

# Pricing Options for EAP Services

**Mark Attridge, PhD, MA**  
Attridge Consulting, Inc.

**Tom Amaral, PhD**  
EAP Technology Systems Inc.

**Tom Bjornson**  
Claremont Behavioral Services

**Eric Goplerud, PhD**  
George Washington University

**Patricia Herlihy, PhD, RN**  
Rocky Mountain Research

**Tracy McPherson, PhD**  
George Washington University

**Rich Paul, ACSW, CEAP**  
Value Options

**Sandra Routledge, RN**  
Watson Wyatt Worldwide

**Dave Sharar, PhD**  
Chestnut Global Partners

**Diane Stephenson, PhD, CEAP**  
Federal Occupational Health

**Lisa Teems, DMin, LCSW, CEAP**  
Federal Occupational Health

*& Members of EASNA's Knowledge  
Transfer and Research Committee*

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**ABSTRACT.** *This Research Note reviews the issues concerning how the pricing is determined for the purchase of employee assistance program services.*

**What Are EAPs?** Employee Assistance Programs (EAPs) are employer-sponsored programs designed to alleviate and assist in eliminating a variety of workplace problems. EAPs typically provide screening, assessments, brief interventions, referrals to other services and case management with longitudinal follow-up for mental health concerns and substance abuse problems. The source of these employee problems can be either personal or work-related. Those who work for EAPs come from many different professions including social workers, psychologists, counselors, substance abuse specialists, occupational nurses, and others. In Canada, the services are called Employee and Family Assistance Programs (EFAPs).

## Pricing Options for EAPs

Another key aspect of selecting an EAP is determining what is the proper price to pay for the services. The three most common approaches to pricing are described next in this guide, including the capitated approach, the utilization-based approach, and the "pay for performance" approach. In most contexts the employer pays for the EAP, but in some organizations

the union or other organizations within the company share the cost of the program.

## Capitated Pricing

For many years the most widely used pricing approach by External EAP program vendors is the capitated or *per capita* financial structure (i.e., per employee per year -- PEPY or per employee per month -- PEPM). This approach uses a total fee for all EAP services to the organization and simply divides the fee by the number of covered employees at the organization. This pricing approach is easy to understand from the purchaser's perspective and perhaps more importantly, it mirrors the insurance-based pricing model used to purchase many other employee benefit services (e.g., health insurance, life, disability).

Some of the reasons why many employers prefer a capitated pricing structure is because it provides a consistent budget for EAP services, the price can be lower than other pricing approaches and it forces the EAP to take the financial risk for the program if the level of use exceeds what was anticipated in setting the price in advance. However, many EAP providers are now concerned with the marketplace consequences of this pricing approach and what has been called the "commoditization" of the EAP industry.<sup>1</sup> The main

concern is that some purchasers and benefits brokers may view the EAP marketplace as offering an indistinguishable product that does not change much in quality or business value from one provider to another.<sup>2</sup> This perspective has resulted in purchasing decisions for selecting EAPs that are driven primarily by price, rather than carefully examination the kinds of usage, the range of services, and the quality and effectiveness of the program.<sup>3</sup>

The EAP is profitable on the contract to the extent that it correctly anticipated the level of use of the EAP and how much it costs to provide that level of use. If the level of use is at or below the level used to set the capitated price, then the EAP makes a profit or breaks even. But if the use ends up being higher than the target level used to set the pricing, then the EAP loses money in servicing the organization. Thus, with capitated pricing it is very important for the EAP to be able to make the right guess for how much the service will be used during the contract period.

Capitation pricing can also be perceived as creating a financial incentive for the EAP provider to deliver as little service as possible. This is because the price for the service is fixed and the only part of the price-to-service cost equation that can vary is the amount of services that are used and the associated operating costs for the EAP to deliver those services. Thus, the lower the use of the EAP, the more money the EAP will make from the contract. This criticism breaks down, however, at some point when there is so little use of the EAP that it is then considered ineffective and the service contract is not renewed by the purchaser.

**Pricing and Session Limits.** Many purchasers are concerned about the contractual limits for the maximum number of sessions per treatment case for counseling sessions provided by the EAP. The specific number of sessions for the limit varies considerably across EAP providers, with a range of 1 to 6 sessions (or more). A recent survey found that clients who were referred to network affiliate counselors from EAPs with a variety of session limit models tended to average about 4 sessions per case.<sup>4</sup> According to data from several sources, there was a range of between 3.5 and 4.5 EAP counseling sessions used per case when there was a six-session maximum limit model.<sup>5,6,7</sup> More generally, EAPs with a telephonic-based program tend

to have fewer average contacts per case than what is typically found with face-to-face programs.

The purchaser should keep in mind that it is the level of clinical need and assessed severity of the problem that primarily dictates when an individual user of the EAP will get referred to a more intensive and specialized provider. This determination can usually be made after a thorough assessment and one or two clinical sessions with an EAP counselor. The most serious cases will get referred out to more appropriate care (perhaps for clinical psychotherapy, psychiatric medications, substance treatment, or group therapy, etc.) before using the maximum number of clinical EAP visits. Thus, having a higher to the limit of clinical sessions is most important for those individuals who are appropriate for receiving brief therapy and action planning from EAP counselors.

## Utilization-Based Pricing

In contrast to the capitation model, the utilization approach to pricing EAP services is a concept that ties the EAP's fee to the level of EAP use. The advantage of this model for the employer is that it only pays for the EAP services that it or its employees actually receive. If utilization is low, the employer pays less. Conversely, if the EAP handles more cases and provides more services, the employer will pay more. This pricing model thus shares the financial risk of the program between the employer and EAP. It has the disadvantage of being more difficult to plan ahead for budgeting the cost for the EAP and it requires well-defined reports of utilization that both the EAP and the organization trust as being accurate. Some of the utilization metrics that should be considered for this kind of pricing include the (a) number of EAP clinical sessions provided by telephone; (b) number of EAP clinical sessions provided in-person; (c) total number of clinical cases provided; (d) number of management consultations provided; and (e) other services (e.g., critical incident support, training events, management consultations, and so on).

In practice, however, a utilization-based model typically is structured as two parts and is not purely based on use. The first part is a base fee that is determined from a per-employee per-month capitated rate (but one that is lower than in a full capitated contract) and a second

part that includes various per-event fees for each clinical counseling session and/or other specific services.

In this model, the combined PEPM and per visit fee can result in substantial variability in cost compared to standard fixed capitated pricing rates that are based on estimated average utilization. For example, if clinical utilization is low (1 to 3 percent), then the resulting fee will be lower; and if clinical utilization is high (6 to 8 percent), then the resulting fee will be higher than the typical capitated pricing model.

Purchasers interested in this pricing approach need to recognize that a high level of EAP utilization should result in higher levels of positive outcomes for the organization. Thus, higher EAP fees are offset by the correspondingly higher levels of business return from greater use of the service (e.g., employee productivity, absence, health care cost savings, reduced disability claim costs). The utilization-based pricing model is built on a belief that EAPs should be judged on program results and not just on price.

### Pay for Performance Pricing

The newest and least commonly used pricing model is called Pay for Performance (P4P). This approach is borrowed from the medical care environment and it provides clinicians and facilities with limited financial incentives (essentially bonuses) for demonstrating improved treatment outcomes. P4P arrangements tie an agreed-upon set of metrics (e.g., quality of care, patient satisfaction, clinical outcomes) to financial incentives. The specifics of these programs can vary, including the clinical areas targeted, the type of sponsor providing money for the financial incentives, the size of the incentive, and the formulas used for determining the incentive amount. P4P models are not full pricing approaches that cover all of the fees needed to purchase an EAP. Instead they augment the more basic pricing model with additional fees that can be earned with certain behaviors.

In many ways, however, P4P models are affected by the same concerns that plague utilization-based pricing models. Generally, there is a lack of accepted methods, across vendors and program models, for evaluating performance. For instance, employers that require "report cards" from their vendors typically ask for

measures that are not important or relevant to outcomes, such as telephone response times in a call center or the level of client satisfaction with EAP counseling. A high performance rating on either of these measures does not indicate whether the troubled employee who accessed services actually experienced improved emotional health or productivity.

### Fees at Risk

Conceptually related to P4P, but in an opposite fashion, is the pricing practice of designating certain aspects of EAP use and operations as performance standards that must be met by the provider and can benefit the purchaser financially if they are not achieved during the course of service delivery. Commonly used operational metrics for EAPs are the average speed of answer, the percentage of calls into the service center that are abandoned before being answered, the average length of waiting time to see an EAP counselor, and the level of satisfaction for service users. The EAP provider can designate some portion of the total contract fee (e.g., 5%) that is linked to meeting the performance objectives. Employers increasingly expect to have some fees "put at risk" in this manner by EAP providers, as this has become commonplace in the purchasing of other kinds of employee benefit services. Anecdotal evidence indicates that most EAPs meet such criteria for performance. Performance guarantees are thus financial penalties for poor performance by the EAP rather than giving additional pay for good performance.

### Conclusion

Popular approaches to pricing of EAP services include the capitated approach – which is the most common, the utilization-based approach, and the "pay for performance" approach. Each approach has its merits and its concerns. The purchaser of EAP services is advised to consider which kind of pricing is most likely to create the business incentives that match the goals for having the employee assistance program.

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