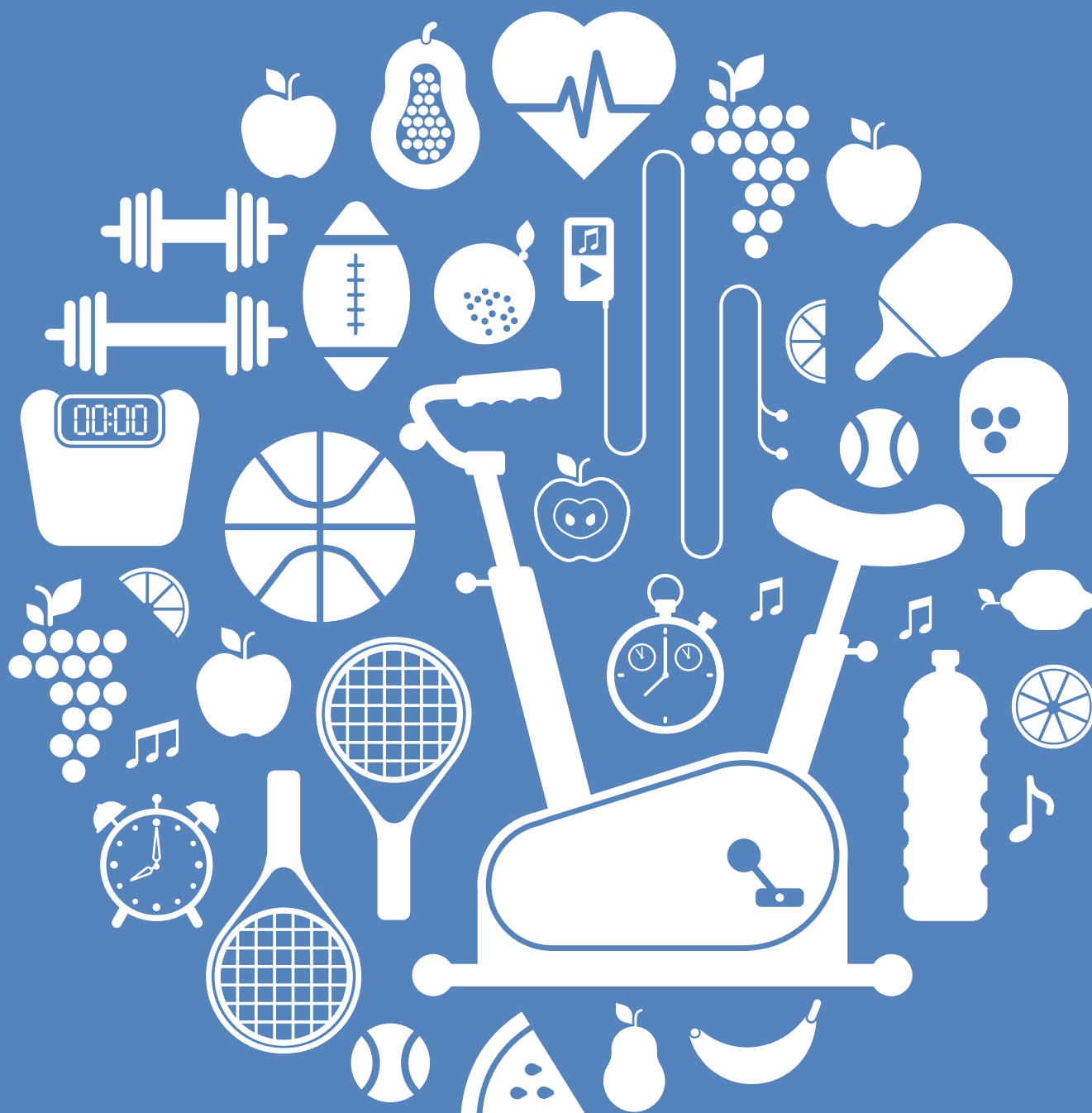


# The Value of Rewards-Driven Wellness Programs



# The Value of Reward-Driven Wellness Programs

The United States is on the threshold of a major shift in the way healthcare costs are managed. With healthcare costs now eating up more than 17 percent of the gross domestic product (GDP), the Obama administration has clearly made healthcare reform a priority. U.S. companies, which bear a majority of the cost of employee healthcare insurance premiums, have also been taking measures to control expenditures.

Although increasing the employee share of costs has been the most direct approach to containing healthcare costs, the strategy has failed to meet the broader objective of improving healthcare. Wellness programs, another strategy toward improved health, started several decades ago and their popularity continues to grow.

Wellness programs started out as purely educational efforts, but results were mixed. Researchers have learned over the past several decades that the very people who made it a priority to attend and participate in wellness initiatives were those on the healthier end of the scale. The groups hardest to target through wellness programs are those in high-risk categories, such as smokers and obese individuals, or those who need to efficiently manage chronic diseases, such as asthma, diabetes or high blood pressure.

Changing a lifetime of behavior and creating healthy habits is difficult. Science has proven that immediate rewards can help change behavior. Common sense tells us that people should be motivated by the long-term benefits of living a longer, healthier life, but research indicates that the human brain isn't necessarily wired that way. The science of applied behavior analysis strongly suggests that humans are motivated more by an immediate consequence than a short-term one. Simply stated, if a cookie tastes good today, most people don't care as much about the potential for an extra pound tomorrow.

Applied to improved health, companies have started to realize that by offering immediate rewards—whether for filling out a Health Risk Assessment [HRA] or attending a weight-management class—they can reach and influence people in the higher risk categories and individuals with chronic diseases.

As a result, more and more companies are offering reward-driven wellness programs. In fact, many recent studies suggest that about 65 to 85 percent of organizations surveyed currently offer wellness and disease management programs.

The key factor driving the rise in success of these programs is their ability to lower costs while improving workforce morale and productivity. Recent studies also indicate that well-designed wellness programs can provide a return on investment that is as high as 300 percent while promoting employee health.



The successful implementation strategy includes these key elements:

- Commitment from senior management
- Effective communication
- Continuous program improvement
- An environment conducive to good health
- Meaningful rewards

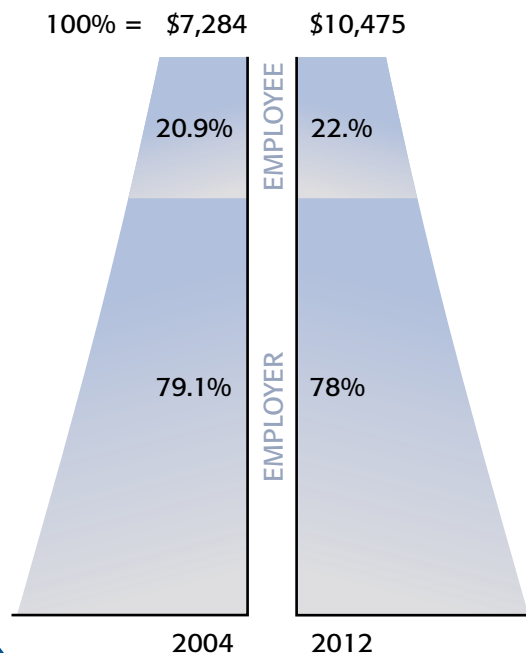
Rewards are the most crucial factor in determining employee participation and program success. Companies provide rewards at different stages and in various forms. There are no set rules—the specific incentives are governed by the focus of the program, and the form of reward is driven by employee preferences.

Clearly, reward-driven wellness programs are emerging as one of the most flexible and effective approaches to curb exploding healthcare costs. Employers who use incentives for screening activities report significantly higher participation rates than those who do not, according to the RAND Employer Survey, 2013.

## Rising Healthcare Costs: A Ticking Time Bomb

- The U.S. spends nearly 43 percent more on healthcare per capita than its GDP per capital would predict.
- Healthcare costs are a major concern for U.S. companies.
- The U.S. government acknowledges the significance of healthcare for present and future wellness.

### Annual Employee/Member Healthcare Costs - 2004 vs. 2012



Source: 2012 SHRM



## Healthcare Costs Impact Corporate Profitability

The United States has one of the most expensive healthcare systems in the world. For the past 30 years, U.S. healthcare costs have grown by at least two percentage points over the nation's overall GDP growth.

In 2009, U.S. healthcare spending was expected to grow six percent and reach \$2.6 trillion. By 2017, it is expected to reach \$4.3 trillion.

Rapidly rising healthcare costs have a direct impact on corporate profitability. Employers are already paying almost 80 percent of the healthcare costs in the country and in dollar terms, these costs have risen 30 percent over the past five years.

According to SHRM, total healthcare costs per person have increased from \$9,552 in 2009, to reach \$10,475 in 2012.

In average dollar terms, employers pay \$10,475 per employee today versus \$5,760 in 2004. Employees are also paying 43 percent more in healthcare costs in 2012 than five years ago.

Large employers are responsible for a total of 137.7 million American jobs, and maintaining a healthy workforce continues to be a top priority to them. Healthcare costs are expected to increase 4.3 percent in 2016, 5.1 percent in 2018 and by 8.4 percent in 2023.

## Drive for Healthcare Reform

President Obama considers the ongoing rise in healthcare costs a "ticking time bomb" that can lead to financial constraints on the entire nation, not just the millions of Americans with no coverage or inadequate coverage. Healthcare costs presently account for more than 17 percent of U.S. GDP, and are expected to hit the 20 percent mark by 2017.

Even as healthcare costs continue to rise, many Americans still don't have equitable access to medical care. The United States has 46 million uninsured and 25 million under-insured residents. Thus, the proposals for sweeping healthcare reform are stirring more debate. And the issues regarding access and affordability figure prominently in such discussions.

These reforms could require employers to provide or increase their health coverage, or they could impose a tax on employer sponsored health benefits. In any case, the ultimate effect would be an even larger burden for healthcare costs on employers.

Thus, the question of how to reduce or avoid such costs without compromising employee health remains critically important.



## Wellness Programs: Gaining Momentum as a Cost Avoidance Strategy

- The focus is shifting from medical care to prevention, with specific focus on obesity, smoking cessation and chronic diseases.
- Employers are working toward promoting healthy lifestyle behaviors through incentives.
- Wellness programs are part of healthcare reform principles and are expected to be embedded in future workplace cultures.

## Employers Attempt to Control Healthcare Costs

U.S. companies have been launching initiatives to control healthcare costs. According to the 2013 Wellness and Benefits Administration Benchmarking Study, 85 percent of large companies and 82 percent of small companies have a wellness program in place. The majority of employers (77percent) are investing in wellness primarily to reduce and manage their own health care costs.

## Wellness Programs Go Deeper

While increasing employees' share of healthcare costs is an option, it does not offer a real solution. According to the American Journal of Medical Care, cost-shifting is reaching a plateau, and it may not save money if, in the end, employees are unable to cover higher costs—which will lead to poorer compliance with preventive and therapeutic measures that could end up driving even higher growth of overall medical costs.

With more than two decades of proven success administering effective wellness programs, some companies are demonstrating just why corporate wellness programs may very well be a preventive cure.

In 2014 corporate employers plan to spend an average of \$594 per employee on wellness-based incentives within their health care programs, according to a 2013 employer survey by Fidelity Investments and the nonprofit National Business Group on Health (NBGH). This marks an increase of 15 percent from the reported average of \$521 in 2013, and is more than double the average of \$260 reported five years ago.

The largest increase was seen among companies with fewer than 5,000 workers, where the per-employee average climbed to \$595, one-third higher than the average of \$444 per employee in 2013.

The most popular wellness programs continue to be focused on lifestyle management, such as physical activity, weight and stress management. Other popular health-improvement options include:

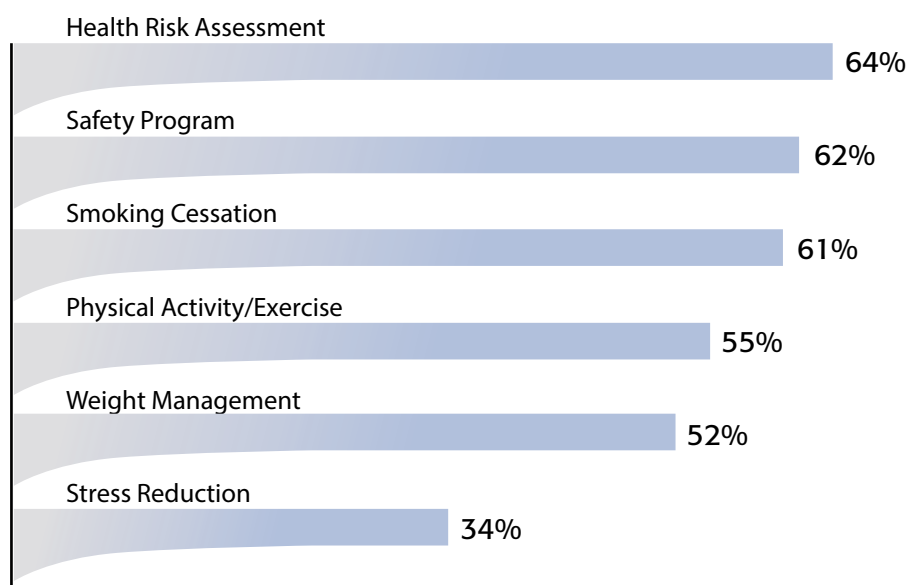
- Disease and care management programs for chronic health conditions such as diabetes
- Lifestyle-management services (weight-loss advice, gym-membership discounts).
- Health-risk management services (on-site flu shots)
  - Environmental enhancements (bike racks, walking paths).

*“Corporate wellness programs may be called a time-tested, preventive cure.”*

According to the survey, 95 percent of companies plan to offer a health-improvement program for their employees, and the percentage of organizations offering incentives to participate in these initiatives has jumped from 57 percent in 2009 to 74 percent in 2014.

## Type of Health and Wellness Programs Offered

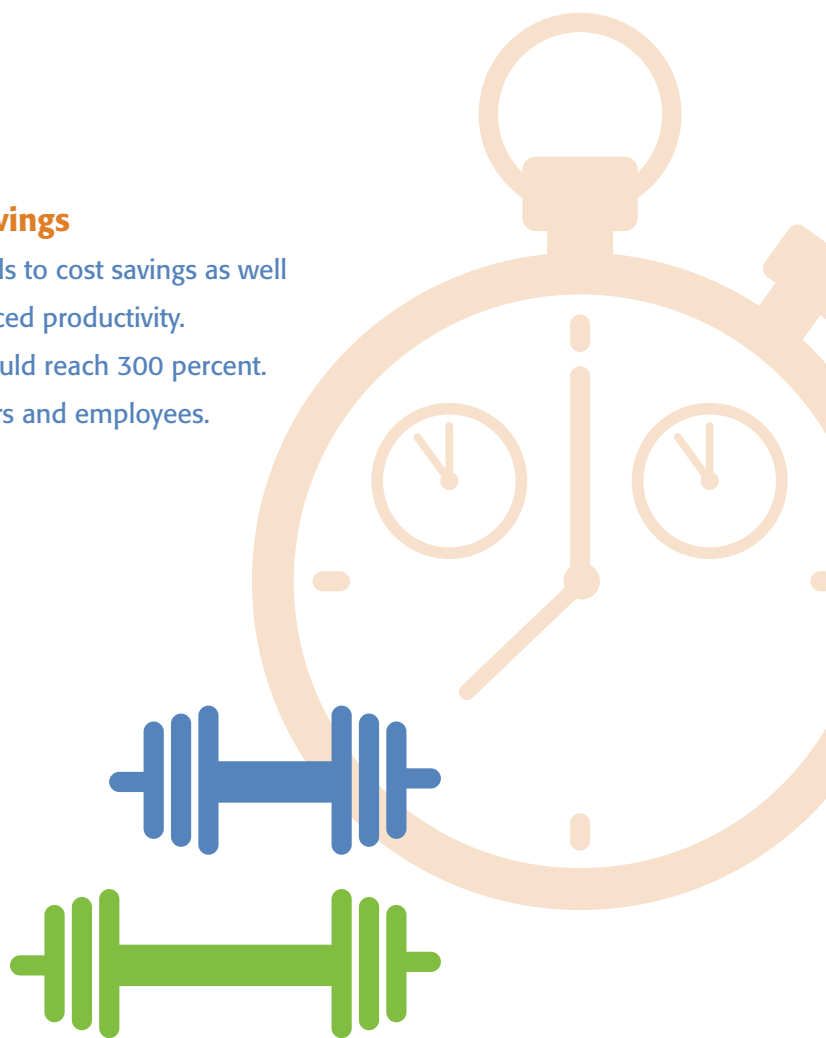
Percentage of Employers



Source: 2012 SHRM

## Well Program Benefits: Beyond Just Savings

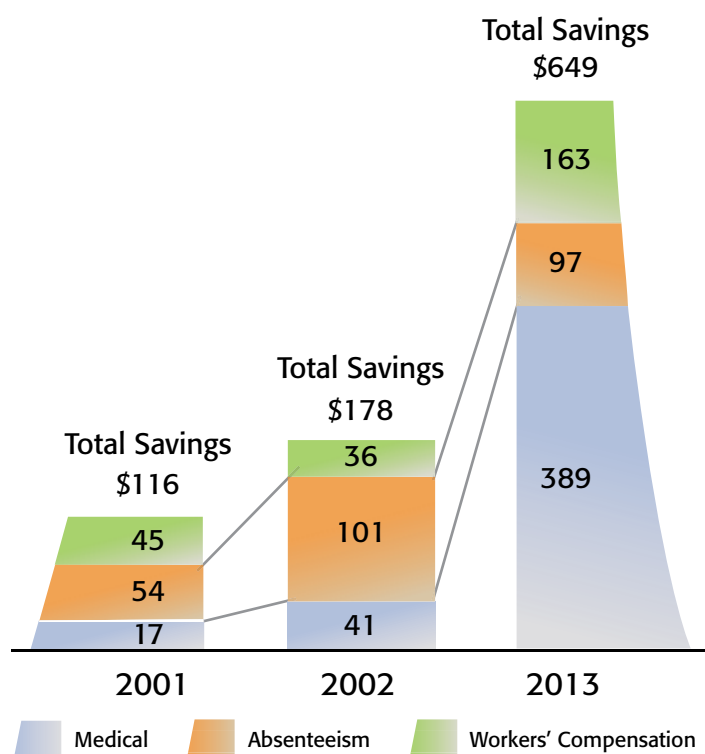
- Implementation of wellness programs leads to cost savings as well as improved employee morale and enhanced productivity.
- The ROI potential of wellness programs could reach 300 percent.
- Long-term benefits exist for both employers and employees.



## Wellness Program Benefits

Effective wellness programs lead to cost savings while reducing health risks. According to U.S. Corporate Wellness, employers can achieve a potential ROI of 3:1 to 5:1 or \$300 to \$500 for every \$100 spent per employee by implementing preventive services and health improvement programs.

One of the central principals of corporate wellness is that it is clearly better for individual to prevent health issues than to treat them later. An effective wellness program that focuses on staying healthy has been historically successful—improving employee health and providing a significant return on investment.



Source: American Institute for Preventive Medicine and Amaxx Risk Solution

*"The good news is that there's stuff that actually causes employees to change their behavior. For an employer, implementing a successful incentive program has the potential of creating a healthier, more productive employees. It also reduces healthcare costs down the road. There are two for the price of one here. It's a win-win."*

*—Mark V. Pauly, Wharton Professor of Healthcare Management*

## Beyond Dollars

Besides cost savings, wellness programs offer other benefits, including better employee morale, improved employee health, reduced workers' compensation claims, less absenteeism and increased productivity.

## Program Implementation: One Step at a Time

- Wellness program implementation includes three main stages.
- Employers can enjoy the flexibility of choosing the level of implementation.
- Each stage requires a separate process with clearly identified procedures or activities.

Employee-based wellness programs are implemented by organizations at three different stages:

1. Health risk assessment (HRA)
2. Inducing healthy behaviors
3. Chronic disease management

Employers can implement programs at a stage according to their need and convenience. The requirements of programs differ from stage to stage, with employees' health conditions and risk factors playing a pivotal role in the program design process.

### Stage 1: Health Risk Assessment

The health risk assessment (HRA) is a tool used to determine participants' health risks, and often includes questions related to nutrition, physical activity, smoking, blood pressure and other health criteria.

- HRA helps employers understand the collective health risk of employees, and incorporating necessary interventions that can address unhealthy behaviors at the workplace.
- Companies often offer cash incentives or gift cards to boost participation and HRA completion rates.
- The time required for implementing an HRA program ranges between six months to one year.

Bank of America, one of the world's largest financial institutions, experienced a \$164 decrease in healthcare costs for each HRA participant compared to a \$15 increase in healthcare costs among non-participants.

### Stage 2: Inducing Healthy Behaviors

This stage includes health programs focused on lifestyle issues, including weight loss, smoking cessation and management of diseases such as diabetes.

- Employers conduct workshops and distribute health-related educational material.
- Programs encourage participants to complete lifestyle management activities.
- Rewards can be linked to participation and key behaviors.
- The time needed to measure benefits of these programs is two to three years.



At one large diversified metal-processing company, nurses, dietitians and exercise specialists help moderate-risk and high-risk employees develop individual action plans using educational materials, behavior modification techniques, and telephone coaching from third-party health coordinators. By completing the assessments, staff members earn their full premium credit.

However, during the programs second year, the wellness bar is raised slightly. To continue to receive the wellness credit, members in the moderate-risk to high-risk category are required to setting goals with third-party health coordinators.

Once participants have completed the program and reached the end of the wellness track, they are not only part of a healthier workforce, they have generated significant cost savings for themselves and the company.

### **Stage 3: Chronic Disease Management**

Employers also implement wellness initiatives to help their employees manage chronic problems and take control of their health.

- Medical costs for people with chronic diseases account for more than 75 percent of U.S. medical care costs.
- Many chronic diseases are aggravated by unhealthy behaviors that can be reformed with the right rewards.
- The time needed to measure benefits of these programs is three to five years.

One of the largest food and drug retailers in North America found that four chronic conditions—cardiovascular disease, cancer, diabetes and obesity—accounted for 74 percent of healthcare costs, with obesity being the most critical factor.

By extending its wellness focus to chronic disease management, the company has realized large savings and has become a renowned expert in this space.

## Employee Participation: Rewards Make a Difference

Rewards are among the most crucial factors in boosting employee participation in wellness programs. Employers can offer multiple benefits to target higher employee participation.

According to a survey conducted by Intelecare, immediate rewards figure in the top three reasons that employees participate in such programs. In fact, 18 percent of employees said they participated in wellness programs only because rewards were offered. Other reasons for employees to participate include:

- "Something else to do at work."
- "History of medical condition in family/promote better health."
- "Recently diagnosed."
- "Wanted to stop smoking."

It has been observed that programs using rewards have shown better results than those using other incentives, such as healthcare discounts.

According to a recent study, groups using discounts on healthcare were spending about \$450 per employee per year with an average participation level of 50 percent. In contrast, companies that provided instantaneous rewards such as gift cards, spent an average of \$210 per employee per year with a participation rate of 70 percent.

In another recent study of 800 companies, 75 percent of companies that implement a wellness program use some sort of reward to do it.

To promote higher participation and to increase the success of wellness programs, companies use incentives at various stages of the program, including:

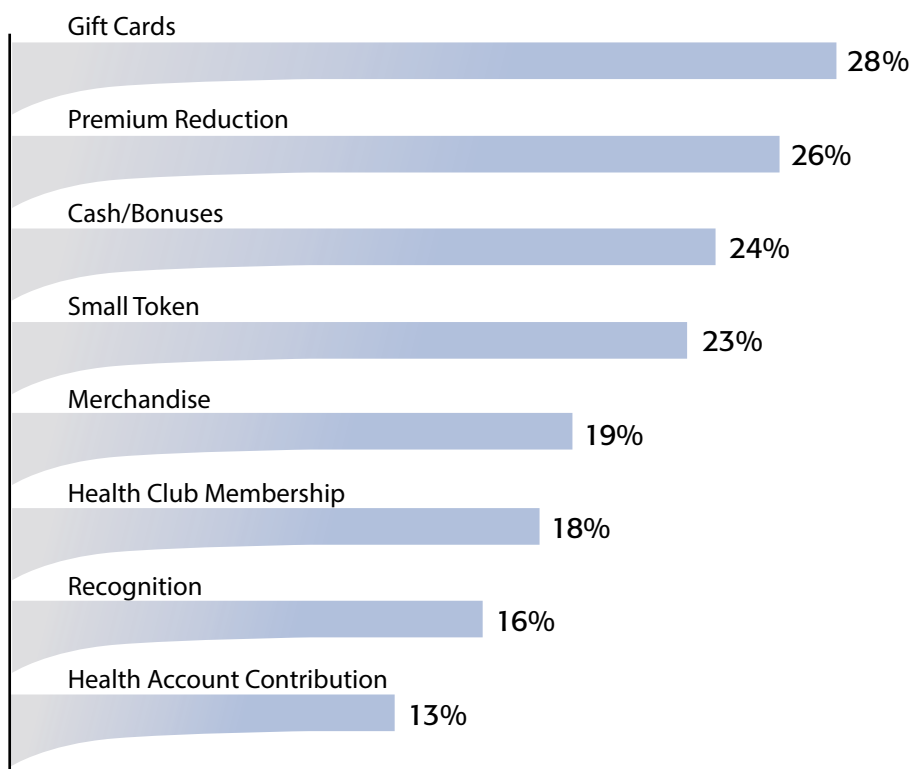
- Rewards for completing a health risk assessment.
- Rewards for follow-up activities, such as health behavior change programs.
- Rewards for healthy behaviors—attending smoking cessation classes, monitoring body-mass index (BMI) and regular exercise.

## Type of Incentives Offered

The nature of rewards provided in conjunction with wellness programs has changed over the years. According to a survey by the National Association of Manufacturers, the ERISA Industry Committee and Borislow Insurance, the use of gift cards has increased from 17 to 28 percent, while the use of reduced premiums declined from 41 percent to 26 percent.

## Type of Health and Wellness Programs Offered

Percentage of Employers



Source: NAM, ERISA Industry Committee and Borislow Insurance

*"The relationship between the amount of the reward and the level of program participation among employees is strong. A properly structured reward program does much more than protect investments in health management; it creates a healthier and more productive workforce."*

*—Sherri Potter,  
Senior Group and Healthcare  
Consultant at Towers Watson*

## Best Practices: PDCA Approach

- **Plan:** Identifying your needs.
- **Do:** Offer rewards that motivate and are in line with employee expectations.
- **Check:** Measure participation, calculate ROI and gauge the final impact (healthy behaviors).
- **Act:** In case employee behavior does not change, reassess the reward strategy and program implementation.



## Prerequisites of a Successful Wellness Program

The success of a wellness program depends upon many factors. Continuous support from senior management is the most important and is essential for any wellness program to succeed. The program should also have a road map for consistent execution and continuous improvement.

The philosophy of the wellness program should be supported by a conducive work environment. Employees are motivated by rewards, which enhance their participation in wellness programs and make the programs successful. Finally, effective communication plays a fundamental role in engaging employees.

## Four Guiding Principles for Incorporating Rewards into Wellness Programs

Effective use of rewards drives the success of every company's wellness program. According to Paul Terry, president and COO of StayWell Health Management and the Health Enhancement Research Organization, the use of rewards should be guided by four principles:

- **Keep It Positive:** Use incentives as a reward for a health risk assessment and related follow-up activities.
- **Menu of Activities:** Use a points-based system that is tied to a menu of program activities. The points should convert into motivational rewards.
- **Reward Behaviors:** Reward healthy behaviors rather than rewarding outcomes such as weight loss.
- **Valuable Rewards:** Provide employees with access to rewards that they desire and value.

## About Inspirus

Employee engagement is a company's most powerful lever for driving results, building a best place to work, and contributing to a better world. The Inspirus employee engagement platform draws employees into purpose-built employment experiences and gives organizational leaders continuous measures and a full portfolio of solutions to drive employee engagement — and demonstrate business impact.

Only the Inspirus platform combines an integrated rewards engine, learning, communication tools, and pragmatic analytics to power 21st century talent applications spanning recognition, well-being, safety, milestone awards, community involvement, and global rewards. The Inspirus engagement platform continues decades of experience helping market-leading companies inspire their employees and **bring joy to work**, one experience at a time.

Visit us at [inspirus.com](https://inspirus.com).



100 N. Rupert St., Fort Worth, TX 76107  
800.552.9273 | [info@inspirus.com](mailto:info@inspirus.com) | [www.inspirus.com](https://www.inspirus.com)