



MERITAINSM
HEALTH

Employee Incentives

What You Need to Know to Achieve Maximum Results

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Employee Incentives

According to the National Business Group on Health (NBGH), “incentives that emphasize a culture of health, well-being, self help, and shared responsibility can have a significant effect on costs and medical outcomes.”¹

Industry specialists agree that one way to achieve these cost savings is through employee participation in health management programs. Yet while the concept seems cut and dried, a win-win for both employee and employer, sometimes employees are reluctant to adopt and welcome this change. How can employers overcome this obstacle? Health management programs that incorporate the use of incentives are proving to be the answer.

Incentives serve as a catalyst in getting people to take action to change their unhealthy habits. If they support and reinforce behavioral change, incentives can help improve employee health and lower costs.

Incentive Program Checklist

When you are designing an incentive program, be sure to incorporate these critical success factors:

- ✓ Clear and logical purpose for promoting an incentive
- ✓ Simple design and easy administration
- ✓ Set goal dates for performance evaluation
- ✓ Rules that are simple and perceived as fair
- ✓ Effective use of communication to engage participants
- ✓ Clear outline of specific tasks that need to be completed for participation
- ✓ Ongoing program reminders
- ✓ Equitable access (non-discriminatory to individuals or groups)
- ✓ Desirable rewards to motivate action
- ✓ Alignment with business objectives and corporate culture

Expected Advantages

By introducing prevention, disease management and overall health improvement programs in the workplace, and by attaching effective incentives to these programs, employers can significantly reduce their medical costs (NBGH, 2007). Furthermore, employers can expect to see the following advantages:

- Positive effect on productivity
- Lower instances of absenteeism
- Reduced presenteeism
- Reduced volume of sick days and lost work time
- Reduced claims costs related to lifestyle factors

The ills of “Presenteeism”

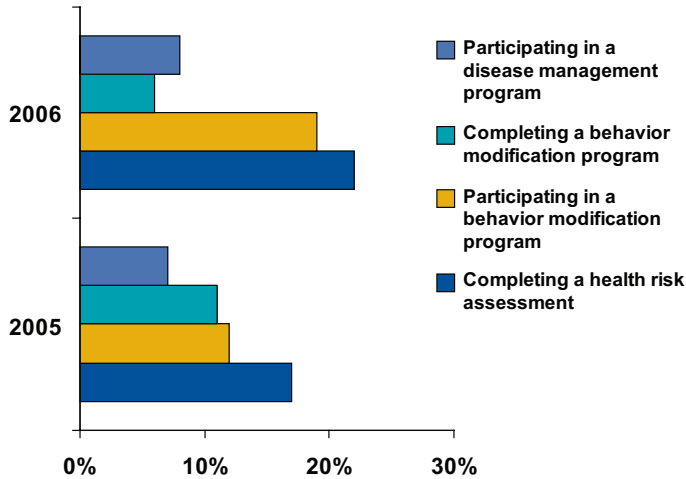
“Presenteeism,” or the term used for when employees show up for work despite illness, can have negative repercussions on business performance and can present hidden long-term costs.

- Employees who attend work when they are sick likely only function at a fraction of normal capacity.
- They may cause other employees to get sick, causing a larger decrease in work efficiency.

Growth in the Use of Incentives to Gain Participation in Health Management Programs²

According to the 2006 Mercer Survey Report, employers’ use of incentives to increase members’ participation in health and wellness programs increased sharply in 2006. The percent of all large employers using incentives increased from 13 percent to 19 percent, while the percent of large employers with 20,000 or more employees rose from 23 percent to 32 percent.

The following chart depicts the specific types of health and wellness programs in which members of large employers’ health plans participated. The results show the increases in participation for large employers in each type of program.



Health Reimbursement Arrangements (HRAs)

Health Reimbursement Arrangements (HRAs) can serve as effective incentive vehicles. The traditional use of HRAs to offset high deductible health plan designs can be enhanced by providing incentive dollars to cover additional services. This is often referred to as the “Shared-Savings” approach. (NBGH, 2007).

HRAs give employers some operational control over the accounts, allowing them to offer incentives and rewards to employees who participate in health, wellness or disease management programs (NBGH, 2007).

Financial incentives to promote healthy behaviors

In addition to shared savings approaches, employers can expand their use of incentive programs outside of plan design (NBGH, 2007). For instance, employers are offering incentives for simple activities, such as:

- Completing health risk assessments
- Participating in wellness and preventive care programs
- Participating in behavior modification programs
- Participating in disease management programs

When initially rolling out an incentive program, the ideal first step an employer can take is to encourage members to complete health risk assessments. Then, in following years, employers should shift the program’s focus toward more active engagement and intervention programs (Mercer, 2006).

Incentives used to meet business goals

Many incentive programs are now relating rewards to the attainment of business goals. These goals can be measured with metrics based on productivity, absenteeism, turnover, accident rates and presenteeism. Progress in achieving such goals can be measured in a variety of ways, from an entire employee population sample right down to the individual participant.

Individualized incentives

Individualized incentives encourage the personal development of the individual employee. Recently, employers have been developing incentive programs to address lifestyle-influenced health factors including blood pressure, body mass index (BMI), nicotine levels and cholesterol/triglyceride levels (NBGH, 2007).

Note: It is important to keep in mind HIPAA discrimination policies before implementing individualized incentives.

Common programs that utilize incentives

There are many types of effective incentive programs that employers may offer their employees. The most common of these include the following:

- Health Risk Assessments
- Disease Management Programs
- Health Improvement Programs/Wellness Management

Health Risk Assessments

Before an employer attaches an incentive to any type of goal, it is important for the employer to determine the most beneficial conditions employees should meet in order to attain the incentive. This determination can be achieved through a health risk assessment.

A health risk assessment can take the form of a survey and/or a physical examination. Its purpose is to discover an individual’s overall health status, identify unhealthy behaviors and determine medical and family history that put the individual at risk for disease. With this information, an employer can determine what types of disease and wellness management programs would be right for their employee population.

Because this information is so valuable, employers often attach incentives for simply participating in health risk assessments. Then, assessment results can be used to establish individual incentives for enrolling in programs that help curb an employee's unique health risks and reduce the employee's risk factors over time.

Health Risk Assessment Results

Through the use of health risk assessments and biometric screenings in 2006, Meritain Health identified the following related to its program participants:

- \$18 million in potential unmanaged medical costs among the sample population were identified.
- 37.2% of participants were overweight, and many had undiagnosed diabetes, hypertension and high cholesterol.
- 19.3% of participants were smokers.
- 2.2% of participants were diagnosed with serious conditions that required immediate medical attention.
- 10% of every workday was unproductive due to untreated conditions, resulting in 43,919 days of potential lost productivity each year.

Health risk assessments will play a crucial role in identifying where the company can best place incentives and reduce risks in coming years.

Disease Management Programs

Disease management programs aim to prevent disease by identifying and curbing plan members' unhealthy lifestyles and behaviors. By discovering health conditions with the potential for high dollar costs and, subsequently, managing and changing members' unhealthy behaviors, employers can gain significant control over long-term healthcare spending.

For a disease management program to be successful, employee participation is a must. Incentives and/or rewards can be used in conjunction with the program to actively engage members. To make sure members are using specific services offered through programs of this nature, employers can do the following:

- Strongly identify the most prevalent and costly diseases among the population
- Ensure there is constant communication about target disease states
- Build disease management programs that incorporate rewards and incentives
- Determine that metrics used for incentives and rewards are aligned with corporate goals, objectives and strategies³
- Decide whether programs will be incentive-based (members receive funds in advance for active participation) or rewards-based (members only receive funds after targets are met)⁴
- Educate members regarding the effects of unhealthy lifestyles and behaviors
- Choose a disease management vendor that will engage members in the development of personalized care plans and consistently follow up with members to check progress

Employers can work with their plan administrators to gather claims and eligibility data and the results of health risk assessments. On a regular basis, employers should evaluate not only their programs but also program enrollment statistics to make sure there is active participation.⁵

Carrot vs. Stick: What works?

Incentives and disincentives are tools that inspire employees to adopt healthier lifestyles. It is important to note that employers must be aware of HIPAA regulations as they relate to what incentives can and cannot be offered to workers.

Incentives may be offered for simple activities such as completing health risk assessments or participating in disease management programs and may include the following:

- Reduced medical premiums
- Cash payments or Health Reimbursement Arrangement credits
- Subsidized gym programs
- Rebate of program cost
- Gift cards and merchandise discounts
- Days off

Likewise, disincentives may also be used to encourage employees to adopt healthier lifestyles and can include the following:

- Increase in health benefits premium
- Paycheck reductions
- Termination if employees fail to comply

As more wellness programs emerge, the question becomes, which approach is most effective at inspiring behavior change: Carrot or stick? Rather than molding an entire program to one extreme, understanding a company's demographics is the best way to ensure return on investment (ROI) on a wellness program.

Wellness Management

Wellness management programs strive to prevent diseases related to lifestyle behaviors before it becomes too late to manage the health of the employee and the cost of the employer. There are a number of ways this can be achieved, including the use of incentives to increase participation. Recent studies have shown that participation in wellness management programs exceeds 50 percent when tied to just a \$25 incentive.

As a first step in wellness management, employers can offer small incentives for employee participation in on-site health screenings. Employers can also be more creative when it comes to incentives and design programs that will work for their specific employee populations. For example, employers can use incentives in conjunction with physical fitness programs, offering reimbursement for gym memberships if attendance goals are met. Employers can also offer reimbursement for the cost of smoking cessation products when a member is trying to quit smoking.

The Importance of a Debit Card

Effective wellness incentive programs should utilize debit cards, which give members easy access to the incentives. Financial incentives can be placed directly on debit cards, giving members convenient, electronic access to the funds.



Incentives and Your Employee Population

Voluntary Program

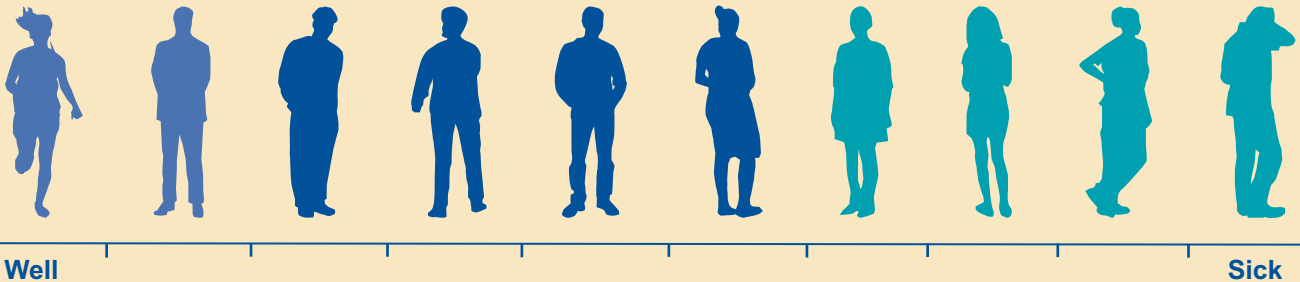
With a voluntary program and no incentives, the first 2 people in this population will participate. These are the people who already have healthy habits and will be healthy no matter what type of program is implemented.

Moderate Incentives

When a program with moderate incentives is implemented (*for example, flex dollars*), participation will increase through the first 6 people. Now the participants will include the healthy population as well as those who have some wellness issues but do an “OK” job of managing them.

Significant Incentives

When a program is implemented with a significant incentive (*for example a \$150 payroll differential*), the last portion will start to be enticed and become more likely to participate. These are the people that absolutely need to be targeted. They have highly unmanaged chronic conditions and are on the verge of becoming the next high-cost, high-risk cases in the health plan. This group is where the employer will gain the highest ROI.



The Psychology Driving Incentives

The goal of incentives isn't simply to drive participation, but to drive the right participation—that is, participation by people who are not among the healthiest segment of the population and who have not always done a good job at managing their health. These are the people who benefit the most from wellness programs. However, for most employers, creating participation among this group is the hardest challenge. The following describes what an incentive program should strive to do.

Group 1: The healthiest employees

Group 1 represents the people who have traditionally done a good job at managing their health and are looking for validation and credit. It is easy to capture this segment of the employee population because they possess a natural tendency to enroll in wellness or disease management programs, whether or not incentives are offered.

Group 2: Employees with health risks or chronic conditions

Group 2 represents the rest of the population. These people typically know who they are, and they opt not to participate in wellness programs, generally because they believe they will receive unwanted, intrusive telephone calls about their health risks and conditions. This is the group that employers need to motivate to participate in wellness and disease management programs. The use of incentives should be geared to appeal to this group in order to gain the highest ROI.

Complying with HIPAA

One of the most important factors for employers to consider in designing and implementing an incentive or rewards program is ensuring that the program is in compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which, in part, governs patient privacy in healthcare.

Under HIPAA, rules and regulations for incentives and rewards can be divided into two categories: Participation-only programs and standard-based programs.

Participation-only programs

Participation-only programs can be classified as wellness programs that do not reward participants based on health status-related factors. Programs that do not base eligibility for an incentive upon a participant's ability to meet a health requirement are allowed as long as the program is made readily available to all individuals (Employee Benefits Institute of America).

According to NBGH, health status-related factors can include, but are not limited to, obesity, unfavorable cholesterol test results and eating disorders. Health status-related factors can also be defined in a number of ways including the following: Medical conditions (including both physical and mental illness), claims experience, receipt of healthcare, medical history, genetic information, evidence of insurability and disability (NBGH, 2007).

Examples of participation-only programs include⁶:

- Incentives to participate in a health fair or testing (regardless of outcome)
- Waiver of copay/deductible for well-baby visits
- Reimbursement of health club membership
- Reimbursements for smoking cessation programs (regardless of outcome)
- Rewards for attending monthly health education seminars

Standard-based programs

Standard-based wellness programs that require participants to meet standards related to health factors in order to receive rewards can be permissible; however, they must meet the following requirements (Employee Benefits Institute of America):

- The reward must be no more than 20 percent of the cost of employee-only coverage
- The program must be designed to promote health or prevent disease
- The program must give individuals an opportunity to qualify for the reward at least once a year
- The reward must be available to all similarly situated individuals while providing a reasonable alternative standard for attaining the reward to those who cannot participate due to conditions
- All plan materials must disclose that all alternative standards or waivers are available

Incentives Make the Difference

Employers who choose to utilize incentives in conjunction with their Health Risk Assessments, Disease Management Programs and Wellness Management Programs can expect to see important outcomes. Incentives can positively affect productivity help lower absenteeism, decrease presenteeism, and aid in the reduction of claims costs related to lifestyle factors. In achieving these objectives, incentives can actively engage members in their own health decisions and encourage them to take actions that promise a happier, healthier future and lower healthcare costs. Sometimes that extra nudge can make all the difference.

About Meritain Health

Meritain Health is the country's largest independent provider of health benefit plans, offering employers comprehensive, integrated wellness and cost management services. To successfully control healthcare and health benefit costs, today's employers need fully integrated, end-to-end solutions to their health benefit requirements. With our client service approach that includes customized plan designs, high touch plan management and a strong focus on wellness and education, this is what Meritain Health delivers.

About Healthy MeritsSM

Unhealthy behaviors and lifestyles are the most prevalent factors driving increases in employers' and employees' health benefit and healthcare costs. Healthy Merits, a total population management program, offers a wellness consultant to customize the program for an employer's needs and is designed to identify chronic disease and factors leading to chronic disease among plan members.

Healthy Merits is comprised of the six services described below, many of which can be strongly tied to incentives to increase participation:

Managed Metrics

Managed Metrics consists of on-site employee health risk assessments including blood pressure and blood chemistry profiles testing for over 35 conditions, including diabetes and coronary artery disease. Members receive a comprehensive report of their results, and are invited to participate in health coaching.

Health Aware

The purpose of Health Aware is to motivate members to complete online health risk assessments and obtain preventive screenings such as physical exams, dental exams and vision exams.

Physically Fit

Physically Fit motivates members to get and stay in shape by offering incentives to those who exercise consistently and/or participate in a managed weight loss program.

Nicotine Free

Nicotine Free is dedicated to helping members break the tobacco habit for good. It provides online resources and reimbursement for smoking cessation programs, as well as discounts for cessation products.

Disease Management

Disease Management focuses on managing members' chronic health conditions that have potential for complications leading to higher claim costs.

Educational tools and resources

Continued education and communication are crucial to helping members get and stay healthy and make important healthcare decisions.

For more information about Meritain Health or Healthy Merits, please visit www.meritain.com or contact your local Meritain Health representative.

SOURCES

- ¹ National Business Group on Health, *"Health Care Consumerism: An Employer's Guide to Understanding Consumer-Directed Health Care"*
- ² 2006 Mercer Study
- ³ National Business Group on Health, *"Health Care Consumerism: An Employer's Guide to Understanding Consumer-Directed Health Care"*
- ⁴ *Ibid.*
- ⁵ *Ibid.*
- ⁶ Employee Benefits Institute of America

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