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To Promote Healthy Behavior, 'Carrots' vs. 'Sticks'?

By **Joanne Sammer**, August 2007

[From SHRM Online's [Compensation & Benefits Focus Area](#)]

As employers increasingly turn to **consumer-driven health plans** to better control health care costs, they are making key decisions about how to influence employee health behaviors. Among the most important: Whether to use carrots (positive incentives) or sticks (punitive measures)—or a mix of both—to convince employees to change their ways in order to improve their health.

"I think there is some confusion when defining what is a carrot and what is a stick," says Michele Becker, vice president in the health and benefits practice of Aon Consulting in New York. "In many cases, it all comes down to how you communicate it." For instance:

- **A true carrot** is giving a reward for doing something, such as depositing a certain amount of money into a health savings account (HSA) when employees fill out a health risk assessment.
- **A true stick** is a penalty or other adverse consequence, such as higher health insurance premiums for smokers.

However, a company imposing a \$20 health insurance premium increase on smokers can simply turn that stick into a carrot by framing the change as a \$20 discount for nonsmokers.

Which approach a company takes should depend on the culture of the organization and the exact message the company wants to communicate to employees. "Carrots can work well if a company has a wellness culture and good communication about these issues," says Becker. "However, depending on how fed up they are, some companies may not want to sugarcoat the issue and use a stick to bring employees' attention to the severity of the health care cost issue."

*Some companies may not want to
 sugarcoat the issue.*

Backing It Up

But simply waving carrots or sticks in front of employees is not enough. Companies need to back up those threats and promises with tools that can help employees make meaningful changes.

For example, as noted above, some companies offer a health insurance premium discount if an employee fills out a health risk assessment. However, to make the experience more meaningful, companies can add more conditions for the payout—such as participating in follow-up **health coaching** based on the outcome of the health risk assessment.

"Any program that forces people to participate one-on-one with a real person will be more effective because they are forced to talk to someone about their health issues," says Sam Fleet, president and CEO of AmWINS Group Benefits in Warwick, R.I., a wholesaler of group health benefits.

Sticks Plus Coaching: One Company's Program

Indianapolis-based **Clarion Health** has received a lot of attention thanks to its plans to impose higher health insurance premiums on employees who have certain health issues. Its health incentive program includes the following:

- Starting in 2008, Clarion Health employees who smoke will face health insurance premiums that are \$5 per pay period higher than those paid by their non-smoking colleagues.
- In 2009, Clarion Health plans to increase premiums for individuals whose readings on certain health measures exceed a certain threshold—blood pressure, blood glucose levels, LDL cholesterol (\$5 per pay period for *each* measure that exceeds the threshold), and body mass index (\$10 per pay period).

- The \$5 per-per-pay-period for smokers will also remain in effect for 2009 and beyond, so individuals with problems on all measures could face insurance premiums that are \$30 per pay period or \$780 per year higher than their peers (there are 26 pay periods per year).

Employees are exempt from some of the surcharges if they can provide documentation from their physician showing a medical reason for their readings on a specific measure. Smokers have to show that they have stopped smoking for at least six months before the surcharge will be removed.

However, Clarion Health's program is not all about the stick. Employees have a year to quit smoking before the penalty begins and two years to deal with any issues related to the blood pressure, blood glucose, LDL cholesterol, or their BMI. Moreover, the organization offers employees one-on-one health coaching designed to help them deal with whatever health issues they face.

A Natural Evolution

At Clarion Health (described in the box above), premium surcharges were a natural evolution in the organization's attempts to address the skyrocketing cost of employee health insurance.

"We offer prescreening so that employees know what is going on with their own health and so that they can work on improving their readings on each health measure before the premium changes take hold," says Sheriee Ladd, senior vice president of HR with Clarion Health. Moreover, once employees are paying a surcharge, they can be screened quarterly to see if their measures have improved enough to eliminate the surcharge.

"In 2002, our leadership team was wringing their hands about escalating health care utilization among the employee population," says Ladd. The organization began with a voluntary health risk assessment for employees with health coaching available to those who wanted to use it. To increase the 45 percent participation rates for the health risk assessment, the organization offered a monetary incentive to employees who filled it out.

That move brought participation up to 90 percent, but Clarion Health eventually made the assessment mandatory during an open benefits enrollment period in order to get participation up to 100 percent.

With the organization offering free health risk assessments to help employees identify potential health issues and free coaching to help employees deal with those issues, the leadership team decided it was time to make employees feel the impact of their health behaviors financially.

After providing free health risk assessments and health coaching, it's time for employees to feel the financial impact of their behaviors.

"We decided to put a stake in the ground by insisting that employees have a responsibility to themselves to be at the top of their game," says Ladd. "This is about the choices employees make and the responsibility attached to those choices."

Communication Remains Key

Organizations interested in following in Clarion Health's footsteps have a lot of work ahead of them. For one thing, Ladd recommends that organizations communicate these types of changes extensively. "You can't communicate enough," she says. "With any change, people react first and think later, and their first reaction is anxiety and panic." She emphasized the need to make sure employees understand the terms involved—for example, employees may not understand what body mass index means or they may not know how to read a body mass index chart correctly.

In addition, it is essential that companies understand the legal ramifications of their carrots and sticks. Organizations need to pay attention to laws and regulations on the state and local levels, as well as the federal level.

No matter what approach companies take, they need to keep in mind that the ultimate goal is to get employees' attention so that they begin to help themselves, change their behavior and improve their health.

Joanne Sammer is a New Jersey-based business and financial writer. Her articles have appeared in a number of publications, including Business Finance, Consulting, Compliance Week and Treasury & Risk Management.

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