



Effective Wellness Incentives: What Works?

By Barry Hall and Ruth Hunt, February 2010.

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Employers are turning to incentives as external motivators to encourage participation in wellness programs, and increasingly, to achieve measurable changes in health status such as ending smoking or managing body mass index (BMI). While some employers resist “paying employees to do what they should be doing for their own good,” the stakes are simply too high to ignore the trend, as employers struggle to rein in health costs and maximize productivity.

Buck Consultants’ third annual global wellness survey¹ confirmed a continued rise in the use of incentives. Among participating U.S. employers, 56% offered incentives and 26% plan to offer them in the future. However, the majority of survey respondents rated their incentives as only minimally or moderately effective. How can employers increase the success of incentives? And what tactics can help drive the desired employee response without overpaying? This article highlights three basic principles that can help shape employers’ strategies.

1. Maximize results without overpaying

Though it is generally true that higher incentive values will drive higher participation, recent studies² confirm that other factors — including incentive form or type, communications, leadership championing and cultural attributes — play an important role in an incentive program’s success.

For example, benefits-integrated incentives (such as health-premium discounts) are often more effective than cash. Employers can design such incentives to be cost neutral by increasing base premiums or deductibles and providing compliant employees a discount or rebate to “earn back” the difference.

Furthermore, incentives need not be financial. “Intrinsic” or internal motivators can achieve high levels of engagement at little or no cost. Many employers have leveraged interdepartmental rivalry and team camaraderie to spur fitness and weight loss at relatively low cost.

In addition, employers are creatively restructuring limited incentive dollars by raising the requirements from year to year to earn rewards. One national manufacturer initially offered incentives, in the form of contributions to a health reimbursement account, for online enrollment and completion of a health questionnaire. The next year, the pool was reallocated to drive participation in the health questionnaire plus biometric screening. And in the following year, the employer redirected a portion of the pool to encourage employees to seek preventive care.

2. Incorporate principles of behavioral economics

Fueled by research in the field of *behavioral economics*, employers are recognizing that certain “decision biases” can supercharge incentive designs. For example:

- The status quo bias is the tendency for people to stick with default options, as proven by 401(k) auto-enrollment levels as high as 90%. Because a default is the most likely choice, make wellness the default.

- Present bias recognizes that people value an immediate payback more than delayed gratification. This means dollars paid into a health account in the near term will have a higher perceived value than deferred rewards, such as a year-end rebate.
- Loss aversion suggests that people are more motivated, psychologically, to prevent loss than by the possibility of gains. To apply this principle, one company highlighted the high cost of name brand “designer drugs” versus the lost opportunity to buy “luxury” goods with the same dollars.
- Statistical optimism is the tendency to overestimate small probabilities. A raffle may be more motivating than is realistic.
- Social biases, such as the herd instinct and the appeal of competition, also impact decision making and help programs achieve greater momentum.

Several behavioral economics principles helped a large manufacturer achieve more than 80% participation in health questionnaires and biometric screenings, despite a relatively low value incentive:

- Employees received \$40 in cash upon completion of a 30-minute health screening. The immediate gratification of the cash reward leveraged present bias.
- Pitching the opportunity as a limited time offer took advantage of loss aversion.
- Conducting the screenings in the plant lobby, with a highly visible queue of co-workers, leveraged social bias.

3. Understand and address barriers

Many wellness initiatives promote positive lifestyle changes, such as weight loss, tobacco cessation or increased exercise. Though individuals may genuinely desire healthier lifestyles, organizational and personal barriers can stand in the way of positive action.

Employers can optimize results by considering the information or communication and the infrastructure to facilitate action. For example, time-starved employees may reject an online, point-based incentive structure that requires them to log on and track incentive points. A simpler design with easier reporting and more automated tracking tools can drive higher participation.

Employers should pre-test programs and messages to prevent missteps. One focus group uncovered negative perceptions of the phrase “biometric screenings.” Renaming the activity as “health screenings” or “preventive screenings” may not totally eliminate fears of a needle for the blood draw, but could at least better focus employees on the benefits of the activity.

Individuals’ readiness to change often presents a major barrier. For example, most smokers already know their habit is unhealthy and potentially life threatening. Even very rich incentives may not produce results if the individual is not ready to change. But low- or no-cost counseling and support, coupled with personalized motivational communication, may lead to success.

Conclusion

In today’s challenging economic and health-care environment, wellness incentives are here to stay. Fortunately, employers have many options to creatively design incentives, and they need not require a major investment. While publicized successes are driving ever-greater interest and use of incentives, ongoing applications of principles from behavioral economics promise to shed even more light on strategies to drive positive employee behavior change. Each organization must consider the above principles in the context of its culture, business environment and unique health-care challenges, and tailor a strategy to achieve short-term and long-term success.

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Endnotes

¹ *Working Well: A Global Survey of Health Promotion and Workplace Wellness Strategies*, Buck Consultants, November 2009.

² Taitel MS, Haufle V, Heck D, Loeppke R, Fetterolf D. Incentives and other factors associated with employee participation in health risk assessments. *J Occup Environ Med.* 2008 Aug;50(8):863-72.

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