



A Closer Look from Families USA

Reward/Penalty Plans for Wellness: Coming Soon to an Office Near You?

We all know that too many Americans smoke, overeat, and get too little exercise. So, we probably support steps to encourage people to take better care of themselves. Yes, insurance should cover smoking cessation programs. Yes, employers should nudge employees to exercise more, maybe even give them a free gym membership. But is there a downside to some of these workplace wellness initiatives? Might some approaches be counterproductive—or even harmful—to consumers? While workplace wellness programs are intended to make people healthier, they can be problematic and may even interfere with your ability to get or stay healthy.

What Are Reward/Penalty Plans?

Your company may be one of many that have recently shown an interest in encouraging workers to become healthier. Some employers have offered free gym memberships, healthy eating classes, or smoking cessation programs. However, even when such options are available, many people do not take advantage of them. So, some companies have begun to operate reward/penalty plans to promote wellness. These plans may reward you for reaching specific health goals, or they may penalize you if you don't reach those goals. Some plans reward or penalize you based on your participation, such as whether you receive annual health screenings or talk with a nutritionist. Other plans are based on whether you actually alter your health status or behaviors, producing measurable results such as losing weight, lowering your cholesterol level, or quitting smoking.

Companies use a variety of rewards and penalties to encourage healthy behaviors. Your employer might use small incentives or prizes to encourage you to attend a health event or participate in healthy activities. Or, your employer might use larger rewards to encourage healthy behaviors. For example, in Arkansas, state employees who exercise more frequently or eat healthier foods can earn up to three extra days off work each year.¹ Or, your employer might take another approach and charge you money if you do not bring down your weight or quit smoking. For example, Indiana-based Clarian Health system adopted a program that would have cut up to \$30 from each paycheck of overweight employees (subsequently, vigorous employee opposition forced Clarian to revise the program, dropping penalty provisions and using only rewards).² Finally, your employer might even charge you higher health insurance premiums each month if you do not lose weight, quit smoking, or achieve other health goals.³

In 2006, the federal government issued regulations that clarify the rules for reward/penalty plans, making it easier for companies to implement them.⁴ Employers use reward/penalty plans because they want you to be healthier, but also because they are looking to save their companies money on health care costs. States may also incorporate reward/penalty plans into their Medicaid programs.

What Is the Best Way to Promote Health?

Reward/penalty plans for wellness might make you and your coworkers more aware of the importance of exercise and other healthy behaviors. In addition, the plans may be better able than your doctor to make sure that you actually work on changing your behaviors. For example, it might be a long time before you see your doctor again after he or she gives you advice on healthy habits, but workplace reward/penalty plans regularly check up on you to see if you are practicing healthy behaviors. The plans may also make you feel more motivated to become healthier by allowing you to work with your coworkers as a team to exercise, eat well, and adopt other healthy behaviors.

Plans that give you a small prize to encourage you to participate in healthy activities can be a fun way to help you achieve wellness goals. Research shows that financial rewards that encourage people to participate in one-time health behaviors, such as attending a health screening, have generally worked well. However, evidence on whether the rewards can actually change behaviors, such as whether or not people stop smoking or lose weight, is mixed.⁵

Therefore, if your company wants to implement a reward/penalty plan, its first step must be to ensure that you and your coworkers have access to the services that are proven to help people become healthier. The best way for your company to help workers address unhealthy behaviors and their consequences is to provide them with comprehensive insurance coverage for preventive services and health interventions. For example, health authorities recommend that all people be screened for high blood pressure, obesity, and diabetes. If you do struggle with obesity, they recommend that you receive intensive lifestyle interventions, such as clinical services to help you modify your diet and improve your exercise habits.⁶ For smokers, authorities recommend that all health insurance plans cover nicotine replacement therapies (such as nicotine patches) and smoking cessation counseling.⁷

Since these weight loss and smoking cessation services are proven to be effective, your company should provide insurance coverage for them if it hopes to help you achieve these wellness goals. However, it is likely that your company is among the 80 percent that do not provide coverage for smoking cessation services in their health insurance plans. It is also likely that your company does not provide insurance coverage for lifestyle modifications to address obesity, as they are covered by only 20 percent of employers that offer health insurance.⁸

Will Reward/Penalty Plans Restrict Your Access to Health Care?

All effective wellness plans must protect your access to a good doctor. People need to be able to see a doctor to monitor their cholesterol, blood pressure, and other health indicators so that illnesses can be identified early or prevented altogether. And like many people, you might need a little extra help from doctors, nurses, and other health care providers when it comes to losing weight or eating healthier.

However, some reward/penalty plans might actually make it harder for you to visit the doctor. For example, if your employer has created a plan in which you are charged higher premiums as a penalty for not meeting a particular wellness goal, your health insurance could become unaffordable. The result may be that you could no longer get the health care you need because of the high cost. Furthermore, when people have to pay more for health care, they are more likely to forgo services that they need. For example, a recent study found that requiring people to pay more for their medicines makes it more likely that they will skip doses.⁹ Therefore, if your employer shifts more health care costs to you and your coworkers, it may actually decrease the chances that you will receive the health care you need.

What Do These Plans Mean for Your Wallet?

The new federal rules for wellness plans distinguish between two different types of reward/penalty plans. In one type, everyone has an opportunity to receive the same reward or penalty regardless of their health status. The rules do not place a limit on the value of the rewards or penalties in these plans. For instance, your employer can give you a reward of any size if earning it depends only on whether or not you attend a health class.

The second type of plan ties rewards or penalties to whether or not you reach a health goal, such as lowering your cholesterol. For this type of plan, the new rules prohibit your employer from using rewards or penalties with values that exceed 20 percent of the total cost of your insurance premium (including both the employer and employee shares), whether the rewards/penalties are in the form of reduced health insurance premiums, higher copayments, or free gym memberships.

Your employer may reward you with a 20 percent discount on the total cost of your insurance premium (including both the employer and employee share) or charge you a 20 percent surcharge as a penalty.¹⁰ However, the total cost of your premium (the amount that your employer pays to the insurance company) might remain the same. This means that employers can use reward/penalty plans to shift to you a portion of health care costs that they used to pay.

While 20 percent may not sound like a lot, it could easily amount to hundreds or thousands of dollars. The average employee health plan costs more than \$4,000 a year, and a 20 percent premium surcharge amounts to \$800 that you would have to pay out-of-pocket *in addition* to what you already pay for coverage. For family coverage, the extra yearly costs could be \$2,200 or more, since the average family health insurance plan costs more than \$11,000.¹¹

For many people, getting a smaller paycheck or having to pay extra charges for health insurance could be the difference between being able to afford coverage and not being able to. In fact, the huge increases in health insurance costs over recent years are one of the main reasons that the number of uninsured Americans has increased so dramatically: More than *one out of three* non-elderly Americans were uninsured for some or all of 2006-2007.^{12, 13}

Interfering in the Doctor-Patient Relationship

Even when you are able to see a doctor regularly, it still might be hard for you to always follow his or her recommendations for healthy behaviors. You should feel comfortable discussing these problems with your doctor so that you can work with him or her to develop a new plan for wellness that will actually work in your life.¹⁴ However, if you know that your health insurance costs depend on your health habits, you might be hesitant to discuss your health behaviors with your doctor.

For example, if your workplace charges you an extra \$70 in health insurance premiums for each month that you do not bring down your cholesterol, you may try to avoid health assessments at your doctor's office, or feel forced to answer your doctor's questions with less than complete honesty. In such a situation, reward/penalty plans would make it harder for you to receive good advice from your doctor because your doctor will have incomplete or inaccurate information about your health behaviors.

Reward/penalty plans that base your health insurance costs on whether you follow your doctor's advice or improve your health may also put your doctor in a difficult position. He or she may be afraid to talk to you about health behaviors knowing that you will pay higher costs if you do not follow his or her recommendations or improve your health. If reward/penalty plans restrict trust and communication between you and your doctor, it is unlikely that you will be able to receive appropriate care when you are ill, let alone work with your doctor to achieve wellness goals.

There Is No "One-Size-Fits-All" Model for Wellness

Besides making sure that you can regularly see your doctor and that you feel comfortable talking about your health problems and behaviors, wellness plans should take your unique personal needs into consideration. There is no "one-size-fits-all" model for wellness.¹⁵ The way you react to a particular reward/penalty plan will likely be different from the way your co-worker, your neighbor, or your spouse reacts. For example, some smokers might find it easier to quit if they receive a lot of encouragement from their coworkers and boss. Other smokers might feel that their efforts to quit smoking are a private matter, and the involvement of their coworkers and boss might make them uncomfortable and less likely to succeed.

The same range of reactions is also likely to occur regarding weight loss programs. For some people, attending group meetings to discuss weight loss and tracking food intake each day are surefire ways to reach weight loss goals. Other people try such programs repeatedly, never seeing the results they desire. If employers require all workers to participate in the same reward/penalty plans in order to have affordable health insurance, people might feel that they have no choice but to participate, even if they do not believe that the plan is best for them.

Racial and Ethnic Disparities

Some people not only face the typical challenges when it comes to improving their health, but they also must deal with additional barriers because the health care system does not treat everyone equally. Historically, the health care system has not provided equitable treatment to all racial and ethnic groups. Sadly, some of these problems remain today. For example, physicians sometimes make biased treatment decisions for patients of color, and some doctors even expect racial and ethnic minorities to be less compliant with medical recommendations.¹⁶ These are only a few of the many examples of how the health care system is less likely to provide racial and ethnic minorities with high-quality care. Racial and ethnic minorities, who are already more likely to suffer from hypertension, obesity, and other kinds of health problems that reward/penalty plans target, may therefore face greater barriers to receiving the care they need to improve their health.¹⁷

Special Groups

In addition to the barriers that you and your coworkers face when trying to become healthier, groups such as children, people with lower incomes, people for whom English is a second language, and individuals with special health needs may face additional barriers that make it even harder for them to reach their wellness goals. Anyone could be harmed by a reward/penalty plan that makes it harder to obtain health care, but these groups may be especially vulnerable. Not only do they have more specific needs than the general population, but they are also less likely to have a voice that represents their needs to employers and governments. Some of the unique barriers to wellness faced by these groups include the following:

- **Children:** Children are not able to make health care decisions for themselves, and they do not necessarily control whether or not they go to their doctor appointments or follow their doctor's advice. Therefore, reward/penalty plans that tie children's health care to the actions of their parents might mean that children lose access to essential services.
- **Lower-Income Individuals:** Low-income individuals may face financial barriers to participating in reward/penalty plans. For example, not being able to afford child care or transportation may prevent lower-income individuals from participating in an after-work exercise class or a smoking cessation meeting held across town.
- **Individuals with Language Barriers:** Individuals for whom English is a second language face unique barriers that may make it difficult for them to participate and succeed in "one-size-fits-all" reward/penalty plans. For example, understanding instructions for healthy eating from doctors who speak quickly and in complicated terms can be difficult for anyone, but this may create a significant obstacle for people who don't know English well.

- **Individuals with Special Health Needs:** People with special health needs, such as individuals with mental or physical disabilities, may experience unique barriers to achieving wellness goals. For example, individuals who use wheelchairs, or even people with conditions such as arthritis, may not be able to lose weight as quickly or easily as those who have more options for exercise. While plans are supposed to give people alternative measures of success if they are unable to achieve wellness goals, this rule will be difficult to implement, and people may not know their rights.

Reward/Penalty Programs in Medicaid

Just as reward/penalty plans are moving into the workplace, different types of reward/penalty plans are cropping up in state Medicaid programs, which provide health coverage to many of the groups described above. In 2005, the federal government encouraged these reward/penalty plans in Medicaid by passing a law that makes it possible for states to develop them without asking for special permission in the form of a waiver.^{18, 19}

Public programs often serve as “laboratories” for testing new health care models that have not yet been proven effective. Some types of reward/penalty plans that exist in Medicaid have not yet been offered to people who have job-based insurance. For example, in Florida, Medicaid beneficiaries who practice healthy behaviors such as obtaining disease screenings or attending smoking cessation programs can earn points to buy health products from pharmacies.^{20, 21}

Other states have taken a more extreme approach. Medicaid programs in Kentucky and West Virginia use certain health benefits as rewards or penalties in their wellness plans.²² In West Virginia, some beneficiaries must sign “Medicaid Member Agreements,” promising to follow their doctor’s recommendations. If they do not keep these promises, they will not be able to get substance abuse and mental health services, smoking cessation services, cardiac rehabilitation services, more than four prescriptions per month, or certain other services.²³

Concerns about Reward/Penalty Plans in Medicaid

Medicaid reward/penalty plans, like those offered by employers, may interfere in the relationships between patients and their doctors. Just as in workplace reward/penalty programs, the plans operated by Medicaid may make people afraid to admit to their doctors that they are having trouble developing healthier habits and may make doctors hesitant to talk to patients about healthy behaviors.

In addition, Medicaid beneficiaries, like many people with job-based insurance, do not have sufficient coverage for preventive and lifestyle intervention services. For example, most Medicaid enrollees do not have adequate insurance coverage for obesity and smoking cessation services. Dietary counseling for individuals who suffer from obesity is not consistently covered by Medicaid and is not available to a large percentage of Medicaid patients.²⁴ For smokers, 13 state Medicaid programs do not offer any smoking cessation services, and four states offer coverage only for pregnant women. Only Oregon provides coverage for all smoking cessation

services recommended by the U.S. Public Health Service.²⁵ By implementing reward/penalty plans but not providing the services that are necessary for success, Medicaid programs set people up to fail at meeting wellness goals.

Besides ensuring that people have access to preventive services, states must be sure that their Medicaid reward/penalty plans fit the unique needs of people in the program and address the different barriers that they face in reaching health goals. For example, providing child care or transportation services might make it possible for people to participate in exercise classes, nutrition counseling, or other health events that they would otherwise be unable to attend. Also, tying rewards or penalties to participation in activities and not to actual health measures, such as weight or blood pressure, ensures that reward/penalty plans do not punish people for health factors that they cannot control.

Be Cautious When Considering a Reward/Penalty Plan

Due to the problems that some reward/penalty plans can present, it is critical that employers and state Medicaid programs proceed with caution when considering them. Your company and your state must be careful about how they seek to promote wellness. Providing access to comprehensive disease prevention and health promotion services is the most important step that your company and state can take when working to improve people's health.²⁶ Requiring you to participate in a reward/penalty program without also providing you with insurance coverage for such services puts your health at risk, as you could be penalized for your health status by losing access to the services that you need to improve it.

Winning a reward for healthy behaviors can be fun, but you should never have to fear that you are gambling with your health or your health coverage. When considering reward/penalty plans, your company must make sure that you and your coworkers—not health care costs—are its top priority. Your company can show its true dedication to your wellness by providing comprehensive health benefits and proceeding with caution when considering reward/penalty plans.

Know Your Rights!

New federal rules have made it easier for employers to implement reward/penalty plans, but they also require your employer to make alternative standards available for earning rewards or avoiding penalties if, due to a medical condition, it would be difficult or risky for you to meet a wellness goal. Furthermore, you are still protected under federal law from employer discrimination. If you feel that you are being discriminated against in a reward/penalty plan, check with someone to see if your employer is in compliance with both the Americans with Disabilities Act (ADA) and the Civil Rights Act.²⁷

Endnotes

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