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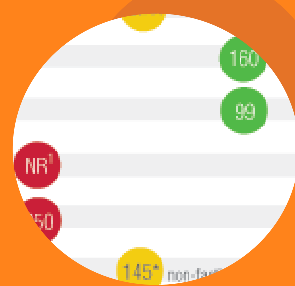
Results-Based Wellness Incentives

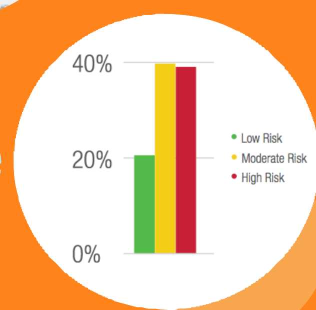
How to Strategically Tie Your Wellness Program to A Benefit Plan Design with Premium Differentials

blood pressure



cholesterol

glucose



smoking status

weight

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Introduction

There's a compelling trend emerging among employers eager to control benefits costs and improve the health of their employees – they are creating cost tiers for group health insurance based on employee health status. It's a bold move, one that few employers even dared to consider just a few years ago. Now, it's become almost commonplace as the initial reluctance to test this approach has eroded in the face of unsustainable healthcare costs. More employers jump on board every day. On the surface, the approach makes sense. But it also raises questions. Is this really a good strategy? What are the legal and compliance requirements? And what are the best practices?

First, let's quickly define what we're talking about. The terms "health status," "results," and "outcomes" are all generally talking about the same thing in the context of this benefit strategy. It means the employer creates a cost structure for a given benefit plan that varies the employee contribution based on whether the employee meets certain health benchmarks. The cost differences are usually in the premium amounts, but may also be other variables like copays or HSA contributions. The most common benchmarks used in the approach are cholesterol, blood pressure, glucose, body mass index, and smoking status. The employer doesn't know a given employee's actual biometric numbers – that's HIPAA-protected personal health information – only whether the employee passed the benchmark. In all cases, this type of benefit plan design must be tied to a wellness program, and therefore the benefit differential is referred to as a "wellness incentive."

The trend is seen as a new, strategic way to use financial incentives to reward healthy behavior. At the heart of the results-based approach is the philosophy that employees must take greater personal responsibility for taking care of themselves in the face of growing obesity, poor nutrition, sedentary lifestyles, and chronic disease. Employers who have moved past the initial stages of their wellness initiatives, which rewarded participation in activities such as a health-risk assessment, wellness programs, or smoking cessation coaching, are getting to the point where they want to financially reward an employee for actually achieving or maintaining key health benchmarks.

The Five Criteria

1. **Limited to 20% Differential:** The total reward for all the plan's wellness programs that require satisfaction of a standard related to a health factor is limited – generally, it must not exceed 20 percent of the cost of employee-only coverage under the plan. If dependents (such as spouses and/or dependent children) may participate in the wellness program, the reward must not exceed 20 percent of the cost of the coverage in which an employee and any dependents are enrolled.

2. **Must Be Tied to Wellness Programs:** The program must be reasonably designed to promote health and prevent disease.

3. **Annual Qualification:** The program must give individuals eligible to participate the opportunity to qualify for the reward at least once per year.

4. **Provide Alternative Standards for Medical Exceptions:** The reward must be available to all similarly situated individuals. The program must allow a reasonable alternative standard (or waiver of initial standard) for obtaining the reward to any individual for whom it is unreasonably difficult due to a medical condition, or medically inadvisable, to satisfy the initial standard.

5. **Disclose Alternative:** The plan must disclose in all materials describing the terms of the program the availability of a reasonable alternative standard (or the possibility of a waiver of the initial standard).

For additional information, see the DOL FIELD ASSISTANCE BULLETIN 2008-02.[10]

Taken from the Department of Labor website.[11] Headings in bold added by beBetter.

The usual reaction of an employer when first considering this strategy is concern about whether this discriminates against employees under the Health Insurance Portability and Accountability Act (HIPAA) or whether it will create a negative backlash from the employees themselves. Regarding the discrimination issue, the federal government has weighed in through a combination of legal and regulatory guidance that stipulates what group health plan sponsors can and can't do. (This is described in detail at the end of this paper.) The bottom line: there is solid legal support, both political parties back the approach, and it is strengthened by (but not dependent on) the health reform act.

Employers are currently allowed to charge differences of up to 20% on the total value of the health insurance. For example, if the total cost of insurance including both employer and employee contributions is $10,000, the difference in cost between two similarly situated employees can be up to $2,000. (More detailed examples are provided at the end of this paper.) But benefit plans cannot be tied to health outcomes unless they meet five key criteria spelled out by the U.S. Department of Labor (DOL) to avoid discrimination. (For the five criteria, see sidebar.) These conditions do NOT apply to a reward offered solely on the basis of participation in a wellness program, i.e., a traditional wellness incentive; in this case, there aren't any financial limits to the benefit-related reward. Also exempt are self-insured employers with fewer than 50 participants whose plan is self-administered, and cases where the reward is not related to the health insurance plan (i.e., cash or a gift certificate, which on the downside are taxable income).[1]

Premium differentials based on the employee's ability to obtain or maintain a certain health outcome have had regulatory approval since 2006, when interim rules from 2001 were finalized and published in the Federal Register. The concept, which has enjoyed rare bipartisan support, was not only validated by the Patient Protection and Affordable Care Act (PPACA), but also expanded.[2] Starting in 2014, employers will be able to discount premiums up to 30% for employees who attain health benchmarks. For smoking status, the allowable differential likely will be 50%. (The 50% smoking differential was proposed in the Nov 2012 Code of Federal Regulations, and you can assume it will be passed.)

With the government's blessing, the approach has moved beyond the "early adopter" stage and has been gaining serious traction over the past 2 years. About 35% of employers used rewards or penalties tied to smoking status in 2012, with another 17% planning to add those incentives in 2013.[3] And while just 10% of companies are currently pursuing this approach to reward lower weight or cholesterol levels, that percentage is expected to double in 2013.[3] As many as 42% of employers will move to a results-based approach or have already done so, according to other industry research.[4]

Rationale:
Why the Results-Based Approach Makes Sense

The rationale varies from one company to the next, but in general, employers that tie wellness incentives to outcomes feel strongly about the importance of personal accountability in managing one's health. Premium differentials represent a logical way to drive awareness about the concrete connection between an employee's health status and the true cost of employer-subsidized care. To an employee on group health insurance, the cost deducted from their paycheck each month does not seem directly linked to their personal lifestyle. They don't see a direct connection between exercise and biometric values, nor the connection between those factors and the insurance cost increases that occur companywide every year. Furthermore, the size of the employer contribution is often hidden.

The results-based approach to wellness presents a teachable moment about the importance of personal accountability and drives employees to take action. The associated wellness program empowers the employees to make wiser decisions about how they spend their health care dollars by arming them with the right tools, information, and behavior-change programs. When done right, a results-based wellness program will help employees understand and appreciate their health benefits.

Best Practices:
Implementing a Results-Based Approach

Before jumping in, employers will do well to consider what is currently known about best practices. From beBetter's perspective, we recommend following these four principles.

1. Don't think of the results-based approach simply as an easy way to reduce the company's contributions and shift costs to unhealthy employees. As tempting as that may be, simple cost-shifting can be a short-sighted strategy that is not sustainable unless it has been thoroughly planned to account for various scenarios several years out.

The goal is healthier employees. But as more employees get healthier, a simple cost-shifting rationale becomes problematic – more employees would pay lower monthly health insurance premiums, which means unhealthy employees would have to bear a greater burden of the cost. Instead, rather than continually squeezing those unhealthy employees, it is reasonable to assume that you (the employer) will need to make up some of the difference as more employees move to a lower premium. Assuming that's your strategy, that's ok. The true objective of a premium differential is to make the amount just enough to be a motivator, but not so much that it becomes a serious financial hardship. That's why the higher premium differentials allowed under PPACA (up to 30-50%) may not be a particularly important consideration to you – those allowable upper limits are on the extreme end. Industry experts say that roughly $40 to $60 per month, or $720 a year, is enough to influence a positive change in behavior.[5] The 20% differential allowed under the 2006 Code of Federal Regulations is probably sufficient in the majority of cases.

2. Think participation plus biometrics, not just biometrics. There's something to be said about holding employees more accountable for their health, but employers need to avoid a heavy-handed approach with hard-to-achieve benchmarks. Employers shouldn't be overly preoccupied with rewarding or penalizing employees for reaching specific biometric values. At beBetter, we believe the best strategy is to offer a progress-based approach that enables every employee to receive some reward just for participating in the wellness program. The full reward is achieved by meeting health status benchmarks or, when failing those, by taking additional steps such as talking to a health coach.

3. Don't force national guidelines on an unhealthy workforce. The downside of tying incentives strictly to rigid health outcomes is that many employees will fall short of achieving clinically healthy metrics. It's unrealistic to expect that morbidly obese individuals will reach a healthy weight, and the effect on morale may not be worth the price of progress.

Instead, tailor your benchmarks to your employee population, particularly if your workforce has a significant problem with obesity, hypertension, cholesterol, or diabetes. In other words, employers may choose to establish program requirements that are less stringent than clinical guidelines recommended by the National Institutes of Health. Your metrics should be within reach of most employees. For those who are very obese or have hard-to-control hypertension, you must provide an alternative standard that allows them to reach the full reward, as long as they have a physician's signature that states your benchmarks are not achievable for that individual.[5]

4. Keep the plan simple and easy to understand. It's easy to confuse employees with a complicated grid of wellness tiers and premium rates. Keep it as simple as possible. This will take some work. The final employee communications about your incentive plan should be very easy to follow.

For further guidance, read a paper produced by several leading health care advocacy groups entitled “Guidance for a Reasonably Designed, Employer-Sponsored Wellness Program Using Outcomes-Based Incentives”.[5] This joint-consensus statement notes that premium differentials are still an unproven strategy and provides several recommendations on plan-design, including the progress-based approach. Realize that over time you will likely learn what works and does not work in your organization, and that you will have to adjust your strategy accordingly.

Communication:
Delivering the Right Message

Program success hinges on the tone and positioning of your employee communications. First, make sure you are doing a good job explaining what it costs you to offer health insurance. In the beBetter portal, all benefit documents can be posted in the My Benefits section, which is a great place to provide this information. Next, explain that costs inevitably go up every year and that costs are directly impacted by employee health. Your organization’s employees must solve the problem together, and every employee makes a difference.

Explain that monthly medical insurance premiums will be lower for employees who make an effort to improve their health status. Such communication should create behavioral carrots, not sticks, and keep the message positive. There’s always the potential for a backlash unless extreme care is taken to craft and reinforce the right messages. Some employees will cynically view results-based wellness incentives as an intrusive corporate ploy to control their personal choices. To head off that reaction from the start, frame the plan as their choice: no one is forced to participate, and those who take healthy steps or qualify for alternatives will benefit from a discount. Implicitly send the message, “you have to take care of yourself – we will help, but ultimately you are responsible. It’s your choice, your money.”

Be sure to frame the wellness program as free support that is there to help them get healthier, if they choose to do so. And make sure they understand that you, the employer, will never know their personal health information – that by law you are not allowed to see that data. It resides with the third-party wellness company.

Employee perception of rewards and penalties can be contradictory. For example, more than 80% of employees support wellness incentives for improved health status, but barely one-third approve of higher premiums on those who fail to reach their goals.[6] So rather than explain that unhealthy employees will be paying more for their health insurance premiums, employers should instead say that wellness plan participants qualify for a discount or rebate in the face of rising rates.

Compliance: A Look at the Legal Nuances

Let's look at a brief history of key rulings on wellness incentives and how policy has evolved through the years. As you already know, legal matters are complex and you should not take this paper as either legal guidance or advice. Please consult with your organization's own attorneys before making policy decisions or making new plan designs.

In 1996, HIPAA prohibited employers from discriminating against employees on the basis of their health status, outlawing any higher premiums or contributions paid by certain individuals as "a condition of enrollment or continued enrollment under the plan."[7] But within a year, the Federal Register published rules allowing premium discounts tied to wellness program participation.[8] Though results-based differentials were still a ways off, it was the first step toward allowing wellness-related discounts, a position that evolved, clarified, and strengthened over the next 10 years.

On January 8, 2001, the Federal Register published proposed regulations for results-based benefit differentials tied to "bona fide" wellness programs that "promote good health or prevent disease."[9] These rules required an "alternative standard" that would allow employees with a medical exemption a way to participate fully in the program. The final rules, which were published on December 13, 2006 and took effect February 12, 2007, did not contain any significant changes, marking a regulatory milestone that eventually sparked widespread use of results-based wellness program incentives.

When PPACA was passed in 2010, it codified the results-based approach as law — providing an even stronger legal footing than previous directives. The current 20% ceiling on any premium differential tied to a wellness program, which PPACA raises to 30% for 2014[2], will likely extend further to 50% for incentives tied to smoking status.

Other laws that employers may want to consider when designing their wellness incentives include compliance with ERISA, which governs medical benefits such as nicotine patches for smoking cessation programs, and the Americans with Disabilities Act, which addresses discrimination concerns involving addictions. It's also worth considering any relevant legal nuances pertaining to the Genetic Information Nondiscrimination Act, Age Discrimination in Employment Act, Civil Rights Act, National Labor Relations Act and IRS.

Conclusion

Results-based benefits cost differentials represent a promising approach for sponsors of worksite wellness programs that are eager to improve employee health and bend their benefits cost trend. They have strong regulatory support and provide a logical way to promote greater personal responsibility by making the connection between an employee's health status and the true cost of care. But employers should plan their strategy carefully with a trusted wellness vendor and avoid a heavy-handed, inflexible approach. Success hinges on the tone and positioning of the message delivered to employees.

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Appendices

When the Standard Program is Medically Inadvisable

If it is medically difficult or inadvisable for an employee to participate in your program, you must provide an alternative way for them to achieve the reward, or waive the program requirement for that employee altogether. Here are some additional points on this:

- If you require the employee to participate in some other structured program, you must provide that program, and you can't require the employee to pay a membership fee.
- The alternative itself can't be medically inadvisable for that employee.
- You can require the employee to provide a physician's signature that your standard program is medically inadvisable, but only if such documentation is reasonable — in other words, if the employee's condition is not already known and obvious.
- Over time, you cannot cease to provide an alternative merely because it was deemed not successful with that employee in the past; you must continue to offer either the same alternative or a new one.

Examples of Allowable Premium Differentials in 2014

The following examples were adapted from the Code of Federal Regulations, Nov. 26, 2012. They apply to programs starting in 2014, with a 30% allowable differential for health status results and a 50% differential for smoking status. (For 2013, the limit for all differentials is 20%.)

Example 1. Plan with Tobacco and Non-Tobacco Components

- **Annual premium for employee-only coverage:** $6,000 (of which the employer pays $4,500 per year and the employee pays $1,500).
- **Incentive Plan:**
  - Non-Tobacco Component: $600 annual premium rebate for meeting goals around blood sugar, weight, cholesterol, and blood pressure.
  - Tobacco Component: $2,000 additional tobacco premium surcharge on employees who have used tobacco in the last 12 months and who are not enrolled in the plan's tobacco cessation program. (Those who participate in the plan's tobacco cessation program are not assessed the $2,000 surcharge.)
- **Why This Plan Complies:**
  - Non-Tobacco Component: the $600 reward does not exceed 30 percent of the total annual cost of employee-only coverage. ($6,000 x 30% = $1,800).
  - Tobacco Component: the total of all rewards is $2,600 ($600 + $2,000 = $2,600), which does not exceed 50 percent of the total annual cost of employee-only coverage ($6,000 x 50% = $3,000).

Example 2. Plan with Participation and Health Status Components

- **Annual premium for employee-only coverage:** $5,000 (including both employer and employee contributions).
- **Incentive Plan:**
  - Participation Component: $250 reward to employees who complete a health risk assessment, without regard to the health issues identified by the assessment.
  - Health Status Component: a $1,500 reward for meeting biometric screening results around cholesterol, blood pressure, and body mass index.
- **Why This Plan Complies:**
  - Participation Component: the $250 reward is not applicable.
  - Health Status Component: the $1,500 reward does not exceed 30 percent of the cost of the annual premium for employee-only coverage ($5,000 × 30% = $1,500)

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