

INSIGHTS

FROM VITALITY



Engagement Study 2014

A TECHNICAL BRIEF

*Vitality*TM

THE VITALITY ENGAGEMENT STUDY 2014

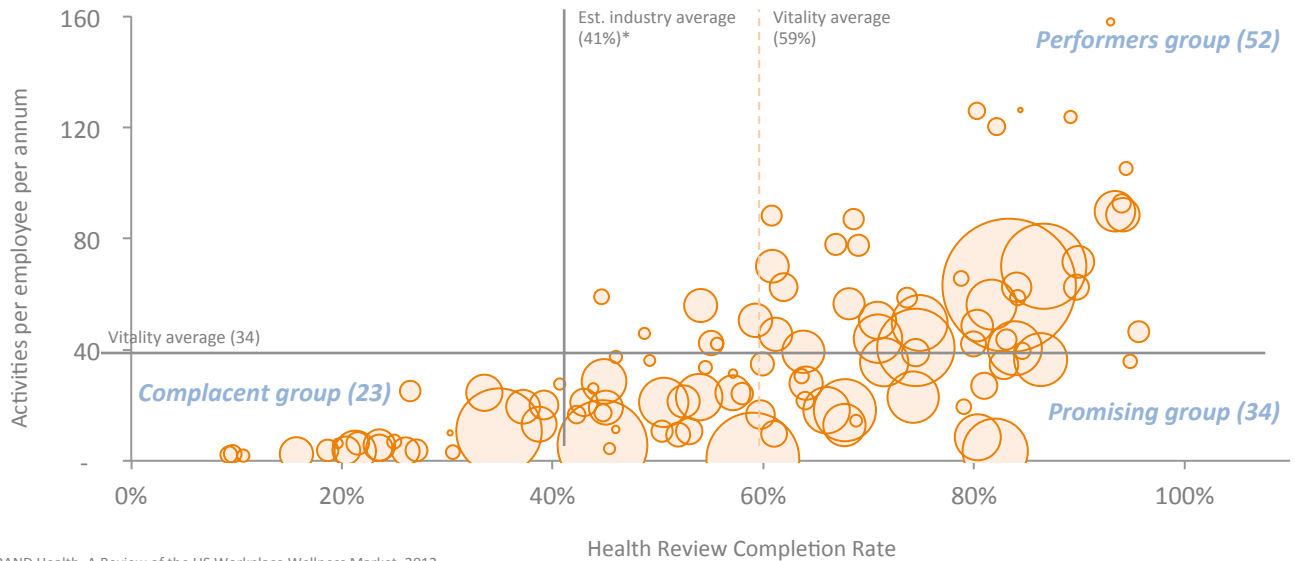
As employee wellness programs have grown in popularity, many claims have been made about the factors that are most important in motivating employees to take part and engage. The use of financial incentives, the strength of communication, and the workplace culture are all seen to be key drivers of employee participation. And while most workplace wellness programs make use of incentives and other structures to drive up health participation, their program designs vary widely and thus have varying degrees of effectiveness.

To help add some data and evidence to the discussion, Vitality™ has conducted an in-depth statistical analysis on its client base to help quantify the impact of different factors on engagement. The study covers three-and-a-half years of program participation, with the aim of helping employers optimize program design to achieve the best health outcomes in the most cost-effective way.

In doing so, this cross-sectional analysis aims to answer a number of key questions:

1. What incentives and employer support actions have the biggest impact on health review completion?
2. How can incentive design be optimized to give the best results at the lowest cost?
3. What do companies with high employee engagement do differently from the rest?
4. Do a company's industry, geographic spread and employee size affect Vitality program participation?

The study revolves around three distinct groups, characterized (a) by their health review completion rates relative to the industry average, and (b) by engagement relative to the Vitality average. Ongoing employee engagement is measured as the average number of health activities tracked per employee, per year by Vitality. Each circle on the graph below represents the health participation and employee engagement levels for a single client, with the size of the circles representing the number of employees within the company.



*RAND Health, A Review of the US Workplace Wellness Market, 2012

For each of the groups, the following variables were considered.

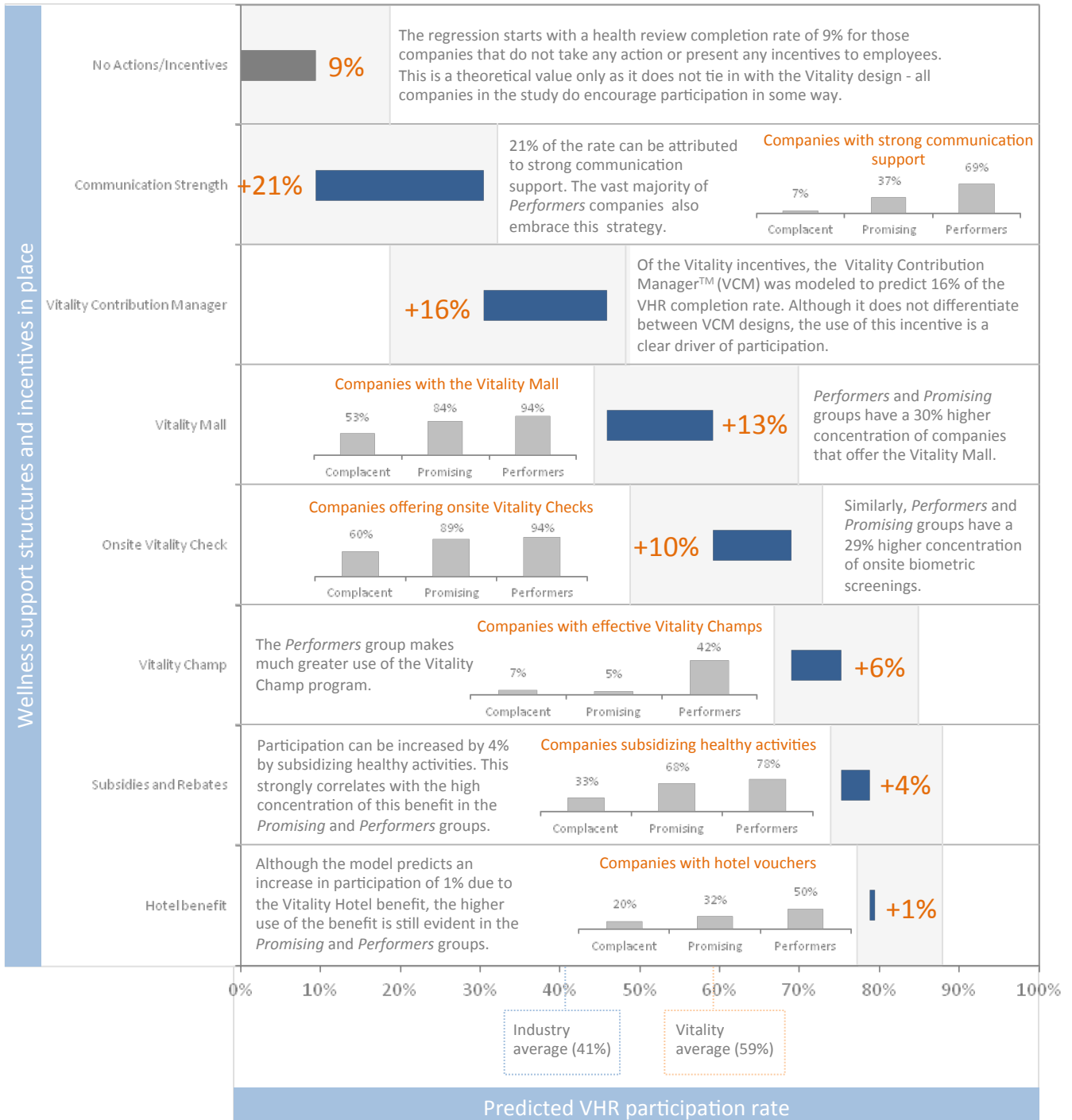
Company characteristics	Company support	Incentives
Size, industry, geographic spread and blue/white collar	Frequency and success of internal wellness communication, onsite Vitality Check™ and participation in the Vitality Champ™ program	Vitality Contribution Manager™, the Vitality Mall™, Vitality Squares™, subsidies & rebates, and the benefit of discounted hotel stays

1. WHAT INCENTIVES AND EMPLOYER SUPPORT ACTIONS HAVE THE BIGGEST IMPACT ON HEALTH REVIEW COMPLETION?

The first part of the analysis evaluates the importance and impact of various incentives and supportive company structures on employee participation. Employee participation is defined as the percentage of employees who complete a health risk assessment which for Vitality clients is known as the Vitality Health Review™ (VHR). A key part of the VHR is the Vitality Check, a biometric screening of key risk factors.

A regression analysis was done to construct an explanatory function of employee health review participation based on past experience. The regression model allows us to rank each of the factors by the size of their impact as well as predict a VHR completion rate for a particular company's profile.

REGRESSION ON THE VITALITY HEALTH REVIEW COMPLETION RATE*



*Note that all percentages shown represent a statistical average calculated across a proportion of Vitality's client base. Results may vary widely for individual companies.

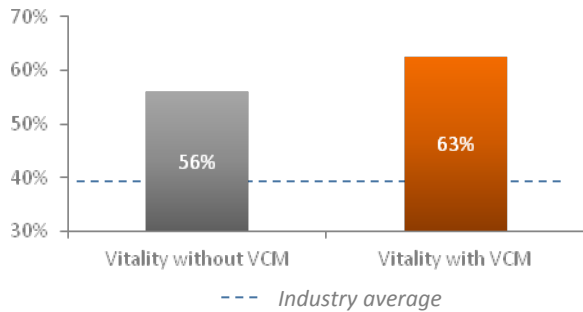
2. HOW CAN INCENTIVE DESIGN BE OPTIMIZED TO GIVE THE BEST RESULTS AT THE LOWEST EXPECTED COST?

The previous analysis illustrated the potential impact of various incentive structures and company support. There is, however, potential to increase participation and encourage more regular employee participation through incentive design on a more granular level. The VCM is an example of such an incentive that varies between companies by design and monetary amount. VCM designs do, however, have common links to the VHR, Vitality Status® or both. The next part of the analysis explores the effectiveness of the VCM and the different designs.

INCREASING THE VITALITY HEALTH REVIEW (VHR) COMPLETION RATE

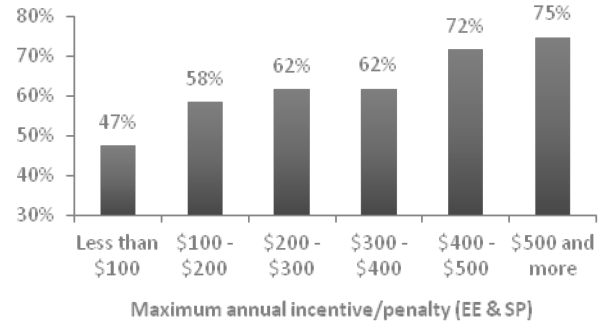
To begin, there is a strong correlation between participation by employees and whether the VCM is implemented.

VCM AND HEALTH REVIEW COMPLETION



A strong positive correlation exists between **maximum** incentive value on offer and the health participation rate. As expected, the design shows decreasing marginal returns for additional amounts. **On average, there is a 1% increase in participation for every \$20 of added potential incentive.**

PARTICIPATION BY MAXIMUM INCENTIVE VALUE



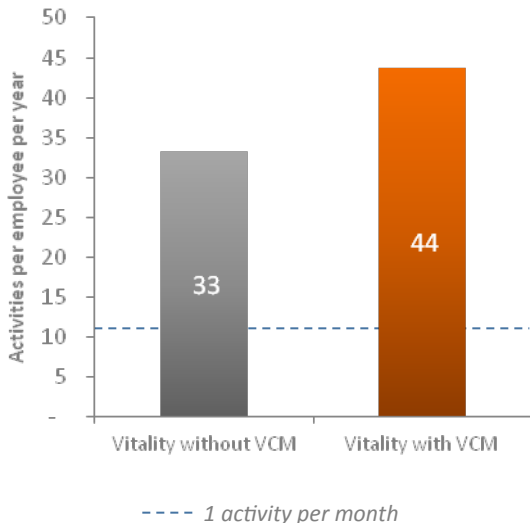
ENCOURAGING REGULAR EMPLOYEE ENGAGEMENT

Extending the analysis to employee engagement revealed three valuable insights.

1. The VCM can be an effective method of encouraging employee engagement

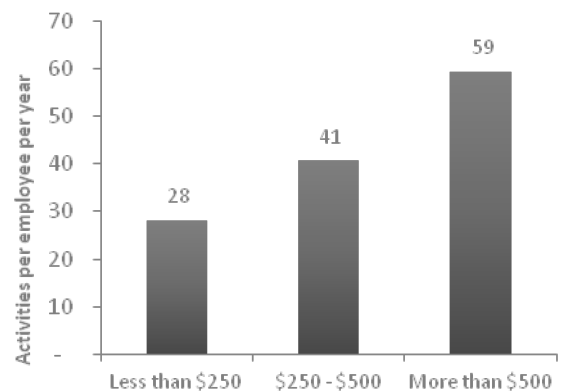
Employee engagement is defined as the average number of healthy activities per year and is tracked by Vitality. The data indicated that companies that made use of the VCM had 30% higher engagement. This off an already high average activity count per employee of 33.

IMPLEMENTATION OF THE VCM



2. Engagement has strong positive relationship with the size of the incentive

MAXIMUM INCENTIVE VALUE PER YEAR



As with VHR participation, there is a strong relationship between the maximum amount of incentive offered and the number of activities per employee per year. Those companies that offer a potential incentive of more than \$500 have experienced activity levels more than double that of companies that offer employees an incentive valued at less than \$250. Crudely extrapolating this relationship suggests that for every \$20 of added incentive, employee activity is expected to increase by approximately 1.9 activities per year.

2. HOW CAN INCENTIVE DESIGN BE OPTIMIZED TO GIVE THE BEST RESULTS AT THE LOWEST EXPECTED COST? (cont.)

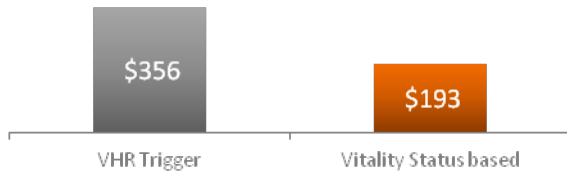
3. Linking the VCM to Vitality Status® has proven to be an effective incentive structure for increasing employee engagement

STATUS-BASED INCENTIVES HAVE A LOWER EXPECTED COST

Companies that adopted the VCM can be divided into two categories. The first are those who link their VCM incentive to a particular activity, most commonly the completion of the VHR. The second category is those who link incentives to Vitality Status.

Each of these structures have a different expected cost to the company. Depending on the level of employee engagement, a tiered incentive structure has proven to be more effective and cheaper than the single-entry-point alternative. The graph below shows that for the same maximum incentive offered to employees, linking the incentive to Vitality Status can be far more cost-effective.

EXPECTED COST PER EMPLOYEE FOR \$600 POTENTIAL INCENTIVE ON OFFER

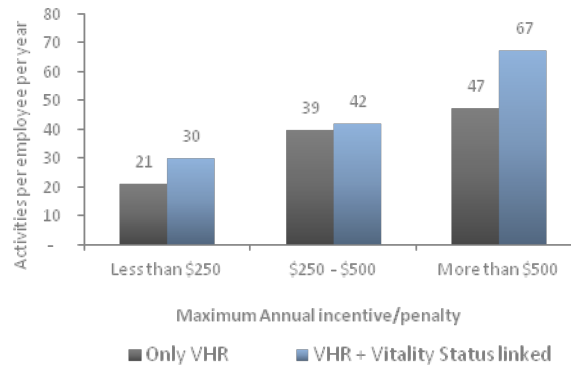


The Vitality Status cost has been conservatively calculated assuming the current Vitality employee base distribution and a \$200 lower incentive by Status with zero incentive for Blue Status.

STATUS-BASED INCENTIVES ENCOURAGE GREATER ENGAGEMENT FOR THE SAME MAXIMUM INCENTIVE VALUE

Is this lower expected cost alternative less effective? To answer this, the study compared the average activity count per employee with the maximum incentive amount offered between companies that make use of the Vitality Status-tiered structure and those that favor the single-trigger design.

The results clearly show that the tiered structure does not compromise on effectiveness; rather, for this particular group of companies, the status-linked benefits resulted in a *higher* average activity count per employee for each of the incentive bands.



EXAMPLE

A company of 10,000 employees is deciding whether to use the VHR or Vitality Status for its incentives. The company is willing to offer up to \$600 per employee per year with the aim of increasing the levels of health engagement within the company. Taking into account current participation in VHR and the base Vitality Status distribution, the expected cost of the VHR option is \$356 compared with \$193 per employee per year for the Status design.

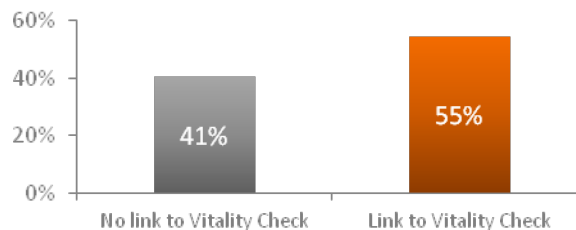
If the company implements the VHR option, the study suggests that for this maximum annual incentive, companies achieve an annual activity count per employee of 47. The Vitality Status-based option, however, was shown to result in 67 activities per employee per year. This implies a 43% higher engagement for an expected cost 45% lower than the single-trigger option. This can also be interpreted as \$7.57 per activity for the trigger option and \$2.88 per activity for the status design option. **The Status design would therefore be expected to save the company \$1.6 million, with higher levels of ongoing engagement than the VHR option.**

ACHIEVING SPECIFIC OUTCOMES

Intelligent Incentive™ designs have also been effective in achieving specific company health goals

A number of companies in the study used the VCM as a means to drive specific company goals such as higher Vitality Check participation.

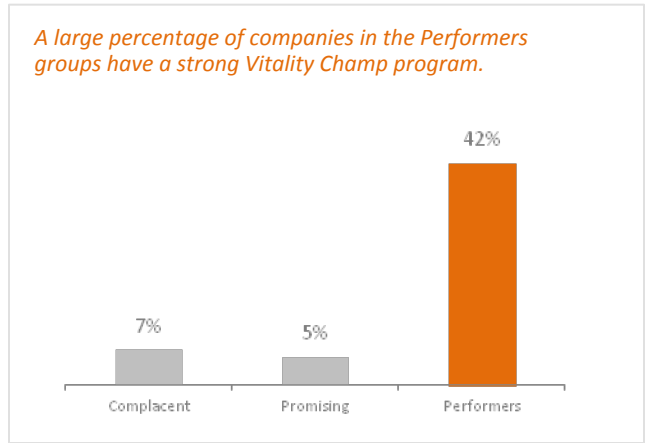
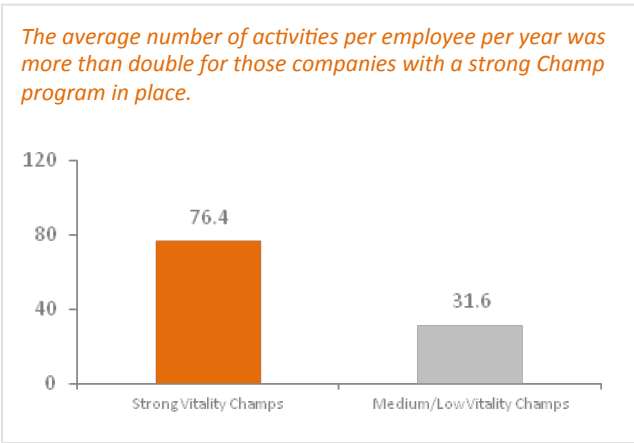
Companies that embedded the Vitality Check in their VCM as a minimum requirement showed a 14% higher completion rate than the sample average.



3. WHAT DO COMPANIES WITH HIGH EMPLOYEE ENGAGEMENT DO DIFFERENTLY FROM THE REST?

The next part of the analysis investigates which factors are key to converting initial participation into ongoing employee engagement. Engagement is measured by the number of healthy activities done per employee each year as tracked by Vitality.

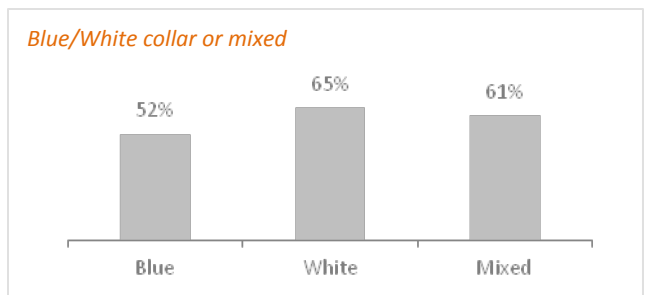
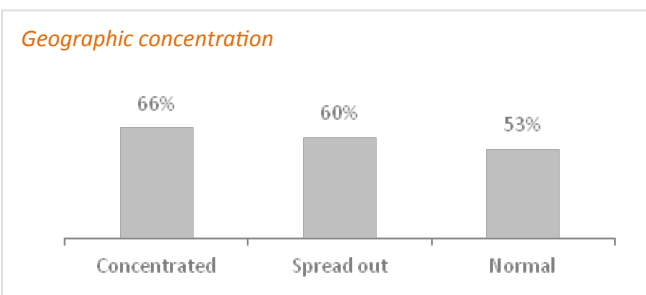
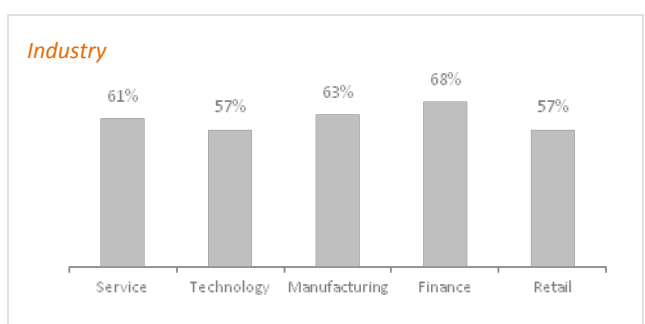
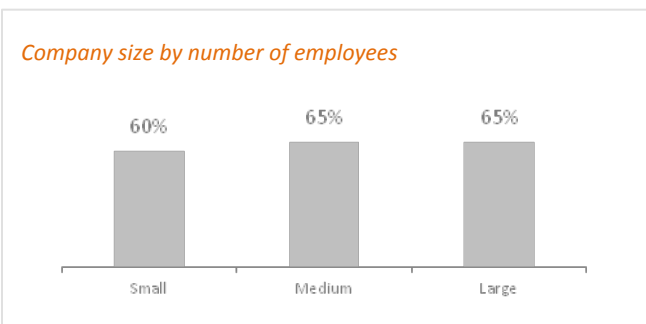
A Chi-Squared Automatic Interaction Detection Model (CHAID) was used to determine which incentive structures and other factors are different in those companies with regular employee engagement. The model determined that the most significant factor for employee engagement – the single factor that most accurately separated the Performers from the Promising group – is whether the company had a strong Vitality Champ program in place.



4. DO A COMPANY'S INDUSTRY, GEOGRAPHIC SPREAD AND EMPLOYEE SIZE AFFECT PROGRAM PARTICIPATION?

The models used in the analyses took into account company characteristics such as company size, industry, geographic spread and whether the majority of employees were blue or white collar. These factors were found not to be statistically significant in predicting employee participation and engagement and did not improve the model fit in the presence of more powerful company support functions and incentives. This implies that well-designed programs can be effective regardless of the underlying company characteristics above.

To illustrate this, the average VHR completion rate was plotted for all company characteristics.





McCarthy Building Companies, Inc. is a recognized leader in a diverse array of building and construction categories. The majority of employees are centrally located and the company has a mix of office and field workers. The company also has a strong commitment toward improving the health and wellness of its employees and adopted the Vitality program in 2012 to better achieve this.

Since joining, the company has effectively made use of Vitality’s incentives as well as put in place strong support structures to encourage employees to participate and engage in the program. The company has seen impressive results.

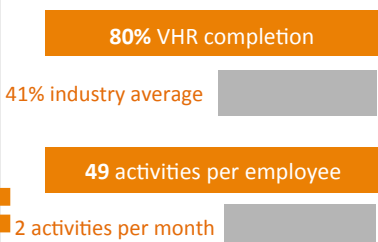
Incentives

- Vitality Contribution Manager
- Vitality Mall
- Subsidies and Rebates
- Hotel Benefit
- Vitality Squares

Company support

- Strong wellness communication
- Vitality Champs
- Onsite Vitality Check

Wellness results



VCM Design

The company implemented the VCM, linked the rewards to Vitality Status and offered employees the potential to earn up to \$800 per year by fully engaging in the program. This has resulted in significant average employee engagement levels of 49 activities per year, far in excess of the group average, and demonstrates the power of this VCM design.

Company recognition

McCarthy Building Companies, Inc. was recently recognized in *Human Resource Executive Online* for its success in getting employees to take an interest in their health and make an effort to manage or improve it. Lisa Sanders, the director of compensation and benefits, was quoted as saying that:

“The thing that’s made us most successful is what we’ve communicated, not how ... we talk to our employees about the cost benefits of staying healthy.”

She also discussed the successful use of linking incentives to Vitality Status, “The people who hit Platinum weren’t the healthiest ... they were overweight, but they hit that by making a change and focusing on the right things.”

Vitality has provided a wellness program for one of the largest privately held insurance brokers firms with a white collar workforce spread out across the country. The company implemented the Vitality program in 2011 to better help employees manage their health and wellness. The program has had visible senior executive support, and has been widely adopted at all levels of the business becoming part of their strong internal culture.

- Incentives
- Vitality Contribution Manager
 - Vitality Mall
 - Subsidies and Rebates
 - Hotel Benefit
 - Vitality Squares

- Support
- Strong wellness communication
 - Vitality Champs
 - Onsite Vitality Check

93% VHR completion rate

90 activities per employee

CONCLUSION AND METHODOLOGY

In summary, the analysis produced the following insights:

1. Companies with high health participation are characterized by a strong wellness communication strategy, a strong upfront incentive through the VCM and use of employee rewards through the Vitality Mall.
2. For companies that made use of the VCM, health participation and employee engagement had a strong positive correlation with the maximum incentive amount offered.
3. The design of the VCM is critical and Vitality Status-linked designs were found to be more effective in driving higher engagement associated with a lower expected cost per employee.
4. Companies that have a strong Vitality Champ program were found to have significantly higher levels of employee engagement.
5. Industry, company size and geographic spread were found to have little impact on health participation and engagement after taking into account incentives and company support functions.

METHODOLOGY

Health participation was defined as the percentage of employees within a company who completed the VHR as of the end of October 2013, going back a maximum of three years. Engagement was defined as the number of activities completed per employee in 2013, pro-rated for the last two months of the year.

The sample of companies in the study consisted of 109 companies. The statistical tests were conducted on subsets of the sample where qualitative measures existed. The Generalized Linear Model and the CHAID model were employed on a group of 74 companies believed to be an accurate representation of the market. The Generalized Linear Model returned a goodness of fit R2 value of 0.57, and Communication Strength and Vitality Contribution Manager were found to be statistically significant for a p-value of 0.05.

The majority of independent variables, such as incentives, were treated as simple binary (Yes/No). For the qualitative measures, the following definitions were used and the values were assigned by the respective account managers.

Communication Strength

Strong	HR contacts strongly support wellness and have a deep commitment to the Vitality program. This includes senior managers' strong support and frequent engagement + communication.
Medium	Employers and sponsors want the program to work and do what is expected of them.
Low	There is very little employer and leadership support for the program.

Champ Program

High	Employers have an extensive and successful Champ program.
Medium	Employers have a good Champ program.
Low	Employers have no, or a limited, Champ program.

Employer Size

Large	5,000 employees or more
Medium	2,000 – 5,000 employees (inclusive of 2,000)
Low	Fewer than 2,000 employees

White/Blue Collar

White	A majority of employees (~80%) are white-collar (office-based) workers.
Mixed	The number of white- or blue-collar employees is between 20% and 80%.
Blue	A majority of employees (~80%) are blue-collar workers (manufacturing/manual workers).

Geographic Distribution

Concentrated	There are high concentrations of employees in one or several offices.
Normal	Between concentrated and spread out.
Spread out	Most employees are working and living in different states or spread out.