

# THE FUTURE OF INCENTIVES

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## Introduction

A majority of U.S. employers who offer employee health benefits also provide some type of wellness programming to promote improved health and productivity among their workforce. According to a Kaiser Family Foundation report, approximately 50% of large companies (i.e. >200 employees) offer a wellness program<sup>1</sup>. Typical wellness program configurations are identified as offering one or more of the following elements: health screening to identify health risk, lifestyle management services, and disease management programs. Of those surveyed, only 13% of the program configurations included all three elements<sup>1</sup>.

Given the variety of program design and implementation practices, a mix of financial and non-financial incentive methodologies are typically employed to increase participation and engagement. Employers use gift cards, cash, or merchandise, and some (albeit, a small fraction of employers) also incentivize desired behaviors through time off. Despite these efforts, engagement in these programs is sub-optimal, with most programs falling short of altering employees' behavior toward a self-perpetuating lifestyle of health and wellness. Currently, only about 50% of employees complete a health risk appraisal, and participation rates are often far below 20% for programs targeting lifestyle change and health management (e.g. weight management, chronic disease management, stress management).<sup>2</sup>

Lack of employee commitment is owed in part to psychology and behavioral economics, where time constraints, conflicting employee responsibilities, low self-efficacy, and poorly articulated incentive structures all conspire to undermine even well designed programs. This is often compounded by an employer's failure to properly ascertain employee need, which encompasses significantly more than just their current risk profile. Although chronic medical conditions are relatively easy to identify, employees' psychological status, which is closely related to the ability to alter behavior, is far more difficult to pinpoint. This can result in a misalignment between wellness offerings, incentive plans, and desired employee behavior. Unfortunately, companies often throw solutions at this problem without the due diligence to design efficient and effective wellness programming supported by appropriate incentive structures. Program offerings that do not reflect employees' psychological needs, combined with improperly structured or inappropriate incentives schemes, may result in a failing and costly endeavor.

## Incentives and the science of behavioral health

In order for incentives programs to be effective they should be driven by sound scientific principles of behavioral change. However, there is currently a profound lack of theory-driven and evidence-based approaches in the design of incentives programs. While financial rewards are largely effective at

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<sup>1</sup> Pollitz K., Rae M. (2016) Workplace Wellness Programs Characteristics and Requirements. The Henry J. Keiser Family Foundation Report. <http://kff.org/private-insurance/issue-brief/workplace-wellness-programs-characteristics-and-requirements/>

<sup>2</sup> Towers and Watson. Staying @ Work Survey Report (2013/2014). The Business Value of Healthy Workforce.

incentivizing HRA completion (63% completion with incentives vs. 29% completion without incentives<sup>3</sup>), they are less effective at facilitating health-related behavior change. This is in large part due to a poor alignment between incentive programs, well-established health and behavioral science principles of reinforcement, and a lack of theory-driven individualized approaches in incentive offerings. One of the most basic principles of reinforcement is that people respond to proximal rather than distal rewards. Lengthy intervals between goal completion and reward delivery greatly reduce the effectiveness of the reinforcer. Thus, incentives need to be made available immediately following goal completion, rather than weeks or months later. Even more importantly, incentives are currently offered in a one-size-fits-all approach. However, to be maximally effective, incentives need to be tailored to an individual's preferences, attitudes, motivations, and beliefs.

While most individuals have a general interest in health and wellness, they differ with regard to dispositions that serve as key predictors of actual behavior change. For example, in the Trans-theoretical Model, barriers to health-related behavior change differ depending on each individual's specific *stage of change*. In the *active* and *maintenance* stages, barriers that are associated with relapse are going to be of high importance. For individuals in these stages rewards need to be tailored towards preventing relapse by maximally reinforcing consistency. Individuals in the *preparation* stage on the other hand have barriers associated with initiation. It is important to offer maximal rewards for any effort, including attendance of educational sessions, to increase interest and intrinsic motivation.

Behavioral health sciences offer a sound framework upon which to tailor individualized wellness offerings and incentive programs. The use of HRAs, previously utilized almost exclusively to profile employees' medical histories, can be expanded to include psychological and behavioral profiling. This information should be analyzed and incorporated into a personalized incentive plan that is tailored to be maximally effective for each individual.

## Approaches to the personalization of incentives

Incentives programs that support wellness offerings are currently in their infancy. So far this field lies far behind other industries that leverage personal data, such as Google's algorithms for direct marketing in which highly targeted advertisements are delivered to individuals based on data such as previous searches and past purchases. Although such rich data sources are not often available to employers, even a more limited use of personalized data such as HRA-based profiling has yet to be incorporated into most incentive schemes.

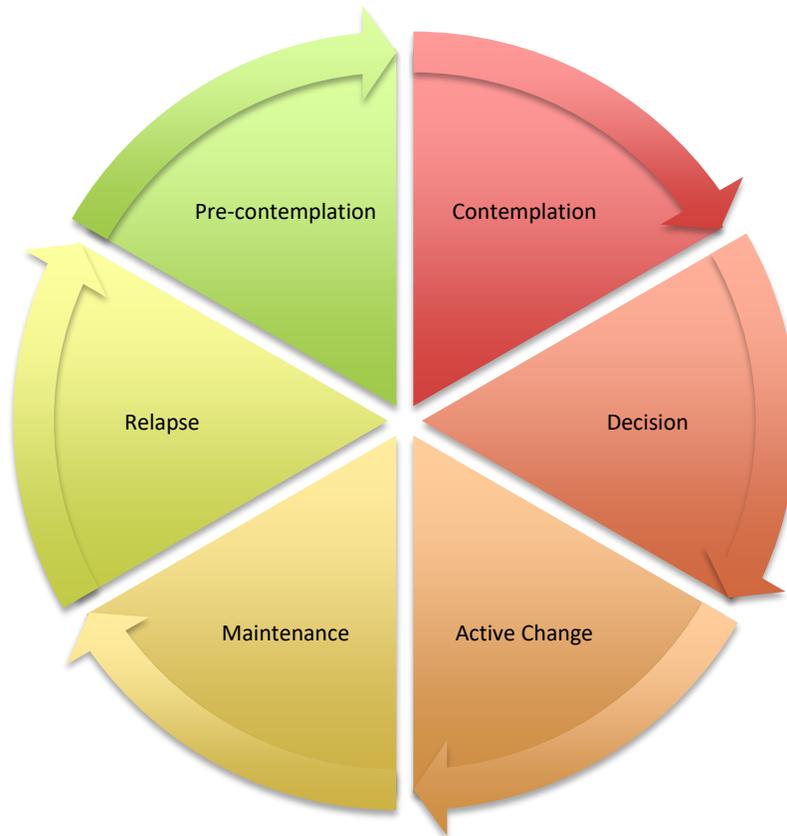
While examining the current state of incentives programs it is clear that some industries have far more developed programs than others. For example, the airline industry has well-developed rewards programs based on a token currency called 'miles', designed to drive brand loyalty. As customers travel and acquire miles within a carrier's program, they have increasing incentives to stay within brand and

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<sup>3</sup> Mattke, Soeren, Hangsheng Liu, John P. Caloyeras, Christina Y. Huang, Kristin R. Van Busum, Dmitry Khodyakov and Victoria Shier. Workplace Wellness Programs Study: Final Report. Santa Monica, CA: RAND Corporation, 2013. [http://www.rand.org/pubs/research\\_reports/RR254.html](http://www.rand.org/pubs/research_reports/RR254.html). Also available in print form.

earn rewards such as free flights or upgrades. While there are fundamental differences between activities such as air travel and workplace wellness, variations in program characteristics must be understood from a behavioral economics perspective in order to take the learnings from developed programs and apply them to the wellness industry.

## Trans-theoretical Model of Change<sup>4</sup>



- **Pre-contemplation:** Individual not considering change
- **Contemplation:** Individual is considering change
- **Decision:** Individual decides to change
- **Active Change:** Individual changes their behavior
- **Maintenance:** Individual maintains new behavior
- **Relapse:** Individual returns to pre-change behavior

<sup>4</sup> Adapted from Prochaska and Dr. Clemente's cycle of change model

To begin tailoring incentives to individuals, it would be most effective to apply a stratified approach. The best predictor of future behavior is past behavior, so the first strata should include an assessment and evaluation of employee’s prior health-maintaining activities. Once simplified, three basic groups of individuals will emerge, based on the Trans-theoretical Model;

- **Consolidation Stage** - those who have a history of participation or attending to their health needs,
- **Contemplation Stage** - those who have a history of ignoring such needs but who may be aware of the benefits of wellness programming, and
- **Maintenance Stage** - a middle group who embraces some positive behaviors, but struggles to maintain consistency.

Each group will need a different package of drivers to obtain or maintain desired behaviors. The second strata involves individual-level factors that impact wellness program uptake and the impact of potential incentives. These include variables such as self-efficacy (the belief by the individual that they have control over their health), perceived barriers to change, and even ideas such as future discounting (the ability to delay getting a smaller reward today for a larger one tomorrow). This data is easily collected through an augmented health-risk assessment, and can then be tailored into personalized incentive plans that target specific barriers, build self-efficacy, and best leverage individual behavioral economic triggers. Of course such schemes must dovetail with regulatory structures laid out in the Affordable Care Act, and so individualized plans must be balanced across the employee pool for incentive potential, and appropriate alternatives need to be offered for those unable to participate.

“Employee participation in health and wellness programs should be based on a **solid foundation of individual assessment and an in depth understanding of behavioral triggers and personal values.**”



## Conclusion

Rather than simply providing varied categories of incentives to improve compliance, employee participation in health and wellness programs should be based on a solid foundation of individual assessment, and an in depth understanding of behavioral triggers and personal values. It is this individualization that can help outline appropriate program strategies to achieve sustainable behavior change. Programs that follow this paradigm can be modified continuously to match the ebb and flow of individual behavior patterns over time, and can be matched to the stages of change that accompany long-term shifts in behavior. Employees will value the individualized behavioral economic triggers, which will serve to maintain high salience and thus engagement, motivating them toward a life of more positive health outcomes and reduced healthcare-related costs.

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2. Towers and Watson. Staying @ Work Survey Report (2013/2014). The Business Value of Healthy Workforce.
3. Mattke, Soeren, Hangsheng Liu, John P. Caloyeras, Christina Y. Huang, Kristin R. Van Busum, Dmitry Khodyakov and Victoria Shier. Workplace Wellness Programs Study: Final Report. Santa Monica, CA: RAND Corporation, 2013. [http://www.rand.org/pubs/research\\_reports/RR254.html](http://www.rand.org/pubs/research_reports/RR254.html). Also available in print form
4. Adapted from Prochaska and Dr. Clemente's cycle of change model