Good Health Pays Off! Fundamentals of Health Promotion Incentives

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Employer interest in consumer-driven health care is accelerating. Shifting more responsibility to employees entails changing a number of well-entrenched assumptions, values, and practices related to the way sick care is viewed and utilized. One such shift is getting employees to focus more on maintaining and improving their health rather than on seeking treatment once they are sick.

Introducing wellness or "health promotion" into the mix, although critical, can be extremely daunting because it usually requires meaningful changes in attitudes and behaviors in order to be effective. Health promotion programs seek to promote healthier lifestyles among employees and their families as a means to reduce escalating health care costs. Such programs also have been demonstrated to reduce absenteeism, improve productivity and worksite safety, boost employee morale, and transform company culture.

THE NEED FOR INCENTIVES

Researchers estimate that preventable illness makes up approximately 70 percent of the total cost of health care.[1] Preventable illnesses are related to a reasonably standardized and well-researched set of modifiable health risk factors that include nutrition, weight control, exercise, cholesterol, blood pressure, safety, and mental well-being. Health promotion programs seek to impact some or all of these risk factors by promoting healthy lifestyle choices and discouraging behaviors and attitudes that are detrimental to good health. For example, individuals are encouraged to eat nutritious meals, exercise regularly, avoid smoking, and reduce stress. Many health

promotion programs, especially in recent years, also seek to make employees more personally accountable for specific, controllable aspects of their health status, such as body mass index (a measure of weight control) or cholesterol levels.

Changing behaviors and attitudes can be extremely difficult. Lifestyle behaviors related to health risk factors are among the most challenging to modify, because of deeply engrained activities such as eating, exercise, and smoking. A significant part of the challenge is that these essential behavior changes are voluntary, not automatic, and often entail determination and discipline. For lasting results, individuals choose consciously to understand the alternatives and to implement the positive lifestyle changes consistently. People generally do not change their behavior without good reasons. The purpose of wellness incentives is to provide those good reasons.

Health promotion programs use a research-driven, cognitive-behavioral model to effectuate behavior change. Unlike reflexive conditioning, epitomized by Pavlov's legendary salivating dogs, a cognitive-behavioral model engages the participant in understanding the thought process and motivations leading to positive habit and behavioral changes. In order to effect change, behavioral patterns are analyzed and modified using both education and a system of incentives.

A theoretical view of the stages of cognitive behavior change is shown in Exhibit 1. Individuals attempting a change will progress through the stages as their motivational readiness increases.

Exhibit 1. The Stages of Change

1. Precontemplation	*Not considering change*
2. Contemplation	*Considering change*
3. Preparation	*Planning to act*
4. Action	*Practicing the new behavior*
5. Maintenance	*Sustaining the new behavior*

Source: Adapted from the *Transtheoretical Model/Stages of Change,* developed by James O. Prochaska, PhD & Carlo C. DiClemente, PhD.

Movement beyond the first two stages requires awareness. This is achieved by educating employees about the benefits of positive lifestyles and the detriments of unhealthy behaviors. Education alone, although an important first step, will motivate only a small percentage of a population to take action. Stronger motivational forces are necessary for most of us. This is where incentives come into play.

Every decision we make is based on weighing the perceived advantages and disadvantages of our potential choices. *Decisional balance* is

the relative weight we assign to these pros and cons. For an incentive to be effective, it must help tip our decisional balance, time and time again, and keep us on track to sustaining our desired behavior changes.

An optimal incentive program utilizes the simplest, most cost-effective incentives that cause the maximum number of individuals to move from a stage of contemplation to action. Furthermore, the best incentives will catalyze long-term lifestyle changes, so that when the rewards are removed the desired behaviors will continue because of *intrinsic reinforcements*. These reinforcements are the naturally occurring result of several factors, including successful goal achievement (such as weight loss or smoking cessation), as well as the boost in well-being and self-esteem that often accompanies health improvement activities. A key objective of employer-sponsored (or *external)* incentives, then, is to motivate individuals to initiate action and maintain the new behaviors until their own *internal* reinforcement takes over to sustain the positive change.

Health promotion would be much easier if internal motivators were strong enough that external incentives were not necessary. Most people say they would genuinely like to make lifestyle improvements. For example, nearly 70 percent of the more than 46.5 million US adults who smoke cigarettes want to quit;[2] however, few are able to quit permanently without help. External incentives play an important initial role in motivating individuals from inaction to action.

ADVANTAGES AND DISADVANTAGES OF INCENTIVES

Incentives are widely used in employer health promotion programs because they can have powerful behavioral effects. If the incentive rewards and rules are well designed, it is possible to produce a significant change in behavior for a significant percentage of the target population.[3] Incentives are also valued because they can be flexible, relatively simple to comprehend, and easy to administer. Additionally, multiple incentive rewards can be combined to increase their motivational ability, for example, combining a tangible reward (cash) with an intangible reward (recognition).

There are potential downsides to incentives. With certain reward schemes, some individuals may figure out how to outwit the rules by "gaming" the system. Additionally, some incentives may inadvertently reward unhealthy behaviors; for example, a per-pound weight loss incentive with no limits may encourage unhealthy or hazardous weight loss practices. Incentives may also create a dependency, such that when the reward is removed, the desired behavior ceases. For example, a reward for regular fitness center usage that expires after one year may lead employees to cease their exercise programs. A key consideration in incentive design is maintaining desirable behaviors without unwanted challenges to the program.

TYPES OF INCENTIVES

Incentives can be thought of as either *carrots* (desirable rewards) or *sticks* (undesirable consequences). Most health promotion programs try to maximize the use of carrots, and use sticks only when necessary, preferring to be perceived as giving something positive to their employees, rather than taking something away (or disciplining). Program sponsors should also be mindful of the proposed Health Insurance Portability and Accountability Act of 1996 (HIPAA) regulations[4] to ensure that reward structures do not have the effect of denying coverage to certain individuals. Above all, most wellness program communications strive to project a positive, upbeat message, which is more synergistic with positive incentives.

Incentive rewards can be *tangible* or *intangible*. Tangible rewards include cash, merchandise, prizes, vacation days, and avoidance of costs (such as reduced health care premiums). Intangible rewards include recognition, personal challenges, group competition, a sense of belonging, acceptance, and approval of peers. Historically, the most prevalent incentives in employer wellness programs have been intangible. In recent years tangible rewards have become more common as employers appreciate, and measure, the financial impact of reducing health risks in their workforce. Even when tangible rewards are utilized as the primary motivator, many of the intangible incentives are still present.

Incentive rewards are most meaningful and effective when they are closely tied to the behaviors they intend to reinforce. Although cash is a strong motivator, in the case of wellness incentives, it might be used to support unhealthy lifestyle activities such as buying beer and pizza or a new television. An alternative more consistent with the program's objectives would be "wellness dollars" that could be applied toward fitness-related equipment such as bicycles or camping gear, nutritional supplements, or gift certificates for healthy restaurants.

Cash can also be contributed to a variety of health care reimbursement or flexible savings accounts that employers may offer as part of their benefits program. These include flexible savings accounts (FSAs), health reimbursement accounts (HRAs), and health savings accounts (HSAs), which employers also use to facilitate the related objective of encouraging consumerism in health care purchasing behaviors.[5] In this way, the incentive dollars are used for health care expenses, and offset the total cost of health care for employees and dependents. Reducing health care premiums, or deductibles and co-payments, is another common technique for more closely associating incentive rewards with their source. An additional practice is to focus the savings specifically on preventive health care services, such as waiving deductibles for mammograms, well-baby visits, or similar activities.

Wellness contests can also be powerful motivators. Most commonly used to encourage changes in exercise habits, weight loss, and smoking reduction, they can be structured to encourage individual or team activity. In addition to tangible rewards provided to winners and participants, the intangible rewards of this type of incentive include recognition, visibility, and camaraderie. Care must be taken to ensure a success potential for each participant, including those with disabilities or other special circumstances.

BEHAVIORS THAT EMPLOYERS REWARD

The following are the most common behaviors supported by employer wellness incentives:

1. *Completion of a health risk assessment (HRA).* Until recently, many employer-sponsored HRAs were voluntary, and viewed primarily as an informational benefit for the individuals who chose to participate. Employers are now recognizing that an HRA can be the cornerstone of an effective health promotion program because of the information it supplies. In addition to being a powerful awareness tool for individuals, it provides valuable metrics to an employer on the aggregate health risk profile of its entire population. This information can be used for program design and evaluation. Today, individual participation in an HRA is often rewarded, because having a higher percentage of participating employees will result in more accurate and useful data.

2. *Participation in program activities.* The second type of behaviors reward-ed are specific activities performed by employees, such as the following:

    a. Attendance at on-site educational seminars on topics such as nutrition, fitness, cholesterol, and stress management.

    b. Completion of online learning modules, with a brief quiz to demonstrate retention.

    c. Adherence to a prescribed regimen, such as exercise activities or nutritional guidelines.

    d. Participation in specific programs such as smoking cessation or weight loss.

    e. Regular fitness center usage or other physical activity.

3. *Measurable achievements.* A third incentive type rewards demonstrated achievement of specific goals or metrics, for example:

   a. Lifestyle changes such as smoking cessation or achieving a specific weight loss target.

   b. Specific biometric accomplishments such as reducing cholesterol, losing weight, maintaining a low overall health risk score, or making a measurable improvement in a score. Health risk scores are commonly calculated based on a blend of biometric measures such as body mass index, cholesterol, blood pressure, and nicotine usage.

The rewards described fall into two basic categories: activities and achievements. These options frame a fundamental question that employers must consider when designing an incentive program: Should their program encourage and reward specific activities related to low-risk behaviors, or should it reward demonstrated, measurable results? There are potential benefits and disadvantages to each approach, as outlined in Exhibit 2.

Exhibit 2. Pros and Cons of Activity-Based vs. Achievement-Based Wellness Incentive Rewards

Activity-Based Rewards	**Achievement-Based Rewards**
Pro • Motivate incremental action steps toward healthier lifestyles • Might be more readily achievable for all individuals • Effective at building health awareness by rewarding educational activities and seminars • Can be perceived as more "fair" because they reward effort rather than inherent health factors	**Pro** • Easy to measure • Focus on individual accountability for personal health management • Metrics quantify real risk reduction through incremental progress • Can measure how well low-risk individuals maintain their good health
Con • Performing specific activities is not necessarily enough to decrease health risks • Activity-based incentives are the easiest to "game"	**Con** • Can put too much focus on specific measurement techniques, accuracy of specific tests, scoring methodology and metrics, and fairness across different demographic groups • Biometric testing involves additional costs • HIPAA requires that alternate standards be offered to some individuals

THE ROLE OF FAMILIES

Another consideration for employers is the inclusion of dependent family members—spouses and children—in the incentive design. Even if a wellness program successfully changes behaviors in every employee, it has still probably reached less than half of the employer's total health plan participants. Improving health behaviors of spouses and children of employees can yield significant additional health cost savings, as well as providing additional motivation and support for employee lifestyle changes outside of the work environment. For example, in many families, the spouse may have the greatest impact on lifestyle factors for the entire family, including food purchasing decisions, health care purchasing and access decisions, and influence on children.

Reaching the dependent population poses a challenge because the company culture may not touch them in a significant way. Some techniques for reaching dependents include:

- *Send it home*—Develop materials, programs, and incentive rewards that move into the home and engage family members. This can be accomplished using the employee as a conduit, and also by reaching out to the home environment via mail and the Internet.

- *Bring them in*—Invite family members to participate in health fairs, health screenings, educational seminars, and other wellness-related activities. Family-oriented company events such as picnics or outings can easily be structured around wellness concepts, which readily integrate with the common themes of food and recreation.

Children are often an overlooked population segment in health improvement programs, but their lifestyle has a critical impact on their future health. Recently emerging health statistics provide a sobering indication of where we may be headed as a society. For example, each year, more children in the United States die because of obesity than by gun violence.[6] According to a government report, one in three children born in 2000 will develop diabetes if they adopt the nation's inactive and overeating lifestyle.[7] Children who develop diabetes at a young age lose 20 to 28 "life years," and 28 to 35 "quality-adjusted life years."[8] Two in three people with diabetes will develop heart disease, and others will go blind, get kidney failure, and require amputations. Diabetes is the fifth leading cause of death in the United States.[9] Poor nutrition, overeating, and lack of physical activity are primary contributors to this trend.

The good news is that incentives can be especially effective motivators for children. Young people have a great ability to change, are more flex-

ible than adults, and can be motivated by a less significant reward than is typically required to motivate adults. Additionally, children can be powerful influencers of family behaviors once they understand the health and mortality impact that smoking, nutrition, and exercise can have on their parents.

REWARD AMOUNTS

What are the practical and legal limitations on incentive rewards?

For employers driven by ROI, it does not make sense to spend more on a health promotion program than it will return in savings. The investment side of the equation includes the cost of incentives, plus program expenses such as administration and communications. This investment is offset by savings from reductions in health care claim costs, absenteeism, worker's compensation, and other safety costs. Additional savings can be attributed to increased productivity and morale. Employee wellness is also believed to have an impact on "presenteeism," a measure of workers' effectiveness (or lack thereof) resulting from their health and well-being. Happier, healthier workers are more alert, motivated, and productive.

Measuring the impact of wellness in all of these areas is difficult, but an estimate can serve as an important guide for total program costs and for developing objectives.

Success with incentives has a great deal to do with the culture of a company, the related benefit structure, and the type of employees covered by the program. There is no easy "one size fits all" solution. To maximize its perceived value, an incentive should be designed with a high perceived value relative to its cost. This approach leads some employers to utilize lump-sum cash rewards, and others to utilize drawings for prizes, or health premium reductions. The perception of value can vary from company to company, and individual to individual.

Some experts recommend setting incentives, especially cash rewards, at as low a level as possible while still retaining their effectiveness. Their theory is that larger amounts can create a greater dependency and more likelihood that new behaviors will cease when the external reward is removed. The optimal reward amount should be just enough to tip the balance. Individuals who have been moved to the "contemplation" stage by wellness program communications and education may look at a small incentive as a "token" amount: Not really meaningful enough on its own to motivate a behavior change, but sufficient to give them a reason to make a change now rather than waiting for a better reason.

The reward amount should be commensurate with what the individual is being asked to do in return. For completing an online health assessment questionnaire, an incentive award might be in the $10 to $25 range. A more extensive program including biometric testing (which involves drawing

blood) and participation in a year-long program of targeted activities related to exercise, nutrition, and stress management might warrant an incentive in the $200 to $600 range.

In addition to the reward strength, the reinforcement schedule is also important. The goal of the reinforcement schedule is to replace the use of external rewards over time with naturally occurring intrinsic reinforcement that will maintain the desired behavior.

There are currently no hard and fast regulatory limitations on the magnitude of incentive awards that can be provided; however, the proposed HIPAA regulations that define a "bona fide wellness program" specify that the total reward that may be given to an individual for all wellness programs must not exceed a specified percentage of the cost of employee-only coverage under the plan.[10] These regulations specify three alternative percentages: 10 percent, 15 percent, and 20 percent, but a final regulation has not yet been issued. This percentage is to be applied to the total cost of employee-only coverage under the plan, which includes both employee and employer contributions. Employers implementing incentive-based wellness programs should familiarize themselves with these and other relevant HIPAA requirements, some of which are outlined in the accompanying article "Bona Fide Wellness Programs Under HIPAA," which begins on page 66.

Wellness programs must be voluntary: Employees cannot be required to participate. Employers must also be careful to ensure that incentives are not biased against older individuals or individuals with disabilities. For more details, see the accompanying article, "Impact of ADA and ADEA on Wellness Program Design," which begins on page 48.

FUNDING INCENTIVES

Intangible incentives such as recognition, acceptance, and personal challenge can have relatively low "cost" to an employer. Financial incentives, on the other hand, require a source of funds. Employers may be willing to put money on the table for rewards because they believe that there will be real savings from reduced health claims costs, absenteeism, disability, and worker's comp. They may also attribute a financial value to improved productivity, employee morale, and good will toward the company. For the ROI (return on investment) equation to work, the cost of the incentives must be less than the expected savings that the program will produce.

Because of the lag in health cost savings attributable to claims avoidance, most programs take several years to develop a positive ROI. As a result, employers generally must be willing to design their program with a multi-year horizon, spreading incentives, program costs, and expected savings over several years.

For employers who use health care premium discounts as an incen-

tive reward, it is important that employees perceive the amount of premium reduction to be significant. One technique for boosting this perception, referred to as "play or pay," involves increasing health plan premium contributions and then forgiving a substantial part of the contribution for those who participate in the wellness program. This approach can be rationalized as cutting the employer's premium subsidy, and then offering employees the option to win it back by committing to a program of risk awareness and personal accountability for healthy behaviors.

Employers can use different variations on this approach; for example, some may want to hold premiums level or close to level for a "healthy living" plan, while allowing the premium costs for nonparticipants to rise with the prevailing trend. If this practice is allowed to compound over time, it can result in a significant disparity in premium contributions between groups.

Such an incentive design could be perceived as a scheme to shift health program costs to the less-healthy employees. Some employers, fed up with escalating health care costs coupled with excessively unhealthy group health profiles of their employee populations, might argue that the time for individual accountability is overdue; however, although a cost-shift to less-healthy employees is a potential outcome of some program designs, there is more at play than simple cost-shifting.

This underlying concept is often overlooked, or not fully appreciated by employers when designing incentive programs, but it is a fundamentally important principle of health promotion. A cost-shifting paradigm is a zero-sum game: It requires that some must lose in order for others to win. In contrast, the value proposition of health promotion is a win/win situation: Employees receive rewards, their health is improved, and the employer's health care costs are reduced. With health promotion, everyone can participate in the program, and everyone can win. The strength and effectiveness of incentives are a key factor driving how well this objective can be achieved.

A MANDATE FOR ACTION

If the current health trends in the US population continue, dramatic increases will occur in serious health problems and early mortality caused by preventable conditions such as diabetes and heart disease. At the same time, our employer-based health funding mechanism is already approaching the breaking point, with some employers recognizing that the future of their viability as a business is in jeopardy if nothing is done to curb rapidly escalating health care costs.

Improving and maintaining good health is a proven technique for addressing these issues. To achieve their potential for containing health costs, today's health promotion programs require intelligent program design, careful analysis and refinement, attention to the uniqueness of

each company's culture, and, above all, effective incentives that motivate lifestyle changes and improve the health of individuals and the employee population as a whole.

NOTES

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3. Larry S. Chapman, MPH, "Using Wellness Incentives: Positive Tools for Healthy Lifestyles," Summex Corporation (2002).
4. Prop. Treas. Reg. § 54.9802-1(f); Prop. DOL Reg. § 2590.702(f); 45 C.F.R. § 146.121(f).
5. Employer contributions of wellness incentive rewards to an HSA can only be accomplished by voluntary employee elections through a cafeteria plan. IRS Notice 2004-50, 2004-33 I.R.B., Q/A-49.
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