EMPLOYEE HEALTH & PRODUCTIVITY MANAGEMENT PROGRAMS:

THE USE OF INCENTIVES

A Survey of Major U.S. Employers

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*The results of the Spring 2007
Health, Wellness & Productivity
Programs, Incentives & ROI Impact Survey*

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Executive Summary

American employers do not perceive that they are getting value for their significant health care dollar, and for years have been searching for ways to limit their health expenditures. One way they have done so has been to encourage their employees to engage in healthier behaviors, with the goal of reducing health care spending and the salutary benefit of improving employee health and productivity. One component of programs that encourage positive behavior is the use of incentives to motivate change.

The use of incentives to encourage positive health behaviors is well documented. IncentOne client experience and market trends indicate that among employers using incentives for general health management, the most commonly reported is a medical premium discount in the $200 to $250 range. Debit or gift cards are also commonly used, with average market values in the $75 to $100 range for general wellness programs. Disease management programs among targeted populations tend to offer greater incentives, often in the $600 per patient per year range. These incentives are pegged to participation in programs that are intended to reduce the employer's overall health care spending on those with chronic illness.

The membership of the National Association of Manufacturers (NAM) and the ERISA Industry Council (ERIC) were surveyed about the use of incentives in employee health management programs. NAM, ERIC and IncentOne sponsored the survey. The NAM represents the 14 million people who make things in America while ERIC's member companies provide health and retirement benefits directly to tens of millions within the U.S. population.

The primary purpose of the survey was to determine if employers believe that incentives are an important component of health, wellness and productivity programs, and offer a positive return on investment (ROI). The specific goals of the survey were:

- ► To understand the challenges employers face in implementing and operating health management programs;
- ► To understand expectations employers have of ROI for their programs, and the importance they attach to measuring ROI; and
- ► To assess the types of incentives used by employers for health management.

The survey resulted in 305 completed or partially completed surveys representing 242 companies (a 35 percent company response rate), and the results appear to be representative of major U.S. corporations and mid-sized to large manufacturers. For example, among the ERIC-linked companies responding to the survey, the average size was about 90,000 employees. Among the companies responding to the survey, 42 were in the FORTUNE 500 and 18 were in the FORTUNE 100, including two of the top five FORTUNE 100 companies.

Seventy-five percent of the responding companies offer health management to their employees. Of the companies with health management, two-thirds use employee incentives with those programs.

Key Findings

- ► The most common incentive offered across health management is premium reductions, with 40 percent of companies using these as incentives. A strong second is cash or bonuses, offered by 29 percent of companies.
- ► When broken down by type of program, companies with disease management programs are less likely to offer incentives for those programs than for other types of programs. Disease

management programs that did offer incentives were more likely to use health account contributions, although premium reductions were the second most popular incentive. Premium reductions, however, came out on top for companies offering health management programs and/or general workplace wellness programs.

- Almost two thirds (62 percent) of companies offering incentives had not attempted to measure ROI for their programs, and only 14 percent indicated they had successfully measured ROI. Among respondents that were willing to estimate ROI for their programs (whether or not actually measured), more than 75 percent estimated an ROI greater than break-even.

- While ROI was not often measured, it was deemed important. About 70 percent thought the program should bring a better ROI than break-even to be acceptable, and only 8 percent found it acceptable to have a program that was not at least break-even.

- On average, respondents agreed that health management would have a positive impact on the bottom line. For example, respondents strongly agreed (average score of 8 on a 10-point disagree/agree scale) with the statements that “productivity will improve with health management” and that “ROI increases as employee participation increases.”

- The most serious challenge reported for health management is maintaining employee motivation over time (average 6.7 on a 10-point scale measuring seriousness of the challenge). This was true both for companies using incentives and for companies not using incentives.

- Health management challenges are perceived similarly by respondents with companies using incentives and by respondents with companies that do not use incentives. Maintaining employee motivation and assessing program costs and effectiveness received the highest scores on the “serious challenge” scale.

- Three out of four respondents whose companies did not offer incentives for health management thought that incentives should be offered. The reasons most often given were the “buzz that would be generated” and “improved completion rates.”

- Those respondents from companies without incentives for their programs responded similarly to those with incentives on the question of an acceptable ROI for those programs. Only 5 percent indicated that an ROI of less than break-even would be acceptable, and 63 percent said an acceptable ROI should be greater than break-even.

- The largest opportunity for growth of health management may involve expansion of existing program offerings along the continuum of health, and programs with no incentives moving forward with the use of incentives.

As employers explore ways to improve the health, wellness and productivity of the workforce, incentives have emerged as an attractive tool. But employers remain concerned that incentives not become money frivolously spent. By and large, major companies represented in this survey are “on board” in offering health management, and most believe that incentives are cost-effective.

Introduction

This report details the results of a web-based survey of members of two organizations representing major American employers, the ERISA Industry Council (ERIC) and the National Association of Manufacturers (NAM). The survey was designed by IncentOne. The survey was sponsored by IncentOne, ERIC and NAM. Health2 Resources was contracted by IncentOne to help with survey design and to analyze the results of the survey.

The primary purpose of the survey is to determine if employers believe that incentives are an important component of health, wellness and productivity programs, and offer a positive return on investment (ROI). The specific goals of the survey are:

- To understand the challenges employers face in implementing and operating health management programs;
- To understand expectations employers have of ROI for their programs, and the importance they attach to measuring ROI; and
- To assess the types of incentives used by employers for health management.

"ROI" for the purposes of this survey is measured by reductions in overall company health care costs that can be linked to employee participation in health, wellness and disease management programs.

While many companies desire to measure ROI as a means of gauging the success of their health, wellness and disease management programs, a relatively small number have successfully done so. Reasons for this traditionally have been:

- ROI is expensive to measure;
- It is difficult to control for all the right variables, especially retroactively; and
- Programs in general and the use of incentives in particular are a developing market in which business practices change rapidly, so many employers are implementing programs first and then trying to justify them from a business perspective later.

For the purpose of much of this survey, use of the term "health management" refers to any program offered to manage or maintain an employee's current level of health to include disease management programs. However, in Section II the term "health management program" is broken out separately from disease management and wellness to describe programs designed to address particular lifestyle risk factors, such as obesity or smoking.

This survey is representative of major national employers. Among the companies responding to the survey, 42 were in the FORTUNE 500 and 18 were in the FORTUNE 100, including two of the top 5 FORTUNE 100 companies.

The report authors would like to thank the following individuals for their support, review and guidance during the development of this report- Edwina Rogers, Vice President, Health Policy, ERISA Industry Committee; Jeri Gillespie, Vice President, HR Policy, National Association of Manufacturers; James Gelfand, Manager of Health Policy, ERISA Industry Committee; Amy Lombardi, Director of Marketing, IncentOne; Sue Lewis, Senior Vice President of Health and Productivity Solutions, IncentOne; Philip Dunn, Senior Accounts Consultant, Health2 Resources; and Sandy Mau, Vice President, Communications, Health2 Resources.

Background

The use of employer-sponsored health and wellness and disease management programs in general, and of incentives in particular, has been the subject of several recent studies. For instance:

- In April 2006, PricewaterhouseCoopers' Management Barometer and PWC's Health Research Institute announced results of a survey of 135 top executives at large U.S.-based multinational corporations. It found that 64 percent of corporations surveyed provide programs and incentives to employees to improve their overall health, and that 76 percent see a link between their employees' health status and their productivity.[1]

- In April 2007, Hewitt Associates surveyed approximately 450 major U.S. employers covering more than 8 million employees. It found that 77 percent of responding companies are profiling the chronic health conditions prevalent in their workforce in 2007, compared with just 43 percent in 2006, and between 65 percent and 79 percent of companies gave employees—or planned to give them in 2007—access to targeted condition management or wellness programs through health plans or focused programs. Additionally, 48 percent offered or planned to offer incentives to employees who participate in wellness or other health-related initiatives, compared with just 38 percent in 2006.[2]

- In May 2007, the Midwest Business Group on Health announced findings of a nationwide survey of more than 160 employers. It found that 95 percent of employers say there is a link between an employee's health and his or her productivity; and that 62 percent of employers that view themselves as "leading edge" will provide cash or other incentives to motivate employee use of preventive services, compared with 40 percent of other employers.[3]

Furthermore, the use of incentives comports with the Four Cornerstones of Value-Based Purchasing as outlined by Health and Human Services Secretary Mike Leavitt: health information technology, public reporting of provider quality information, public reporting of cost information and incentives for value comparison. While HHS's Transparency Initiative does not directly call for incentives for health and wellness behavior, the use of incentives as part of a broad policy to encourage people to reach their maximum health goals is strongly implied.

IncentOne client experience and market trends indicate that among employers using incentives for general health management, the most commonly reported is a medical premium discount in the $200 to $250 range. Debit or gift cards are also commonly used with average market values in the $75 to $100 range for general wellness programs. Disease management programs among targeted populations tend to offer greater incentives, often in the $600 per patient per year range. These incentives are pegged to participation in programs that are intended to reduce the employer's overall health care spend on those with chronic illness.

Collectively, these studies build on previously established evidence that employers are significantly interested in the use of incentives to change employees' behavior. However, to the authors' knowledge, this new study of the NAM and ERIC memberships is the first that has directly asked major employers detailed questions about the types of incentives they use and what specific incentives they use for key population health management programs (i.e., disease management, health risk assessment use or general wellness); the challenges they face implementing these programs; and their expectations for ROI.

[1] "Two-Thirds of Large Employers Now Offering Incentives to Improve Employees' Health." PriceWaterhouseCoopers, April, 2006. Available at: www.pwc.com/extweb/ncpressrelease.nsf/docid/FD126764F4A20F728525714C0061D9CA.

[2] "The Road Ahead: Emerging Health Trends 2007." Hewitt Associates, April 2007. Executive Summary available at: www.hewittassociates.com/_MetaBasicCMAssetCache_/Assets/Articles/The_Road_Ahead_2007_Executive_Summary.pdf.

[3] "Readiness to Change Survey." Midwest Business Group on Health, May 2007. Press release available at www.mbgh.org/index.php?t=news&. Last accessed May 2007.

Research Methods

An e-mail solicitation was sent by the two associations to their members. The e-mail offered a $10 gift card and a chance to win a gift card valued at $250 as incentive to complete the survey. The survey took about five minutes to complete on average. Of the 2,209 surveys sent, there were 305 respondents to the survey, representing 242 different companies (about 35 percent of the companies in ERIC and NAM). Seventy-nine of the 304 individuals with usable surveys did not complete all questions on the survey, leading to a completion rate of 74 percent. An additional 15 respondents did not provide identifying information (including company name) requested at the end of the survey.

Company as unit of analysis
The respondent's company, rather than the individual respondent, is treated as the unit of analysis. In the analysis, the weight of individual respondents is 1/n, where n is the number of respondents from the same company. Thus, an individual who is the sole respondent from a given company would have a weight of 1, and a respondent from a company in which there were four other respondents would have a weight of 1/5 or 0.2.

Respondent role
Most of the individuals responding to the survey were involved in their company's health management arena, and so were, for the most part, appropriate respondents to the survey. Chart 1 provides information on the role of the respondent in making decisions about his or her company's programs.

Fewer than 15 percent of the respondents are not involved with their company's programs, and almost all of those who are involved take part in purchase decisions related to their company's programs.

Chart 1. Respondent role in program selection (n=261)

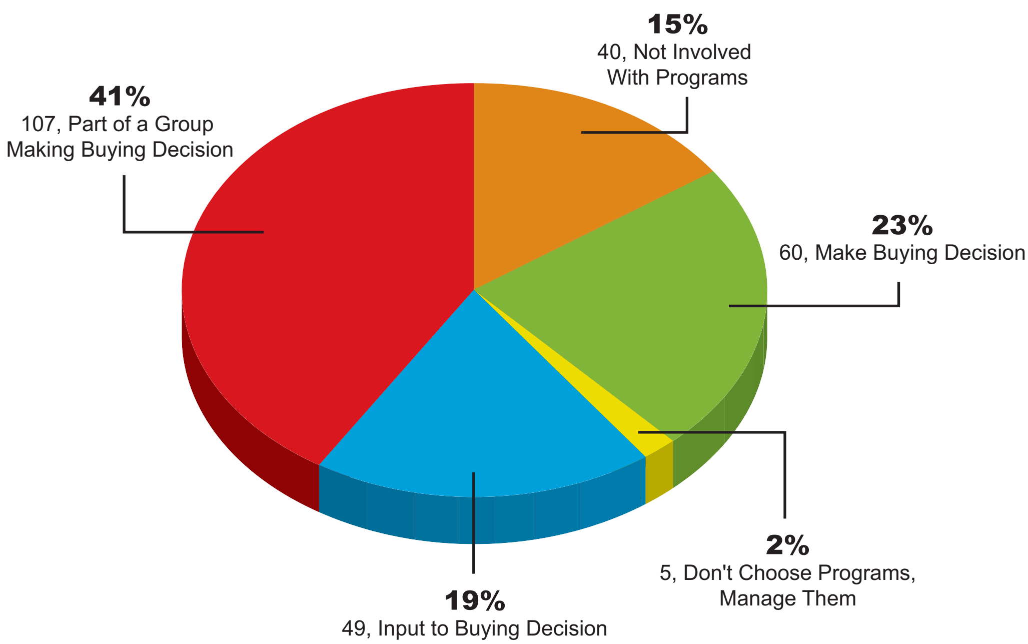


Chart Note: 43 respondents terminated the survey prior to this question, which fell about midway through the survey.

Survey Results

The survey results are divided into three sections. The first section analyzes the results concerning the basics of whether and what kinds of programs are offered (e.g., disease management, health management or general wellness), whether incentives are part of those programs and whether companies not offering programs are considering offering such programs.

The second section focuses on companies that offer programs and incentives, assessing details regarding those programs and assessing the respondent's beliefs about the value of incentives.

The third section reports on: (1) companies that do not offer health management, but intend to, and (2) companies that offer programs, but don't yet offer incentives to participate in those programs. This section looks at the respondent companies' approach to and expectations around the use of incentives.

I. Companies Offering Employee Health Management Programs and Participation Incentives

Today there are a number of commercially available health management vendors offering a variety of programs designed to manage the health risks of an employer's population. Some offer only wellness and health risk assessment tools, while others offer a full spectrum of tools (e.g., health risk assessment, population risk stratification) and programs (e.g., obesity management, smoking cessation, condition management, disease management). For the purpose of this survey, use of the term "health management" refers to any program offered to manage or maintain an employee's current level of health to include disease management programs.

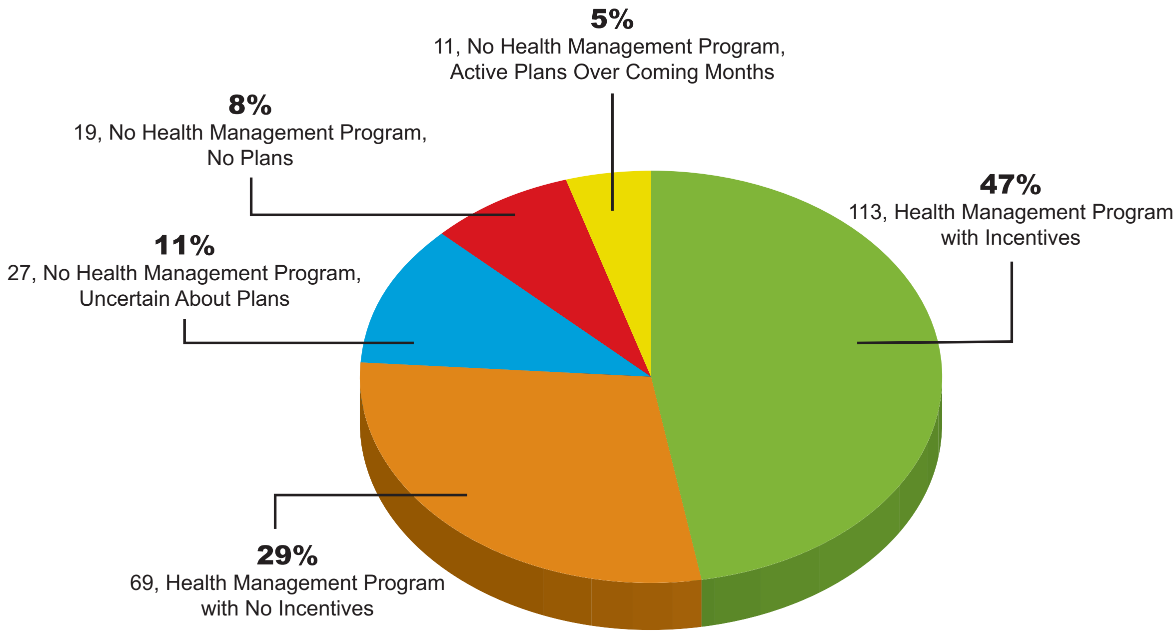
Key Findings

- Seventy-five percent of responding companies offer health management to their employees
- Almost half of responding companies (and two-thirds of those with programs) include incentives with those programs
- The largest opportunity for growth may involve expansion of existing program offerings along the continuum of health, and programs with no incentives moving forward with the use of incentives

Survey respondents were asked to indicate whether their company offers employees health management, and then, if such programs are offered, whether incentives are offered to employees to encourage participation. Respondents who indicated their company did not offer health management were then asked whether their company intended to offer such programs. The combined responses to this series of questions are presented in chart 2.

About three-fourths of these companies (182 companies) offer health management to their employees, and almost half (113 companies) include incentives to encourage participation. Among respondents from companies not offering programs, most (about 80 percent of those without programs) are uncertain whether such plans will be offered, or say they will not be offered in the near future. Among those with knowledge of whether there are plans to develop programs at their companies, more respondents say their company has no active plans to offer programs than say their company has active plans to offer programs within 18 months.

Chart 2. Status of Health Management Programs (all responding companies; n=239)



These results suggest a high penetration of at least some component of health management within each employer setting, indicating that there may only be modest market growth for new programs over the coming 18 months and/or growth will come from expansion of current program offerings. Most large employers already have programs, and among those that do not, only a relatively small number are actively planning to implement programs. Almost 30 percent of companies with programs do not currently use incentives.

II. Companies Offering Employees Health Management Programs With Incentives

Close to half of companies surveyed offered incentives as part of their programs. But the type of incentives used by employers can vary from use of premium deductions, cash/bonuses, health account contributions, merchandise, gift cards or other items of value to employees.

Additionally, employers may use separate vendors to deliver wellness and lifestyle programs (such as weight loss and smoking cessation) and disease management programs. Incentives tied to these programs often differ as well. For instance, an incentive that reduces expenses for preventive care or out-of-pocket expenses may be applied to a company's disease management program, while a reduction in insurance premiums may be offered for those completing a health risk assessment (HRA) and participating in a health risk reduction program. The type of incentive used is often keyed to the type of program and its participants.

This section offers an overview of the types of incentives used by employers for the various programs they have in place; general ROI expectations for programs among employer survey participants; and the biggest challenges faced by employer respondents in the management of programs.

Type of Incentives Used

Respondents were asked to select the kinds of incentives used (from among a set of choices) within three general types along the continuum of employee population health programs: disease management, health management (e.g., smoking cessation) and general wellness (e.g., workplace wellness). The kinds of incentives used included premium reductions, cash or bonuses, health account contributions, merchandise, gift cards and "other."

Chart 3. Percent of programs with incentives, by type of incentive, for disease management, health management or general wellness programs (employers with incentives; n=104)

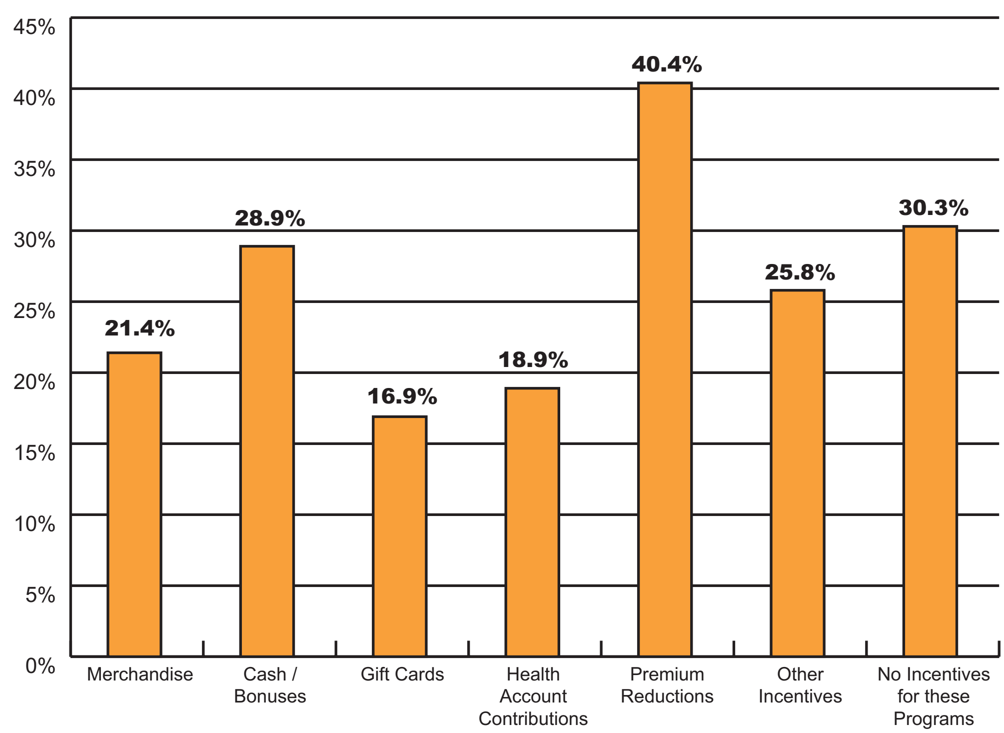


Chart Note: This chart includes only respondent companies with programs that used incentives. Nine respondents for companies in this group terminated the survey before completing this set of questions.

Key Findings

- The most common incentive offered across programs is premium reductions, with 40 percent of companies that use incentives offering these. A strong second is cash or bonuses, offered by 29 percent of companies. Merchandise, gift cards and health account contributions were each used by roughly one-fifth of the companies.

When broken down by type of program, companies with disease management programs were less likely to offer incentives than other types of programs. Disease management programs that did offer incentives were more likely to use health account contributions, although premium reductions were the second most popular incentive. Premium reductions, however, came out on top for companies offering health management programs and/or general workplace wellness programs.

To delve into which incentives are used for particular programs, and why, respondents from companies that offer programs with incentives to encourage participation were asked a series of questions probing details about those programs. Chart 3 provides information about the types of incentives offered by companies operating disease management or health and wellness programs.

Chart 4. Percentage of companies with specific programs and percent with incentives within program (companies with incentives; n=104)

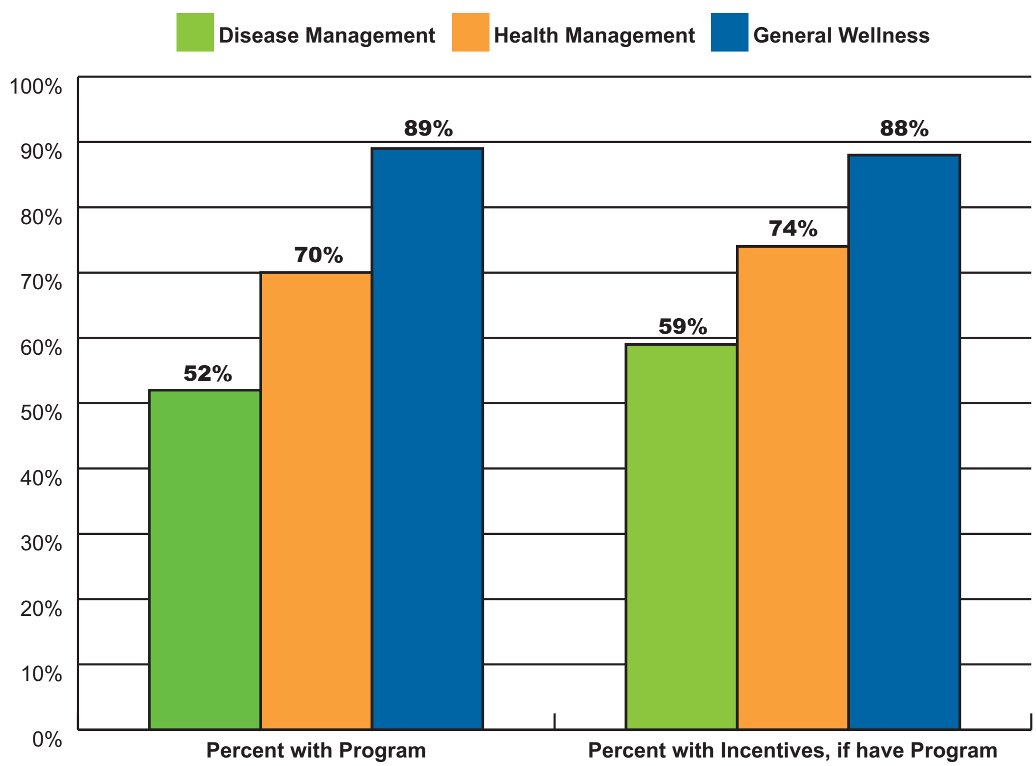


Chart 4 shows the percentage of companies (among those having programs) with disease management, health management or general wellness programs, and, if a company has such programs, whether incentives are used in those programs. Among employer respondents, disease management programs are less likely to be in place than health management and wellness programs, and also less likely to employ incentives.

In the three bar charts (charts 5a, 5b and 5c), specific types of incentives used with the three types of programs are distinguished. What stands out is the difference in use of incentives between disease management programs and the other two program types.

Chart 5.a. Percentage of companies with incentive, by type, for disease management programs (companies with disease management programs; n=55)

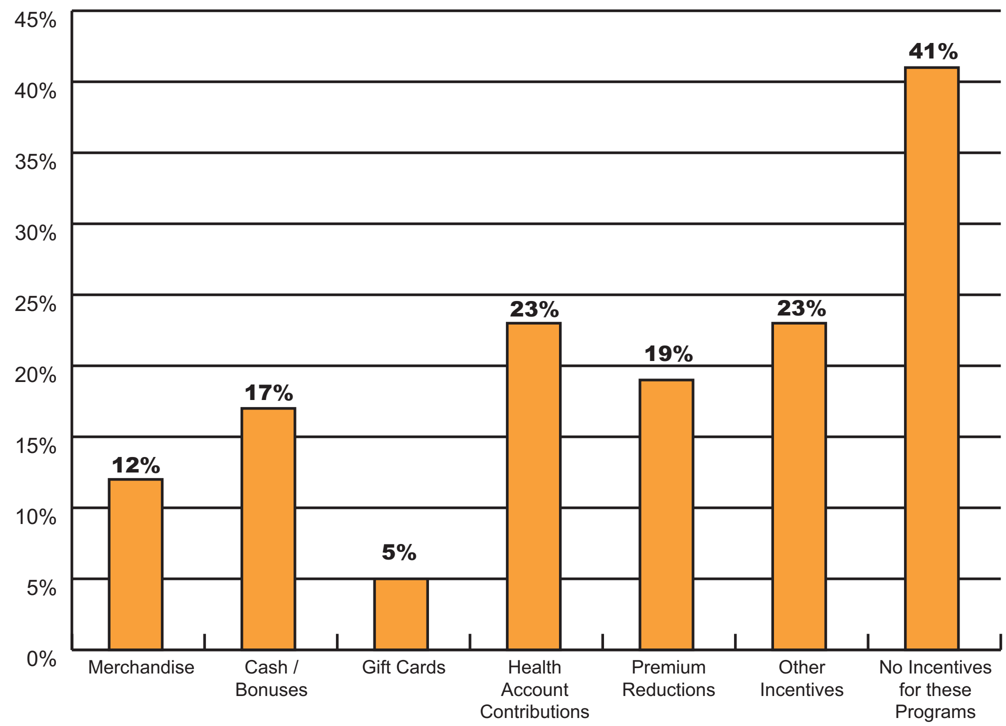


Chart 5.b. Percentage of companies with incentive, by type, for health management programs (companies with health management programs; n=73)

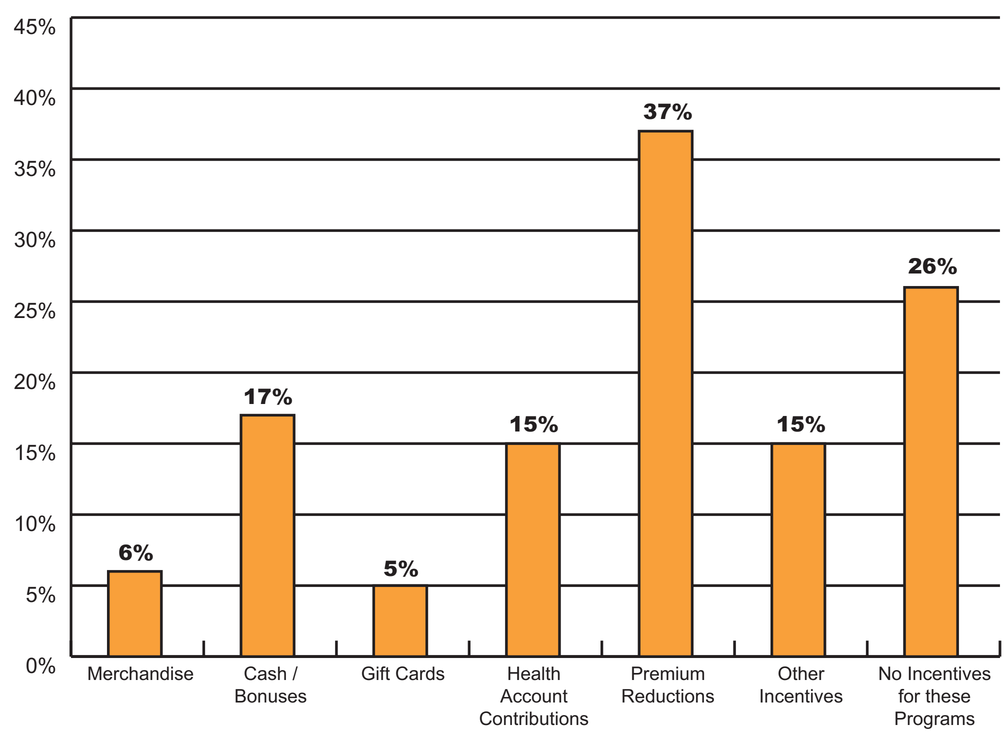
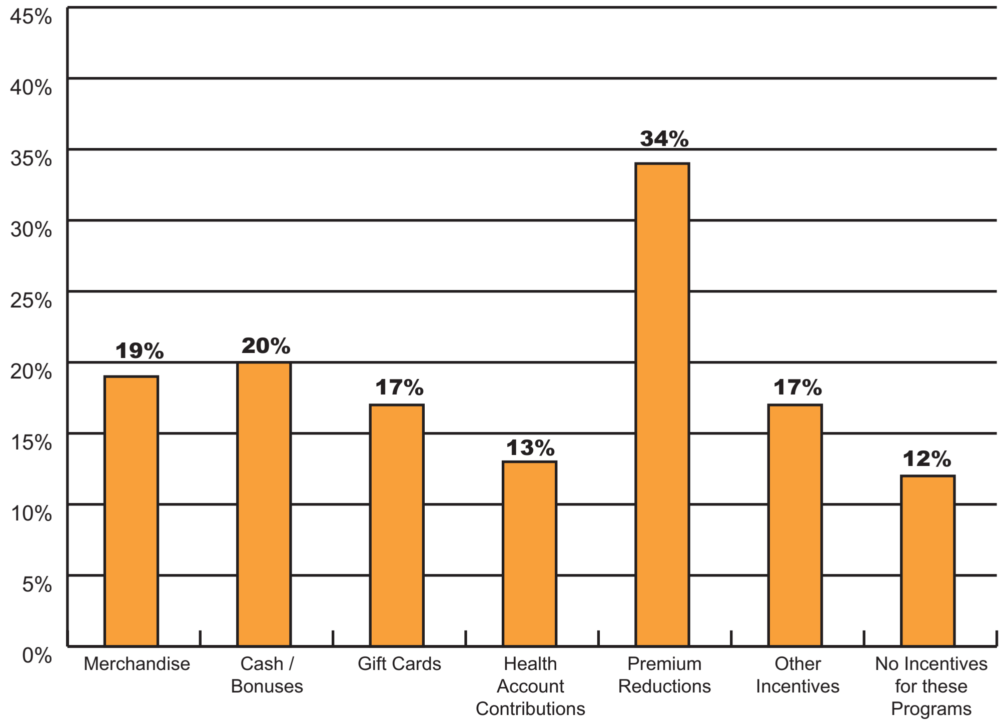


Chart 5.c. Percentage of companies with incentive, by type, for general wellness programs
(companies with general wellness programs; n=93)



In comparing the three charts, the disease management programs appear less likely to use incentives (41 percent have no incentives versus 12 percent for general wellness and 26 percent for health management programs). Disease management programs are more likely to use health account contributions and "other" incentives, while health management and general wellness programs are more likely to use premium reductions.

These differences likely reflect both the different vendors for the different programs and the different incentive requirements of disease management programs. For disease management, the incentives are often designed to encourage appropriate use of drugs and relatively frequent visits to the doctor.

Challenges to Implementing and Operating Health Management Programs

The next set of questions asked respondents to indicate the degree to which a series of challenges confronted their company's programs. Respondents used a scale of 1 (not a challenge) to 10 (serious challenge) to indicate their response.

- ► The most serious challenge reported for health management is maintaining employee motivation over time (average 6.7 on a 10 point scale measuring seriousness of the challenge).

Chart 6 presents responses to this question set.

The challenge given the highest rating (the most serious challenge) was "maintaining employee motivation over time." (averaging 6.7 out of 10), followed by the challenge of "assessing program costs and effectiveness." The challenge given the lowest rating (least serious challenge) involved "justifying the programs to senior management." That said, most of the challenges were rated (on average) near the scale's mid-point of 5.0.

Chart 6. Challenges to health management programs
(employers with incentives; n=81; 1 not a challenge; 10 serious challenge)

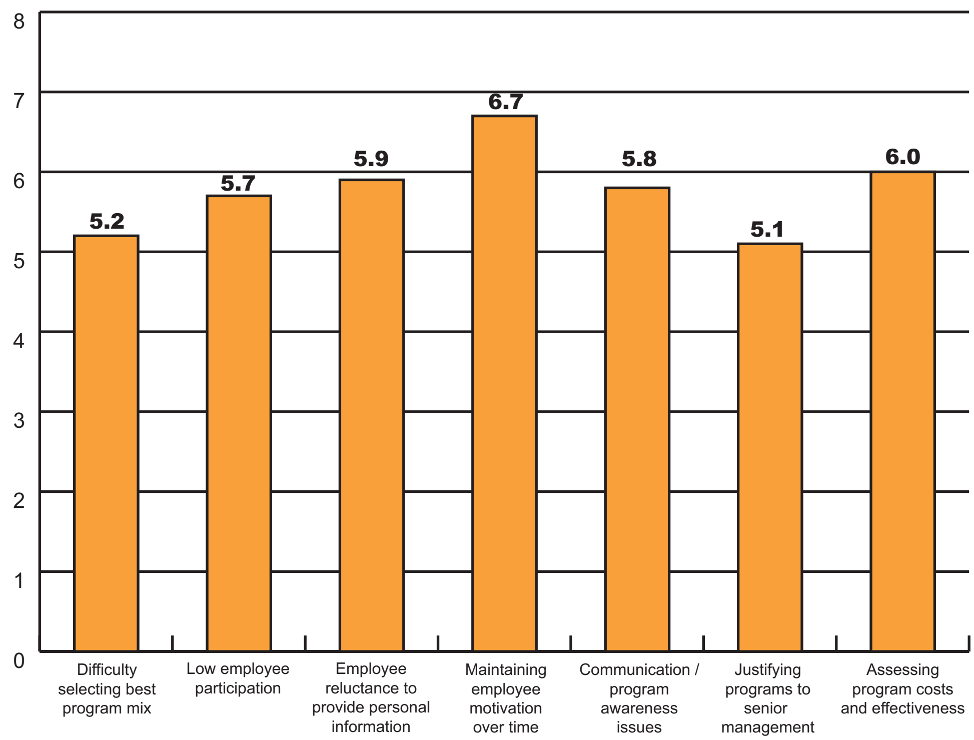


Chart Note: The number of responding companies (81) has declined with this question because among those 113 companies with programs and incentives, representatives from 16 companies indicated they were not involved in decisions about programs. Also, respondents from an additional 16 companies had terminated the survey before reaching this question.

Return on Investment

A key function of the survey was to assess whether companies were measuring ROI for their programs, and what employer expectations were concerning ROI for these programs.

- Almost two thirds (62 percent) of companies with incentives had not attempted to measure ROI, and only 14 percent indicated they had successfully measured ROI. Among respondents that were willing to estimate an actual ROI for their programs (whether or not actually measured), over 75 percent (companies) estimated an ROI greater than break-even.

- Among those that could estimate actual ROI for their programs, about 75 percent estimated an ROI greater than break-even.

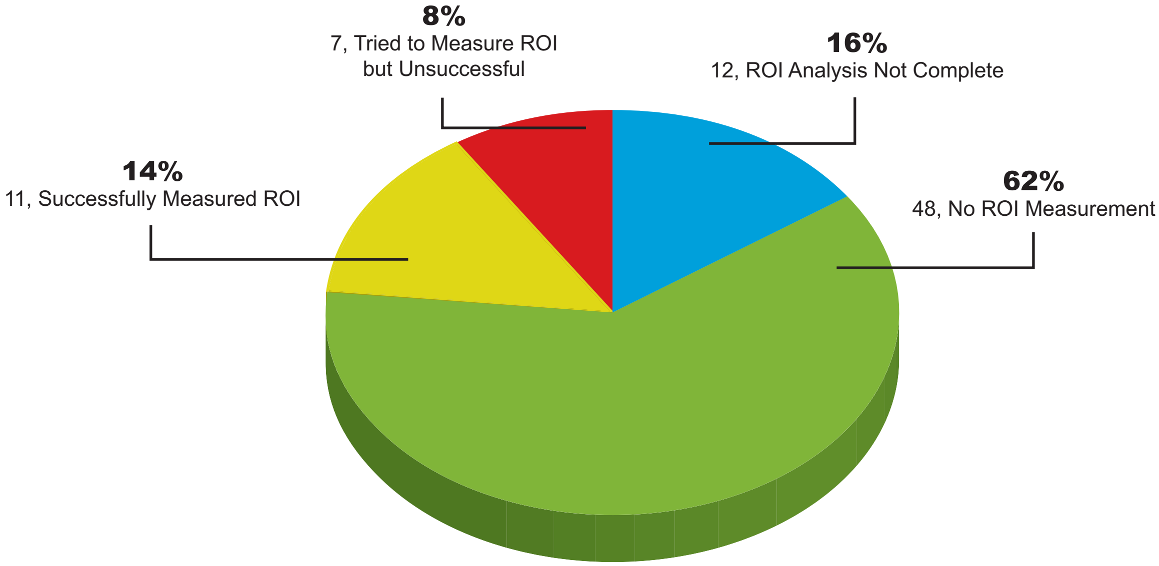
- While ROI was not often measured, it was deemed important by respondents. About 70 percent thought the program should be better than break-even to be acceptable and only 8 percent found it acceptable to have a program that was not at least break-even.

- On average, respondents agreed that health management would have a positive impact on the bottom line. For example, respondents on average strongly agreed (average score of 8 on a 10-point disagree-agree scale) with the statement that “productivity will improve with health management” and that “ROI increases as employee participation increases.”

To address the ROI issues, respondents were asked whether their company measured ROI, the effectiveness of those measurements and their estimate of the company's ROI for its programs. Finally, respondents were asked the extent to which they agreed or disagreed with a series of statements regarding the cost impact of various features of health management.

Chart 7 indicates whether the respondent's company attempted to measure the return on investment.

Chart 7. Percentage of companies with return on investment (ROI) measurements made for health management programs (companies with incentives; n=78)



Almost two-thirds of the responding companies (62 percent) do not measure ROI. Among the remainder, about a third of those attempting to measure ROI were not successful and just over half have not yet completed their analysis. The results suggest that measurement of ROI has not proceeded very far, even among large employers who have implemented programs with incentives. It is possible that measuring ROI is perceived to be costly or difficult to measure, or it may be that employers view the programs in terms of "employee benefit" rather than as health cost savings or productivity improvement. In any case, this finding of limited ROI measurement suggests an opportunity for further research, both to determine effective approaches to measuring ROI as well as to determine specific barriers to measurement.

Chart 8 provides the respondents' estimates of the ROI for health management used by their companies, followed by chart 9 which provides the respondents' estimates of an acceptable ROI.

The majority (66 percent) is unsure about the ROI for their company's programs. For those that do venture an estimate, about 75 percent estimate an ROI of 1:1 or greater. An ROI of 1:1 is break-even, suggesting that most respondents who have a sense of the ROI for these programs think their company's program at least pays for itself.

Chart 9 depicts the respondents' views of their companies' ROI requirements for health management. While about 25 percent of those able to estimate their company's ROI think their ROI is less than break-even, only 8 percent think that it is acceptable to have an ROI of less than break-even. About 70 percent of respondents think an acceptable ROI must be greater than break-even, while an additional 21 percent think a break-even ROI is acceptable.

Chart 8. Respondents estimate of ROI for company's health management programs
(employers with incentives; n=71)

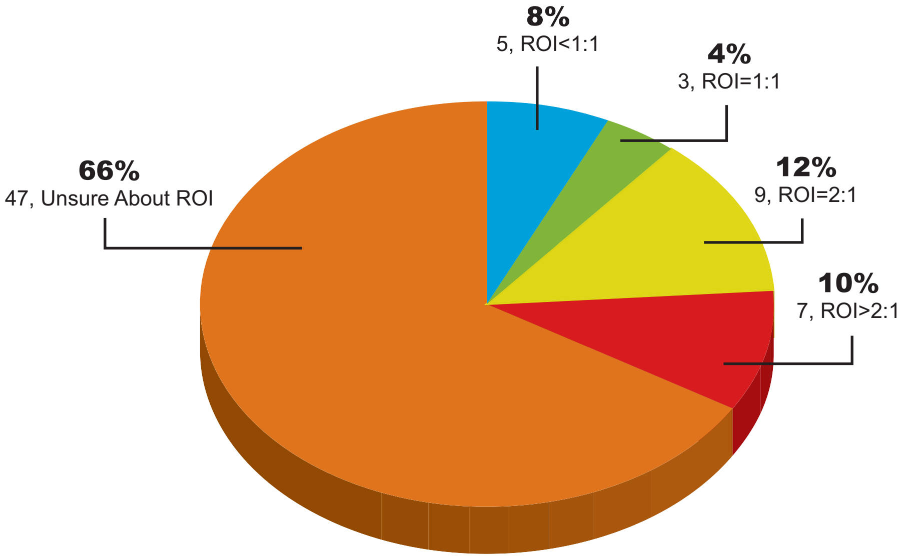
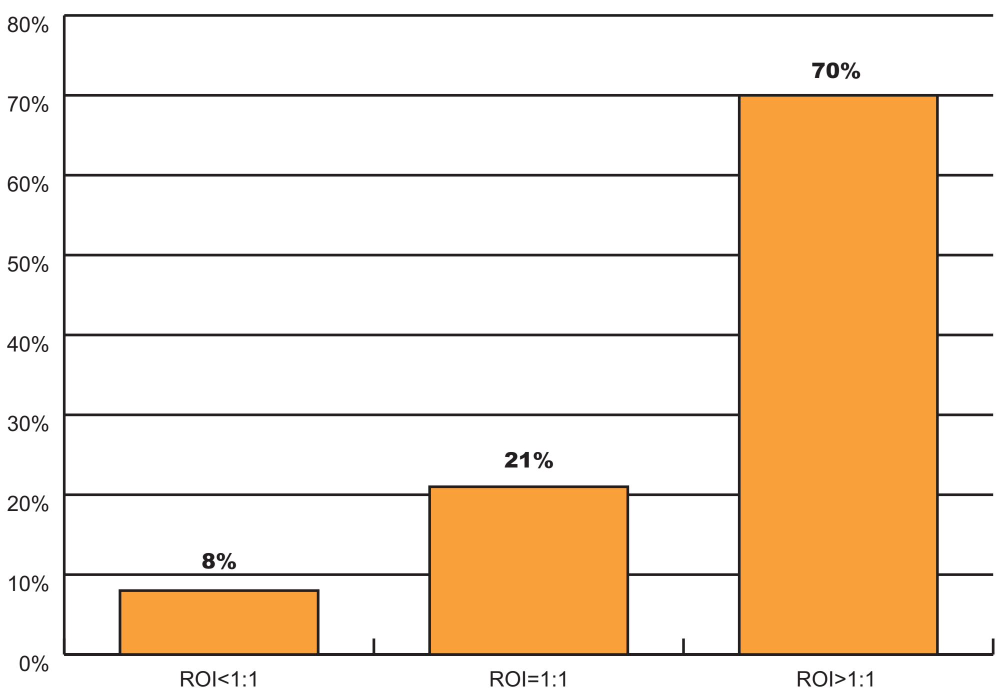


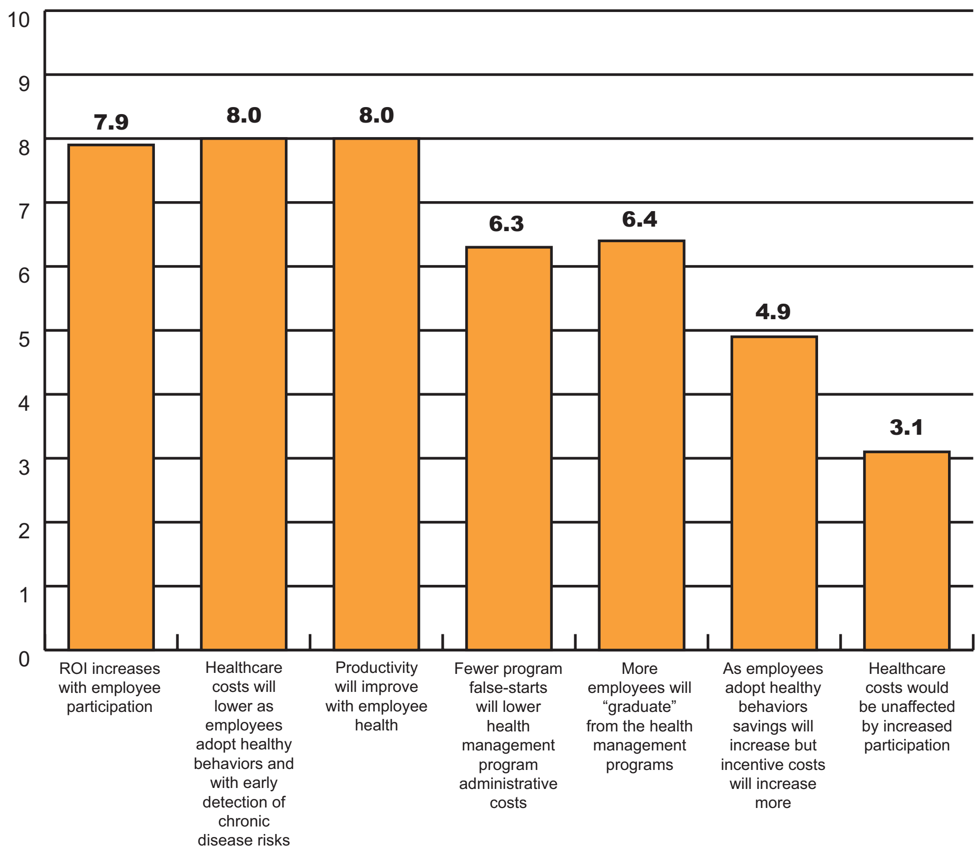
Chart 9 suggests that among respondents with programs that offer incentives, to be an acceptable investment, the cost of the programs and incentives must generally be covered by the savings achieved through the programs. This result, then, suggests that the earlier findings that most companies have not measured ROI (chart 7) may be due more to barriers to measurement rather than due to indifference about ROI for these programs.

Chart 9. Level of ROI respondents consider acceptable for their companies
(companies with incentives; n=71)



Most respondents in companies that use incentives for health management indicated that they expect program participation to increase with the use of incentives (71 of 74 companies). This general finding about participation is expanded in chart 10 where the respondent's strength of agreement or disagreement with a series of statements about the cost effectiveness of incentives is provided.

Chart 10. Strength of agreement with statements about cost impact of incentives on employee participation in health management programs (companies with incentives; n=71) (1=strongly disagree; 10=strongly agree)



The three statements receiving the strongest average agreement are: (1) that ROI increases with use of incentives; (2) that employees engaged in healthy behaviors and/or obtaining early screening for chronic diseases will have fewer health care expenditures; and (3) that as employee health increases, productivity increases. These statements appear to be relatively strong endorsements about the use of incentives for encouraging participation and encouraging healthy behaviors.

The statement receiving the strongest "disagreement" rating is that "health care costs would be unaffected by increased participation" (average scale score of 3.1). There is also ambivalence expressed (a 4.9 or neutral average response) on the statement that "healthy behaviors will lead to savings, but the cost of incentives will increase even more."

The response to the set of questions present in chart 10 suggests strong agreement with the positive influence of incentives in health management, and that investment in health management is a good idea.

III. Intentions and Expectations of Companies Without Programs or Without Incentives

Although all recent studies show the clear majority of large corporations already have some program for health management in place, the reasons for implementation of programs varies almost as widely as the program characteristics. Companies may implement programs strictly as an employee benefit or as a means to achieve employee retention, believing the program offering alone is enough to achieve this goal. On the reverse side, companies may choose not to implement health management at all because they are not convinced of its benefits.

For companies choosing to offer health management, use of incentive programs is always in part a business decision in terms of increasing program participation.

This section examines results from those companies which do not have health management programs in place, or who have a program in place but have not implemented incentives to drive participation.

Key Findings

- ► Health management challenges are perceived similarly by respondents with companies using incentives and by respondents with companies that do not use incentives. Maintaining employee motivation and assessing program costs and effectiveness received the highest scores on the "serious challenge" scale.

Chart 11. Challenges to your health management program
(companies with incentives and without incentives) (1 not a challenge; 10 serious challenge)

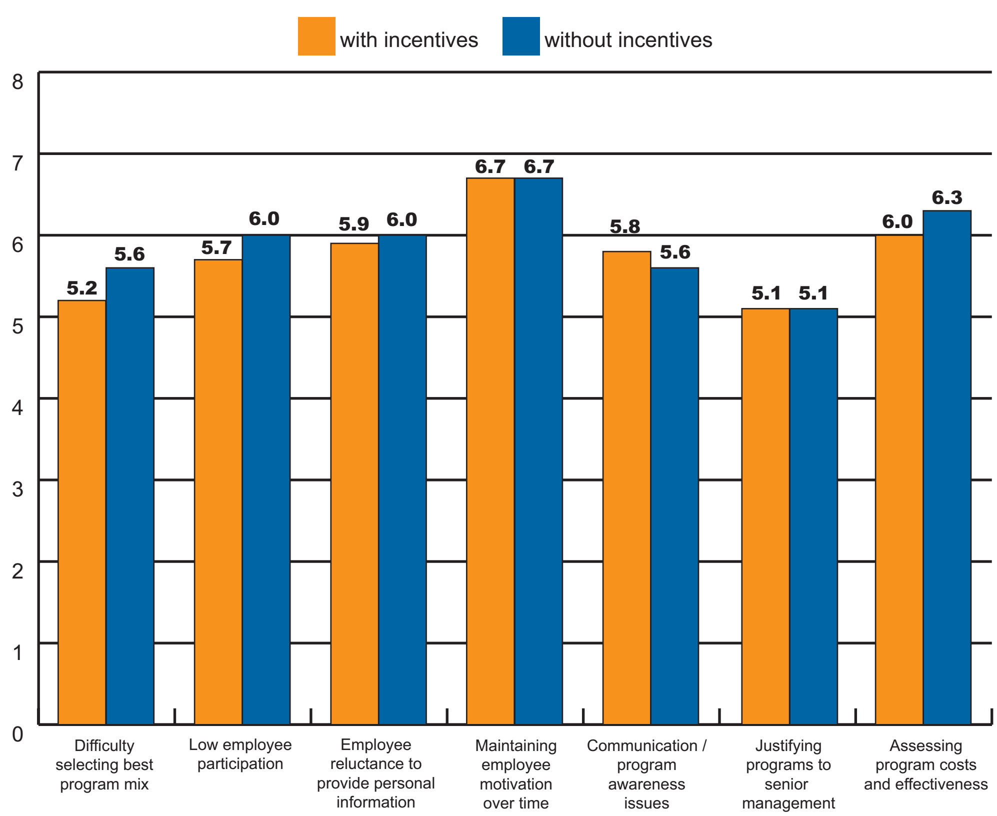


Chart Note: The number of respondents for this question was 160, 81 companies with incentives and 79 companies without incentives. The non-respondents to this question included those not involved in decisions about these programs (27 companies) and respondents from an additional 55 companies had terminated the survey prior to this question.

- Three out of four respondents whose companies did not offer incentives for health management thought that incentives should be offered. The reasons most often checked were the "buzz that would be generated" and "improved completion rates."

- Those respondents from companies without incentives for health management responded similarly to those with incentives on the question of an acceptable ROI for those programs. Only 5 percent indicated that an ROI of less than break-even would be acceptable, and 63 percent said an acceptable ROI should be greater than break-even.

While 113 of the responding companies had programs and used incentives for those programs, 73 companies had no programs and 60 companies had programs but did not use incentives. The results from respondents from those companies without incentives and without programs are treated in this section.

Chart 11 provides responses to the question asking the degree to which a series of issues are (or are likely to be) serious challenges, and compares the responses of companies with programs without incentives to those companies using incentives.

Maintaining employee motivation is the biggest challenge (issue receiving the highest average score on the "challenge" scale), both for respondents from companies with incentives and from companies without incentives. The second ranking challenge is assessing costs and effectiveness. Justifying the program to senior management receives the lowest average ranking on the challenge scale.

Chart 12. Percent of respondents indicating whether to and why incentives should be part of health management program (companies without incentive programs; n=79 companies)

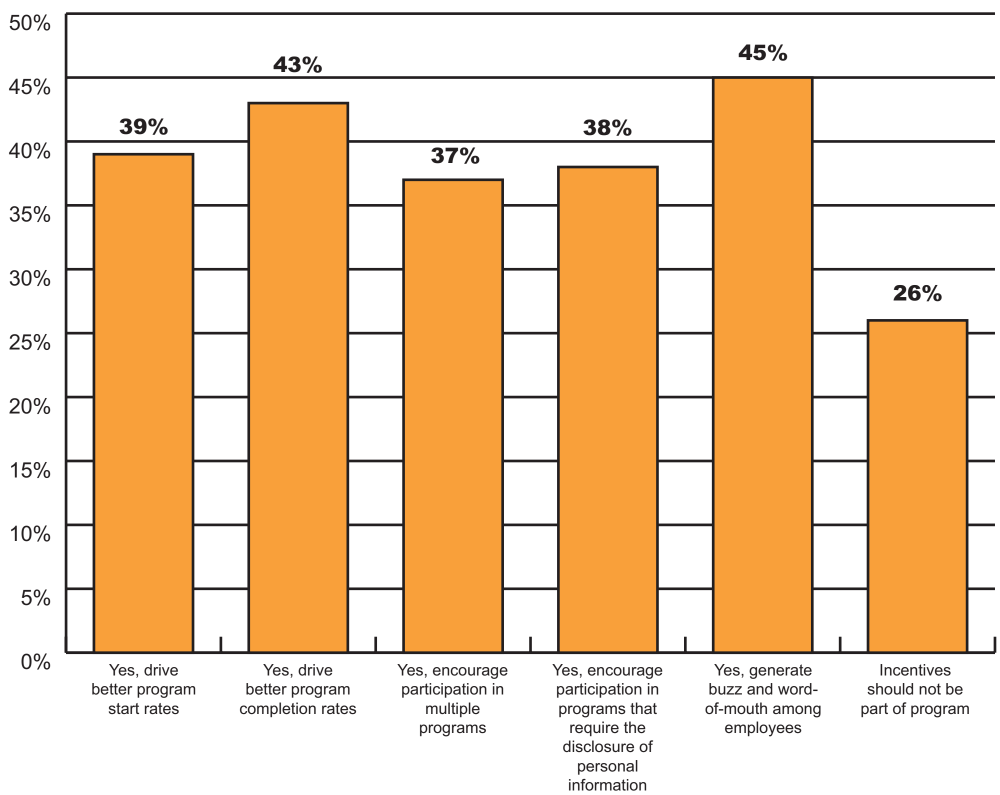


Chart note: Non-respondents to this question included representatives of 39 companies who terminated the survey prior to this question.

These results suggest that respondents believe the challenges are similar for their programs, whether or not companies offer incentives. Respondents not offering incentives ranked their challenges as nominally greater in almost every category.

These respondents (companies without incentives) were then asked whether incentives should be part of their program. Results are given in chart 12.

Only about one in four (26 percent) indicated that incentives should not be used. Among those agreeing that incentives should be used, the various rationales for incentives received about equal numbers of votes. Completion rates and “buzz” received the most mention, but those two reasons were not far ahead of the other rationales (better start rates, more participation in multiple programs, improved disclosure of personal information).

Expected ROI for Use of Incentives

Approximately 69 percent of respondents in companies without incentives think incentives would result in a better ROI for their programs. And, as with those in companies using incentives, this group of respondents in companies without incentives thought that ROI should be break-even or better (see chart 13).

The results for those respondents in companies having incentives was not substantively different, with the exception that among those companies with incentives in place, a higher percentage (70 percent versus 63 percent) thought ROI should be greater than break-even. This may reflect the better understanding among those offering incentives about the benefits of incentives, and thus their greater expectations for incentives.

Chart 13. Level of ROI Respondents consider acceptable for their company for a health, wellness and productivity program

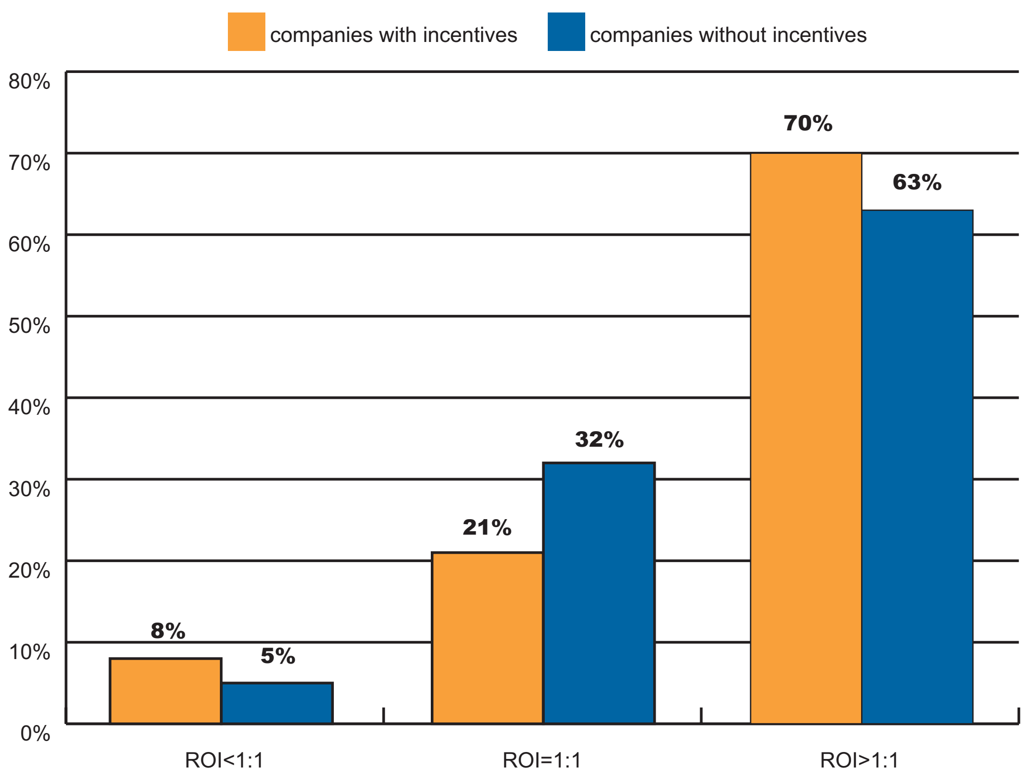


Chart notes: For companies with incentives, there were 27 non-responding companies, and for companies without incentives there were 62 non-responding companies.

Conclusions

As buyers of health care services, U.S. employers have long been concerned about the health of their employees and their dependents. The "value disconnect"—in which health care costs rise at typically double and sometimes triple the annual rate of inflation—continues to frustrate health care purchasers, especially because quality deficiencies continue to plague American health care. Put simply, American employers do not perceive that they are getting value for their significant health care dollar, and have for years been searching for ways to limit their health expenditures.

One way they have done so has been to encourage their employees to engage in healthier behaviors, with the goal of reducing health care spending and the salutary effect of improving employee health and productivity. Employers have begun to see that managing health and productivity carries a financial benefit, and have explored ways to implement a health and productivity mindset into corporate cultures. *About three-fourths of major U.S. employers who responded to this survey (182 companies) offer health management programs to their employees.*

Further, the notion of providing employees with a small carrot for engaging in healthy behavior seems much less strange than it did a decade ago, and incentives have become a tool in the arsenal for investments into producing a healthier, more productive workforce. *Almost half (113 companies) of companies responding to this survey include incentives to encourage participation.*

The most common types of incentives offered for health management generally are health premium reductions (with approximately 40 percent of companies using incentives offering premium reductions as an incentive) and cash bonuses (with about one third of companies using incentives offering these). Employers use different types of incentives for different types of programs (such as disease management, participation in a health and wellness program or completion of a health risk assessment).

Like all business decisions, the question of whether incentives are used successfully depends on return on investment. However, ROI in this arena has been notoriously difficult to measure. Almost two-thirds (62 percent) of the responding companies that use incentives have not measured ROI—but not because ROI is unimportant. *About 70 percent of companies offering incentives believe ROI must be greater than break-even to be acceptable (as do 63 percent of companies that do not currently offer incentives), while an additional 21 percent think a break-even ROI is acceptable.*

Among those companies offering programs with incentives, 14 percent have successfully measured ROI. Another 16 percent are currently trying to do so. *More than one-quarter (26 percent) of companies are finding an ROI of 1:1 or better, and 10 percent are finding an ROI greater than 2:1*.

Finally, it appears that incentives are considered a good idea even among those companies not currently offering them. *Among those offering programs without incentives, three out of four indicated that incentives should be used.* It appears, therefore, that interest in the use of incentives for health management among employers is growing.

Clearly, as employers are exploring ways to improve the health, wellness and productivity of their workforce, incentives have emerged as an attractive tool. But employers remain concerned that incentives not become money frivolously spent. By and large, major companies represented in this survey are "on board" in offering health management programs, and most believe that incentives are cost-effective.

The companies that have successfully measured ROI have, for the most part, found that incentives pay, but the data in this area could be bolstered. Opportunities for further research include case studies analyzing how employers are defining ROI and how they are measuring it; further, this study should be repeated within two years as the number of companies using incentives continues to grow and as ROI measurement tools become more sophisticated.

We anticipate that the intelligent use of incentives will likely become a more important component of programs over time. Challenges remain, however. Given the issues and potential barriers, particularly those concerning employee motivation over the long term, the "smart" use of incentives will become a key issue as employers seek to spend their health care dollars with care.

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