive across various categories, including increased employee retention, reduced recruitment costs, improved employee productivity, reduced medical costs (including disability costs), and tax benefits derived from provision of ESI. Within the analysis, ROI is defined as the monetary value of benefit for each dollar employers invest in healthcare coverage. Investment in ESI may include health insurance premiums, wellness programs, direct medical expenses, administrative costs associated with processing medical claims, and other costs associated with providing health insurance. Avalere calculated the ROI derived from ESI by dividing the total employer benefits by the total costs of providing ESI.

III. Factors Driving Return on Investment

Avalere analyzed various benefits of offering ESI to determine total ROI. These include direct medical costs, productivity, recruitment, retention, short- and long-term disability, and tax benefits. Components that yield the largest benefits of ESI include improved employee productivity, reduction in direct medical costs, and tax benefits. To identify the share of the benefit of ESI that each factor contributes, Avalere first analyzed the value of the benefits across firms of 100 or more employees. Table 1 reflects these values.

¹ Kaiser Family Foundation. "2021 Employer Health Benefits Survey." <https://www.kff.org/report-section/ehbs-2021-summary-of-findings/>. (accessed June 3, 2022).

Benefits by Component, as \$ of ROI (in millions)—Table 1

100+ Employees	2022	2023	2024	2025	2026
Direct Medical Costs	\$100,951	\$102,688	\$104,554	\$106,398	\$107,968
Productivity	\$275,583	\$291,901	\$309,489	\$327,976	\$346,588
Recruitment	\$141	\$147	\$154	\$160	\$167
Retention	\$20,343	\$21,271	\$22,264	\$23,291	\$24,297
Short- and Long-Term Disability	\$1,275	\$1,305	\$1,336	\$1,368	\$1,397
Tax Benefits	\$119,162	\$120,888	\$123,990	\$126,954	\$139,711

Avalere then calculated the share of benefits that each factor comprises in a given year. Table 2 reflects the share of benefit of ESI for each component from 2022 to 2026.

Share of Benefits by Component, as % of ROI—Table 2

100+ Employees	2022	2023	2024	2025	2026
Direct Medical Costs	19.5%	19.1%	18.6%	18.2%	17.4%
Productivity	53.3%	54.2%	55.1%	56.0%	55.9%
Recruitment	0.03%	0.03%	0.03%	0.03%	0.03%
Retention	3.9%	4.0%	4.0%	4.0%	3.9%
Short- and Long-Term Disability	0.2%	0.2%	0.2%	0.2%	0.2%
Tax Benefits	23.0%	22.5%	22.1%	21.7%	22.5%

1. Direct Medical Costs

Avalere calculated the reduction in employees' direct medical costs as a factor impacting ROI for ESI. Employers who offer ESI, and associated wellness programs, tend to have healthier employee populations and spend less on direct medical costs. While there are mixed studies around the value proposition of employee wellness programs, Avalere's analysis found wellness programs paired with ESI yield positive health impacts that contribute to the overall ROI of ESI. Avalere's analysis estimates approximately \$101B in ROI from a reduction in direct medical costs in 2022 and \$108B in 2026. However, the share of benefits that direct medical costs comprise declines between 2022 and 2026 from 19.5% to 17.4%.

2. Productivity

Avalere analyzed increased productivity from ESI as a function of reductions to absenteeism and presenteeism attributable to the offering and uptake of ESI. For the purposes of this analysis, reductions in absenteeism and presenteeism are achieved through wellness programs as a component of ESI offerings, as well as improvements to employees' access to care. Avalere's analysis estimates that firms with 100 or more employees derived \$275.6B in employer benefits from productivity increases in 2022 (53.3% of total benefits), growing to \$346.6B in 2026 (55.9% of total ROI).

3. Recruitment Costs

Avalere analyzed the costs to recruit new employees and estimated the impact of ESI on recruitment costs. ESI offerings can positively influence prospective employees' decisions to join firms, reducing employer recruitment and vacancy costs. The value of recruitment benefits is smaller relative to other components. Avalere's model assumes 9% of individuals decide to accept a certain position based on ESI. Avalere's analysis estimates that firms with 100 or more employees derived \$141M in employer benefits in 2022, growing to \$167M in 2026. As a share of total benefits, recruitment costs' contribution remains approximately 0.03% across the period analyzed.

4. Retention

Avalere examined the impact of ESI on employee retention, a function of voluntary turnover independent of recruitment. ESI is a key component of employee retention which provides a positive ROI for employers with 100 or more employees. ESI can positively influence retention because it reduces voluntary turnover, which in turn lowers costs employers spend on recruitment, onboarding, and training. New hires may also require higher salaries than tenured employees at the same job level, further increasing the employer costs of voluntary turnover. Avalere's analysis estimates \$20.3B in employer benefits from improved retention in 2022 and \$24.3B in 2026. As a share of total ROI, retention's contribution ranged between 3.9% and 4% across the 5-year period.

5. Short-Term and Long-Term Disability

Avalere analyzed the benefits ESI has on short- and long-term disability claims. According to Avalere's analysis, providing ESI reduces costs for employers with 100 or more employees on short- and long-term disability by helping to reduce the volume of claims. Avalere estimated reductions in disability claims of \$1.3B in employer benefits in 2022, growing to \$1.4B in 2026. The benefits of reduced short-term and long-term disability claims as a share of total ROI remained low from 2022 to 2026 at 0.2%—a small share of overall ROI compared to other benefits examined.

6. Tax Benefits

Employers receive federal and state income tax deductions from providing ESI to employees and dependents. This reduction in taxable income provides a benefit to employers and contributes to the ROI of ESI. Avalere’s analysis estimates that employers with 100 or more employees derived \$119B in employer tax benefits from ESI in 2022, growing to approximately \$140B in 2026. The contribution of tax benefits to overall ROI remained relatively stable from 2022 to 2025, comprising 23% of ROI in 2022 and 22.5% in 2026.

IV. Return on Investment Overall and Across Industries

1. Overall ESI ROI

Avalere’s analysis estimates that ESI provides a 47% ROI to employers with 100 or more employees in 2022, rising year-over-year to reach 52% in 2026. The growth in ROI overall can be attributed to a range of factors, such as growing employment over the 5-year period, projected rise in wages, expected increase in per-employee spending on wellness programs, and employee turnover rates remaining flat. However, each of these factors will affect the various components of ROI differently. Table 3 reflects total ROI across employers with 100 or more employees.

Estimated ROI of Employer-Sponsored Health Insurance, %—Table 3

Employer Size	2022	2023	2024	2025	2026
100+ Employees	47%	47%	48%	49%	52%

2. Key Industry Trends

Industry attributes that influence ESI’s ROI include wages, employee turnover, employer offering and employee participation in ESI, and level of investment on ESI (including investment in wellness programs).

Avalere’s analysis finds that industries where firms generally made greater investments in ESI tended to result in larger ROI. Similarly, since costs associated with turnover and recruitment are positively associated with wages, Avalere estimates higher ROI in higher wage industries. Conversely, lower ROI was associated with industries that typically have lower investment in ESI and wellness programs, lower wages, and lower employee participation in ESI and wellness programs.

As an example, Avalere estimates that the manufacturing industry is expected to see 42% ROI in 2022. In this industry, the ROI ESI provides is more pronounced across several factors including tax benefits (25.4% in 2022 compared to 23.0% in 2022 in all industries), direct medical costs (21.5% in 2022 compared to 19.5% in 2022 in all industries), and retention (6.5% in 2022 compared to 3.9% in all industries). This trend is also reflected in additional factors

including recruitment (0.04% in 2022 compared to 0.03% in all industries) and short- and long-term disability (0.3% in 2022 compared to 0.2% in all industries.) However, the ROI ESI provides is less pronounced among productivity (46.3% in 2022 compared to 53.3% across all industries in 2022).

Components of Benefits in the Manufacturing Industry, %—Table 4

Manufacturing	2022	2023	2024	2025	2026
Direct Medical Costs	21.5%	21.0%	20.4%	19.7%	19.1%
Productivity	46.3%	48.3%	49.7%	51.0%	52.2%
Recruitment	0.04%	0.04%	0.04%	0.04%	0.04%
Retention	6.5%	6.7%	6.7%	6.7%	6.7%
Short- and Long-Term Disability	0.3%	0.3%	0.3%	0.3%	0.3%
Tax Benefits	25.4%	23.7%	22.9%	22.3%	21.6%

V. Conclusion

Avalere’s analysis accounts for key components that contribute to returns and estimates that ROI for ESI was 47% in 2022 and is estimated to grow to 52% by 2026 among firms with 100 or more employees. The benefits that contributed most significantly to ROI included direct medical costs, productivity, and tax benefits. Meanwhile, recruitment, retention, and short- and long-term disability contributed a relatively smaller overall share. There may be additional factors in addition to ESI that influence the value of the various benefits analyzed. Overall, Avalere found that employers experience benefits that exceed the cost of offering ESI across most industries analyzed, and industries that invest more significantly in ESI and offer higher wages tend to have greater returns.

VI. Methodology

To estimate the costs and benefits of ESI, Avalere utilized publicly available data. To calculate ROI across firms with 100+ employees, Avalere used Bureau of Labor Statistics (BLS) estimates of private employment and ESI costs per employee to estimate total costs associated with coverage by firm size. Projections incorporated assumptions based on historical growth in employment and costs per employee.



When estimating ROI within productivity, direct medical costs, and short- and long-term disability, wellness programs were key contributing factors. While there are mixed results in the literature on the effectiveness of wellness programs, Avalere relied on longitudinal studies that incorporated multiple years (4+ years) and large employee samples, or meta-analyses of the impact of wellness programs. These longer-term studies show minimal to no return on wellness programs initially, but a positive return once wellness programs have been in place for a few years.

To estimate the tax benefits by industries analyzed, Avalere used Congressional Budget Office projections of employer tax benefits from ESI as a percent of health insurance costs.

To estimate ROI by industry, Avalere used BLS estimates of employment and ESI costs per employee to estimate total costs associated with coverage by firm size and industry, which incorporate assumptions based on historical growth in employment and costs.

About Us

A healthcare consulting firm for more than 20 years, Avalere Health partners with leading life sciences companies, health plans, providers, and investors to bring innovative, data-driven solutions to today's most complex healthcare challenges. For more information, please contact info@avalere.com. You can also visit us at avalere.com.

Contact Us

Avalere Health
A Member of Fishawack Health
1201 New York Ave, NW
Washington, DC 20005
202.207.1300
avalere.com