

WORKPLACE WELLNESS

Provided by 1706 Advisors



Using Incentives in Wellness Programs

The Need for Incentives

Workplace wellness programs seek to impact risk factors associated with preventable illnesses by promoting healthy lifestyle choices. Because lifestyle behaviors are deeply ingrained, making behavioral changes is difficult and requires discipline and dedication.

One way to raise and maintain employee interest in wellness programs is to offer incentives. The best incentive programs will be easy to administer and cost-effective, and will encourage employees to take action and sustain positive lifestyle changes over time.

Incentives are widely used in workplace wellness programs because they can increase employee engagement and produce significant changes in behavior. However, incentives could also reward unhealthy behavior such as fast, dramatic weight loss. Therefore, it is important to design your incentive program so that it encourages desirable behaviors while minimizing the possibility of rewarding unhealthy behaviors.

Types of Incentives

Most wellness programs give something positive to their employees to encourage healthy behaviors rather than taking something away. To maximize its perceived value, an incentive should be designed with a high perceived value relative to its cost. Of course, the perception of value will vary from company to company and from one individual to another. An incentive should provide enough value to motivate participants to change their behaviors now rather than holding out for something better in the future.

Incentives can be based on participation or on a results model. Under the participation model, employers provide incentives to all individuals in the program just for participating.

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Under the results model, employers can choose whether to provide incentives to all individuals who reach a predetermined goal or just to the top performers. Incentives in both models can either be taxable or non-taxable.

There are a number of legal compliance issues involved with providing incentives under workplace wellness programs. Many of these compliance issues are linked to group health plan benefit incentives. However, other legal considerations—such as compliance with the Americans with Disabilities Act (ADA) and the Genetic Information Nondiscrimination Act (GINA)—broadly apply to most workplace wellness incentives. For example, under the ADA, employers must provide reasonable accommodations to enable disabled employees to fully participate in the wellness program and earn rewards.

Cash and Cash Equivalent Incentives

Cash and cash equivalent incentives are taxable. These incentives are taxed like bonuses or discretionary employer gifts. For the most part, an employer's liability with this type of incentive is limited to the tax implications of giving discretionary, additional compensation to its employees. Cash and cash equivalent incentives include bonuses, gifts and gift certificates.

Fringe Benefit Incentives

Examples of fringe benefits that may be provided as wellness incentives include merchandise (water bottles, mugs, shirts, etc.), employer-sponsored gym memberships, personal training sessions, employee discounts on employer products, a trophy for the winner or for the winning team, raffle items for the top participants, or a trip to a health spa. Fringe benefits are taxable unless they are excludible as an employee fringe benefit under the IRS' rules.

Public Recognition

Publicly or privately acknowledging an employee's success is an effective and free way to reward hard work and boost morale. Some recognition examples include mentioning employee accomplishments in an employee newsletter or email, presenting trophies and awards, or displaying a poster including the winners' names at your workplace.

Group Health Plan Benefit Incentives

Reductions on group health plan premiums and lower copayment and deductions on group health plans are attractive to employers and employees because they are often non-taxable and add value to an employee's total compensation. Group health plan benefit incentives include additional flex credits for cafeteria plans, additional health savings account (HSA) or health reimbursement account (HRA) contributions, discounts on health insurance premiums and reductions in health insurance copays.

However, the compliance risk for employers that offer employee benefit incentives is higher than for those offering cash or cash equivalents because there are many federal regulations that regulate the eligibility, availability, continuity and privacy of group health

plan benefits. While offering group health plan benefit incentives for a wellness program is possible, employers should consider whether they are willing to take on additional compliance risks. Contact 1706 Advisors to learn more about how different federal regulations affect incentives tied to group health plan benefits.

What Behaviors to Reward

Some of the most common behaviors that are rewarded by incentives are the completion of health risk assessments, participation in wellness program activities and individual achievements. Health risk assessment completion is generally rewarded because the information that it provides is invaluable to wellness program design and evaluation. Furthermore, the more individual participation there is, the more likely the data will be useful and accurate for the employer. However, federal law prohibits certain types of incentives offered in connection with health risk assessments, such as incentives for employees to provide their own genetic information (e.g., family medical history).

Participation in program activities such as nutrition, smoking cessation classes, achievement of specific lifestyle changes (for example, not smoking) or biometric accomplishments (for example, obtaining particular cholesterol, body mass index or blood pressure levels) are often rewarded to encourage continued participation in wellness programs.

Deciding who to reward is as important as determining what to reward. Employees, themselves, often account for less than half of an employer's total health plan enrollment. Because of this, improving the health of employees' spouses and children can also generate significant health care cost savings. To reach all members of your health plan, consider developing educational materials and offering incentives to the entire family.

Funding

While intangible incentives have a relatively low cost to employers, they do require funding. For employers to experience a positive return on investment (ROI), the cost of incentives must be less than the expected savings the program will produce. Employers are likely to see savings in the form of fewer medical, absenteeism, disability and workers' compensation claims, along with improved productivity and employee morale.

Keep in mind, though, that many programs take several years to develop a positive ROI. To achieve cost savings, it is important that your workplace wellness program offers effective incentives that motivate lifestyle changes and improve the health of your employees and their families.

Contact 1706 Advisors for more information or with questions on how to administer incentives in your wellness program.