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Perspective

Healthcare Costs: How Your Shape Can Weigh On Your Wallet

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Select employers are seeking to penalize employees in an effort to lower healthcare costs.

Introduction

A recent Wall Street Journal article reported that as US-based companies fight rising healthcare costs — and poor results from voluntary wellness programs – they are penalizing workers for a range of conditions, including high blood pressure and large waistlines. These companies are also demanding that employees share personal-health information — such as body-mass index, weight and blood-sugar level – or face higher premiums or deductibles.

The Corporation's Perspective

Senior executives at the corporations claim that they simply can't lower heath-care costs without changing workers habits. In addition, corporate leaders feel that workplace wellness programs have not been effective. Such programs have generally proven to not reduce costs, lack support in medical literature and are unpopular enough to require incentives.

They cite the finding of behavioral economists who have shown that people respond more effectively to potential losses, such as penalties, than expected gains, such as rewards.

Penalties may shortly be the norm as corporate spending on healthcare is expected to reach an average of $12, 136 per employee in 2013, based on a study from the Towers Watson consulting firm. Typically, 20% of a company's workforce drives 80% of health-care costs, according to Cigna. Further, approximately 70% of health-care costs are related to chronic conditions brought on by lifestyle choices — such as overeating or sedentary behavior.

The Aon Hewitt human resources consulting firm confirmed that six in ten (60%) mid-to-large-size employers plan to impose penalties in the next few years on employees who don't take action to improve their health. A separate study by the National Business Group on Health and Towers Watson found that the share of employers who plan to impose penalties is likely to double — to 36% in 2014.

Who Are Some Of The Bigger Companies and What Are The Penalties?

- General Electric requires employees — who self-identify as smokers — to pay an additional $642 for healthcare per annum
- Honeywell is adding a $1,000 penalty for workers who get certain types of surgery (including hip or knee replacement and back surgery) without seeking more input. The Company had offered $500 for participating in a program that provides access to data and additional opinions for workers considering surgery, but less than 20% of employees enrolled. Since it transitioned form reward to penalty, enrollment has been greater than 90%.
- CVS employees are required to pay a $600 annual penalty if they fail to report their weight, body fat and cholesterol levels to the company's benefits firm.
- Mohawk Industries charges employees — who don't participate in a health-risk assessment — a $100 per month penalty. The Company previously offered rewards for participating in the assessment, but enrollment rates were low; participation increased to 97% after the penalty was announced.
- Michelin employees with high blood pressure or large waistlines (35 inches for woman and 40 inches for men) could pay a maximum additional $1,000 per year for healthcare

The Employee's Perspective

Employee-rights advocates claim the penalties are a kind of "legal discrimination". The National Workrights Institute opines that while companies are calling them wellness incentives, the penalties are essentially salary cuts by a different name — "it means that millions of people are getting their pay cut for no legitimate reason".

Although few workers can afford to refuse, some aren't happy. Select employee comments are as follows:

- "It opens up a Pandora's Box"
- "It's none of my employers business"

- “I’m concerned with sharing healthcare information that could then be shared without my knowledge”
- “A chronic condition may, in the future, cost me a certain job or promotion”

In addition, the Patient Privacy Rights (PPR) group warns that patient information is sometimes leaked, sold or stolen. The group has fielded complaints from job seekers claiming that employers have requested health records prior to extending an offer. PPR suggests that these requests “are incredibly unfair…… it should be about our track record of doing our jobs”.

A Legal Perspective

Current law permits companies to use health-related rewards or penalties — as long as the amount doesn’t exceed 20% of the cost of the employee’s health coverage. While companies can’t dock a worker’s pay for a health issue, they can tie an employee’s health-care bill to whether the worker achieves or misses health goals. As long as employers offer exemptions for workers with conditions that prevent them from meeting health goals, the firms are in-the-clear.

If a company singles out, for example, obese employees by charging them more for health coverage, the situation is less clear. If the obesity is linked to an underlying condition, the employer may be liable for discrimination.

Currently, most companies tie between 5% and 10% of health-care costs to incentives; Cigna Corporation feels strongly that the figures will only go up.

What About Smokers?

In small but growing numbers, employers have been refusing to hire smokers. They argue that assisting workers to quit with free cessation programs or cash incentives hasn’t worked. Hiring bans are legal in 21 states — and gaining traction. To date, the bans have been most commonly followed by health-care employers like The Cleveland Clinic, Geisinger Clinic and Baylor Health System.

Summary

US-based employers will be trying to balance the carrot and the stick. Many companies will be watching GE, Honeywell, CVS, Mohawk and Michelin to determine if inflicting a little “financial pain” actually leads to meaningful changes in the long run.

Deloitte's health-care research arm — the Center For Health Solutions — suggests employers ask themselves "what are the right pain points" for employees since "you ultimately have to make behavior changes automatic….like brushing your teeth".

For employees, this financial pain (including but not limited to penalties and higher deductibles) — and requirements to seek second or third opinions prior to having an elective surgery — will translate into "delayed surgeries".

For the orthopedic industry, the net result could mean slower growth in procedural volumes (like hip, knee and spine surgeries) and increased pent-up demand.

In the interim, let's do the best we can to stay in shape — and keep our healthcare costs manageable!

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