



INCENTIVES

Why they matter

If we consider the argument for or against using incentives, we must take into consideration the complexity of human behavior.

There's more to it

Incentives have been used widely across many industries to generate customer loyalty and drive specific consumer behaviors, including in the health industry. In health and wellness, the use of incentives has been debated for the efficacy in behavior change, health improvement, and generating any desired outcomes. So why have incentives been used? The short answer is that when used correctly, they are tremendously effective, but there is much to consider when developing the right incentive strategy.

The power of incentives

If we consider the argument for or against using incentives, we must take into consideration the complexity of human behavior. People behave in predictably irrational ways that align to common behavioral decision errors; these errors make the default decision the wrong one for what is in our best interest. Human beings are influenced by a multitude of these decision errors, such as present bias which is the overvaluing of choices that give us the most immediate gratification over those that would give us the most long-term benefit.

Many examples of this are in published research, such as the tendency of individuals who, when given the option of receiving \$10 today or \$11 tomorrow, often choose the \$10 to get the more immediate benefit compared to a higher amount that is delayed.¹ There are many other decision errors that guide people to the wrong decisions.

One more example is loss aversion, where the pain of losing something is twice as powerful as the pleasure of gaining. A common example of this is achieving airline status, where once you have achieved it, you may act irrationally by flying more expensive flights to maintain your status in lieu of more economically sound options. The use of incentives can

be a powerful nudge, altering the otherwise automatic decision, while still giving the individual choice.

The positive impact

What also must be acknowledged is that there is a large body of published evidence on the positive impact incentives can have on changing people's behavior. One such example is by Kevin Volpp et al. in the article, *A Randomized, Controlled Trial of Financial Incentives for Smoking Cessation*, published in the *New England Journal of Medicine*. It studied the behaviors of two groups of people – one financially incented and the other not incented – to determine the impact that incentives have on engagement in a smoking cessation program and overall cessation rates over time.² The financial incentives were staggered at various dollar amounts for different behaviors, such as the completion of the smoking cessation course, staying smoke-free for six months post-program, and staying smoke-free at 12 months. The results showed significantly higher rates of completion of the smoking cessation program, and long-term quit rates among, the group that had the financial incentive present.

How incentives are being used today

Many employers utilize financial incentives as a strategy for encouraging participation in a wellness program. A survey from the National Business Group on Health and Fidelity Investments indicated that 72 percent of employers offered financial incentives for engaging in health behaviors, participating in a well-being program, or achieving specific health outcomes.³ While financial incentives are commonly used, it should be noted that more employers are reporting that they want to move away from them. A survey from Willis Towers Watson indicated that by 2018, 47 percent of employers are expected to offer financial incentives.

The approaches employers are taking in the deployment of financial incentives⁴ are vast, two of the more commonly used approaches are participation-based incentives, whereby members are required to participate in a prescriptive number of activities or certain specific activities. The other is outcome-based incentives linked to members reaching a specific health outcome most commonly associated with biometric screening metrics. However, perhaps some of the skepticism on the impact of incentives comes from findings



that these two approaches, so commonly used, have little influence over participation in wellness programs or achievement in health-improvement targets. A study from Nathan Barleen et al. titled *Outcome-based and Participation-based Wellness Incentives* explained that there was no significant impact from incentives linked to participation-based strategies or outcome-based strategies on participation in a program or achievement of health-improvement targets.⁵

Where Vitality comes in

Vitality knows that to maximize the impact that incentives can have on participation and outcomes improvement, we have to focus on what evidence and consumer behavioral science practices say works.

One area of focus ties closely into what was discussed with common incentive strategies, and their inability to yield improvements in participation or health improvement. Behavior change is necessary to attain improvements in health targets, so employers need to view how their incentive strategy aligns to actual behavior change. This type of change isn't something that comes with a 7-, 21- or 90-day challenge. Health belief models, such as the transtheoretical model, indicate that changing behavior requires repetitive action in a certain behavior for at least six months and possibly longer. James Prochaska and Wayne Velicer in their article *The Transtheoretical Model of Health Behavior Change* write that for behavior change to occur, "people must attain a criterion that scientists and professionals agree is sufficient to reduce risk for disease".⁶

What we also know is that people behave in ways in which they are being measured. Best-selling author Dan Ariely, in his Harvard Business Review article *You Are What You Measure*, discusses how "Human beings adjust behavior based on the metrics they're held against. Anything you measure will impel a person to optimize his or her score on that metric. What you measure is what you'll get,"⁷ meaning that if you set an incentive strategy aligned to a certain number of participating events, you may see participation that meets that criteria but see engagement fall off thereafter. That is not in line with what is required to achieve behavior change. The same can be true for outcomes-based

approaches, where in one respect, if someone meets outcomes criteria, there is no further incentive to engage, and for those who don't initially meet the outcomes criteria, the road to meet those outcomes or the reasonable alternative standards falls short of long-enough engagement to garner behavior change and risk reduction.

Vitality has established a status-based system, which we recommend being used for incentive strategies. This approach uses metal-named thresholds to quantify the amount of engagement. From Bronze to Platinum, achieving a higher status level requires real participation in the program. For example, reaching Silver Vitality Status® on average takes members 3.5 months to achieve, Gold takes more than seven months. This means that members have to repeat behaviors over a longer period of time before they achieve their incentive. Knowing that people behave in ways in which they are being measured, status is a powerful place to anchor your incentive. What we know from our analysis in our 2017 Engagement Study is that a status-based approach (Gold Vitality Status) outperforms outcomes-based incentive strategies by 59 percent, and a participation-based strategy by 52 percent, in the number of activities members complete per month.⁸ Additionally, when you consider employers who do not deploy an incentive strategy to those that deploy a strategy aligned to Gold Vitality Status, you see an 18 percent increase in population reaching high levels of long-term engagement (Gold and Platinum Vitality Status) which, over a three-year period, is shown to have 12 to 15 percent lower claims cost per member per year.

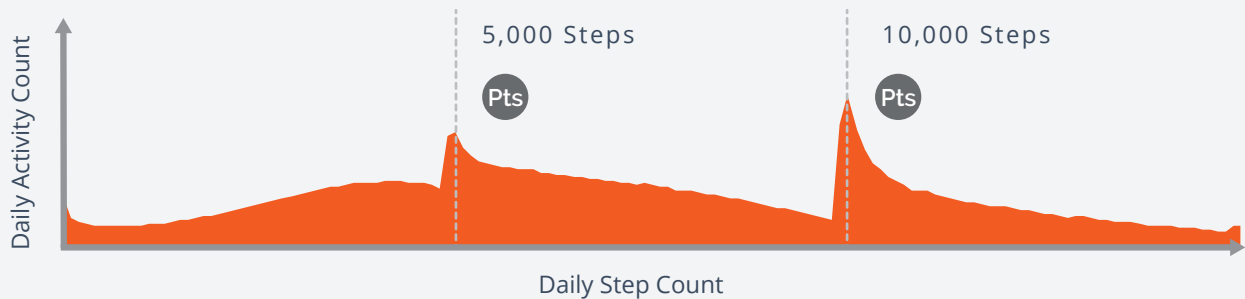
Employers who deploy an incentive strategy aligned to Gold Vitality Status experience the following:

18%
increase in members reaching high levels of long-term engagement

12-15%
lower claims cost per member per year



While it is important to align incentives to match the requirements to change people's behavior, it is also important to provide more immediate incentives that don't always need to be financially based. Vitality taps into the consumer behavioral science principle of present bias, giving people immediate reward and recognition through Vitality Points® for participating in verified activities in the program. For example, Vitality offers points for different levels of physical activity, five points for 5,000 steps, 10 points for 10,000 steps, and 15 points for 15,000 steps. While the number of points being awarded is small, the chart below reflects the impact that can be had by offering these small non-financial incentives where there are spikes of steps members take as they near the threshold required to achieve the points.



Awareness is essential

A final major consideration in incentive strategy is that the presence of the incentive alone is not enough to drive participation or health improvement. Proper communication is needed to drive awareness and motivation to take action.

Research from the Harvard Business School by Leslie John et al. titled *The Role of Incentive Salience in Habit Formation*, discusses the results of their research on the impact incentives have when the incentive is salient, or relevant, due to proper communication, compared to when an incentive is offered and there is no communication. Their findings indicated “the difference between offering no incentives at all and offering incentives that are not made salient is actually undetectable, whereas the difference between offering salient incentives and incentives that receive minimal marketing is quite stark”.⁹ To address this, Vitality uses both mobile and web platforms to clearly display the requirements for meeting the employer incentive, and clear indication of whether or not requirements have been met. We also work with clients

on dynamic communication strategies taking advantage of real estate on the portal that can include email and push notifications among other mediums. This approach has led to 93 percent of members in a recent member survey that included more than 22,000 respondents indicating that they understand what is required of them to obtain the employer incentive; 92 percent said that they feel they are able to achieve the employer incentive.

Incentives can and should be scrutinized based on the goals the organization has and the strategy it chooses to deploy. Strong considerations to consumer behavioral science, what goes into changing people's behavior, short- and long-term motivational incentives, and clear communication need to occur to ensure the best chance of getting the most value on the investment being made. However, the research and evidence show that when you combine the right blend of the components mentioned above, the impact on short- and longer-term engagement, as well as health improvement, can be profound.



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