Driving Participation in Wellness Programs:

Why Cash Incentives Fall Flat

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Content

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Amidst rising healthcare costs, many employers have turned to wellness programs to encourage employees to exercise more, get regular medical checkups, and stop smoking, among another behaviors. These companies hope that by encouraging their employees to adopt healthier habits, they will avoid increased healthcare costs brought on by obesity, tobacco use, undetected illness, and other preventable conditions.

A Harvard University study released in 2010 found that these programs are working: the organizations studied realized a return on investment of $3.27 for every dollar spent on wellness programs. Their absenteeism costs fell by about $2.73 for every dollar.[1]

Most wellness programs use incentives to encourage employees to perform desired healthy behaviors. These incentives can take the form of reduced insurance premiums or deposits to Health Savings Accounts, cash payments, or gift cards. Price Waterhouse Coopers' May 2011 Health and Well-Being Touchstone Survey found that participation in wellness programs was much higher when incentives were offered. For example, 48% of participants who were offered incentives filled out Health Risk Questionnaires vs. 28% of participants who were not. The statistics for biometric screenings were nearly identical.[2]

Other employers have taken a more drastic approach, using punishment to encourage participation. At these companies employees who do not meet certain health targets are penalized with higher insurance premiums. While in 2009 only 8% of companies were using penalties, that number has risen to 20% today, and is poised to increase further in the coming years.[3]

While it might seem intuitive to link wellness initiatives to premium reductions or Health Spending Account (HSA) deposits, this white paper will show that cash-equivalent reinforcers alone are not effective motivators.

[1] Harvard University (February 2010) Workplace Wellness Programs Can Generate Savings.
[2] Price WaterhouseCoopers (May 2011) Health and Well-Being Touchstone Survey.
[3] Towers Watson (2012) Towers Watson National Business Group on Health Employer Survey on Purchasing Value in Health Care.

Figure 5. Medical and drug costs and employee premium share

	Total PEPY costs		Net PEPY costs	
Percentile	2011	2012*	2011	2012*
Mean	$10,982	$11,664	$8,453	$8,900
10th	$7,636	$8,070	$5,707	$5,908
25th	$8,928	$9,367	$6,925	$7,238
50th	$10,619	$11,134	$8,318	$8,618
75th	$12,597	$13,478	$9,997	$10,544
90th	$14,256	$15,297	$11,301	$12,121

Note: Costs include medical and drug claims for active employees. Total per-employee per-year (PEPY) costs include both employer and employee shares. Net PEPY costs are less employee contributions.
*Expected

Source: Towers Watson National Business Group on HEalth Employer Survey on Purchasing Value in Health Care, 2012

The Problem of Participation

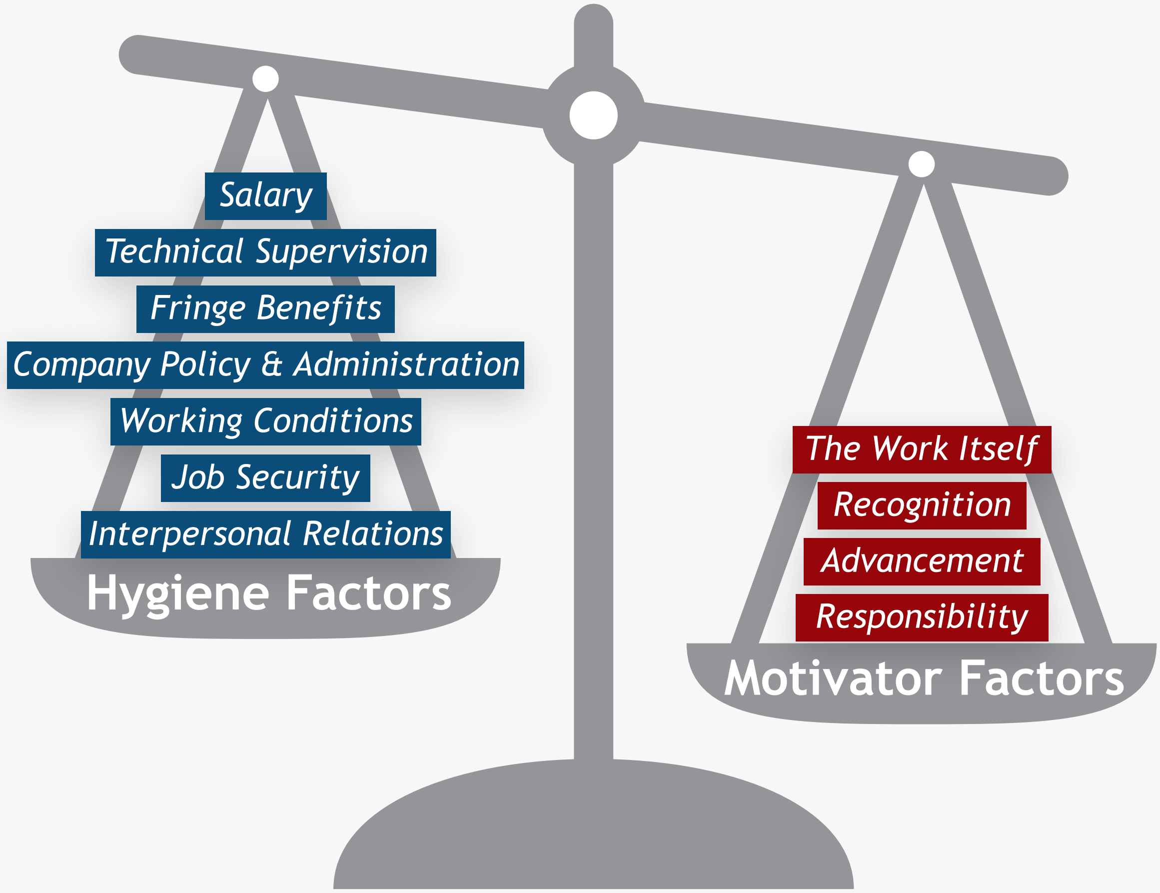
As shown above, employees contribute nearly 40% more for health care today than they did five years ago, with average costs totaling $10,982 per person in 2011. Yet many companies are having difficulty getting their employees to participate in wellness programs. Fifty-seven percent of the companies studied by Towers Watson cited lack of participation as the biggest obstacle to managing their employees' health. Why wouldn't an employee take advantage of a program that could save her money? There are several reasons:

- It's not worth it to them. Many employees just do not view financial incentives as enough of a reason to make significant lifestyle changes such as losing weight or quitting smoking.

- They are afraid to admit illness. When wellness programs are connected to health insurance, many employees are discouraged from doing biometric screenings or getting regular physicals for fear that medical conditions will be discovered and counted against them.

- The rewards come too late. Lowering health insurance premiums is a type of negative reinforcement, a method whereby an unpleasant situation is ceased (in this case, paying full-priced premiums) in exchange for a desired behavior. While this can be an effective behavioral tactic in many situations, it becomes less powerful when the reinforcer is not delivered immediately after the action. For example, the employee is not going to notice any difference in her paycheck the day after getting a biometric screening or beginning an exercise plan. Therefore, she may not be as compelled to complete other healthy actions that will further reduce her premiums.

- Cash isn't always king. Depositing money into an employee's HSA or FSA is another common type of incentive offered in wellness programs. This tactic is similar to giving the employee cash rewards, which has been shown time and time again to be an ineffective reinforcer on its own over the long term.



Well-known psychologist Frederick Herzberg's Two-Factory Theory of job satisfaction explains why cash isn't an effective driver. He breaks working conditions down into two categories: motivators and hygiene factors.

Herzberg found that motivators can lead an employee to higher levels of performance. Hygiene factors do not increase employee motivation--although they can decrease motivation and satisfaction if they are deficient.[4] Therefore, if an employee did not already feel a significant lacking in salary or health benefits, cash deposits to an account are not likely to have a motivational effect. However, recognition for reaching the same wellness goal can be expected to net better results.

On the other side of the coin, employees have grown to expect wellness programs to include a cash component in the form of premium reductions. For employees who show consistent levels of participation, it may be wise to incorporate a cash component once they reach a certain milestone of program participation. Otherwise they may begin to feel a lacking in program benefits, which will become a "hygiene" issue as described by Herzberg.

[4] *Slocum, Hellriegel. (2011) Principles of Organizational Behavior. 2011.*

Legal Implications of Penalties

Some companies have taken a more extreme approach to encouraging employee participation in wellness programs, by imposing higher premiums on those who fail to meet certain targets. This policy may well present a problem under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA bars health plans from charging employees varying premiums based on their health status. However, HIPAA does include provisions that allow employers to offer financial incentives to employees who achieve certain health goals or participate in wellness programs. If these programs are solely participation-based (for example, offering rewards for participating in an exercise program), then they are mostly free from restrictions. On the other hand, programs that set health standards for their employees must meet five parameters:

1. Rewards cannot exceed 20% of the cost of coverage;

2. The program must be "reasonably designed" to promote health or prevent disease;

3. Employees must be able to qualify for the reward at least once per year;

4. All employees must have the opportunity to earn the reward. If an employee has a medical condition that would make it "unreasonably difficult" to meet the standard, the employer must offer a "reasonable alternative standard;" and

5. The plan must disclose in its written materials that this reasonable alternative standard is available.

The Affordable Care Act (ACA), which is scheduled go into effect in 2014, actually increases the reward ceiling under number one above to 30%. It will also offer grants to small employers to assist them in starting wellness programs if they haven't already. However, it also prohibits health plans from charging higher premiums based on an individual's health status. The employee's participation in the program must be voluntary, and the program must adhere to strict guidelines that ensure that incentives are not discriminatory.[5]

Employers have to be especially careful about implementing these programs in populations including minorities and low-income employees, especially women with children. These demographics are often at a disadvantage in these types of plans, as they are more likely to have the health conditions that are penalized. They are also less likely to have access to the resources they need to achieve a healthy lifestyle.[6] The American Heart Association recently released a policy statement that posits, "Existing research does not suggest that raising insurance rates will motivate individuals to improve their health status. However, research clearly demonstrates that increasing premiums or deductibles if employees can't reach certain health/behavior metrics may deny them access to the very care they need, especially for the most vulnerable employees where chronic disease incidence and unhealthy behaviors are often the most prevalent."[7]

[5] *Justice, Greg. (2011) "The Impact of the Affordable Health Care Act on Corporate Wellness Programs---Good, Bad, or Unknown?"*
[6] *Georgetown University Health Policy Institute (February 2012) Premium Incentives to Drive Wellness in the Workplace: A Review of the Issues and Recommendations for Policymakers.*
[7] *American Heart Association. Position on Incentives in Worksite Wellness Programs.*

The Solution:
Wellness Recognition and Incentive Reward Programs

Wellness recognition and incentive reward programs operate on the same principles as cash-based plans: the employee performs the desired wellness-related behavior and gets something in return. However, these types of programs offer recognition and rewards as an incentive apart from the health plan. As reviewed above, recognition is considered a more effective motivator than cash. Rewards programs usually provide recognition using congratulatory emails, certificates, and increasingly, "socialized recognition," that allows peers to encourage each other in their goals and achievements. The most common rewards offered in wellness recognition and incentive programs are currently gift cards and points accruals that give the employee a choice of merchandise from an online catalog.

Advantages of Wellness Recognition and Incentive Reward Programs

They are flexible:

Programs that are not linked directly to the health care plan can be easily changed and molded to meet changing employee needs and preferences. Non-wellness initiatives, such as rewards for displaying company core values, can be added to the program to make it more robust and inclusive for those who aren't immediately inclined to participate in the wellness aspects.

They are fun:

When a program is linked directly to an employee's health insurance, it becomes a part of the benefits package and ceases to be top of mind. A separate program that allows the employee to choose a reward such as a gift card to her favorite store or restaurant makes achieving wellness milestones fun, especially when the reward can be enjoyed with family and friends.

Rewards are more immediate:

Rewards programs that rely on cash deposits or premium reductions provide delayed gratification at best. However, the most effective reinforcer is one that is delivered immediately after the behavior. A well-designed wellness recognition and incentive program is designed to deliver rewards in a timely fashion, with a clear link to the action that prompted them.

Employers no longer have to worry about discrimination:

Because the employee reports her activities directly to the recognition and incentive company (who should be HIPAA compliant), neither the employer nor the insurance company are privy to that information. The employee can feel secure knowing that the information remains confidential, which increases the likelihood of participation.

Everyone is included:

Everyone in the organization can participate in a wellness recognition and incentive program. This is not always the case with programs that make deposits into HSA's or FSA's, as these features are only available to employees who choose high-deductible plans. Those who choose these plans are frequently in the best health, as they anticipate needing fewer doctors' visits and medications. The American Heart Association stated on this topic, "The AHA supports the use of incentives for participation in worksite wellness programs. We also support the various other kinds of financial incentives employers use such as gift cards, cash rewards, vacation time, and giveaways that are not linked to employer-sponsored health care coverage."

Fewer Restrictions:

Both the ACA and HIPAA place restrictions on wellness programs that are linked to health plans. However, voluntary incentive-based programs are unrestricted as long as they are not discriminatory. While all wellness programs should aim to be fair and inclusive, administrators can have more freedom in structuring programs that are removed from employee benefits.

Social Component:

Towers Watson reports that "there is a growing interest among companies in using social media tools, online discussion groups, and gaming software to support their health and productivity strategy." They found that organizations with consistent wellness performance communicate health messages through new technologies, such as social media tools, and promote friendly team competitions among employees--building a healthy culture. [3]Social media and gaming are being increasingly incorporated into incentive and recognition programs--for example, in the form of "liking" and "commenting" on others' achievements, or posting recognitions to Facebook or LinkedIn. Wellness programs can benefit from social groups formed in the sake of competition, such as different fitness or sports clubs, or for support groups for smoking cessation or weight loss.

[3] Towers Watson (2012) Towers Watson National Business Group on Health Employer Survey on Purchasing Value in Health Care.

CorporateRewards-Effective Recognition and Incentive Programs

CorporateRewards is a provider of web-based software that facilitates recognition and rewards through a user-friendly online platform, backed up by live in-house customer service agents. Our Universal Gift Card gives award recipients access to hundreds of retailers where they can use their reward to shop at retail price, with no markups, either in-store or online. Our platforms are custom-built for each client and can be used for a wide range of programs, with modules such as eCards, games, online nominations, event calendars, social recognition "walls," and online training.

How Our Wellness Programs Work

Most wellness programs are incentive-based, which means that they offer rewards for meeting a specified goal--for example, a $50 reward for completing a Health Risk Assessment online. You can also incorporate recognition elements into the program--for example, with peer-to-peer nominations given by co-workers who have noticed you going to the gym on your lunch break or providing co-workers with healthy snacks. And if your program does have a cash component, we are happy to administer that as well.

Rewards: Value and Choice

Most traditional recognition and incentive providers sell a limited catalog of awards via points redemption at anywhere from 25-40% markup over retail.

CorporateRewards' Universal Gift Card allows employees to redeem their awards for face-value gift cards, good at hundreds of retailers and restaurants, including Macy's, Sears®, The Gap®, Lowe's®, Crate and Barrel, Chili's, and The Marriott. That means that your whole rewards budget goes where it belongs--to your employees. Our awards never expire or incur dormancy fees, and they can be combined if desired.

Technology & Service

CorporateRewards' in-house programmers custom-build your Incentive and Recognition Management System to fit your organization's needs. We operate like an agency, assigning you an account manager who will oversee your account throughout

About CorporateRewards

CorporateRewards builds and maintains a variety of employee recognition, sales incentive, wellness incentive and customer loyalty programs for Fortune 1000 companies and small businesses alike. We are HIPAA-compliant, and can administer Health Risk Assessments through our system. Our solutions have won us clients like Verizon Wireless, Nokia, Michelin, Northrop Grumman, AAA, Cleveland Clinic, Samsung, and Heinz. To learn more, visit www.corporaterewards.com or email mfalb@corporaterewards.com.

About the Author

Meredith Falb has worked in the recognition and incentive industry for over four years. She has written extensively on the subjects of employee recognition and engagement, including ways to incorporate wellness initiatives into rewards programs. Meredith is currently the main contributor for CorporateRewards' wellness blog at http://wellnessblog.corporaterewards.com.

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