February 2020 • Allie Ilagan and Gabe Priyev

Incentivizing Wellness:

How much money should employers offer in an incentive-based wellness program?

An employer resource from

IncentFit

Incentivizing Wellness:

How much money to offer in an incentive-based wellness progam?

EXECUTIVE SUMMARY

Corporate wellness programs are designed to support and encourage a culture of good health among employees. Approaches vary, but the most effective programs include financial incentives to encourage participation.

Employers often struggle to understand how to structure a financial wellness incentive, how much makes sense to offer, and what it will ultimately cost the company.

This paper will help employers understand the factors that make up these decisions, and evaluate which level of financial reward is most suitable.

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Introduction

For years, employers have been using wellness programs to promote better health among employees. These programs are designed with many goals in mind: supporting a culture of health and wellness; controlling healthcare costs; improving productivity and morale; team building; reducing HR and administrative burdens; attracting top talent, and more.

While the goals behind these programs may vary, the most widely-adopted and successful initiatives have a financial incentive component. But management teams leading these initiatives often struggle to figure out exactly what to offer and how much makes sense for their company and employees.

Over the last five years, our company **IncentFit**—an incentive-based wellness benefits provider—has gathered data as we observed and guided employers in launching their wellness programs.

One of the features that makes IncentFit unique is that our platform is built with extraordinary flexibility, so no two programs are exactly alike. This also means that we've seen the full range of financial incentive approaches and understand the challenges that come with making strategic decisions that will affect the lives of your employees and their health. Our viewpoint into hundreds of employers allows us to objectively advise other companies on how to make these decisions going forward.

Among the 250+ different employer plans currently in our database, our system represents roughly 200,000 lives from companies as small as 10 employees or Fortune 500 companies with 20,000 people or more.

This diversity offers us an advantage, as well as some challenges, especially in the case of data analysis. For this survey, we filtered out certain groups for various reasons, including: any groups that were not with us for the entirety of 2019; groups with substantial changes in employee numbers over the course of the year; companies that don't allow us to use data in anonymous aggregated studies; groups not offering any financial incentive; and any groups whose rewards were not in US dollars.

Altogether, our sample for this research includes 95 companies, with complete data pulled from January through December, 2019.

Understanding Incentives

The Architecture of Incentives

In initial conversations with employers, we often hear two questions: *what are other people doing? And how much should we offer?*

Before determining what's right for any individual organization, it's helpful to know what's happening across the industry. There are four distinct structures to wellness programs with financial incentives, and the money offered through each structure depends on several factors.

The first program type, which we call **Activity Rewards**, is an incentive structure of micro-earnings that are accrued incrementally as employees complete activities such as regular exercise, visiting a gym, obtaining a flu shot, or receiving annual health screenings. The only way employees can access the incentive is by completing activities. Employers who choose Activity Rewards are frequently focused on improving employee engagement and spurring activity year-round.

Reimbursements are another type of incentive structure built upon paying employees back for what they paid, rather than what they did. With this incentive, employees can be reimbursed for fitness-related expenses, with proof of purchase, up to a certain amount per year.

This is often used to subsidize individual gym memberships, fitness classes, or exercise equipment, though some companies extend this to more expensive or niche expenses, such as bike share memberships, family gym memberships, or personal training. The top concern for these clients is reducing the financial (and often, administrative) burden to health and fitness.

THE FOUR INCENTIVE PROGRAM STRUCTURES:

- Rewards for completing activities
- Reimbursements for wellness-related purchases
- Reimbursements for gym memberships, tied to proof of attendance
- A combination of the above

Similarly, some companies choose a program of **Reimbursements with Gym Check-Ins.** The incentive mechanism is still about paying employees back for what they've paid, but requires an extra step—essentially saying "we'll pay for your membership, but you have to use it."

In order to get paid back with this structure, employees must submit prof of purchase alongside proof of attendance at a fitness center (commonly through geolocation-enabled check-in via an app, a paper or digital gym attendance log, or by scanning a QR code within the fitness center.)

The final structure is a **combination** of the above. The challenge with analyzing these clients is that, as we've said, no two plans are alike.

One employer may offer activity rewards, with incentives for walking, running, and gym check-ins, alongside reimbursements -- say for example, up to $100 in purchases per year. Or, another employer could offer $500 in total, which employees could earn however they like by either completing activities, submitting receipts, or both.

These use cases are rare and are mostly implemented when employers have a very specific program goal or other constraints in place; in our review, only 7% of companies chose a combination program.

Program Structure Across the Industry

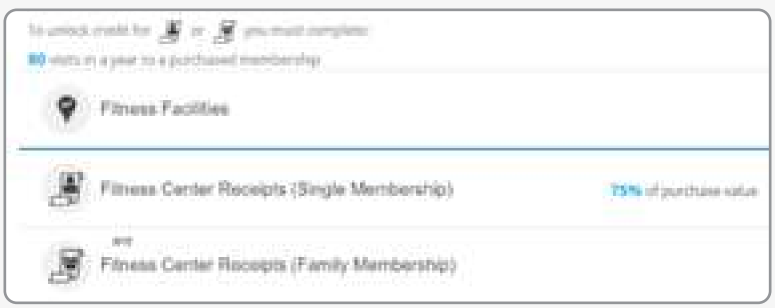
We've seen that program structure aligns closely with company size. From there the incentive amount varies, as does the amount that people participate and the overall cost to the company (also defined as participation rate and financial utilization).

Interestingly, we found no correlation between company size and participation or financial utilization.

EXAMPLE PROGRAM PLANS

A sample **Activity Rewards** plan includes up to $750 per year for completing activities including walking, running, cycling, exercising at a fitness facility, or finishing a race.

A straightforward **Reimbursements** plan includes up to $600 per year for fitness activities and memberships or equipment purchases.



In an example **Reimbursements with Check-Ins** plan, this company reimburses up to $500 per year. Employees can earn this by submitting receipts for either a single gym membership or a family membership. They *must* show proof of at least 80 visits per year in order to receive any reimbursement.

In this example **Combination** plan, this company offers employees up to $1,000 per year in total. The employees can choose how they'd like to earn that reward.

The plan provides partial reimbursement for memberships and fitness purchases, or activity rewards for completing activities such as exercise or getting an annual physical. This plan is more complex than the other examples here, and for this reason combination type plans tend to be less common than other options.

Activity Rewards plans make up the majority of our database. Of all employers, 75% provide an activity rewards program—**but that 75% represents only a third of our overall users.**

Consequently, less than 20% of employers in our system have implemented a **Reimbursements** plan, but that represents 69% of the people.

This difference is because large employers overwhelmingly choose reimbursement-based programs, either with a gym check-in component or without. So, fewer companies, but larger ones.

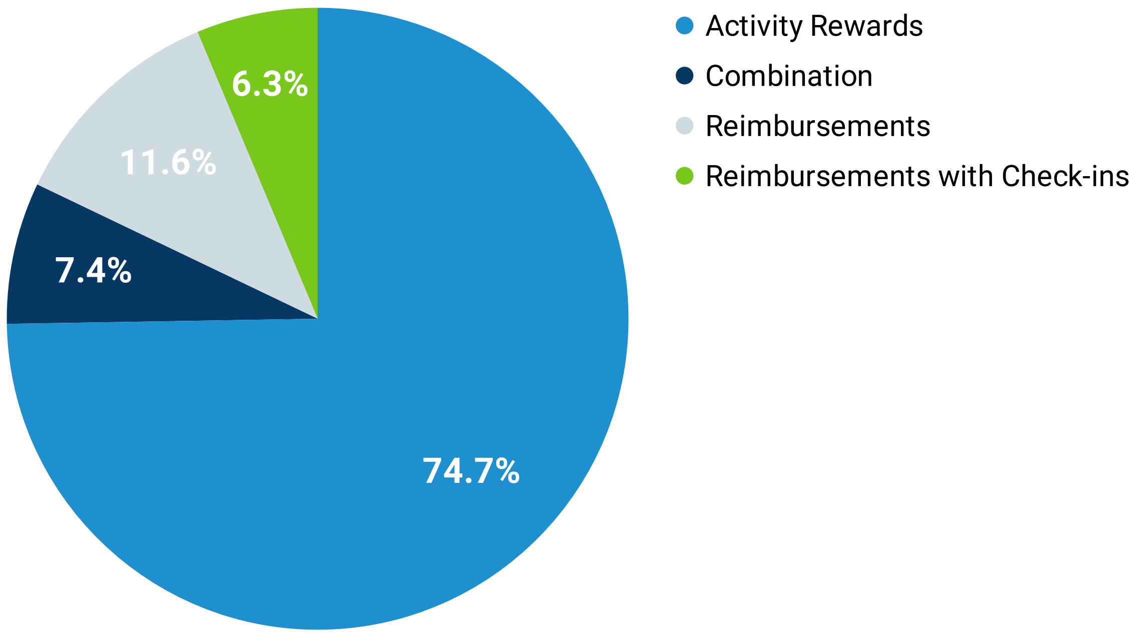
This is even more clear when breaking it down by company size: of companies with 100-999 employees, 65% opt for activity rewards; for those with 100 or fewer employees, that number rises to 75%. But for employers with more than 1,000 employees, more than half implemented a reimbursements program.

DECODING THE TREND This difference in program choice can be linked to resources and budget. Larger companies typically have more resources available to put toward wellness; small companies are looking for the best bang for the buck.

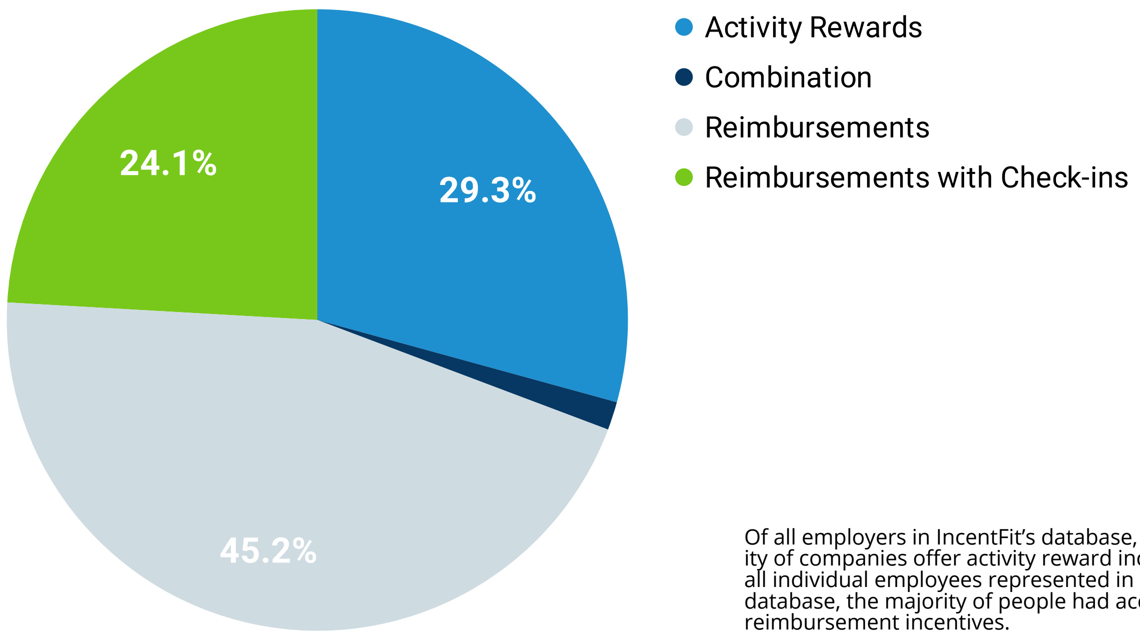
Reimbursement programs are the most expensive to run but frequently appear high on lists of most-wanted workplace perks. For large employers looking to easily increase employee satisfaction across a big population this program makes sense despite the investment.

For smaller companies, the goal is often to maximize program engagement with minimal spend; in those cases, activity rewards programs are most fitting.

PLAN TYPE BY NUMBER OF EMPLOYERS



PLAN TYPE BY NUMBER OF EMPLOYEES



Of all employers in IncentFit's database, the majority of companies offer activity reward incentives. Of all individual employees represented in IncentFit's database, the majority of people had access to reimbursement incentives.

Understanding the Investment

Budgeting, Financial Utilization, and Participation

To determine how much to offer each employee requires looking at the larger picture, and understanding how employee action affects spending. The investment into a wellness program rests largely upon **participation**—that is, the percentage of people who are completing actions that earn them money.

As an example, say a company of 1,000 employees decides to offer $500 per employee per year. They might be afraid that would mean a total budget of half a million dollars ($500 reward x 1,000 eligible employees = a hefty sum). In reality, only a percentage of that will be spent!

The key term here is **financial utilization**—the percentage of the total budget that a company is really spending. Financial utilization depends upon participation. As people participate in the program, they complete actions that earn them money. How much money is spent depends on what they do and what the program includes.

If the company in our example chose an Activity Rewards structure, by looking at our data we can predict that they would see average annual participation of 60-70% and financial utilization of around 35-40%. So for that company a more realistic annual financial utilization would be $175,000-200,000 instead of half a million.

How does that work? Why aren't participation and utilization numbers the same? Because an employee might go for a run for an hour and earn $5 (based on their plan of $1 per mile). Or they might visit a yoga studio and submit a receipt for the $15 class. That person hasn't earned the maximum amount possible, but they've still participated and earned something. The action they've completed counts for participation, and the amount they've earned contributes to financial utilization.

TERMS TO CONSIDER Participation and engagement numbers are extremely inconsistent in the wellness industry. Always be careful when comparing these numbers across wellness providers, as they are usually measured in completely different ways. This is how IncentFit thinks of these terms:

BUDGET: What is the total amount set aside for wellness for the entire year, including rewards, fees, and administrative costs, vendors, etc.?

PARTICIPATION: How often are people participating? What percentage of people are using it monthly/annually?

FINANCIAL UTILIZATION: What percent of the total budget was spent? How much money is being spent on a per person basis?

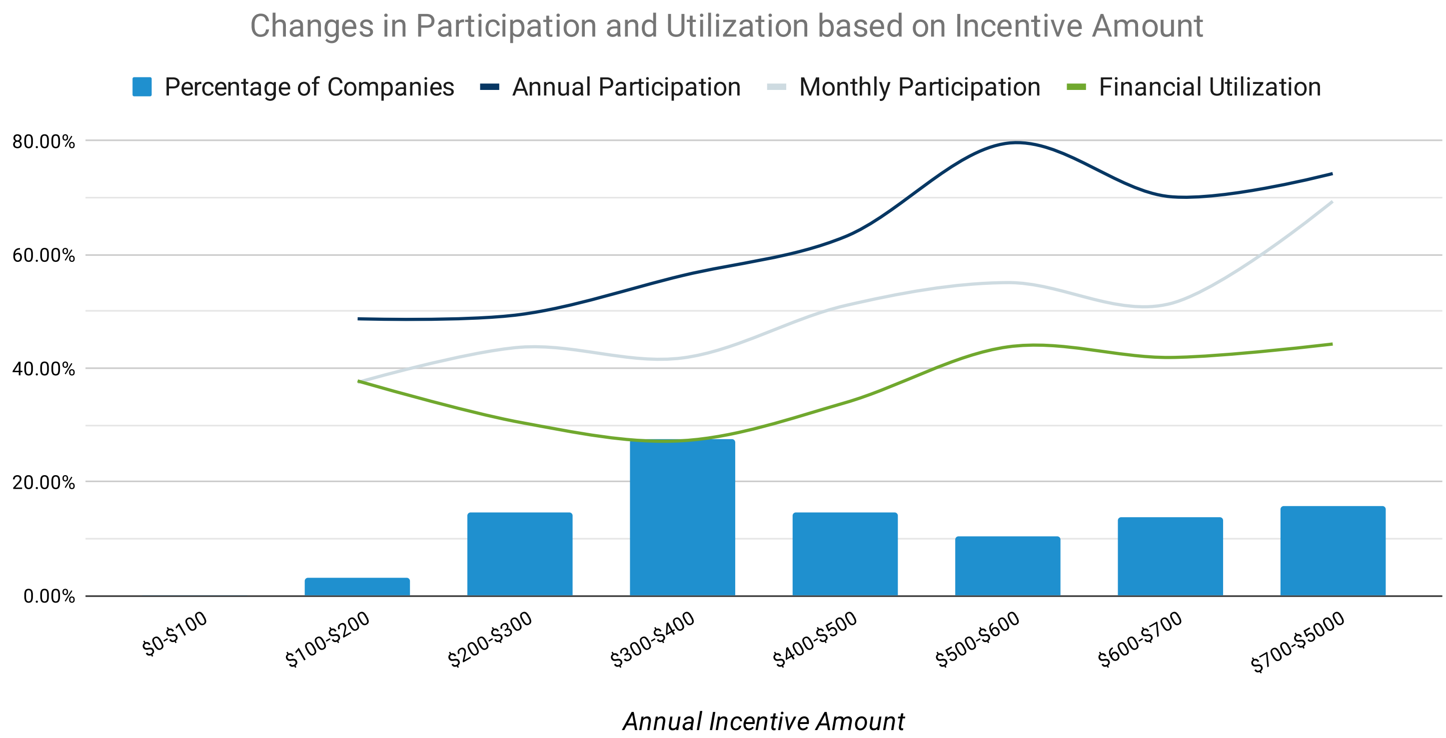
Across the Industry

What amount is right for a small business? A large international corporation? Which programs get the highest participation? And which get the highest financial utilization? The answer is not one magic number, but a range.

By Program Type

As we've seen before, by far the most popular program type by company is **Activity Rewards** (75%), but this program represents only 29% of users. This shows us that many smaller companies are choosing Activity Rewards.

Meanwhile, **Reimbursements** represent roughly 18% of companies, but the majority of users— 69%. Another way of looking at this data: a small sample size of much larger companies are choosing Reimbursements.



In the chart above, the data show that annual participation, monthly participation, and financial utilization trend upward as employers increase the annual reward.

By Participation and Financial Utilization

Regardless of program type, we've learned that employee participation (monthly and annually) goes up as employers offer more money.

Financial utilization trends slightly upward as well but largely hovers around 37-40%, rarely going higher, whether you offer $200 or $1000 a year.

Participation is highest with activity rewards programs, with an average participation rate of 69% per year and 58% monthly. Activity reward programs are designed to spur regular, ongoing engagement; people simply have to participate in order to earn any kind of reward. That's why we see higher monthly participation with these groups.

For activity rewards programs, the highest participation occurs when companies offer a range of $500-600 per year.

POINT OF INTEREST

A possible sweet spot: $300-400 per year.

As shown in the combination chart (pg .15), companies offering this much saw an average monthly participation of 42% and an annual participation rate of 56%, but a financial utilization just slightly less than other ranges. Higher engagement for less spend. (We'll be keeping an eye on this range going forward.)

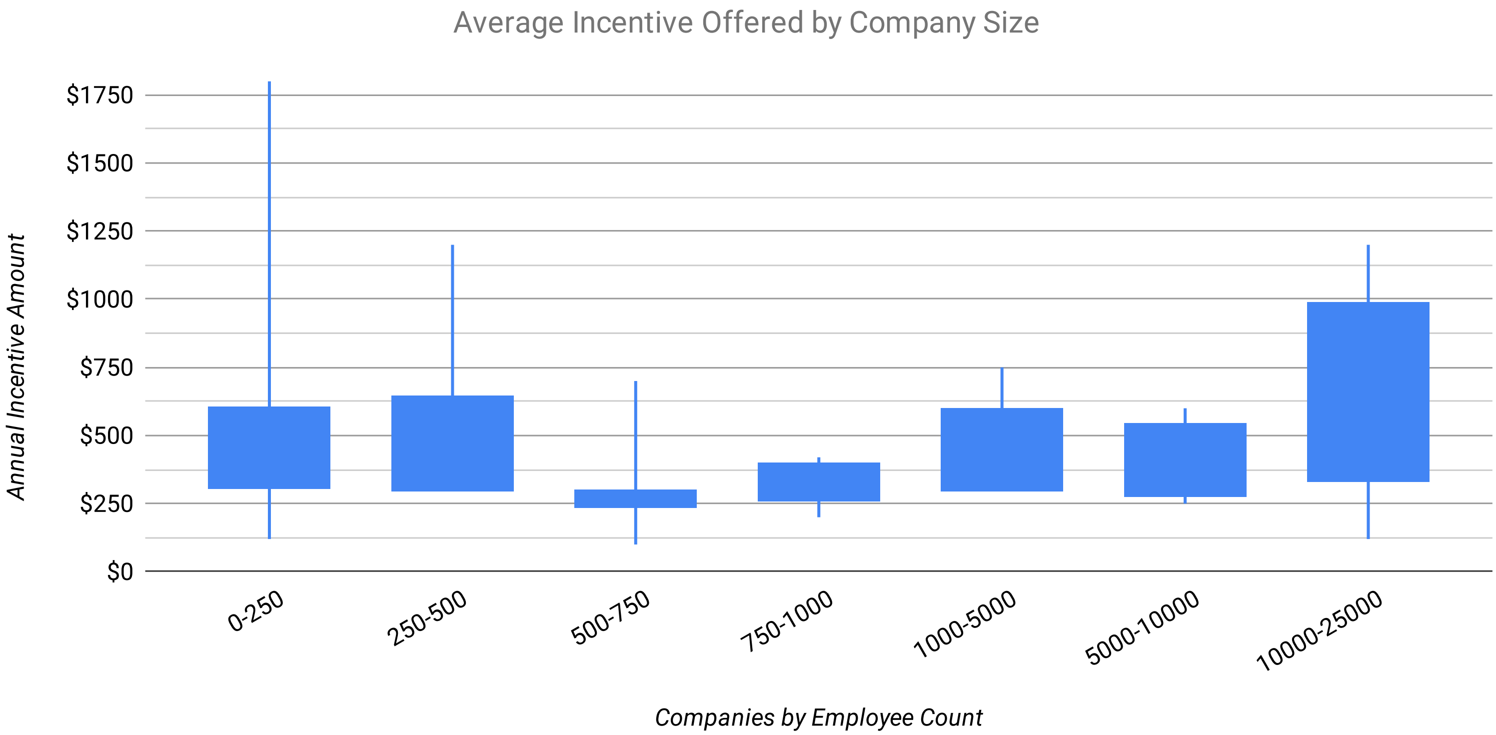
Monthly participation is lower with reimbursement programs, but annual participation holds steady around 75%. Financial utilization is always highest with reimbursement programs, at an average of 39% per year.

By Reward

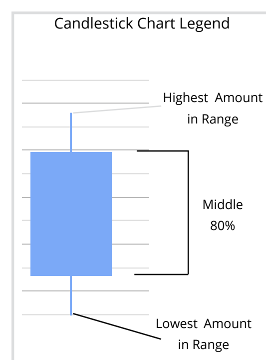
As for how much to offer: across the board, we saw that companies offer between $250-600, regardless of company size.

Curiously, the largest range in what's offered happened in the smallest companies. Some small employers offer a huge incentive (up to $1,800) but the majority don't.

The majority fall around $500. No one offers less than $100.



We've seen that most Activity Rewards clients (approximately 75%) offer between $250 and 750— most closer to the $250-500 range. Reimbursement clients offer a bit lower in the range; half of those clients offer $250 or fewer per year.



Ultimately, we can derive a strong relationship between how much money a company offers as a wellness incentive and how well employees will engage with it.

Understanding Your People

Take this example. A company of 500 employees in a rural area offers the same gym reimbursement amount as a company of 500 employees in a bustling metropolis. The latter sees very poor engagement in the program. Why?

There is not one magic number or solution that will work for all companies of a given size. There's also the **human factor** to consider. What circumstances will affect employees individually?

In this example, had the urban company understood that the cost of living, and consequently, the cost of local gym memberships, is quite high—higher than it would be for employees working in a more affordable area—they could have chosen to offer more money. Instead, their employees saw the incentive as more of a "token" than a meaningful perk, and chose simply to not participate.

We recommend taking the guesswork out of the process by running surveys. Ask your employees! What are they paying for gym memberships? What exercise do they do? What do they need? It is important to capture all of this information before you run a program lest you disappoint employees...and see a poor return on investment.

SOME QUESTIONS TO CONSIDER:

- What are your population demographics? Are employees older or younger? Are they already physically active and fit, or will this be a new experience?
- Are they generally healthy, or are they experiencing health concerns and illnesses?
- Are you in a rural, suburban, or urban area? Do your employees walk, bike, take public transportation, or drive to work?
- Will your employees want to attend a gym, or do they prefer different activities, including outdoor exercise? Are there many gym options in your area, or a limited selection?
- What is the cost of living in the area?
- Do you offer competitive compensation? What other benefits do you offer?
- Is your team comfortable with app-based programs? Are they open to new technology?

"Ultimately, we can derive a strong relationship between how much money a company offers as a wellness incentive and how well employees will engage with it."

Conclusions

Designing the ideal wellness incentive program can be complicated, but it helps to look at the larger picture and work from there.

When choosing an incentive structure, employers should first **consider company size.** Smaller employers may see better results from an Activity Rewards program. Larger ones will most likely benefit from a Reimbursements program.

Regardless of program type or company size, we know that **employee participation increases as employers offer more money**. Financial utilization trends upward as well, though less dramatically than participation.

To get the best participation, we recommended **offering $250-600 per employee per year**. But, individual factors will affect whether a higher or lower number within that range will work best. **Anything less than $250 per year is not advised.**

These decisions are challenging, but worthwhile. Talk to the experts. Consult a broker well-versed in wellness programs. And most importantly, talk to your employees so you aren't making decisions for them without their valuable input.

IncentFit is a health and wellness benefits company. Founded in 2013 as part of New York's BluePrint Health accelerator and new headquartered in Philadelphia, IncentFit now supports hundreds of employers and health insurance providers across diverse industries—from major financial firms to manufacturing powerhouses, to public universities and nonprofits.

Visit IncentFit.com to explore wellness options and speak with a benefits expert.

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