

ISSUE BRIEF #3:

# Actuaries Respond to the Limitations of Financial ROI

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## Key Points

- Five key concerns regarding financial ROI include a narrow focus, inconsistent application, misalignment with clinical health care goals, short-term bias, and the “wrong pocket” problem.
- In addition to these, actuaries have recognized:
  - the need to use financial ROI as a critical measure, while also recognizing that it is insufficient on its own;
  - that program attribution can be challenging, making ROI difficult to measure; and
  - that standardization is recommended to support the harmonization of program evaluations.

Through the “Broadening the Focus” project, the Health Equity Committee is creating a holistic, principles-based framework that actuaries and other stakeholders can use when evaluating the overall value of a health care program or benefit. The framework is not intended to be prescriptive, but rather is intended to serve as a tool to highlight possible indirect costs, indirect savings, and nonfinancial outcomes that might impact a program or benefit.

As part of Phase 1 of this project, we published two previous issue briefs ([Evaluating Health Care Programs](#) and [Beyond Financial Return on Investment](#)), in which we shared the results of interviews with nonactuarial professionals who work in the program evaluation space. The first two briefs considered the advantages and disadvantages of using financial return on investment (ROI) to evaluate health care program implementation and discussed possible methods to expand beyond financial ROI. This issue brief focuses on the actuarial perspective of financial ROI, including its benefits and drawbacks.

While Phase 1 focused on feedback from nonactuarial subject matter experts, Phase 2 gathered input from actuaries through in-depth interviews, as well as formal and informal discussions held both in person and online. These comments and the experiences and perspectives of actuaries highlighted five main concerns regarding financial ROI:

- **Narrow Focus** – Financial ROI often has a narrow scope, focusing primarily on direct costs, such as fees paid to a program vendor or incentives paid to program participants, and program savings, typically reflected as a reduction in participants’ total cost of health care. This narrow scope may miss the indirect benefits and



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nonfinancial outcomes of health care programs, such as quality-of-life improvements or societal benefits. Though these broader impacts are difficult to quantify, actuarial feedback emphasizes the importance of expanding ROI and health care program evaluation to incorporate these outcomes. For example, certain interventions may lead to improved employee productivity (measured through reduced employee presenteeism and absenteeism), generating both organizational and societal benefits.

- **Inconsistent Application** – ROI is not uniformly defined; therefore, measurements can suffer from wide variability and inconsistency. The lack of uniform standards or guidance increases confusion and skepticism about ROI measurements. For example, some programs may exclude certain enrollees from the ROI calculation in order to yield more favorable results. Additionally, the focus on ROI as a primary metric to measure the viability of health care programs can lead programs to overstate ROI or calculate ROI using methods that are not appropriately rigorous for the context, which, again, reduces the reliability of the measure.
- **Misalignment with Clinical Health Care Goals** – Financial goals and clinical outcomes do not always align, which can lead to tension between financial professionals (such as actuaries) and clinical stakeholders. For example, a program may improve health outcomes for a specific cohort, yet not be implemented if the projected ROI is negative. Furthermore, a clinician's view of treatment value does not always align with the patient's values. For example, an oncologist may recommend aggressive chemotherapy that modestly extends life but causes significant side effects, while a patient may value maintaining independence and time at home over a marginal survival gain. These competing priorities can make financial ROI an incomplete measure of the value of a health care program.

This issue brief was primarily authored by Corryn Brown, member; Becky Sheppard, Chairperson; and Sara Teppema, Vice Chairperson, of the Health Equity Committee.

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- **Short-Term Bias** – Due to factors such as reporting requirements, program contracting timelines, and the insurance market’s general quarterly or annual financial results cycle, the health care market tends to focus on short-term ROI rather than the benefits of long-term ROI evaluation. Many health care programs will have poor ROI in the early stages, making short-term ROI an incomplete measure. For instance, diabetes prevention initiatives may show limited short-term returns but can significantly reduce the long-term costs associated with comorbidities such as kidney disease and other diabetic complications.

When there is an opportunity to assess long-term ROI and the benefits of health care programs over time, actuaries generally use discounting and present value methods. However, such methods are not always understood or trusted by decision-makers, which can further hinder adoption of programs with longer-term returns.

- **“Wrong Pocket” Problem** – In some cases, the entity that will benefit from the impact associated with a program is different from the entity that funds the intervention, which can make it difficult to assess the success of the program or convince stakeholders that the investment is worthwhile. Some actuaries noted that organizations should invest in programs that align with their mission, and that therefore returns will be in the “right pocket.” If returns go elsewhere, then perhaps the intervention is not actually aligned with the mission of the organization. For example, a nonprofit hospital system might invest in a community wellness program that improves population health, yielding savings to managed care organizations and other payers, and reducing utilization for the hospital system.

In addition to the considerations above, the following points were also brought up in the feedback from actuaries.

- **ROI is necessary but insufficient by itself.** Actuaries recognize financial ROI as a critical but partial measure, emphasizing that evaluations should integrate indirect costs, savings, and nonfinancial benefits. Holistic evaluation requires multidisciplinary collaboration, with actuaries working alongside economists, clinicians, and other experts to capture the full value.
- **Standardization is needed.** There is strong support for guidance or standards [such as an actuarial standard of practice (ASOP)] to harmonize program evaluation definitions; methodologies; measurement periods and timing; and reporting. This would ensure more consistent application and understanding among stakeholders. Currently, communicating nuanced evaluation methods and ROI analyses—and explaining quantitative benefits—remains complex when addressing decision-makers

with diverse priorities. Additionally, variations in how financial principles, such as discounting, are leveraged to appropriately weigh longer-term benefits, despite market pressures for short-term results, can make it challenging to compare program evaluation analyses developed by various stakeholders. Finally, in the absence of standards, actuaries may feel pressure to select certain methods or assumptions that produce more favorable results. Standardizing the definition of financial ROI could alleviate some of the difficulties in using and evaluating ROI.

- **Program attribution can be challenging.** Attributing health outcomes specifically to one program is challenging due to the prevalence of overlapping health care management programs, alongside the complexity and interconnected nature of health care delivery and variability in patient experiences. Health outcomes often result from a multitude of interacting factors, making it difficult to isolate the impact of a single intervention or program. This can make financial ROI difficult to measure when trying to determine the distinct benefit of a single program.

Program evaluations and ROI analyses can be an important part of the work of actuaries, but the scope of these analyses has traditionally been very limited with respect to many elements that could be considered. ASOPs can help provide some of the guidance requested, and as the Academy's Health Equity Committee moves forward with the proposed framework, the ultimate goal is to offer further information and considerations for actuaries and nonactuaries alike.

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