Using Incentives to Ignite Consumer Directed Healthcare

The Challenge
Escalating, out-of-control medical costs. An increasingly unhealthy population. Too many uninsured. Too many over insured. An aging population ill-prepared to pay for health care in retirement. No accountability and too much finger-pointing. The state of health and health care in the United States is indeed bleak. Especially considering we spend more than any other nation on healthcare and can’t even make the top ten in terms of quality. Costs will continue to increase unless we make major changes in our healthcare system.

The Opportunities
These facts are only the tip of the iceberg. Traditional medical benefits plans are exacerbating this predicament: 1) they are no longer economically viable, for employers and the insured, 2) they do not do enough to promote positive health behaviors nor do they sufficiently engage consumers in their own health decisions and, 3) they abandon members after they leave the workforce. Understandably, economic and political discourse on the subject is escalating. And the stakes have never been greater as American companies strive to both reduce costs and increase worker productivity, population health erodes, and Americans are increasingly bearing the burden of retiree healthcare expenses. There is considerable hope, however, with the promise of healthcare consumerism. We now have the opportunity to take the knowledge we have — from within the healthcare industry but also, perhaps more importantly, from outside of it — to fix the problem. We are at a point in time when a confluence of factors provide an opportunity for positive change so that we as a society can be as proud of our healthcare outcomes — the ultimate goal — as we are of our medical breakthroughs and medical education system.

We recognize that we have slowly inched our way towards catastrophe and yet from this situation an opportunity emerges that is a win-win for health networks, employers, employees and society. This Paper is a tactical treatise on how incentives can be deployed to engage healthcare consumers to participate in the new purchasing environment, commonly referred to as Consumer Directed Healthcare. This new model represents a major paradigm shift that requires active consumer participation in a process from which they have historically been insulated. In so doing, Americans have the potential to assume control of their healthcare finances and decision-making to ultimately pursue the health care they desire and deserve throughout their lives.
Making an Impact

While reduction in premium expense, employer contribution differentials, and consumer responsibility for high deductibles serve as motivation for employee consideration of Consumer Directed Healthplan options, these alone are not enough to involve consumers in their healthcare experience. Real engagement will require incremental incentives that influence consumer behaviors and motivate consumers to actively participate in the administration of their health benefits program, financing of their healthcare utilization, and use of personal health assessment and improvement tools and programs. The use of incentives throughout the healthcare continuum will not only profoundly impact quality of care but will also lead to economic benefits the entire system desperately needs to begin realizing. Incentives will help drive health care success in much the same way they are helping every other major industry achieve business goals. Incentive Logic invites you to join us as we “rip a page” from the playbook of the country’s leading consumer products and service providers that are shifting control to the consumer and are reaping envy-producing growth and, most importantly, customer engagement and long-term loyalty.

The Consumerism Solution

Whether you are talking about items or services as mundane as coffee, blue jeans, or cars; or as essential as banking, mortgages, or travel, consumers are controlling their own purchasing behaviors. Before there was Priceline, Expedia and Orbitz, you had no idea if you were getting a good deal on your plane ticket until you started chatting with your seat-mate once in flight. And can you imagine walking into a car dealership without having done even just a little bit of homework? “Consumerism” is transforming the U.S. economy as Americans are seeking services and products that fit their needs and lifestyles rather than simply accepting and “dealing with” whatever corporate America thrusts upon them.

One need look no further than the positive reinforcement theory posited by behavioral psychologist B. F. Skinner (1904-1990) to understand why incentives are critical to the long-term health of the health care industry: reward positive behaviors to elicit desired outcomes.

Cumulative Changes in Health Insurance Premiums, Overall Inflation, and Worker’s Earnings 2000-2006

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.
Companies that will survive and thrive are those that are becoming increasingly more nimble, listening to consumers and adapting their strategies, products, and services accordingly. Consider Toyota, Southwest Airlines and Starbucks. What is the primary difference between these market leaders and their competitors (which we respectfully refrain from naming)? They engage customers, listen to them, and develop products or services that fulfill their stated needs and wants. They are not simply jamming the marketplace with products or services they think and hope customers will purchase. A consumerism approach is taking hold in practically every industry but not healthcare. This is utterly unacceptable. In this area, the healthcare system has become obsolete.

A List of Industries that Embrace Consumerism (Where’s Healthcare?):
- Consumer Products
- Banking and Financial Services
- Retail Services
- Food and Beverage
- Publishing
- Automotive
- Travel and Travel Services
- Hospitality

Sadly, shockingly, when it comes to consumerism, healthcare has trailed other industries. Does the emergency room one town over charge less to set a broken bone than the hospital down the block? Consumers have rarely been engaged in such point-of-service medical decisions or quality of care. Why? The underlying, endemic reason is because the American population is insulated from actual healthcare costs and the implications associated with healthcare purchasing behavior. Consider the difference in research and planning that goes behind purchasing a home compared to choosing a health plan. Both are critical life decisions but the latter certainly gets short shrift.

Other reasons?
- Healthcare has been viewed as an entitlement, with high quality and relatively inexpensive care readily available for insured consumers.
- Employee benefits and healthcare options have often been limited to the selection of a carrier rather than a type of coverage.
- Jargon-filled language is not “user friendly”
- It is human nature—at least in the United States—to let self-appointed experts make critical decisions, especially with medical matters.
- And perhaps the most important reason—other than draconian cost shift or material financial disincentives—is that there are no effective incentives for consumers to take charge of their healthcare decisions.

Healthcare consumerism represents a sea change in healthcare. At healthcare consumerism’s foundation is the fact that the healthcare system must fundamentally and finally focus on the consumer’s behavior. This change is driven by four goals: 1) control rising healthcare costs, 2) improve access to care, 3) improve quality of care, and 3) create a long-term healthcare solution for the lifetime of consumers.

Harnessing the Power of Consumerism
Here’s a challenge to everyone working in healthcare today: How can you make consumerism work for you? Take a cue from the sales and marketing giants in other industries such as entertainment, travel, and banking that are engaging consumers to drive business because consumers are demanding engagement. And now for its very survival, the healthcare industry needs to harness this consumerism attitude to engage consumers to motivate them to assume control and accountability for healthcare decision-making and management of their own financial resources.
Behaviors needed of healthcare consumers:

- Choosing and participating in Consumer Directed Healthplans (CDHPs) such as High Deductible Healthplans (HDHPs)
- Enrolling in Health Savings Accounts (HSAs) when participating in a qualified HDHP
- Investing in HSAs to pay for incremental healthcare expenditures and save for healthcare in retirement with pre-tax contributions.
- Completing personal and family Health Risk Assessments (HRAs) and participating in health management and wellness programs.
- Improving personal bio-metrics, such as blood sugar, body fat, blood pressure, cholesterol, etc. to optimize health status, regardless of fitness.

The convergence of consumerism and the healthcare crisis is a time of incredible opportunity for employers and health networks. Consumers are poised to shape their own health destiny, and to adopt a demand-side approach to its cost in the same way they are taking control of all of the other products and services they access. And the healthcare companies that facilitate this behavioral and societal change will reap the rewards of what is expected to be a $4 trillion industry by 2015. (Please see Appendix A for how three organizations are harnessing the power of consumerism.)

Healthcare Consumerism and Incentives

Incentives are crucial because healthcare is not yet something for which consumers are accustomed to shopping. Incentives need to be deployed strategically to change long-established patterns of behavior. In other industries, incentives are playing an increasingly larger and more valued role—after decades of suffering from a poor image—in all channels of sales and marketing and for every imaginable product or service. That’s because they work, fueling a robust incentive industry to the tune of $30 billion. When it comes to a consumerism approach to healthcare, incentives also play just as important a role to drive behavior. In fact, a recent Price Waterhouse Coopers study revealed that 80 percent of CEOs of large companies say that incentives are the most promising tool to reduce healthcare costs, and that’s where Consumer Directed Health Plans (CDHPs) enter the discussion.

Based on the success of incentives in other industries, it makes sense that incentives could have the same impact on the entire healthcare continuum. When viewed through a healthcare lens, the following facts about incentives in the corporate arena (from the International Society of Performance Improvement) will profoundly shift the way you think about healthcare delivery and benefits management:

- **Significant goal achievement**—An overwhelming 92 percent of workers surveyed indicated that they achieved their goals because of incentives. In addition, 57 percent of corporations surveyed reported that objectives were met or surpassed, and 92 percent reported objectives were surpassed, met, or at least partially met.
- **Quality and quantity goals affected equally**—Incentive programs have an equal, positive impact on both quality and quantity goals.
- **Employee input valuable**—Incentive programs structured with employee input work best; however, only 23 percent of incentive systems are selected with employee input.
- **Long-term incentives are ideal**—Long-term incentives are more powerful than short term (44 percent gain for programs beyond a year versus 20 percent for programs less than one month).
- **Design and implementation key to success**—While even poorly designed incentive programs improve performance, proper analysis of the performance issue, the design and implementation of the incentive program are critical for success.
Use incentives to promote:
- Online enrollment in CDHPs
- Health risk assessments (HRAs)
- Health optimization: weight-loss and weight-control, smoking cessation, nutrition, etc.
- Wellness web site registration
- Create and maintain individualized care plans
- Research into specific medical and health issues
- Regular screenings: eye exams, mammograms, colonoscopies, skin checks, etc.
- Regular use of fitness centers and trainers
- Nurse counseling
- Employee Assistance Programs (EAPs)
- Ongoing two-way communication regarding health conditions, health care and benefits
- Contributions to spending accounts
- Advocacy programs to help navigate the healthcare system and illuminate the “fine print.”
- Use of generic drugs
- Participation in education (i.e., maternity classes, parenting workshops, nutrition awareness, etc.)

Improved Health and Lower Costs
An incentive-driven consumerism approach to healthcare is a win-win for healthplans and third-party administrators, employers, employees, and society. The use of incentives throughout the healthcare continuum will not only profoundly impact quality of care but will also lead to economic and health benefits to the entire system. Here are a few of the benefits of a more efficacious, streamlined, consumer-oriented healthcare system:

Benefits to Health Networks:
- Liberation from “managing care”
- Increased member satisfaction
- Opportunity to focus analytics, expert programs, and resources on high-cost chronically and catastrophically ill populations.
- Deliver on the promise to reduce healthcare costs and preserve private health insurance, which is also a vehicle for distribution of high-margin dental, vision, life, and disability products.

Benefits to Employers:
- Decreased premium expense and stabilization of long-term trends.
- Liberation of benefit dollars to be redeployed
- Potential for increased worker productivity, decreased absenteeism, and reduction in occupational injuries
- Shift of control and responsibility for health benefits to the employee.

Recent Wellness Program Results:
95% of Participants Completed Their HRA
73% of Members Participated in an Online Wellness Program
55% of Members Completed a Wellness Program
65% Improved Their Body Mass Index (BMI)

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Benefits to Employees:
- Reduced premium and opportunity for tax-free investment and flexible use of savings.
- Control over personal benefit finances, healthcare spending, and saving decisions.
- Opportunity to take advantage of a broader array of health risk assessment and educational tools, as well as health and disease management programs, and coaching assistance.
- Improved health, efficient means for payment of incremental medical expenses, and savings opportunities for medical expenses in retirement.

Benefits to American Economy and Cultural Well-Being:
- Enriched physician-patient experience.
- Increased accessibility to quality healthcare (which should be a birthright of every American)
- Opportunity to improve population health.
- Increased GDP (a result of increased worker productivity) and increased industrial competitiveness.
- Increased company valuations.
- Potential to apply learning, insurance, and healthcare products to the uninsured and to Medicaid and Medicare populations.

What to Look for in an Incentive Provider
While they may have dismissed incentives in the not too distant past, shrewd business leaders have embraced the use of incentives to engage all kinds of constituents and to motivate and reward all kinds of desired behavior. Regardless of the group targeted, incentives are a powerful tool that companies can deploy to meet targeted objectives. And there is no reason healthcare shouldn’t share the same positive results from incentives. With one caveat: because healthcare is such a new and unexplored territory in the incentive arena, choosing the right incentive program provider for your organization’s need must be done carefully. Make sure you choose a company that has experience in the healthcare space and has a broad and deep understanding of the industry and issues it will face in the near and distant future. The incentive company you choose should be able to rigorously demonstrate how it would develop and administer the following steps:

Establish objectives
- Strategic assessment
- Program analysis and design
- Broad non-cash award selection
- Marketing and communication tools
- Branded reward sites
- Online reward catalogs
- Web-based integration
- Program management
- Support and training
- Legal and fulfillment requirements
- Tracking, reporting and measurement
- Program analysis

In Conclusion:
It’s clear that motivational and loyalty programs that bind consumers to their trusted health advisors will be a critical component of the healthcare landscape in the coming years. It’s equally clear that the entire health care industry has a bit of catching up to do when it comes to motivation and loyalty. The good news is there are great corporate role models to follow if we just open our minds to a new approach.
Appendix A:

Here’s a look at how three organizations are harnessing the power of healthcare consumerism:

**Case Study: Reaping the Rewards**

A 150-employee Arizona based manufacturing company could no longer offer its employees a viable health insurance plan and keep its doors open. After changing its health benefit choices, 40 percent of employees chose to participate in the company’s newly introduced HDHP/HSA plan. Some of the encouraging results:

- **1** A lowering of expected claim costs of 5-10%
- **2** Lower utilization of high cost services such as hospital admissions, ER services and ambulatory cases
- **3** Decreased prescription costs including a 5-10% reduction of expenditures and an increase in generic drug use of 5-8%
- **4** 60% of participants rollover savings balances
- **5** 80+% re-enrollment
- **6** 85% of participants are more cost conscious about health services and prescriptions
- **7** 80% seek a healthier lifestyle
- **8** 60% are motivated to comparison shop
- **9** 61% believe plans are less expensive

**Case Study: Safeway Embraces Consumerism**

“Safeway’s health care costs fell 15% between 2001 and 2005, while other employers on average saw their costs increase 12%. The grocery-chain giant reduced costs by increasing the deductible of its health plans to $2,000, promoting health reimbursement accounts and emphasizing the importance of preventive care. Safeway also decreases the health care payroll deduction by $75 a month for employees who take a health risk assessment twice a year. The company motto is to place more responsibility on the employees and get them more involved in the decision-making process, while ensuring they have all the tools necessary to make informed, positive choices...

The causes of high medical costs include heavily insured workers who treat health care as a free good, an absence of cost and quality transparency, insurance policies lacking incentives to reward good behavior or penalize unhealthy behavior and physicians having little incentive to be cost-conscious when they provide services, Burd noted.”

_Excerpt from BenefitNews, April 2007 article on a presentation Safeway CEO Steve Burd gave to attendees at the World Health Care Congress in Washington, D.C._

**Case Study: Major Health Insurance Provider**

A major health insurance provider encouraged health improvement by providing incentives for participation in its healthy lifestyle rewards program to subscribers in select groups. Participants enrolled online, completed a Health Risk Assessment (HRA), and were then given opportunities to develop health improvement goals, record activities and track progress using online tools, feedback, and complete additional HRAs. Incentives were provided at certain levels of participation. For total allowed claims among participants, spending for PPO members in the healthy lifestyle rewards program decline by almost $2,000 per person during the first year of the program. Among HMO members, the decline was close to $1,500 per person per year.