



Reward and Risk: A targeted approach to incentives for health management programs

This proven approach to incentive programs helps employers achieve high engagement in health management programs and significantly cut healthcare costs.

An Executive Briefing

Jim Dolstad, Chief Actuary
Vice President of Reporting and Actuarial Services
Carewise Health



Currently, most health management companies place members somewhere along a linear care continuum, ranging from “healthy” to “catastrophically ill.” This one-dimensional view of health does not result in adequate interventions that impact health.

In most organizations today approximately half of employees have been diagnosed with a chronic condition. Nevertheless, despite the widespread availability of health and wellness programs, many employees still do not participate in their employer’s programs. In a corporate world where a small percentage of the population (three percent) drives a disproportionate amount of healthcare cost (50 percent), low participation translates into a significant missed opportunity to control healthcare costs. Employers need a reliable incentive program that will engage this three percent, move them toward better health, and motivate them to take responsibility for their health. In the short term, an effective incentive program will reduce risks and lower costs. In the long term, a viable program will help manage the risks pertaining to the remaining 97 percent, more evenly distributing costs across the population and containing costs overall. In short, the ideal health management program incentive must target members with precision and motivate them to choose better health.

Traditional approach misses the target

Currently, most health management companies view health risk according to a single factor – a person’s clinical condition. They place members somewhere along a linear care continuum, ranging from “healthy” to “catastrophically ill.” Instead of treating each employee as an individual, they group similar illnesses and offer general information. However, this one-dimensional view of health does not result in adequate interventions that impact health. For example, an obese diabetic may benefit from a weight management program, whereas a lean diabetic may have a need for nutrition coaching and regular monitoring. Nevertheless, in the one-dimensional approach, all diabetic members would be given the same information in an effort move them back toward the “healthy” end of the spectrum.

Linear Care Continuum





Rather than a linear care continuum, member health is more accurately understood in two dimensions—clinical risk and lifestyle risk. Only by seeing member health from this perspective can a risk management strategy be effective.

A one-dimensional view does not in any way address the driving force behind health: lifestyle. Lifestyle choices are responsible for approximately 70 percent of healthcare costs. And more than 90 percent of adults have one or more lifestyle risks. An approach that does not target lifestyle is destined to fail.

The Carewise Health multi-dimensional view of health

Each personalized Carewise Health care plan reflects a view of health that considers, not only the clinical condition of the member, but his or her lifestyle risk as well. This view enables us to construct a risk management strategy that is effective for reducing an employer’s highest costs in the short term and preventing lower-cost members from moving into higher-cost categories in the long term.

Rather than a linear care continuum, where one side represents “healthy” and the other represents “catastrophically ill,” member health is more accurately understood in two dimensions. Members can be placed on this grid at the intersection of their clinical risk and lifestyle risk. Only by seeing member health from this perspective can a risk management strategy be effective.





A policy of withdrawing financial rewards for non-participation has more impact than simply providing rewards for participation.

A risk management strategy based on this multi-dimensional understanding will meet short-term financial savings objectives through condition management *and* the long-term goals of sustained better health through a strategy of wellness programs. By managing both clinical risk and lifestyle risk at the same time, it is possible to dramatically lower costs while improving lives. However, without an incentive program that effectively engages them, employees may decline or choose to delay their enrollment in the very programs that can lead them to healthier living.

Three keys to a successful incentive program

Since 2004 Carewise Health has been tracking what types of plan designs work best. The so-called “Value-Based Benefit Designs” can be effective, but only in particular cases. For example, if an employer has an above-average number of diabetics, a program that provides diabetic medications for no or little cost to members might be successful. However, such a program must be based on a thorough analysis of the data, as this type of plan design could be a significant cost, not a savings, for many employers. Members may already be taking medicine as prescribed so the investment would be best spent on a different kind of incentive.

Common incentives vary from relatively small financial rewards or gifts to significant contributions to health savings accounts. They have varying results. However, the incentive programs proven to consistently work are those that incorporate a financial reward and the retraction of that reward if the member does not participate. In other words, a policy of withdrawing financial rewards for non-participation has more impact than simply providing rewards for participation.

Because of this insight into human behavior – and our multi-dimensional understanding of member health – Carewise Health recommends a reward/risk approach to incentives that targets specific populations. Here are the three keys to successful incentive design:

1) Condition management and smoking cessation

It is imperative that the small percentage of members who are driving a disproportionate share of costs – and those who are most likely to join their numbers – engage in the condition management program.



Incentives should be earned for participation and for achieving results. Members can receive one-third of the incentive when they agree to participate, one-third when they meet an intermediate goal, and one-third when they graduate from the program.

If no incentive is offered only 25 percent of members approached are likely to participate. Participation can be significantly increased by recognizing that humans react positively to incentives but react much more strongly when they are faced with losing something they have been given. Participation can easily be increased to 75 percent or more by simply giving everyone a \$600 health plan premium contribution and taking back the \$600 from those members who have been targeted for participation and do not participate. Participation must be defined not just as saying “yes” to the program, but by achieving results.

2) Wellness

Wellness programs are typically designed for a broad cross-section of an employer’s population. Incentives should be earned for participation and for achieving results. Point systems, cash rewards, and raffles can all be effective incentives to encourage participation and goal achievement across a wide range of programs and mediums. Members can receive one-third of the incentive when they agree to participate, one-third when they meet an intermediate goal, and one-third when they graduate from the program. The goal is for employees and spouses to know and achieve their important health measurements using the medium that best works for them.

3) Tracking by business division

Most corporations measure a myriad of statistics at a divisional level: sales, profitability, safety, production, and several other areas. Very few employers measure and track the vital statistics of their most valuable assets — the humans who work for them. For example, a division’s team may have an average body mass index of 30, blood sugar levels greater than 100, and LDL cholesterol over 100. A machine with those equivalent statistics would be sent back to the factory and retooled. Employers who measure baseline human vital statistics at the divisional level and then reward participation and outcomes are building a structure to improve health. The approach is similar to the technique many organizations have used to improve safety.

Multiple research studies have shown that people are naturally loss-averse. They will go out of their way to avoid losses, although they may not bother with trying to gain something of similar value. In other words, they put more effort into preventing a loss than winning a gain.

An understanding of human behavior

Multiple research studies have shown that people are naturally loss-averse. They will go out of their way to avoid losses, although they may not bother with trying to gain something of similar value. In other words, they put more effort into preventing a loss than winning a gain. As stated in *Behavioural Economics*, a briefing published by the New Economics Foundation, “It is as if as soon as I consider something ‘mine,’ I confer some extra value onto it.” All Carewise health management programs are rooted in behavior-change methodology. The reward/risk incentive program is no exception. Studies consistently show that the risk of having a reward withdrawn is a powerful motivator to act.

The following are average participation rates experienced by our clients under various engagement models for coaching programs:

- No incentive = 25% participation
- \$300 incentive = 30% participation
- \$500 incentive = 40% participation
- Risk of losing incentive = over 75% participation

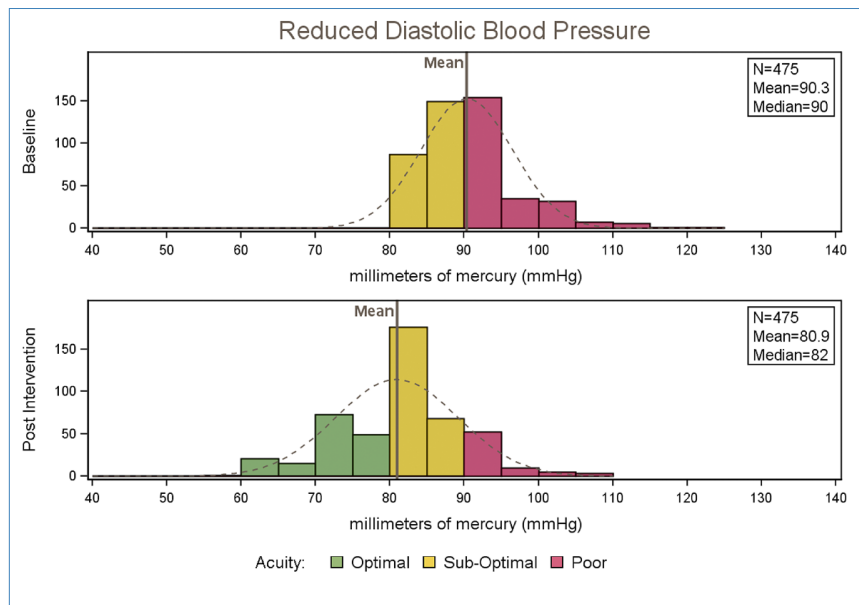
Payoffs for an effective incentive program

Carewise Health clients have had dramatic results using this recommended incentive strategy. To measure results it is useful to consider hospital “bed days,” the number of days employees are in the hospital annually. It is just one area of expense that is commonly impacted, but easy to quantify.

Some Carewise Health clients have been using the recommended incentive strategy for several years. They have achieved – and maintained over time – bed days per 1,000 members near 200. Conversely, other clients used a rewards only incentive strategy. Using a rewards only strategy may not effectively engage members driving the highest spend. By moving to a strategy that rescinds rewards, clients with bed days near 400 days per 1,000 have seen reductions of nearly 100 bed days per 1,000 in about 18 months. The data shows that an average of 175 to 225 bed days per year is achievable and can be maintained with this incentive strategy. With an average cost of \$3,700 per bed day, it is easy to see the enormous opportunity for savings in this area alone.

By creating a risk-management strategy that encompasses both clinical and lifestyle risks, employers can be sure they are reaching high-cost members with precision and provide the personalized intervention they need.

A risk/reward approach to incentives also has proven to be effective for wellness programs. A health promotion approach may improve some behaviors, but improving behavior only reduces a company health spend if it improves clinical metrics. The graph below is representative of the results achieved by a client using a risk/reward incentive program that was tied to clinical outcomes. Diastolic blood pressure is a key measurement of health risk.



Helping members choose health

An effective strategy to reduce healthcare costs must target the segment of the population that has a disproportionately high impact on expenses. The traditional, one-dimensional care continuum model is inadequate. By creating a risk-management strategy that encompasses both clinical and lifestyle risks, employers can be sure they are reaching high-cost members with precision and provide the personalized intervention they need. This strategy also must feature an incentive program that motivates a high percentage of all members to engage and take responsibility for their health. The incentive shown to be most effective is a reward/risk program that rewards members for taking a health assessment and completing a biometric screening but carries the risk of reward loss if the health issues uncovered are not addressed.



Visit carewisehealth.com for more information.

About Carewise Health

Carewise Health helps organizations improve the personal health of employees and control healthcare costs. Our industry-leading health and wellness programs help members build the skills they need to achieve and sustain optimum health. Medical Bill Review ensures that health plans and self-insured employers are billed accurately for the care their members receive. Landacorp, a division of Carewise Health, creates care management software that enables highly efficient collaboration among health plans, providers and members.