

INTEGRATED PEOPLE SOLUTIONS

INTRODUCTION

Employers have a vested interest in the good health and well-being of their employees. Healthy employees are more productive, take fewer sick days, and make fewer claims against the employee insurance plan. Increasingly, employers have begun to use mandates, incentives, and penalties to discourage employees covered by their insurance plans from smoking, exceeding Body Mass Index (BMI), or engaging in other “risky” behaviors that create financial threats to the company. How far companies can or should go in attempting to influence or control their employees’ health-related practices and behavior is an issue with ethical implications.

BACKGROUND

Integrated People Solutions (IPS) is a third-party provider of human resources benefits and compensation services to a broad range of employers. IPS has 2,300 employees in four locations across the United States. Local media ranks them as one of the highest-rated employers in each of the markets they serve. Employees indicate that they like the overall benefits and compensation packages offered by IPS, the flexible work at home options, and the many career growth opportunities. IPS places their employees first and believes that clients are best served when a company treats its employees well.

THE CASE

Bob

Bob is in charge of Human Resources and has asked for a meeting with the CEO to discuss a serious issue that has come to his attention involving insurance costs. Bob did not get much sleep last night. He awoke at 3:00 a.m. thinking about the important meeting that was scheduled that day with the CEO of IPS. Waiting outside the CEO’s office to be called in for the meeting, he reflected on how issues can seem more daunting and insurmountable in the middle of the night. Bob is anxious because he knows that he needs to make a recommendation to the CEO that will solve the problem and he only has one chance to get this right. He has been in charge of benefits for a couple of years and sees this as perhaps his greatest opportunity to impress the boss and advance his career. Maria, the CEO’s Executive Assistant, says the CEO is ready to see him.

The CEO looks distracted, but quickly launches into the conversation. “So, what’s up, Bob?” he asks. Bob gets right to point. “Well, it looks like our health insurance premiums are going up about 15 percent next year due to adverse claims experience,” he tells the CEO. This is an unprecedented increase in premium cost. The past few years have seen increases more in the five percent range. “I think the employees will need to bear at least part of that increase and we might have to adjust some of the benefit levels as well.” The CEO responds, “What do you recommend, Bob? You are the expert here.”

Bob recommends that the company use incentives and penalties to encourage employees to better manage their personal health. He suggests that the company raise premiums by \$1,500 this coming year for each employee who fails to meet BMI, cholesterol, and blood pressure targets, and give a \$500 premium credit to employees who do meet the targets. “If we do this,” he tells the CEO, “we may be able to prevent employee premiums from going up the following year.”

“Can we treat employees differently from a legal perspective?” the CEO asks, “I mean, raising premiums for some employees who don’t meet targets and rewarding those who do with a premium credit?” “Yes,” Bob says, “the law allows us to use what is called a health factor in the form of penalties and incentives to increase premiums by as much as 30 percent for these health conditions as long as we offer a reasonable alternative to employees who can’t meet the standards. For example, we can offer incentives to those who take medication or go to nutrition classes.”

The CEO asks whether the company should rely on rewards rather than penalties. He is concerned about the possible negative impact on employee morale if they believe they are being asked to carry more than their share of the burden of higher health care costs. The CEO is still smarting from the latest employee engagement data that showed some concerns across the company around trust of leadership. “Incentives are all well and good,” Bob replies, “but research shows people are twice as likely to be motivated by a potential loss as an equivalent gain. If we want to have a real impact in decreasing the cost of providing insurance coverage, I think we need to go with some combination of both rewards and penalties.”

The CEO likes the plan and requests a formal proposal. Unfortunately, some details of the plan begin to leak to employees.

John

John is 45 years old and has been employed by IPS as a client services manager for nearly 13 years. John is highly dedicated to his job and generally works more than 50 hours a week. He has accrued the maximum annual leave time available and seldom takes off work. John is about 20 pounds over his BMI target weight. He has tried to manage his diet and starts each day with good intentions, but by the time he gets home and relaxes with a couple glasses of wine, he tends to overeat. About six years ago, John was diagnosed with high blood pressure and cholesterol, both of which are generally controlled with medication. Although John ran track in high school, he has not been engaged in any kind of regular exercise program. He and his wife are expecting their second child. With his demands at work and home, John just doesn’t seem to have the time or energy for an exercise program.

“I’ve been here for more than a decade,” John tells a co-worker in the lounge one day, “and during that time, I’ve seen lots of changes in our health benefits plan. First, they said you can’t smoke and now they are telling us we have to maintain a certain weight and get our cholesterol checked to get even a little reduction in our premiums. I’m telling you, it seems like they want to control every little thing.”

The co-worker chimes in, “I hear the company is going to offer us a \$500 credit on our insurance premiums if we keep our weight and cholesterol within limits. That’s fine if we meet the targets, but if not, I see it as a \$500 penalty on top of what they are going to charge us if we fall short. What about all the hours of work we put in around here? Don’t they count for anything? Next thing you know, they will only be serving vegan food in the cafeteria. Where does it all stop?”

Mary

Mary is a recent hire at IPS, having just completed her first year with the company as a Client Benefits Consultant. She is in her early 30s and very health conscious. She keeps her weight within BMI recommendations, has never smoked, limits her alcohol consumption to no more than a couple of drinks a week, and engages in regular exercise at a local health facility. Her membership at the health club is subsidized in part by IPS. She just completed her third 100-mile ultra-marathon with her best time yet. She takes her

leave time to prepare for and participate in her running activities. Unfortunately, she tore a tendon in her last race and will require some foot surgery and rehabilitation.

"I hear that health insurance premiums are going up again this year," Mary tells a coworker in the break room. "It seems like every year we pay more and more to get less and less. The problem is that there are lots of people around here who are not taking care of themselves — they smoke, are overweight, don't exercise — and the rest of us are paying for them. The company ought to penalize them and not us! People complain about wellness incentives, but I don't get it. If you are a risky driver, you pay higher car insurance premiums. Why can't that apply to health insurance?"

Angela

Angela is a 32 year-old Accounting Clerk at IPS. She gave birth to her second child last year. Unlike the birth of her first child, she has had difficulty losing additional weight related to her pregnancy. She is presently about 15 percent above her recommended BMI. Angela tells her husband, "I'm really concerned. I hear the company may be increasing deductibles on our health insurance if we don't meet some new weight guidelines this year. I don't think that's fair."

Alex

Alex is a new employee at IPS and in his late 20s. He is not married and has chosen a high deductible option on his health insurance coverage. With a high deductible plan, he gets more of what he would have otherwise spent on health insurance premiums in his pay. Alex is in excellent health and has never been hospitalized for any health condition. He is somewhat ambivalent about any changes to his health coverage as long as his premiums don't go up. "I'm in great health," he tells his parents. "I don't really care what changes they make in the health plan as long as it doesn't hit my wallet. Let the people who have health problems pay their own way."

THE ASSIGNMENT

- Consider the facts. Is Bob unfairly concentrating more on the bottom line than on providing fair benefits to employees? What are his motives?
- Consider the people. Who are the primary stakeholder groups in this issue and how is each positively or negatively affected by the outcome? Should Mary be excused from paying a higher deductible because her health claim is the result of healthy choices rather than unhealthy ones?
- Consider the situation. When do health benefit incentives (penalties and rewards) become intrusive and unreasonable? Should IPS increase deductibles for individual employees not meeting health metric targets or treat everyone the same by increasing premiums to some extent for all covered employees?

This case was prepared for the Daniels Fund by Earnie Broughton, Senior Advisor, Ethics Research Center (ERC), the research arm of the Ethics & Compliance Initiative (ECI).

INTEGRATED PEOPLE SOLUTIONS
INSTRUCTOR/FACILITATOR CASE NOTES

CASE SUMMARY

Companies are faced with the burden of increasing health care costs for their employees. This case deals with the fairness and equity of mitigating these costs through the use of incentives and penalties designed to induce employees to engage in healthy lifestyles.

LEARNING OBJECTIVES

The learning objectives of this case study are as follows:

- Understand the diversity and complexity of stakeholder views with respect to employee benefit programs
- Recognize the issue of setting reasonable boundaries when organizations attempt to influence individual employee health-related choices and behavior
- Consider when employer efforts to control individual health choices and behavior to minimize insurance costs begin to infringe on employee privacy

ISSUES

Ethical Boundaries of Health Incentives and Penalties

Health care costs have continued to increase and place a significant burden on both companies and employees. Some companies have implemented incentives and/or penalties to discourage employees from engaging in risky health behaviors. There is disagreement in actual research as to whether incentive or penalty programs are most effective in influencing healthy behaviors. Part of the question in this case must, therefore, address perceived fairness and equity of such programs and not necessarily efficacy in reducing healthcare costs. Even if penalties are found to be more effective than rewards in modifying employee health-related behavior, such an approach could negatively affect employee engagement and trust. One way to approach this issue may be to develop programs that reward employees for healthy behaviors which benefit the larger community in ways that highlight a caring and supportive company attitude. Broadening the context of financial incentives to include culture and values may also enhance efforts to control health care costs.

Daniels Fund Ethics Initiative Principles involved: Trust, Transparency, and Fairness

Weighing the Interests of the Individual Against Those of the Group

When do an individual's rights to engage in risky behaviors begin to infringe on the rights and interests of the larger community? To put the question another way, how far should the community go to subsidize risky choices of individuals? There are clearly controversial practices that may be perceived as infringing on individual rights, such as terminating employment of employees who are unable to stop smoking or fail to reach Body Mass Index targets. However, it can also be viewed as unfair and inequitable for the community to bear the cost and consequences of the individual's choice to engage in risky health behaviors. What responsibility does the individual have to avoid engaging in health-related habits that have a negative effect on the community? In the case presented, some may argue that even the healthy employee who runs ultra-

marathons is engaging in risky behavior that adversely impacts the claims experience of the organization. The resolution to this issue, weighing the interests of the individual against those of the larger community, likely rests in the ability of the organization to navigate the space of common interest between the two stakeholders (for example, keeping costs low for employees and the company, demonstrating care for the individual and the sustainability of the enterprise, and creating a cultural context that reinforces the importance of healthy lifestyles).

Daniels Fund Ethics Initiative Principles involved: Fairness, Respect, Viability, and Accountability

Privacy in Healthcare Matters

Employees make lifestyle decisions every day and some of these choices impact health. Furthermore, they may be as likely to engage in these behaviors away from work as in the workplace. When does a company's desire to influence employee decisions become intrusive on what many consider to be private behavior? Which behaviors are deemed to be unacceptable and who makes that decision? In the process of enrolling for health benefit options, employees may be asked questions about health metrics and other related behaviors to determine if they are eligible for incentives. Some may be concerned whether the health information they provide in this context is private or, at some point, could be used in ways that are not in their best interests. Who has access to, and use of, this additional health-related information? Answering these "wellness" questions may be considered voluntary as opposed to mandatory. However, can participating in "voluntary" programs to enhance health truly be voluntary when there are real consequences in the form of penalties and rewards?

Daniels Fund Ethics Initiative Principles involved: Trust, Transparency, and Respect

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