

## **Benefits and Compensation Digest Article**

### **Wellness Programs Catch On, But Do They Deliver?**

**By Stuart Slutzky, Chief Marketing Officer, The Vitality Group**

In response to a long-standing trend towards higher healthcare expenses, U.S. businesses over the last twenty years have adopted a variety of techniques aimed at bringing those costs under control. Managed care, disease management, and consumer driven health care have been touted, one after the other, as “cures,” but despite the compelling arguments made for their effectiveness, all have failed to meet expectations.

Wellness programs are currently positioned to become the next “cure.” One study found that 65 percent of multinational companies already have some form of wellness strategy in place and that another 18 percent are on the verge of moving in the same direction.<sup>1</sup>

But even as this trend continues, employers increasingly are asking tough questions. While undeniably good for employees, and intuitively good for the company, a wellness program can be expensive and its return on investment difficult to measure.

This article will examine the healthcare cost crisis that is fueling the wellness movement and the fatal flaws that keep most programs from delivering measureable results as promised. It will conclude on a positive note with a discussion of the principles and components of programs that can and do succeed.

#### **The Cost Crisis: Why Wellness is Key**

Cold, hard statistics make it abundantly clear that healthcare costs in the U.S. have surpassed sustainable levels:

- Over 16 percent of our gross domestic product is currently spent on healthcare, with estimates suggesting it will climb to 20 percent in the near term.
- The rise in employer healthcare costs has outpaced inflation by more than two-to-one this past year (according to the latest survey from the Kaiser Family Foundation.) Meanwhile, since 2000, employer health insurance premiums have increased 87 percent, more than four times the rise in inflation.
- The average Fortune 500 company spends more on health benefits than it earns in profits.<sup>2</sup>
- Health insurance expenses are the fastest-growing cost of doing business.<sup>3</sup>
- Employers spend an additional \$226 billion a year – an average of \$1,685 per employee – on absenteeism, low productivity and other indirect costs related to individual and family health problems.<sup>4</sup>

Who is to blame? Well, as the comic strip character Pogo used to say, “We have met the enemy and he is us.”

According to The Center for Health Care Economics, 66 percent of Americans are overweight, 43 percent eat fast food once or more per week, 60 percent do not get enough exercise, 43 percent do not get enough sleep, 25 percent smoke and 38 percent snack too much.

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<sup>1</sup> Watson Wyatt: *Adopting a Global Health Care Benefits Strategy: 2006 Survey of Multinational Companies on Healthcare.*

<sup>2</sup> U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; CMS; McKinsey Analysis

<sup>3</sup> The National Coalition on Health Care

<sup>4</sup> The Partnership for Prevention

All these unhealthy habits are making us sick. Literally. According to the Milkin Group, more than half of all Americans have at least one chronic illness, and despite advances in treatment and management, the rates have risen significantly.

Again, the fault is our own:

- 70 percent of all healthcare costs generated in the US are attributable to preventable risks and unhealthy choices.<sup>5</sup>
- Employer costs for overweight employees range from \$5,000 to \$7,800 per year, compared with an average \$3,900 for employees in the normal weight range.<sup>6</sup> The Partnership for Prevention pegs the total cost of obesity at \$13 billion per year.
- The price tag for just three common chronic conditions -- asthma, diabetes and hypertension -- is \$30 billion a year and translates into 164 million lost workdays annually.<sup>7</sup>

Incredibly, Americans seem to be aware that unhealthy lifestyles are at the root of rising healthcare costs, yet are unwilling to pay for the privilege.

According to a new study from The Vitality Group, the great majority of Americans (85 percent) acknowledge that choices, such as smoking, overeating and failing to exercise, have a direct impact on their healthcare costs; yet when asked who should pay these healthcare costs, nearly half of Americans (44 percent) believe they should not bear any part of the responsibility. Almost two thirds (59 percent) believe their or their spouse's employer should pony up and 46 percent think the government should shoulder the burden.

Why the disconnect? Why do Americans believe we are solely responsible for our own health, but shouldn't have to pay for it? The simple reason is that we have not been held responsible for our actions – or for the lifestyle choices that are driving up healthcare costs. The rosy-cheeked jogger pays the same health insurance premium as the overweight loungeur, despite the actuarial fact that over time, the loungeur's healthcare bills are certain to be far higher.

Unfortunately, the healthcare reform proposals currently under consideration by our political leaders do not address this issue. They focus on who will pay and how much, rather than on the role lifestyle is playing in the rising healthcare cost crisis.

It is an issue that the wellness movement is intended to address.

## **The New Wellness Industry**

This growing burden of rising healthcare costs has a particularly hard impact on the workforce, prompting employers and HR professionals to seek ways of motivating and empowering their employees to get healthy. An emerging market of wellness programs has come into being to address this demand, but it remains a 'cottage industry' in the early stages of development.

That said, the movement is growing fast. A national survey of 450 major employers conducted by Hewitt Associates found that two-thirds were moving toward a more aggressive wellness and disease management program for employees and that almost half were offering employees incentives to participate in health-related activities. This compares with just 36 percent a year ago.

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<sup>5</sup> Wellness Councils of America and The Center for Health Care Economics

<sup>6</sup> January 2007 analysis of workplace health screening conducted by Kronos Optimal Health Co., a Phoenix health management company.

<sup>7</sup> American Hospital Association.

Many of these programs are narrowly focused, concentrating on only one or two modifiable health risks, such as tobacco cessation or obesity. Other programs discriminate by overlooking the needs of those unable to participate in vigorous activities by virtue of age or condition. Some companies opt to eliminate the problem – for example, by firing or refusing to hire employees who smoke.

There is nothing wrong with taking a limited approach. Offering health club memberships and the like clearly benefit the employees who take part and, intuitively at least, should have a beneficial effect on healthcare spending.

But employers remain concerned and for good reason. There is no robust evidence available to show that fragmented or narrowly focused wellness programs actually deliver on their promise of changing employee behavior and returning a meaningful return on the investment.

Many wellness programs also exhibit the following shortcomings:

1. Most wellness initiatives largely ignore behavioral economic theory. They tend to be disconnected from people's daily lives, and don't show enough recognition of the reasons why people find unhealthy lifestyles easier and more appealing. Behavioral economics teaches us (a) that people tend to underestimate their own health risks and (b) that individuals attach greater value to present pleasures than to the promise of future benefits. This explains why people don't always do things that they know are good for them and are therefore unlikely to bring about a meaningful change in lifestyle behavior.
2. They typically do not link into other components of healthcare management, such as disease management programs.
3. Since they tend to consist of a series of separate interventions, they are difficult to scale across a broad population. More important, they lack the measurement components required to determine progress, or the lack thereof, over time.

These shortcomings are anything but benign, especially in an economic environment in which corporate executives are challenged to account for every dollar. Like nothing else, wellness programs have the potential to rein in this nation's out-of-control healthcare spending and to build a healthier, more productive workforce. But to live up to that potential, they must generate results that are measurable on the bottom line.

## **Making Wellness Programs Work**

Today, for the most part, employers are bearing the full costs of poor lifestyle choices of their employees, which result in unacceptably high insurance premiums and the costly healthcare required to treat avoidable illness. The accompanying factors of absenteeism, presenteeism and disability benefit add still more to the direct and indirect costs currently being borne by the employer.

This is neither fair nor healthy for the economy, and employers have every right to take action. Does this imply that some sort of punishment is appropriate? Not at all. It simply means that employers need to acknowledge that link between poor lifestyle choices and the costs they are required to bear. Armed with that knowledge it becomes intuitive that employees should be made active partners in bringing down those costs. Specifically, employees exhibiting healthy lifestyle behaviors should in some way be rewarded while employees engaged in unhealthy lifestyle choices should be made to bear some form of penalty.

While an employer's pursuit of a healthier workforce is in itself a noble endeavor, healthcare presents an economic problem that is best solved through an economic solution.

This concept is easily argued, but translating that “economic solution” into a program that actually can be implemented can lead to a number of concerns:

- Is it discriminatory towards the sick?
- Is it equitable?
- How does one assess healthy living?
- Are employees equipped with the right tools and motivation to make healthy choices?
- Will privacy be violated and engagement monitoring viewed as meddlesome?

It is important that these concerns be overcome. Exactly how this is achieved can vary, but successful wellness programs must be:

1. **Constructed with an understanding of behavioral barriers**, driving behavior through the use of rich and immediate rewards, which are far more effective than appealing to individuals to change behavior for health reasons alone;
2. **Designed to stretch across the continuum of people’s current states of health**. In the case of healthy individuals the emphasis may be on promoting physical activity whereas in the case of individuals who are considered at-risk, the emphasis may be on factors such as regular preventive screening. Similarly, the program needs to address the health needs of different age groups, ranging from children to the elderly;
3. **Armed with components that address all major modifiable risk factors**, including but not limited to lack of exercise, poor diet, smoking and obesity;
4. **Equitable**. Members must be equipped with sufficient knowledge and tools so as to be properly informed of what they should do. Financial barriers to health and fitness facilities should be removed or reduced, for example by way of subsidized access to gyms and exercise clubs;
5. **Objective and non-discriminatory** in its application. Members must be given equal opportunities to earn rewards regardless of initial state of health;
6. **Inspirational, fun and easy to use**; and
7. **Integrated** -- where applicable and possible -- into the employer’s health insurance plan and disease management programs.

## Putting the Principles into Practice

The good news is that programs are available today that meet these criteria and that are successfully delivering on the promise of prompting positive lifestyle change, a lowered incidence of avoidable illness and reductions in healthcare spending.

The best of these programs offer personalized plans based on the individual’s entry state of health. This approach encourages members to monitor their age-appropriate risk factors and to seek to control them through either effective lifestyle modification or medical treatment.<sup>8</sup>

After completing a Health Risk Assessment, members of such plans are given insight into their individual risk factors and are told how their biological age (or health risk-adjusted age) compares with their chronological age. Activities and interventions across the health continuum are weighted in order to incentivize participation in risk-reducing activities appropriate to the individual, resulting in a customized pathway to earning points that can be redeemed for rewards.

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<sup>8</sup> *Details, elements and criteria outlined below reflect components of The Vitality Group’s Vitality incentive-based health enhancement program.*

Again, the best of these plans offer additional rewards points, over and above the base level, to at-risk and chronically-ill members, both to encourage participation and in recognition that attaining the desired goals may be inherently more difficult for them.

The elegance of the personalized approach is that it creates appropriate incentives across the entire population, regardless of health status, age and physical ability. In this regard, programs of this sort are successfully keeping healthy members out of the healthcare system, and prolonging the progression of disease in at-risk and sick members, all of which has been shown to positively impact on healthcare costs. The allocation of additional reward points for individuals who are at-risk or ill is an important mechanism to overcome barriers to change, and to drive continued engagement in the program.

## **Broad and Deep Range of Rewards**

Programs that meet the criteria listed above typically offer a rich array of rewards (ranging from movie tickets to vacation packages and HD TVs,) the value of which increases exponentially as members progress through various achievement levels – reflecting low to high participation.

And to encourage engagement, these rewards are immediate and substantial even at the lowest level. This feature is an acknowledgement that behavior change does not occur through providing a tote bag or other trinkets. Inspirational rewards at full engagement are required to drive a robust return on investment. And, given that these programs are non-discriminatory in their construct, there is sufficient incentive for all members – young and old, sick and well -- to engage actively in the activities and target higher status levels.

Members are awarded points for undertaking a wide range of activities, from taking up jogging to engaging in preventative care, most of which are verifiable and based upon their individualized health requirements. The number of points awarded for each activity is grounded in sound actuarial science. In other words, an appropriate balance is sought between rewarding activities and rewarding outcomes (e.g. points are earned for doing cholesterol screening, irrespective of outcome, as well as for the outcome itself, with additional points scored for reducing an at-risk score to a healthy one). This balance achieves the goal of maximizing behavior change through ideal weightings of effort and outcome.

While programs of this sort provide employers and employees with a state-of-the-art wellness program and a proven return on investment, their true power is felt when systems are in place that allow employers to allocate a higher or lower share of the health insurance premium to the employee depending on his or her level of engagement.

Integrating participation and premium payments turns employees into active partners in the quest to reduce healthcare costs by ensuring that they participate financially in the consequences (positive or negative) of their behavior.

Importantly, this approach is fair, because it enables employers to allocate costs in a more equitable and morally justifiable manner. Employees who decline to get engaged in the program will not like paying higher premiums than their actively engaged colleagues, but they will be hard-put to claim the requirement is unfair.

## **The Bottom Line**

Best-of-class wellness programs enhance employee health and deliver savings to the employer, but importantly they also fulfill the five principles outlined below:

### **1. KNOWLEDGE**

Employees are given knowledge of what they should be doing and how to go about it. Moreover the information given is personalized according to each member's particular requirements and risk factors.

### **2. ACCESS**

The programs remove the financial barriers that individuals would normally face in getting healthy, such as membership fees to gyms, running/walking clubs and other training facilities. They also establish a large network of allied healthcare professionals for screening and assessments.

### **3. EQUITY**

Reward points earned through these programs stratify the population according to the level of member engagement, with a member-specific approach ensuring that status probabilities are equal regardless of age or original state of health. The programs therefore provide a high degree of equity among employees.

### **4. MEASURABILITY**

The programs use objective verifiable criteria enabling them to get an integrated view of the employees' choices with respect to healthy behavior. Advanced systems and infrastructure provide the ability to track key measures and events using clinically sound and objective measures.

### **5. PRIVACY**

Participation levels reflect actuarial principles of engagement. There are numerous, non-discriminatory paths to the higher statuses. Employee privacy is secured as specific results remain confidential.

## **Conclusion**

Healthcare costs are continuing to rise and businesses, if they are to compete in the global marketplace have no choice but to respond. And the good news is that the appropriate response – engaging their employees in a wellness program – will reap benefits far beyond those of shaving costs. Wellness programs have been shown to raise morale, improve productivity and reduce absenteeism.

But those good things depend entirely upon the program's design. Focusing on single issues – smoking, weight loss or whatever – may yield some benefits, but will forever defy the kind of measurement that business leaders justifiably demand.

As is true in all business endeavors, when choosing or designing a wellness program, it pays to do it right the first time.

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## Stuart Slutzky

As chief marketing officer for The Vitality Group, Stuart Slutzky is an expert in incentive-based wellness programs, and motivating positive lifestyle change. He plays a key role in The Vitality Group's efforts to innovate and communicate its cutting-edge product designed to inspire members to improve their behaviors.

Mr. Slutzky previously served as vice president of product development for Destiny Health. There he was instrumental in taking an internationally proven healthcare plan that changes the way members think about and use their health insurance benefit dollars, adapting it, and successfully implementing it in the United States.

Earlier, Mr. Slutzky spent over three years as a senior actuarial associate at the Trustmark Insurance Company, a Lake Forest, IL-based insurance carrier. He received a Bachelor of Science degree in cellular and molecular biology from the University of Michigan, Ann Arbor.