

Benefits & Compensation

Vol. 46, No. 2 February 2009

DIGEST

Biometric-Based Health Plans:

Is the Latest Innovation in Health Plans Right for You?



by **David Flotten**

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The next logical step in a shift toward consumer-driven health services and employee wellness initiatives, biometric-based health plans offer incentives to employees for reaching certain health targets. This article describes the range of biometric plan design options, legal restraints and accommodations that must be made for employees who would have difficulty reaching the optimal health targets. It also touches on how corporate culture and communications can affect a plan's success.

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Biometric-Based Health Plans

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Biometric: The measurement and analysis of unique physical or behavioral characteristics.

—Merriam-Webster Dictionary

Employers and insurance companies are striving to create financial incentives to make employees more savvy consumers of health care services. At the same time, we are seeing greater emphasis on employee wellness, on the theory that healthier employees have fewer claims, thereby reducing health plan costs.

Biometric-based health plans are the next logical step. They combine features of both consumer-driven models and wellness by providing financial incentives for employees to make healthy lifestyle choices. Recent regulatory guidance has helped clarify the legality of such plans. Insurance companies and vendors have begun offering products and services to make it easier for employers to implement them. You will be hearing more about biometric plans in the coming months.

What Are They?

The primary feature of a biometric-based plan is that participants can earn financial incentives by meeting targets on certain biometric measurements. Those measurements and targets tend to indicate overall health.

The theory behind the plan design can be summarized as follows:

- An employee who is offered an incentive is more likely to achieve a specified biometric target.
- Employees who achieve the targets tend to be healthier.
- Healthier employees tend to have fewer claims.
- Fewer claims lead to cost savings on the health plan.

In addition, studies have shown that healthier employees tend to have less absenteeism and fewer work-related accidents and injuries. These employees tend to be happier and more productive. In other words, the potential benefits and cost savings are not limited to the health plan.

Biometric plans differ from traditional wellness plans in that most traditional

plans merely encourage or reward participation. The plan might offer an incentive for agreeing to a health risk assessment or to visit a gym regularly. In contrast, a biometric-based plan provides rewards for achieving specified health outcomes—for example, having a body mass index or cholesterol level below some specified maximum.

A typical biometric plan has three key components (although other structures are possible):

1. A major medical plan with a high deductible provides catastrophic coverage.
2. A vendor conducts biometric tests on plan participants. Testing may be limited to employees or may be expanded to include spouses and other dependents enrolled on the major medical plan.
3. Participants receive a financial incentive for each biometric target achieved. Most often that financial incentive consists of funds that can be used to offset the major medical plan deductible.

Plan Design Options

From this basic concept, a range of plan design options are possible. For example, the employer can choose which biometrics to measure as well as the targets that must be achieved to earn the incentive. Commonly measured biometrics include:

- Tobacco use
- Body mass index (BMI)
- Cholesterol
- Glucose
- Blood pressure.

Note that the incentives need not be tied to each separate biometric target. For example, it's not uncommon for employers to adopt a point-based system. Employees earn points for each target they achieve (these needn't be the same across all categories), and the total score determines the amount of incentive the employee earns. This system makes it easier to incentivize other wellness activities not directly connected to the biometric measurement process by awarding bonus points for things like participating in a walking program, attending a wellness seminar or subscribing to a wellness newsletter.

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More Information

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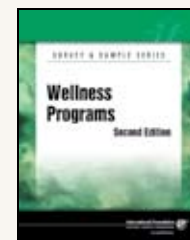
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The employer also has flexibility—within certain legal limits—in determining the amount as well as the form of the incentives. For example, the employer may choose to make contributions to a participant's health reimbursement arrangement (HRA) or health savings account (HSA) for each biometric target achieved. Alternatively, a participant may be entitled to increased employer premium contributions on the major medical plan for each biometric goal he or she achieves. The advantage of these incentives is that they are tax free. Cash incentives are another option, but they will result in taxable income.

Other Plan Design Considerations

Employers may provide alternative standards for employees who do not or cannot meet a specific biometric target. For example, the plan might provide \$200 for achieving a specified BMI but also allow participants who don't meet the BMI target to earn the incentive by agreeing to a

regular exercise regimen and showing progress in improving their BMI. Participants who don't reach the BMI target may earn a partial reward for being within a specified range. In some cases, the law requires an alternative standard. But even where they are not required, alternative standards may encourage unhealthy employees to try to improve their scores and not simply give up.

The employer also must consider who is eligible to earn the incentive. Employees enrolled in the employer's health plan are the most obvious and common targets of incentives. However, it often makes sense to make the biometric screening available to employees not enrolled in the plan, even if they can't earn the incentive. Many employees do not take the time on their own to learn the type of information a screening discloses. Sometimes just better understanding screening results can help employees identify health issues and/or become motivated to be healthier.

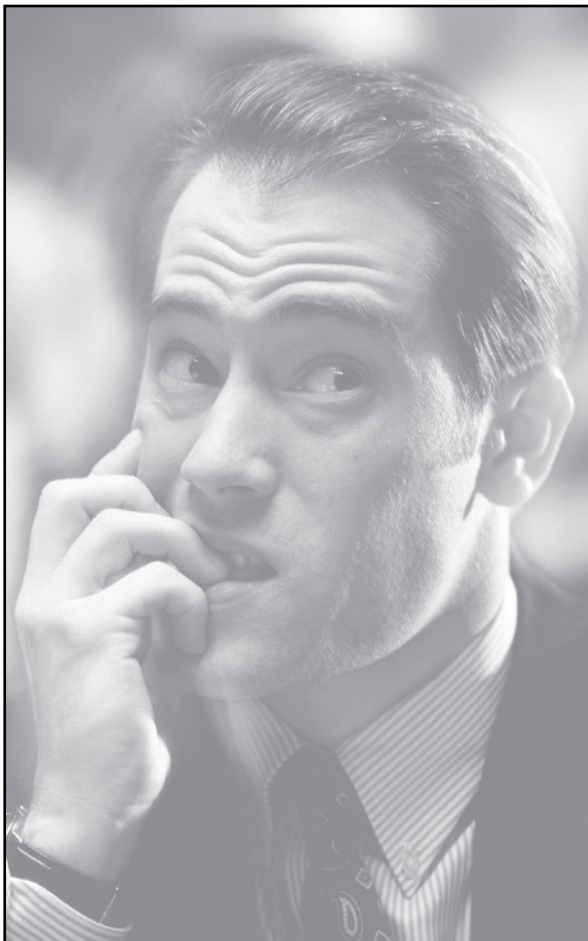
The other group that should be considered for biometric incentives is spouses of employees enrolled in a group health

plan. Spouses' claims drive up health plan costs just as much as employees' claims. From a financial perspective it makes sense to try to motivate spouses to improve their health through biometric incentives. Moreover, allowing spouses to earn incentives allows the employer to offer larger incentives (see Legal Constraints below). However, testing spouses often involves greater logistical challenges than testing employees who are at work anyway. Testing spouses may also be perceived as more intrusive and may create morale issues, so costs must be carefully weighed against potential benefits.

(Dependent children are rarely included in the testing. The likelihood of achieving significant financial savings by conducting biometric testing on children rarely justifies the logistical challenge and morale costs of testing them.)

Legal Constraints

Biometric-based plans must satisfy certain legal requirements. Although an employer may receive aggregate data on



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all employees' test results, HIPAA and the Americans with Disabilities Act (ADA) generally restrict employer access to individual employee test results. Only the biometric testing vendor knows individual results. The vendor tells the employer an employee's total score or the amount of incentive the employee has earned based on that score. The vendor also shares the results with the employee and commonly provides a health care professional who can review the results with the employee and suggest ways to improve. This layer of confidentiality is important not only for legal reasons but also to make employees comfortable with the plan; many employees are concerned about their employer learning their personal health information.

Most biometric plan designs must also comply with the HIPAA Wellness Program rules. Those rules divide wellness programs into two categories: participation-only programs and standards-based programs.

A participation-only wellness program is one in which either (1) there are no rewards, incentives or penalties offered in connection with the wellness program or (2) any reward, incentive or penalty that is offered is dependent solely on participation in the wellness activities, not the outcomes of those activities. Examples of participation-only programs might include:

- Employees are given paid time off to attend a wellness fair.
- Participants in a walking program receive a free T-shirt.
- Employees who agree to participate in a health risk assessment and review their results with a nurse receive a \$50 credit toward their health insurance premiums.
- Smokers can participate in a smoking cessation program free of charge, regardless of whether they successfully quit smoking.

Participation-only programs are not subject to any special rules, as long as they are equally available to all similarly situated individuals.

Standards-Based Wellness Programs

On the other hand, a standards-based program is one in which a reward, incentive or penalty is tied to the individual's ability to meet a standard related to a health factor. Biometric-based plans fall

squarely into a standards-based program category. (The exception is a biometric-based plan where the wellness incentives consist solely of contributions to a health savings account (HSA). The Department of Labor has stated that HSAs generally are not group health plans and therefore would not be subject to the HIPAA Wellness Program rules. It is important to note that the employer must also have a cafeteria plan in place that allows pretax employee HSA contributions in order to avoid the HSA comparability rules.)

Standards-based wellness programs must satisfy five criteria:

1. The program must be designed to promote health or prevent disease.
2. The program must be available to all similarly situated individuals.
3. Individuals must have the opportunity to earn the incentive/avoid the penalty at least once a year.
4. The total amount of the reward/penalty on all standards-based programs cannot exceed 20% of the total cost of single coverage on the group health plan. If spouses or dependents are eligible for the incentive/penalty, the total reward/penalty cannot exceed 20% of the total cost of the applicable family coverage. Note that the 20% limit on rewards includes both the employer and employee share of premiums. Employers should also be able to include administrative and other costs related to the health plan, for example, third-party administrator fees and the cost of conducting the biometric testing itself.
5. Individuals who are unable to meet a standard because of a medical condition that makes it "unreasonably difficult" or "medically inadvisable" to attempt to do so must be provided an alternative standard by which they can earn the incentive or avoid the penalty. For example, if an employee can't achieve a BMI target because a heart condition makes it difficult or inadvisable to engage in strenuous exercise, he or she must have the opportunity to earn the full incentive through some alternative standard such as agreeing to more limited exercise and keeping his or her BMI within a modified range that can reasonably be achieved. In program materials, employers must notify partici-

pants of the availability of alternative standards. The employer may also require medical certification to verify the need for the alternative standard and what standard would be appropriate. Most employers will need the assistance of a health care provider to evaluate claims for alternative standards as well as to avoid having to see confidential medical information, minimizing HIPAA privacy issues. It's advisable to see if the biometric vendor offers this service in addition to testing or if the employer must identify a health care provider.

Do you tend to be a cutting-edge, innovative, risk-taking organization or more conservative and risk-averse? Are the overall employee relations between management and employees cooperative or confrontational?

Other Strategic Considerations

Besides the legal issues, there are several important strategic, cultural and communication issues an employer should consider before implementing a biometric-based plan. Ideally, a biometric plan is the end step of a phased introduction of consumer-driven concepts and wellness programs. For example, an employer might start by implementing a comprehensive wellness program with rewards to participants who agree to participate in biometric testing. The next year, participants may be able to earn rewards either for reaching certain biometric targets or by participating in education, exercise plans or other programs designed to improve overall health. The following year, the incentives may be available only for reaching the biometric target, with alternative standards available where legally required. This phased approach allows the employer to gather

data as well as giving employees time to get used to the concept and take steps to improve their health before being hit with a financial consequence.

Employees are likely to have a range of reactions to this type of plan. Some will be very positive, viewing any effort to improve health and hold people accountable for their choices as a good thing. Other employees may react negatively, thinking that such a plan is intrusive or unfair. It's important to know your employees so that you can anticipate how they are likely to react and plan your communication efforts accordingly. But don't fall into the trap of assuming all employees will react badly to a biometric plan.

Consideration of corporate culture is also important. Do you tend to be more parental when it comes to employee benefits, making decisions for employees and minimizing their involvement in the process? A biometric-based plan may be more challenging to introduce in such a culture than in an organization where employees are used to making their own decisions and taking responsibility for their own health. Do you tend to be a cutting-edge, innovative, risk-taking organization or more conservative and risk-averse? Are the overall employee relations between management and employees cooperative or confrontational?

Also consider the demographic makeup of your workforce. It may be easier to roll out a biometric plan in an organization with a more educated workforce. What are your average employee's lifestyle choices? Do you have a large number of smokers or a workforce that is significantly overweight, or is your workforce already fairly healthy on average? What language barriers exist among your workforce?

Communication, and lots of it, is key to successfully implementing a biometric plan. Emphasize that your primary goal is improving your employees' health, not

punishing them for their lifestyle choices. Help employees understand why you are adopting a biometric plan and the benefits—both financial and in terms of overall well-being—to them. Recognize there is likely to be some anxiety among employees over the privacy of their health information; reassure them that confidentiality will be preserved. Gather success stories and share them (while preserving confidentiality as necessary), such as employees at other organizations who were motivated to change their behavior or improved their health because of the availability of the incentives, or employees who discovered a hidden health issue they didn't even know existed because of the information they learned from the biometric screening.

Consider how you structure your incentives. Almost any incentive can be presented as either a reward or a penalty. For example, a change in employee premium contribution based on smoking status can be either a discount for nonsmokers or a surcharge for smokers. Consider the message you are sending in the way you set up your incentives and which method conveys the right message for your workforce.

Finally, it's important to consider the financial aspects of a biometric-based

plan. There will be hard costs associated with implementing such a plan, including the cost of testing and funding the rewards. Costs will vary depending on the testing vendor, the number and type of biometrics measured, the amount of the incentive and the funding mechanism chosen. On the other hand, depending on the type of plan currently in place, implementing a high-deductible plan may result in some immediate premium savings. Of course, the real savings from a biometric plan are expected to be more long term: Healthier employees should mean fewer claims, lower costs and increased productivity. Whether the incentives built into the biometric plan will in fact lead to the desired healthier behavior is harder to predict.

As health care costs continue to grow, our society will likely become more and more concerned about how the health of our population affects those costs. A biometric plan fits right in with those concerns and gives employers, as the primary providers of health insurance in this country, a tool that can positively influence the health of their employees while improving their financial bottom lines. **B&C**

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David Flotten, SPHR, has been advising employers on employment law and human resources for more than ten years. Prior to that he worked in the Minnesota court system. As an employee benefits technical advisor, he assists Associated Financial Group's benefits specialists with legal compliance issues. He regularly presents seminars on employee benefits, leadership skills, coaching, and wage and hour rules. Flotten has a law degree, magna cum laude, from the University of Minnesota Law School and a B.A. degree from Gustavus Adolphus College.