

# REWARD-DRIVEN WELLNESS PROGRAMS

Rising acceptance among U.S. companies

reinforcement

recognition

rewards



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## SUMMARY: THE VALUE OF REWARD DRIVEN WELLNESS PROGRAMS

The U.S. is on the threshold of a major shift in the way health care costs are managed. With health care costs as a percentage of GDP having already surpassed the 15% mark, the Obama Administration has clearly made health care reform a priority. U.S. companies, which bear a majority of employee health care insurance premiums, have also been taking measures to control expenditures.

While increasing employees' share of costs has been the most direct approach to containing costs, it has failed to meet the broader objectives of improved health care. Experiments with wellness programs started several decades ago. There are examples of companies which operated such programs as early as the 1980s. Gradually, the popularity of these programs has increased.

Wellness programs started out as purely educational efforts in the 80's and 90's, but results were mixed. Researchers learned over the past several decades that the very people who made it a priority to attend and participate were those on the healthier end of the scale. The groups hardest to target with 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, but what helps is if there are immediate rewards for doing so. 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. In plain language, if a cookie tastes good today, most people don't care as much about the potential for an extra pound tomorrow.

What companies have started to realize is that by directly offering immediate rewards – whether for filling out a Health Risk Assessment [HRA] or attending a weight management class – they can reach and influence those in the higher risk category and those with chronic diseases.

As a result, more and more companies are offering reward-driven wellness programs. In fact, many recent studies suggest that about 65-85% of respondents now offer wellness and disease management programs.

The key factor driving this rise in acceptance is the success of these programs in lowering costs while improving workforce morale and productivity. Recent studies also indicate that well-designed wellness programs can provide a return on investment (ROI) as high as 300% while promoting employee health.

The key elements of a successful implementation strategy include commitment from senior management, effective communication, continuous program improvement, an environment that is conducive to good health, and 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 particular 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 health care costs.

## **RISING HEALTHCARE COSTS: A TICKING TIME BOMB**

- The U.S. spends nearly 40% more on health care per capita than its GDP per capita would predict
- Health care costs are a major concern for U.S. companies
- The U.S. government acknowledges the significance of health care for present and future wellness

### **Health Care Costs Impact Corporate Profitability**

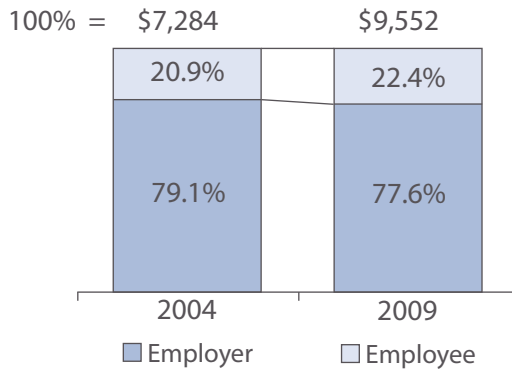
The U.S. has one of the most expensive health care systems in the world. For the past 30 years, U.S. health care costs have grown by at least two percentage points more than the nation's overall GDP growth.

In 2009, U.S. health care spending is expected to grow 6% to reach \$2.6 trillion. By 2017, it is expected to reach \$4.3 trillion.

Rapidly rising health care costs have a direct impact on corporate profitability. Employers are already paying almost 80% of the health care costs in the country, and, in dollar terms, these costs have witnessed a 30% increase over the past five years.

According to Towers Perrin, total health care costs per person have risen at a CAGR of 5.6% since 2004 to reach \$9,552 in 2009.

### Annual Employee / Member Health Care Costs - 2004 vs. 2009



Source: 2009 Towers Perrin Health Care Cost Survey

Thus, in average dollar terms, employers pay \$7,416 per employee today versus \$5,760 in 2004. Employees are also paying 40% more in health care costs than five years ago.

Despite the economic slowdown and reduced corporate profitability, health care costs are still expected to increase by another 9% in 2010.

### Drive for Health Care Reform

President Obama considers the ongoing rise in health care costs a “ticking time-bomb,” which can lead to financial constraints on the entire nation, not just the millions of Americans with no coverage or inadequate coverage. Health care costs presently account for 16% of U.S. GDP and are expected to hit the 20% mark by 2017.

Even as health care costs continue to rise, there is a lack of equitable access to medical care among Americans. The U.S. has 46 million uninsured and 25 million under-insured residents. Thus, the proposals for sweeping health care reform are stirring more debate. And the issues of access and affordability figure prominently in such discussions.

These reforms could require employers to provide or increase their health coverage, or could impose a tax on employer-sponsored health benefits. In any case, the ultimate effect would be an even larger burden of health care 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 attention to obesity and chronic diseases
- Employers are working towards promoting healthy lifestyle behaviors
- Wellness programs are part of proposed health care reform principles and are expected to be entrenched in future workplace cultures

### **Employers Attempt to Control Health Care Costs**

U.S. companies have been taking initiatives to control health care costs. According to a survey conducted by PricewaterhouseCoopers in June 2009, 42% of employers are planning to increase employees' share of health care costs; 41% are expected to increase medical cost-sharing through plan design changes; and more than 66% of employers are offering wellness and disease management programs.

### **Wellness Programs Go Deeper**

While increasing employees' share of health care 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' inability to cover higher costs leads to poorer compliance with preventive and therapeutic measures, which in turn could lead to higher growth of overall medical costs.

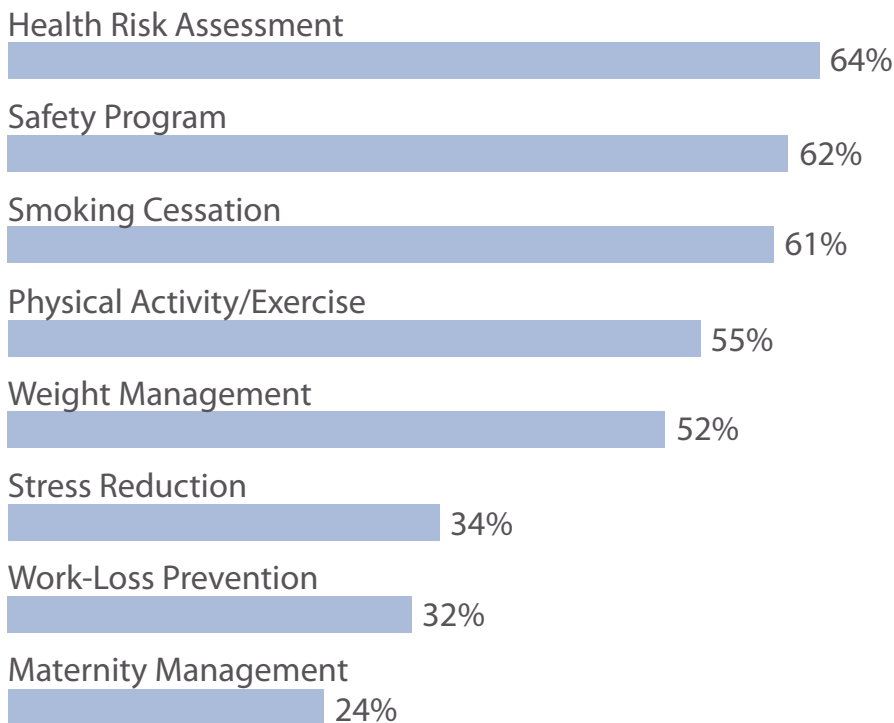
With examples of companies successfully operating wellness programs for more than two decades, corporate wellness programs may be called a time-tested, preventive cure.

In 1985 DaimlerChrysler partnered with the UAW to offer a comprehensive worksite health promotion program to help its employees improve and maintain their health. The program was initially piloted at two DaimlerChrysler employee sites, and later DaimlerChrysler and the UAW expanded the program's reach to include all active employees.

The rising acceptance of wellness programs, then, is a natural outcome of their ability to control health care costs. According to a 2008 survey conducted by the National Association of Manufacturers and ERISA Industry Committee, 77% of employers offered health and wellness programs, a 5% increase over 2007, and 48% offered disease management programs.

## Type of Health and Wellness Programs Offered

Percentage of Employers



Source: NAM, ERISA, and Borislow Insurance

## WELLNESS 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%
- Long-term benefits exist for both employers and employees

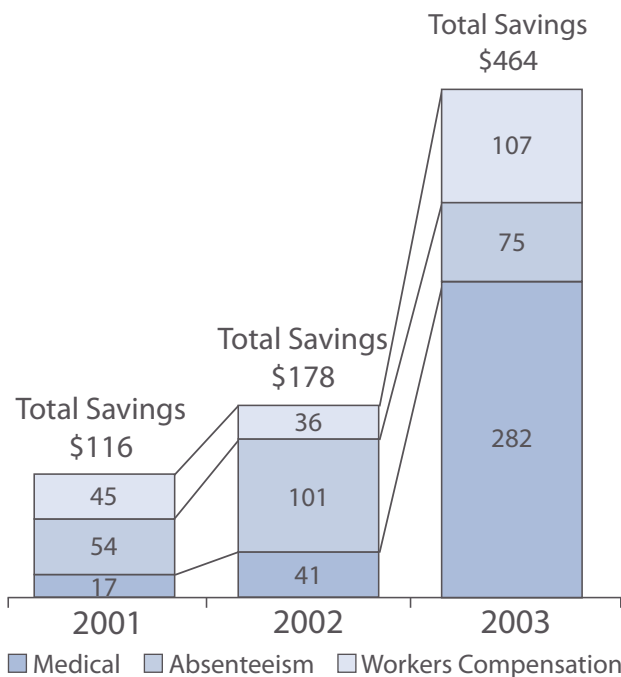
### Wellness Program Benefits

Effective wellness programs lead to cost reduction while reducing health risks. According to the National Business Group of Health, employers can achieve a potential ROI of three-to-one, or \$300 for every \$100 spent per employee on implementing preventive services and health improvement programs.

A review of 32 studies of corporate wellness programs found that claims costs were lowered by 27.8%, physician visits declined by 16.5%, hospital admissions declined by 62.5%, disability costs fell by 34.4%, and the incidence of injury declined by 24.8%.

### Wellness Program Savings

(Based on a study conducted at a health system in Minneapolis)



Source: American Institute for Preventive Medicine

## Beyond Dollars

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

*“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 to create 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 health care management.*

## PROGRAM IMPLEMENTATION: A 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 to be undertaken

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/risk factors playing a pivotal role in the program design process.

## Stage 1: Health Risk Assessment (HRA)

The HRA is a tool used to determine participants' health risks, often including questions related to nutrition, physical activity, smoking, blood pressure, and so on.

- HRA aids employers in understanding the collective health risk of employees and incorporating necessary interventions that can address unhealthy behaviors at the workplace
- Companies can offer cash incentives or gift cards to promote participation and greatly increase HRA completion rates
- The time required for implementing an HRA program ranges between 6 months to 1 year

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

## Stage 2: Inducing Healthy Behaviors

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

- Employers conduct workshops and distribute health-related educational material
- Such programs encourage participants to complete several tiers of lifestyle management
- Rewards can be linked to participation and key behaviors.
- The time needed to measure benefits of these programs is 2-3 years

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

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

After completion of the program, participating members reach at the wellness track, ensuring a healthier workforce and cost savings for staff members as well as 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 of people with chronic diseases account for more than 75% of the 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 3-5 years

One of the nation's largest food and drug retailers in North America found that four chronic conditions -- cardiovascular disease, cancer, diabetes, and obesity -- accounted for 74% of health care costs, with obesity being the most critical factor.

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

*“You have companies like Safeway that have been able to hold their costs flat for their employees at a time when other companies have been seeing double digit inflation in their health care.”*

- President Barack Obama

*(Remarks following a discussion on employer health care costs; Roosevelt Room at the White House; May 12, 2009)*

## EMPLOYEE PARTICIPATION: REWARDS MAKE A DIFFERENCE

Rewards are among the most crucial factors determining 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 for employees to participate in such programs - 18% of employees participated in such 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,” and “wanted to stop smoking.”

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

According to a recent study, groups using discounts on health care were spending about \$450 per employee per year with an average participation level of 50%, while companies which provided instantaneous rewards such as gift cards spent an average of \$210 per employee per year with a participation rate of 70%.

*“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 Health Care Consultant at Watson Wyatt.*

In another recent study conducted among 800 companies, 75% of all companies who implement a wellness program use some sort of reward to do it.

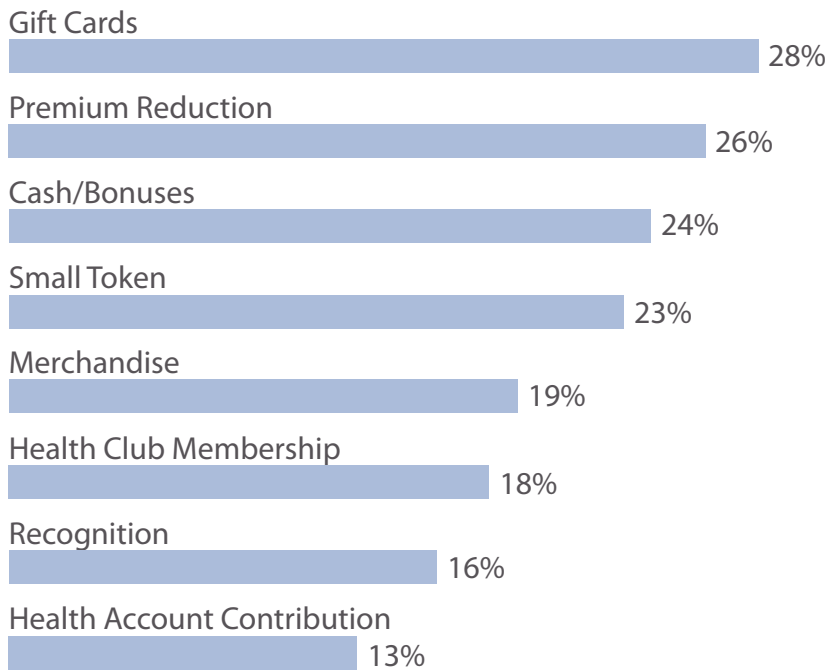
Thus, to promote higher participation and to increase the success of wellness programs, companies use incentives at various stages of the program, including rewards for completing a health risk assessment, rewards for follow-up activities such as health behavior change programs, and rewards for healthy behaviors such as attending smoking cessation classes, monitoring Body-Mass-Index, and regular exercise.

## Type of Incentives Offered

Over the years, the nature of rewards provided has been changing. According to a survey by the National Association of Manufacturers, ERISA Industry Committee and Borislow Insurance, the use of gift cards increased from 17% to 28%, whereas the use of premium reductions declined from 41% to 26%.

## Type of Health and Wellness Programs Offered

Percentage of Employers



Source: NAM, ERISA, and Borislow Insurance

## 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; 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 Programs

The success of a wellness program depends upon numerous 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 roadmap for consistent execution and continuous improvement.

The philosophy of the wellness program should also be supported by a conducive work environment. Employees are motivated by rewards, which enhance their participation in such programs and make them a success. Finally, effective communication plays a fundamental role in reaching out to employees.

## Four Guiding Principles for Incorporating Rewards into Wellness Programs

The proper usage of rewards makes company wellness programs succeed. According to Paul Terry, President and COO of StayWell Health Management and the Health Enhancement Research Organization, 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



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