

Tobacco Cessation Return on Investment UTAH Overview

Introduction

“Return on Investment” or “ROI” is an economic measure used to evaluate the efficiency of an investment. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio. A ratio or percentage that is greater than one means that the benefit outweighs the cost.

In the case of tobacco cessation, several types of “benefit” can be used to calculate ROI. Examples include savings from lower health care costs, longer ability to work at one’s career, reduced sick time costs, – any type of monetary benefit that may be determined as a result of quitting tobacco use. Ideally, the benefits selected should accrue to the entity making the investment.

Employer – ROI Range: Positive in all years (Source: Milliman)

An employer’s perspective includes medical costs, productivity costs, and the costs of employer-provided benefits such as life insurance. Milliman, a leading actuarial and strategic analysis firm, reports that “Employers can quickly realize reduced medical and life insurance costs (Year One - \$210) when employees quit smoking even when the assessment is limited to direct short term health care savings.”ⁱ America’s Health Insurance Plans (AHIP) also illustrates the employer’s perspective in their ROI calculator, and shows a positive result due to productivity gains in year one of a cessation program. Medical cost savings accrue in year two.ⁱⁱ A more recent study estimated that the average annual excess cost of a smoking employee to a private self-insured employer is \$5,816 (adjusted to 2010 dollars).ⁱⁱⁱ

Health Plan - ROI Range: Positive within three years to positive after five years – up to 2.20 (Source: AHIP)

The narrowest perspective to consider is the health plans’ ROI, which includes only covered medical costs – but not costs such as disability or productivity. America’s Health Insurance Plans’ (AHIP) ROI calculator estimates the ROI of evidence-based cessation interventions over one to five years, with a positive direct medical savings within three years and significant accrual thereafter.^{iv} A different approach is to assess the percent of overall healthcare costs caused by smoking. The most recent studies point to 6-8% of overall healthcare costs being attributable to smoking.^v

A 2010 Bloomberg Analysis indicates that insurers who pay for tobacco cessation treatment in accordance with the Affordable Care Act will save money after three years. In the first three years tobacco cessation benefit costs will surpass cost savings, but, by the fourth and fifth year, smoking related illness costs will begin to decrease as net savings increase. The savings are due to the projected reductions in smoking-related illnesses, such as lower risk for stroke and the severity of such conditions. Currently, smokers incur an average of \$16,000 to \$17,000 more in lifetime medical expenses than non-smokers.^{vi}

ⁱ http://www.legacyforhealth.org/content/download/560/6767/file/Covering_Smoking_Cessation_as_a_Health_Benefit_-_A_Case_for_Employers.pdf

ⁱⁱ <http://www.businesscaseroi.org/roi/default.aspx>

ⁱⁱⁱ Berman M, Crane R, Seiber E, et al. Tob Control Published Online First: [June 3, 2013] ccocontrol-2012- 050888

^{iv} <http://www.businesscaseroi.org/roi/default.aspx>

^v Berman M, Crane R, Seiber E, et al. Tob Control Published Online First: [June 3, 2013] ccocontrol-2012- 050888

^{vi} <http://actiontoquit.org/uploads/documents/smoking%20cessation%20-%20part%20%20insurers-bloomberg%20news.pdf>