

Model Document: Formal Internal Proposal

ABO, Inc. Memo

To: Joan Marlow, Director, Human Resources Division
From: Leslie Galusha, Chief, Employee Benefits Department *LG*
Date: October 12, 2010
Subject: Employee Fitness and Health-Care Costs Proposal

Health-care and worker's compensation insurance costs at ABO, Inc., have risen 100 percent over the last four years. In 2005, costs were \$5,675 per employee per year; in 2009, they reached \$11,560 per employee per year. This doubling of costs mirrors a national trend in which health-care costs are anticipated to rise at the same rate for the next ten years. Controlling these escalating expenses will be essential. They are eating into ABO's profit margin because the company currently pays 70 percent of the costs for employee coverage.

Healthy employees bring direct financial benefits to companies in the form of lower employee insurance costs, lower absenteeism rates, and reduced turnover. Regular physical exercise promotes fit, healthy people by reducing the risk of coronary heart disease, diabetes, osteoporosis, hypertension, and stress-related problems. I propose that to promote regular, vigorous physical exercise for our employees, ABO implement a health-care program that focuses on employee fitness. . . .

Initial on printed copy

Introduction clearly states problem

Introduction summarizes proposal solution

Figure 13–2 Formal Internal Proposal, Introduction (Transmittal Memo Excerpt)

Source: Walter E. Oliu, Charles T. Brusaw, Gerald J. Alred (Bedford/St. Martin's 2010)

Problem of Health-Care Costs

The U.S. Department of Health and Human Services recently estimated that health-care costs in the United States will triple by the year 2017. Corporate expenses for health care are rising at such a fast rate that, if unchecked, in eight years they will significantly erode corporate profits.

According to Health and Human Services, people who do not participate in a regular and vigorous exercise program incur double the health-care costs and are hospitalized 30 percent more days than people who exercise regularly. Nonexercisers are also 41 percent more likely to submit medical claims over \$10,000 at some point during their careers than are those who exercise regularly.

These figures are further supported by data from independent studies. A model created by the National Institutes of Health (NIH) estimates that the average white-collar company could save \$596,000 annually in medical costs (per 1,000 employees) just by promoting wellness. NIH researchers estimated that for every \$1 a firm invests in a health-care program, it saves up to \$3.75 in health-care costs (Goetzl 342). In an overview of studies that evaluated the benefits of company wellness programs, the Public Health & Health Policy Institute of Wisconsin reported that “an unhealthy lifestyle or modifiable risk factors . . . account for at least 25 percent of employee health-care expenditures” (Zank and Friedsam 1).

Proposed Solutions for ABO

The benefits of regular, vigorous physical activity for employees and companies are compelling. To achieve these benefits at ABO, I propose that we choose from one of two possible options: build in-house fitness centers at our warehouse facilities or offer employees several options for membership at a national fitness club.

In-House Fitness Center

Building in-house fitness centers would require that ABO modify existing space in its five warehouses and designate an area outside for walking and running. To accommodate the weight-lifting and cardiovascular equipment and an aerobics area would require a minimum of 4,000 square feet. Lockers and shower stalls would also have to be built adjacent to the men’s and women’s bathrooms.

Information explaining extent of problem

Information explaining extent of problem

Citations identify sources of information in MLA style

Explanation of proposed solution

Figure 13–3 Formal Internal Proposal, Body (continued)

The costs to equip each facility are as follows:

1 Challenger 3.0 Treadmill	\$4,395
3 Ross Futura exercise bicycles @ \$750 each	\$2,250
1 CalGym S-370 inner thigh machine	\$2,250
1 CalGym S-325 outer thigh machine	\$2,250
1 CalGym S-260 lat pull-down machine	\$2,290
1 CalGym S-360 leg-extension, combo-curl	\$1,900
1 CalGym S-390 arm-curl machine	\$2,235
1 CalGym S-410 side-lat machine	\$1,950
1 CalGym S-430 pullover machine	\$2,110
1 CalGym S-440 abdominal machine	\$2,250
1 CalGym S-460 back machine	\$2,250
1 CalGym S-290 chest press	\$2,000
1 CalGym S-310 pectoral developer	\$1,950
10 5710321 3-wide lockers @ \$81 each	\$810
4 5713000 benches and pedestals @ \$81 each	\$324
Carpeting for workout area	\$3,000
3 showers each, men's/women's locker room	\$15,000
Men's and women's locker-room expansion	\$15,000
Remodeling expenses	\$450,000
Total per ABO site	\$514,214
Grand Total	\$2,571,070

*Required
equipment
and materials*

Breakdown of costs

At headquarters and at the regional offices, our current Employee Assistance Program staff would need to be available several hours each workday to provide instructions for the use of exercise equipment. Aerobics instructors can be hired locally on a monthly basis for classes. The Buildings and Maintenance Department staff would clean and maintain the facilities.

Required staff

Fitness-Club Membership

Offering a complimentary membership to a national fitness club for all employees can also help reduce company health-care costs. AeroFitness Clubs, Inc., offers the best option for ABO's needs. They operate in over 45 major markets, with over 300 clubs nationwide. Most important, AeroFitness Clubs are located here in Bartlesville and in all four cities where our regional warehouses are located.

*Explanation of
proposed solution*

AeroFitness staff are trained and certified in exercise physiology and will design individualized fitness programs for our employees. They offer aerobics classes for all levels, taught by certified instructors. Each club also features the latest in resistance exercise equipment from Nautilus, Universal, Paramount, and Life Fitness. Most AeroFitness facilities provide competition-size swimming pools, cushioned indoor running tracks, saunas, whirlpools, steam rooms, and racquetball courts.

Figure 13-3 Formal Internal Proposal, Body (continued)

AeroFitness offers a full range of membership programs that include corporate discounts. The basic membership of \$600 per year includes the following:

- Unlimited use of exercise equipment
- Unlimited aerobics classes
- Unlimited use of racquetball, sauna, and whirlpool facilities
- Free initial consultation with an exercise physiologist for exercise and nutrition programs
- Free child care during daytime working hours

The club offers a full range of membership programs for companies. ABO may choose to pay all or part of employee membership costs. Three membership program options are available with AeroFitness:

- *Corporate purchase.* ABO buys and owns the memberships. With 10 or more memberships, ABO receives a 35-percent discount.

ABO costs: \$600 per employee × 1,200 employees – 35% discount
= \$468,000 per year.*

- *Corporate subsidy.* Employees purchase memberships at a discount and own them. With 10 or more memberships, employees and the company each pay one-half of annual membership dues and receive a 30-percent discount off annual dues. The corporation also pays a one-time \$50 enrollment fee per employee.

ABO costs: \$300 per employee × 1,200 employees – 30% discount
= \$252,000 per year. The one-time enrollment fee of \$50 per employee adds \$60,000 to first-year costs.*

- *Employee purchase.* Employees purchase memberships on their own. With five or more memberships, employees receive 25 percent off regular rates. Club sales representatives conduct an on-site open-enrollment meeting. Employees own memberships.

ABO costs: None.

*Assumes that all employees will enroll.

Breakdown of costs

Figure 13–3 Formal Internal Proposal, Body (continued)

Source: Walter E. Oliu, Charles T. Brusaw, Gerald J. Alred (Bedford/St. Martin's 2010)

Conclusion and Recommendation

I recommend that ABO, Inc., participate in the corporate membership program at AeroFitness Clubs, Inc., by subsidizing employee memberships. By subsidizing memberships, ABO shows its commitment to the importance of a fit workforce. Club membership allows employees at all five ABO warehouses to participate in the program. The more employees who participate, the greater the long-term savings in ABO's health-care costs. Building and equipping fitness centers at all five warehouse sites would require an initial investment of over \$2.5 million. These facilities would also occupy valuable floor space—on average, 4,000 square feet at each warehouse. Therefore, this option would be very costly.

Enrolling employees in the corporate program at AeroFitness would allow them to attend on a trial basis. Those interested in continuing could then join the club and pay half of the membership cost, less a 30-percent discount on the \$600 yearly fee. The other half of the membership fee (\$300) would be paid for by ABO. If an employee leaves the company, he or she would have the option of purchasing ABO's share of the membership to continue at AeroFitness or selling their half of the membership to another ABO employee wishing to join AeroFitness.

Implementing this program will help ABO, Inc., reduce its health-care costs while building stronger employee relations by offering employees a desirable benefit. If this proposal is adopted, I have some additional thoughts about publicizing the program to encourage employee participation. I look forward to discussing the details of this proposal (including the implementation schedule for each option) with you and answering any questions you may have.

Conclusion restates recommendation

Conclusion closes with spirit of cooperation

Figure 13-4 Formal Internal Proposal, Conclusion

Works Cited

Centers for Medicare & Medicaid Services. "Projected." *National Health Expenditure Data*. CMS, 2006. Web. 20 Sept. 2010.

Goetzel, R. Z., et al. "Health Care Costs of Worksite Health Promotion Participants and Nonparticipants." *Journal of Occupational and Environmental Medicine* 40.4 (1998): 341–46. *PubMed*. Web. 18 Sept. 2010.

Kozar, Marcie. "Re: Company Costs for Nonexercisers." Message to the author. 15 May 2010. E-mail.

United States. Dept. of Health and Human Services. "Physical Activity Fundamental to Preventing Disease." *Office of the Assistant Secretary for Planning and Evaluation*. Dept. of Health and Human Services, 20 June 2002. Web. 12 Sept. 2010.

Zank, Daniel, and Donna Friedsam. "Employee Health Promotion Programs: What Is the Return on Investment?" *Issue Brief*. Wisconsin Public Health & Health Policy Institute. Sept. 2005. Web. 12 Sept. 2010.

Works-cited section lists research sources in MLA style

Figure 13–5 Works-Cited Page of a Formal Internal Proposal

Source: Walter E. Oliu, Charles T. Brusaw, Gerald J. Alred (Bedford/St. Martin's 2010)