



# BENEFIT *Advisor*

## In This Issue

*In this first issue of the McGrawWentworth Benefit Advisor for 2006, we will examine wellness initiatives in-depth. Many employers are interested in wellness initiatives but are not sure the best way to integrate these programs into their culture. This Advisor will discuss common wellness initiatives organizations are adopting and incentives to participate. In addition, we will discuss bona fide wellness plans, a must if an employer wants to link incentives to results.*

*As the New Year begins, many individuals reflect on their situation and make resolutions to improve various aspects of their lives. Many of these resolutions are health-related. Organizations that offer wellness plans can help their employees live happier, healthier, more productive lives.*

*We welcome your comments and suggestions regarding this issue of our technical bulletin. For more information on this Advisor, please contact your Account Manager or visit our web site at [www.mcgrawwentworth.com](http://www.mcgrawwentworth.com).*

## “Wellness Plans”

Wellness plans continue to be a hot topic among employers looking to reduce their health plan costs. Self-funded employers are leading the charge as their employees’ lifestyle choices directly affect claim cost. Fully insured employers are also investigating wellness initiatives.

However, implementing wellness initiatives is not as easy as it would seem. Many employers struggle to understand how to integrate wellness into their organization in the context of culture, total compensation and reward. All organizations are concerned with maximizing the return on investment for their wellness plans.

This Advisor examines wellness plans. It discusses:

- Common wellness initiatives
- Bona fide wellness plans (as they relate to HIPAA non-discrimination requirements)
- Importance of incentives to encourage participation
- Return on investment
- Launching a wellness plan

Most employers are interested in wellness, but they need a better un-

derstanding of the whole wellness picture and how wellness initiatives may be integrated into the corporate culture. In addition, some employers are not sure where to start. The wide variety of wellness programs available have organizations wondering which approaches will be best for their employees and their culture.

Increasing health care costs are driving much of the current interest in wellness plans. Employers are exploring any ideas to help control long term health plan costs. Wellness plans can help improve employee health



thus lowering health plan costs for both self-funded and experience-rated fully insured plans. Lower health plan cost is not the only benefit of implementing wellness plans. Wellness plans also generate a positive perception of the employer, reduce disability claims, improve morale and enhance productivity. Everyone can benefit from a comprehensive wellness plan.

### Common Wellness Initiatives

Wellness programs offer a wide range of services with varying vendor intensity and employee involvement.

The key is to develop a program that fits within your corporate culture and budget constraints to do the following:

- Address the specific risks associated with your employee population.
- Effectively provide results.
- Encourage continued employee participation and education on good health and lifestyle choices.

The world is your oyster in deciding what programs to use to meet these general program goals. Wellness program elements may include:

- Home-delivered, health-related newsletters.
- Electronic or paper educational materials or promotional materials.
- Flu shots.
- Health risk appraisals (personal evaluation and analysis).
- On-site health screenings (heart rate, blood pressure, flexibility, BMI and so on).
- Blood screenings (cholesterol, triglycerides, glucose levels, and so on).
- Group- or home-based smoking cessation.
- Group- or home-based weight management.
- Group or individual stress management.
- Home-based targeted intervention programs (for blood sugar, weight management, blood pressure and cholesterol).

- Employee Assistance Programs (EAPs).
- Telephonic outreach from a personal health coach.

Organizations want to encourage employees to make better lifestyle choices. Watson Wyatt released the results of a Wellness survey in June 2005. The survey had 365 participants, and it provides a good glimpse of the wellness initiatives employers are adopting:

- 62% of survey respondents have taken steps to place greater emphasis on employee health through wellness. Another 33% are considering programs but have not implemented them.
- 64% of those who implemented programs cited rising health care cost as a major factor in their decision to implement wellness. Another 34% indicated it was a contributing factor but not the primary reason.
- 88% of participants responded using the following efforts to promote a healthier workforce:
  - 56% offered smoking cessation programs.
  - 43% offered subsidized gym memberships.
  - 50% offered on-site workout facilities.
  - 61% offered health risk assessments.
  - 27% allow employees to use work time to exercise.



- 48% added healthful foods to the company cafeteria menu.
- 27% provided diet counseling.
- 48% sponsored employee diet groups.
- 32% responded "other" which included annual health fairs, "10k steps a day" walking programs with pedometers, numerous on-site health screenings, onsite fitness programs (yoga, aerobics, meditation and so on).

Choosing the wellness initiatives that fit your corporate culture is an important step to ensuring your program succeeds. Understanding your employee demographics and even their health plan utilization

may help you determine which programs will work for your organization. For example, if a high percentage or even half of your employees smoke, a smoking cessation program is a must. If you learn from your health risk appraisals or your claim data that 30%

of your participants take cholesterol lowering medication, nutritional classes and a focus on healthy eating habits will be effective. If your employee demographics follow the average demographics of the United States, a high percentage are either overweight or obese. Healthful eating options and exercise programs will be good initiatives to adopt.

Very few people are in perfect health. Either lifestyle choices or heredity is responsible for our

health risks. Educating individuals about their health risks and motivating them to change their lifestyles will help your wellness plan succeed. Health risk assessments with health screenings are an essential part of a wellness plan. The health risk assessment process along with health screenings will provide an overview of an individual's health status. Many people aren't aware of their potential risks and don't understand how their lifestyle choices affect their health.

Many insurance carriers are offering free access to Health Risk Appraisals. Blue Cross Blue Shield of Michigan offers this service to its members. Should employers have the Health Risk Appraisal conducted by an outside wellness vendor or take advantage of the free service available through their vendors? The adage, you get what you pay for, certainly applies here. If your organization has no plans to launch a formal wellness plan, encouraging your employees to complete the free Health Risk Appraisal available through the carrier is important. However, the quality of the information available from a free Health Risk Appraisal and one conducted by a wellness vendor onsite with medical screenings are vastly different:

- After a free health risk appraisal, 74% of participants did not know their cholesterol level, their blood pressure and so on. To obtain useful information from these appraisals including the values of these key health indicators is imperative.
- 32% more participants in onsite medical screenings tested positive for having tobacco in their system than was self-reported in a free health risk appraisal. This

indicates a serious gap in actual results and how an individual self-reports behavior.

- 33% of participants indicated they were in "good to excellent" health on their self-reported health risk appraisal even though their medical screening results indicated they had three or more health risk factors.
- 28% of participants self-reported good eating habits even though their medical screening results indicated dangerously high fat levels in their blood.

The disparity between self-reported behaviors and the results of medical screenings is substantial. Certainly, some individuals are not being straightforward in reporting their lifestyle habits, but others simply do not have the education or awareness of health issues to report their lifestyle choices correctly.



So which approach should your organization take? Using an outside vendor is more expensive. However, when medical screenings are tied to the health risk appraisals, the test results provide more useful feedback than one just recording self-reported lifestyle choices.

### **Bona Fide Wellness Plans**

HIPAA generally prohibits a plan from discriminating among similarly-situated individuals based on their health status. This means, in general, a plan cannot charge different premiums or impose dif-

ferent costs (through higher deductibles or copayments) because of a health condition. However, these non-discrimination provisions were not intended to prevent a group health plan from establishing premium discounts, deductible or copayment incentives for employees adhering to a health promotion or disease prevention plan. Health promotion and disease management plans, commonly referred to as wellness plans, can be an exception to HIPAA's non-discrimination requirements under certain circumstances.

Incentives to participate in wellness programs are not subject to HIPAA's non-discrimination requirements.

However, many employers want to tie the incentive to satisfying a standard related to a health factor. If the program wants to provide a reward based on a health factor, that program must meet the requirements of a "bona fide wellness program" in order to avoid any HIPAA non-discrimination issues.

In order to be considered a bona fide wellness program, the following conditions must be met:

- The reward must be limited to 10%, 15% or 20% of the unsubsidized cost of employee-only coverage (even if the employee elects family coverage).
- The plan must be reasonably designed to promote health or to prevent disease and the plan must allow participants to re-qualify at least once a year.

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- The plan must be available to all similarly situated participants and reasonable alternative standards must be provided to individuals who cannot realistically meet the health standards as a result of a medical condition or for whom achievement of the standard is medically inadvisable. This may mean the plan may need to provide individually tailored program adjustments to certain participants. Plans could offer an alternative requirement not based on a health factor, such as attending a nutrition class. Some plans have created letters that individuals can take to their physicians to have the physician attest that the health standard is not attainable as a result of a medical condition.

- The plan must provide an explanation that individual accommodations are available in all plan descriptive materials.



In order for a plan to offer incentive tied to outcomes instead of participation, the above requirements for a bona fide wellness plan must be met.

Many employers are currently considering smoker surcharges. If a plan adopts a smoker surcharge, the plan would charge smokers more to participate in the medical plan. On the surface, this seems to violate the HIPAA non-discrimination requirements. However, if the program meets the requirements of a bona-fide wellness plan, the smoker

surcharge is permitted. To meet the requirements of a bona fide wellness plan, for example, the employer would offer smokers a smoking cessation program. The surcharge could not exceed 20% of the unsubsidized employee's health plan cost. Finally, the plan must offer a reasonable alternative for smokers who cannot quit because of a medical condition, such as a nicotine addiction. In this case, the reasonable alternative may be nicotine patches.

If your organization ties incentives to results, your wellness initiatives must comply not only with HIPAA non-discrimination rules, but also with any state laws prohibiting discrimination based on lifestyle choices.

### Importance of Incentives

A key criterion for the success of a wellness plan is an employee incentive that strongly encourages employees to become involved in the plan. By far the most common employee incentive is lower health plan contributions. According to American Healthways, it is generally believed a \$25-\$30

reduction in employee contributions for health coverage will truly encourage participation. With that type of incentive, an organization can expect 80% of its employees to participate.

Employers may consider other incentives or rewards for participating in a wellness plan, including:

- Reduced deductible or copay requirements

- Employer-funded contributions to a medical Flexible Spending Account
- Access to an "enhanced" medical plan offering a higher level coverage than the plan available to employees who don't participate in wellness.

Some employers are taking their incentive or rewards to the next level. The next level involves tying the incentives to actual results. Tying incentives to results must be done carefully. The structure of incentive plans tied to actual results must not violate HIPAA non-discrimination requirements. Make sure your incentive plan complies with the HIPAA rules for a "bona fide" wellness arrangement discussed in detail in the previous section.

Examples of tying incentives to results include:

- If the results of a Health Risk Appraisal screening indicate an individual is at high risk, the organization can require the individual to participate in a follow up program or pay a financial penalty.
- Many Health Risk Appraisals assign points. The incentive could be tied to an individual achieving a certain number of points to receive a financial reward.

Don't forget one of the key HIPAA requirements. If an individual cannot achieve one of the required measures, the plan must include a reasonable alternative. One wellness vendor meets this requirement by having the employee's physician sign a letter verifying the patient has complied with all the doctor's care recommendations. The letter would be prepared by the

wellness plan and customized to the employee.

How should your organization implement incentive for wellness? Even wellness companies differ on the answer to this question. One school of thought is that initially employers should simply offer incentives for individuals to participate in the plan. In the following year, the organization can become more aggressive and tie incentives to results. The other school of thought, however, is to offer participation incentives only. These organizations believe the motivation to change must come from inside the individual. In order for an individual to make difficult lifestyle changes, such as quitting smoking, the individual must want to quit. A penalty for not changing the behavior will not work. Any organization launching wellness needs to consider this question carefully. The approach your organization takes with incentives should be consistent with your corporate culture.

The Watson Wyatt survey also asked about incentives. Surprisingly, 52% of respondents did not offer any incentives to participate in the wellness plan. Of the 47% that offer offered incentives, incentives included the following:

- 29% offered cash payments
- 15% offered reduced medical copay costs
- 30% offered a rebate of a program cost
- 48% responded "other." This category included a host of incentives such as contributions to FSAs, raffle prizes, gift certificates, company subsidized screening costs, paid days off, subsidized weight loss programs and so on

## Return on Investment

Interest in wellness plans has been around for at least the last two decades. However, many companies did not offer wellness programs because there was a lack of solid data to support a return on investment. Selling wellness programs at the executive level can be difficult because a positive return on investment is not immediate and in many ways is hard to measure. The return on investment also has many components. Health plan cost is one component, but improved health affects other organizational costs as well. Worksite health promotions impact sick leave, workers' compensation, disability cost and also enhance productivity.

Determining the true impact on cost of all your worksite health promotion programs will be difficult. However, your wellness vendor can measure the impact of the initiatives it manages. Also, many studies released over the last several years support the contention that wellness plans save money. These studies all use different measurements to determine the return on investment. In general, companies' return on investment ranged from 2 to 1 on the low end and 5 to 1 on the high end. Establishing an industry benchmark for the return of investment for wellness plans is difficult because of the variety of initiatives employers implement and the differences in each employer's evaluation criteria.

However, the *Art of Health Promotion*, published in 2003, offered a composite review of the economic impact of worksite health promo-

tions. The publication offered a systematic review of health promotion evaluation studies. One of the key problems in determining the actual return on investment is a lack of consistency or agreement on how to measure the impact of wellness. The *Art of Promotion* attempted to overcome this problem and develop a melded result for return on investment. The study shows that even though methods and approaches to determining economic impact vary widely, the results are surprisingly similar.

The study, updated in 2005, showed sick leave, health plan costs, work-

ers' compensation and disability costs fell by slightly more than 25% after establishing worksite health promotions. These results indicate worksite health promo-

tions are a good strategy for helping to manage cost and enhance productivity.

Some organizations choose not to implement wellness programs because of turnover issues. It is true; the return on wellness is not immediate and can take one to three years to materialize. Therefore, organizations with high turnover may not receive an adequate return on investment for wellness programs. These organizations may want to look more closely at their turnover activity. If one specific area of your organization drives the high turnover rate, it may make sense to launch wellness programs in other, more stable areas and reap the benefits on your stable employee base.



## Launching a Wellness Plan

Wellness initiatives should be events and programs that appeal to all your employees. Because of the wide range of wellness programs available, it makes sense to create a wellness committee with representatives from key areas of your organization to choose the programs your employees need.

Your wellness committee should help design your wellness initiatives, create the appropriate incentives for participation and be champions of the wellness programs. Wellness programs also need visible support from the senior management team to be successful.

An organization should consider structuring wellness around a theme. The theme should work on motivating individuals to achieving goals. The theme could be developed to mesh with your corporate culture or tied to a world event. For example, the Winter Olympics are being held this year. You could structure an activity plan with the Olympics as the theme and encourage employees to earn bronze, silver and gold medals in different activities and categories.

Wellness should be a year round consideration. Perhaps, your organi-

zation will decide to sponsor an annual health fair, but throughout the year, your plan should include health promotion. Ideas for periodic health promotion include quarterly newsletters discussing health issues, potluck lunches with healthful recipes, walking clubs to encourage activity or classes on nutrition and eating properly. These are just a few ideas to consider. Wellness should not be limited to an annual event.



Wellness plans require a great many resources in planning and implementation. To successfully launch, publicize and support a wellness plan, your organization will need to commit the necessary resources.

## Conclusion

Wellness initiatives allow organizations to improve the physical and mental health of their employees and sometimes their families. The focus of every wellness initiative should be health risk reduction and prevention. Wellness plans should acknowledge that all individuals are at different places when it comes to

the ability and inclination to change. An individual who may not succeed one year may be successful in making lifestyle changes the following year.

A wellness program is a long term commitment. It is not a plan that can be launched one year and withdrawn the next. The ability to make difficult lifestyle changes takes time. Most employees will appreciate the assistance and ultimately

will be grateful for any improvements to their lifestyle that is aided by a wellness plan. Resources and programs to help employees identify potential problems and make lifestyle changes will yield positive results for your organization and your employees.

If you have any questions about wellness programs, please contact your McGraw Wentworth Account Director. **MW**

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