An Ounce of Prevention

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In March, CVS Caremark announced that its employees must submit to WebMD wellness reviews, including checking weight, blood pressure, blood sugar levels, body fat, and cholesterol—or pay a $50 monthly penalty on their premiums.

The move is partly in response to the skyrocketing costs of healthcare. But it wasn't received with open arms by all employees, or by privacy groups, who called the new plan "coercive and invasive."

But David Molitor, assistant professor of finance, doesn't see it that way.

"This isn't as coercive as it may sound," he says. "CVS could have raised their healthcare premiums by $600 annually per employee. That would have been coercive. You could say this is a great save."

Companies have long been concerned with healthcare costs. The Centers for Medicare and Medicaid Services project a 6.1 percent increase ($3.1 trillion, or 18 percent of our economy) in healthcare spending next year. About half of companies with 50 or more employees, and about 80 percent of large firms, have a wellness plan in place. About two-thirds of those plans are incentivized with money, all with a focus on having healthier employees—and cutting down on healthcare costs.

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And with good reason: The American Psychiatric Association reports that depression alone costs companies $43 billion per year, and stress-related problems cost $80 billion.

"What CVS is doing isn't anything new," Molitor says. "They're trying to reduce health costs. These wellness programs have become quite popular, especially among large firms. It's a preventive measure. Through the screening, people might find out that they have a health issue they can manage or resolve before it escalates."

A CARROT OR A STICK?

Molitor points out that there are two flavors of wellness programs: screening and interventions. The CVS approach employs screenings. Interventions offer wellness plans and classes, and sometimes include reduced fitness center rates that employees can take advantage of. And there are two approaches to framing a wellness initiative: negatively (a loss of money if you don't comply with the program, which is the CVS approach) and positively (a bonus earned if you participate). As Molitor puts it, the incentive can be framed as a carrot or a stick.

"Firms have typically offered cash bonuses to participate in wellness initiatives, but have regularly struggled with low compliance," Molitor says. "As a result, some firms like CVS have opted for the negative approach. When threatened with losing money, employees might be more apt to comply."

It's all in how it's presented, Molitor says. For example, CVS could have said they were going to penalize employees $600 if they don't comply—which was their approach—or they could have said they're going to give employees a $600 bonus if they do comply. But in the latter situation, behind the scenes, many companies might first raise their premiums by $600.

"It looks like a bonus, but it's really not," Molitor says. "It turns out the same either way."

BENEFITS, COMPLIANCE, AND PRIVACY

Employers want to know their return on investment for their wellness programs, and Molitor says while it can be easy to figure out the program costs, it's more challenging to calculate the benefits. "The benefits include reducing insurance costs and sick days," he says. "There are three major issues: reducing healthcare costs, increasing productivity, and making workers value a firm because they feel the firm cares about them."

A central challenge revolves around compliance. "All firms are trying to figure out how to raise compliance," Molitor says. The move among companies to do what CVS is doing—penalizing people for not complying—is growing. That, Molitor says, is motivated by loss aversion—the idea that people prefer avoiding losses to acquiring gains.

Another issue companies must be aware of is the privacy concerns of its employees. In an age where hackers can make their way into a system, privacy is always a concern, Molitor says. Employees are also worried about confidentiality, fearing that employers will see their medical records and fire them if they're costing too much money. But CVS, as with many other employers, uses a third-party firm to handle all the records. The employers don't see, or have access to, individual records; they only receive aggregate reports from the third-party firm.

"Companies that have been implementing wellness programs haven't always done a very good job of communicating with employees," Molitor says. "They need to think about the hurdles regarding compliance. Is it privacy concerns? Is it the location of the screening place? Is it forgetting to schedule appointments? The research here is quite sparse. And because companies are struggling with compliance, we're seeing some experimentation in framing wellness incentives as a carrot or a stick." •

Tom Hanlon