The Role of Incentives in Health – Closing the Gap

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ABSTRACT Incentives motivate individuals to act in a certain way. Incentives are everywhere and in everything; they are woven into the very fabric of our lives. To address the issue of spiraling health care costs, incentive programs must be put into place to discourage the behaviors driving the growth of these costs. With nearly 75% of all health care costs associated with chronic diseases, most of which are preventable, the value of incentives must be recognized in policy and practice. Incentives can drive behavior, help realign the system, and improve the nation's health. Behavior change incentive programs have been successful for some large organizations in dramatically controlling health care costs when incorporated into an integrated plan redesign. It is necessary to both understand the types of incentives that are impactful and integrate these incentives into the plan design, the workplace environment, retail, education, and communities in order to impact the health of our nation.

INTRODUCTION

> "An incentive is a bullet, a key: an often tiny object with astonishing power to change a situation"
>
> — Steven D. Levitt[1]

In the USA, our health system is not only fragmented, but it is also more aligned toward "sick care" and consumption, instead of health care and prevention. With approximately 75% of all health care costs related to chronic conditions[2] – many of which can be prevented or modified by changing behavior[3] – it is critical that we shift our focus.[4] Are incentives the magic bullet that has the power to change this situation? In this article, we will explore the use of incentives structured to drive behavior change and realign the system toward improving the nation's health.

Incentives, in a broad sense, are merely mechanisms that motivate or encourage an individual to act in a certain way. The source of motivation can be from factors applied to individuals (extrinsic) or stem from internal or self-applied factors (intrinsic). The incentive type and amount, perceived value, and timing all play into the incentive's power to affect behavior. We begin with one of the most powerful incentives – money. We will review the literature on behavioral change to explore other forms of influence – at times more powerful than financial.

FINANCIAL INCENTIVES

> "When I was young I thought that money was the most important thing in life; now that I am old I know that it is."
>
> – Oscar Wilde

Some may object to Oscar Wilde's statement that money is the most important thing in life. But there is no denying that money is essential and one of the most sensitive topics to discuss. Money gives us the capacity in our society to attain goods and services. The theory behind financial incentives is built upon the concept that the desire for money drives behavior changes. Financial incentives are widely used in the business world and their significance can be quantified to help gauge the important question of "How much is enough?" To an economist, financial incentives in the form of differential prices are a critical component to rational decision-making.

We apply these incentives every day as we interact with various providers of goods and services. For example, when we buy groceries, there is a dizzying array of store choices. We each make a decision of where to shop based on a number of criteria, but one of the most important is the value received for price paid, which is critical to our individual choice heuristics. Financial incentives are individual and contextual – two individuals may view a $20 incentive very differently.

For a financial incentive to be effective in health care, it must be well constructed, feel "logical" to participants and be proportional to the value of the behavior change desired. In addition, incentives should be kept as simple as possible. When financial incentives in health care are overly complex, the result can be inertia – which is precisely *not* the desired outcome. Ultimately, in its simplest form, a financial incentive is a monetary stick or carrot that is meant to induce behavior change. The health plan designer identifies the amount of what the behavior change is "worth" and then designs an economic incentive to deliver the desired result.

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Health care incentives are inherently an economic concept: the health plan sponsor wants a result – healthy employees and cost containment – and is prepared to offer incentives to motivate behavior change that furthers the desired result. Traditional health plans use little to no incentives and therefore do not encourage "smart" behavior. Employers who deploy such programs reap what they sow: without any incentives, employees do not spend health care dollars wisely because they are not financially at risk. Consequently, employer costs continue to spiral out of control. Traditional plans are, in fact, structured to encourage out-of-control costs.

In contrast, a well-designed health plan creates market-like mechanisms for patients to respond like rational consumers when they face non-emergency choices. In other words, a well-designed program informs non-emergency consumers that they have choices, motivates them to use health care services when needed, and provides them with simple tools to become savvy health care consumers. Such consumers know – and expect – that if they choose not to shop or make a poor choice, they will pay the difference out of their own wallets.

Thus, one of the most significant changes is also one of the simplest: increasing the health plan member's first dollar amount responsibility. High deductible health plans are a plan design which has a larger annual deductible – generally defined as a deductible of at least $1,200 for self-only coverage or $2,400 for family coverage (based in 2010 – adjusted annually for inflation). Consumer directed health plans (CDHPs) are viewed as a subset of high deductible health plan (HDHP) as an offering that couple health reimbursable accounts or health savings accounts with the higher upfront deductible. They, too, have been growing in the employer market since their introduction in 2001. According to the National Health Interview Survey from the National Center for Health Statistics, the number of individuals enrolled in an HDHP by mid 2017 had risen to 42.9% (17.4% were enrolled in a CDHP and 25.5% in an HDHP without a health savings account (HSA)) of persons under age 65 with private health insurance.[5] The move toward a HDHP and preferably a CDHP is a fairly basic step to align the financial incentives of the member with health decision-making. The number of financial incentives integrated into the health plan design, however, has expanded significantly.

INTEGRATING INCENTIVES INTO HEALTH PLAN DESIGN

For incentives to work successfully, they need to be incorporated into the program design. The inherent appeal and value of health care incentives to both employers and employees have been growing. In 2012, 61% of companies polled were offering financial rewards for individuals participating in health management programs and activities, up from 54% in 2011.[6] Eighty-one percent of employers polled indicated that they planned on providing incentives to promote health and wellbeing by 2014.

According to recent research by MasterCard, the two primary motivators that engage people in wellness programs are: (1) improving personal health and wellbeing and (2) the opportunity to receive a reward or incentive. The top location for a wellness reward was the grocery store. Major barriers to participation were lack of time and unappealing incentives. Ultimately, these findings reveal that people value what they own and need convenient and relevant incentives. As a result, employers are increasingly considering plan designs where employees have a vested/shared interest in attaining certain goals.

Getting the incentive value right is also imperative. How much is enough to induce the desired behavior? How will people respond if the incentive is increased or decreased? What long-term effects will financial incentives have? There are no correct *a priori* answers to these questions. Rather, the answers will be found through a combination of judgment, experimentation, and analysis.

For incentives to be effective, they must deliver real value. An effective market-like incentive usually will satisfy three criteria: (1) the choice is of high value, (2) there is frequent occurrence of the choice, and (3) there is an opportunity to "shop" and make the choice. These criteria define a "sweet spot" for incentive design in health plans. "Value-based plan designs" take advantage of the sweet spot by placing incentives on high-value choices. For example, Safeway wanted to incentivize the use of a high-value service that is relatively frequent and where there is normally opportunity to shop – the selection of a primary care provider. Because we have a CDHP, the member would pay for all costs related to a service until they reached their deductible. This could be a relatively high dollar amount, say $1,500. Thus, if I had a $90 doctor visit I would be responsible for all $90 until I reached my deductible and the co-insurance phase. By placing a price of only $5 for primary care providers that met criteria for a patient-centered medical home we could incentivize the use of these providers. Rather than a narrow network approach which limits choices, incentives can be used to highlight some choices over others. This same construct can now be applied to medication adherence, wellness coaching, or other services that the payer deems to be of high value.

Often there are legal issues to consider when integrating incentives into health plans. The Health Insurance Portability and Accountability Act (HIPAA) defines both the maximum amount of premium-based incentives for demonstrated healthy outcomes (30% in 2014) and also the legal boundaries for an incentive program. Any organization desiring to use health plan incentives to motivate healthy behavior change should understand that HIPAA *does* allow it.[7] When considering how to structure and implement incentives, the organization should consult with a progressive attorney who is an expert in the field. In most organizations, this involves working with outside counsel.

Tax considerations are also important. The general principle is straightforward. Today, employers have a variety of

consumer-driven health plan designs they can offer their employees. Many of these plans include employee accounts that give an ownership to health care resources, and create options to reimburse employees with money they can use to make smart health care choices. One account type would be an HSA, a tax-advantaged medical savings account available to taxpayers who are enrolled in a HDHP. The funds contributed to an individual's account are not subject to federal income tax at the time of deposit and are owned by the individual. HSA funds can be used at any time for qualified medical expenses without federal tax liability or penalty. Another example, the health reimbursement arrangement (HRA), is similar to the HSA, but is a company-owned account, meaning that the employer can direct the use of funds. However, the underlying goal for any of these account-based plans is to allow employees to make choices with their own money.

Since employees pay premiums for employer-provided health care with pre-tax dollars, any incentives that adjust premiums or employer-funded HRA accounts are also pre-tax items. In contrast, when incentives are delivered as goods or services – such as redeemable points or gift cards – the incentive is taxable to the employee. If the employer wants to preserve the face value of the incentive, the employer must "gross up." This increases the cost of the incentive to the employer and explains why many programs are structured around cash, premiums, or HRA contributions. Once again, consulting outside experts is a good idea for plan designers.

To make a program engaging, it needs to combine an understanding of wellness challenges with the responsibility to inspire changes. Currently, 16% of employers require employees to complete either biometric screening or a health risk assessment – which includes measuring health factors like weight, cholesterol, and blood pressure – prior to enrolling in health plans.[4] Pre-enrollment screening gives employees the opportunity to understand where they can make improvements and minimize their health risk. The rewards for completing the screening or meeting specific criteria can then be tailored to each employee in programs that address specific health risks, such as high cholesterol. In addition to improving wellness, ownership will create opportunities for employees to save. It is essential that employees be given access to transparency tools that allow for comparison-shopping in health care that already exists in other sectors of the economy.

Another example that shows the power of integrating incentives into health plans is the combined use of a remote diagnosis tool with incentives that encourage self-care. Providing employees with a dedicated nurse line is a proven way to prevent or reduce unnecessary doctor or emergency room visits. When using the nurse line, employees are directed appropriately to either seek out professional medical care, partake in self-care, or potential warning signs which may indicate the need to seek professional medical care. This type of targeted incentive program helps drive employees and members to use self-care options. Employers can also expand on self-care by making over-the-counter (OTC) drugs available at a discount through incentives programs. OTC medicines prevent unnecessary doctor visits, avoidable hospital stays, and the use of higher cost prescription medication. Consequently, they save consumers and health payers time and money. Recent estimates for the USA suggest that these savings may be as high as $102 billion annually, or an estimated $6–7 in OTC value for every dollar spent.[8]

As we understand more about the impact of incentives, the motivations they feed or satisfy, and their link to human behavior, we need to apply this knowledge to the existing programs that aim to improve population health. Employers, schools, the retail sector, the commercial sector, and communities all have the potential to positively influence health behavior by strategically deploying incentives. All of these entities have made significant efforts to influence health via programs targeting specific health behaviors. However, the success of these programs has varied, with some achieving widespread adoption and others falling short. A critical factor when developing such programs is the thoughtful implementation of the right incentive at the right time. By making a program inherently engaging, the target audience drives its success through the experience, taking ownership and satisfaction of the progress they make. The challenge is in knowing which incentive to use and when.

Beyond incorporating lessons from academia or the private sector, there are some basic considerations that will streamline the design of any program. Any potential participant will inevitably ask the question "What's in it for me?" The ability to answer this question is important in a world that moves as fast as ours, with a plethora of stimuli vying for our attention. Having incentives is not enough; highlighting them in a manner that resonates with the target audience is essential to good program design. Additionally, it is critical to track the incentive strategy and evaluate its impact.

Consider this – the majority of choices and behaviors an individual makes that impact chronic disease – dietary choices, physical activity habits, stress management, etc. – actually take place outside the medical setting. Programs designed to help individuals modify existing or adopt new behaviors should incorporate the appropriate incentives to effectively achieve the intended goal. Failure to thoughtfully incorporate incentives into program design is likely to prevent the realization of a program's full potential.

MORE THAN MONEY

> "What we learn from behavior economics is that the moment a metric is created it generates an incentive for people to pursue it."
>
> — David Amerland

There are social, cognitive, and emotional factors that influence economic decisions.[9] Known as behavioral economics,

this field provides insights into financial incentives relative to plan and program design while recognizing the bounds of rationality.

Picture the following scenario. A person goes to a grocery store and spends a lot of time flipping through coupons and comparing prices while shopping. Then, at the moment of check out, the same person impulsively throws a full-price candy bar into the cart. What just happened? Behavioral economics tries to answer questions like these by looking at the systematic way people make decisions that can lead to consistent errors in judgment, or actions that defy rationality.

One theory developed by behavioral economists is the idea of loss aversion. Many, if not all of us have at some point held on to something for too long – whether it was a stock, a piece of property, or even a relationship! When it comes to losing something that we have, our inertia defies economic logic. Sometimes we end up losing even more, or miss out on greater gains. Loss aversion applied to wellness programs may come in the form of having individuals pay for a program but be given the opportunity to receive their money back if they complete it. Safeway employed this concept in a weight loss program and found greater participant engagement and success. A study by Volpe et al, they also found that the use of economic incentives through a loss aversion design produced significant weight loss during the 16 weeks of intervention.[10] This highlights how concepts like loss aversion can be applied for the successful completion of a defined program, like a 16-week intervention.

Another notion is choice architecture. Despite pricing differentials, the mere location of a product may prompt a selection.[11] Every day, we see the concept of choice architecture in marketing. Product placement – whether in a store or in ads on a web page – is based on the understanding of choice architecture. In the area of wellness, this concept can be applied to increase the likelihood of success. Significant attention should be placed on how we market our wellness programs to achieve greater engagement. Additionally, Safeway has applied this concept with healthy foods in their employee cafeterias with healthy food options at the checkout register. Companies can also look to providing healthy options in break-room vending machines.

In addition to choice architecture and loss aversion, there are several additional concepts that shed light on decision-making. One involves the many mental shortcuts that we engage in decision-making known as heuristics, or experience-based problem-solving techniques. Psychologist Daniel Kahneman suggests that heuristics enables "fast thinking".[12] Although helpful in many instances when automatic and reflexive decision-making is needed, it also has its limitations. When we think fast, we allow heuristics to guide our decision-making, bypassing relevant information that would, perhaps, change the choice or decision if we had taken the time to examine the evidence. Heuristics can lead to snap judgments, impulsive choices, and bias. Heuristics are critically important to understand because they are essentially the reflex pathway that can both support or hinder health.

Additionally, the lens through which an individual views a situation can significantly alter their response. How an individual chooses to perceive a situation is known as framing. The ability to frame an event as positive or negative has significant influence on behavior and helps to explain why a person who experiences a traumatic event may reflect on it as either a watershed moment for growth or the cause of a downhill spiral of events. Framing suggests that one's decisions are impacted by the way information is presented and interpreted.

David Amerland, in his quote that started this section, points out in his work with Google that people are incentivized to act when they can see beyond financial motives. The implication for health care incentives is that well-constructed programs may, by design, create inherent incentives for behavior change. Thus, how we are "wired" may be leveraged to create the internal incentive to act in a way that improves health. That "wiring" involves our established heuristics, how we frame situations, our reaction to choice architecture, and our response to loss.

As we consider the practical application of the various concepts we have discussed, we are compelled to highlight the role of hope and success.

THE POWER OF HOPE

> "There is no medicine like hope, no incentive so great, and no tonic so powerful as expectation of something tomorrow."
>
> – Orison Swett Marden

Hope. In the annals of history, there are countless examples of overcoming tremendous barriers and circumstances through the power of hope. Practitioners of medicine are well acquainted with the importance of sustaining hope for their patients. Hope's role as part of the incentive programs in our health care system is multi-layered. On a global level, hope is needed to promote and advance the hard work being done to improve our health care system and the health of our nation. On an individual level, hope is needed to sustain oneself through the challenge of maintaining long-term behavioral changes. With every taste of success, we generate more hope. It is the success that frames our thinking that we can be successful again. The importance of success in the design of our programs cannot be overstated. Success coupled with a reward creates a powerful connection for our brains. There is a large body of research that highlights the neuroscience of reward and motivation.[13,14] Research points to the importance of the limbic system, in particular, the nucleus accumbens, in learning new behaviors through the pursuit of rewards. It appears that activity in the nuclear accumbens scales linearly to the probability of receiving a reward. Our growing understanding of how our brain is wired to respond

to rewards can be used to design programs that are designed to nudge behavior towards improved health.

Practically speaking, this suggests that sustained behavior change can be reached when we create opportunities for success and immediately reward that success. Safeway has implemented a program internally known as One simple change that focuses on discrete, attainable actions followed by rewarding success. In the program, they break large health challenges into small, specific objectives and provide instant feedback that celebrates success. The public celebrations of the many individuals who have told their success story give everyone hope.

HEALTH INCENTIVES – WHAT THE FUTURE HOLDS

Most organizations have not yet used incentives in an impactful way. But this is changing and the future of incentives holds much promise. Increasingly, the principles described above will become commonplace. In tomorrow's health care world, a new social contract may evolve between employers who offer health care coverage and their employees who participate. The employer accepts the responsibility to offer competitive, affordable plan options. The employee accepts responsibility for health behavior, and together programs are designed and integrated that lead towards sustainable change.

The future of health care will be relationships that expand beyond the employer, provider, and payer, to include the integration of fitness, nutrition, and preventive lifestyle measures. Incentivizing healthy lifestyles and good choices at the grocery store will be as important as delivering care at the doctor's office. Employers and payers need to create incentives that apply outside of traditional health care to incorporate discounts on healthier food, rewards tied to fitness tracking devices or progress on key biomarkers like blood pressure and cholesterol levels.

Government has a key role to play in considering these key concepts in the design of policies that advance the objective of a healthier nation and a more sustainable health care rate of cost growth. Organizations that are administering health plans will need to thoughtfully design and report on their results to help guide policy.

SUMMARY

The majority of all health care costs are related to chronic conditions, many of which can be prevented or modified by changing people's behaviors. Incentives that are carefully structured to drive behavior change offer a solution that can help improve the nation's health while lowering health care costs. Incentives work best when there is a culture of vested ownership and responsibility. Understanding the type of incentives that matter to individuals and integrating them into plan design, the workplace environment, retail markets, education, and communities is needed to positively impact the health of our nation.

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