How Financial Incentives/Disincentives Undermine Wellness

Making wellness rewarding without rewards
Paying people to complete a health risk assessment (HRA), lose weight, or join a wellness program is all the rage. Between 2009 and 2011, use of financial rewards increased by 50% among respondents to the most recent Staying@Work™ report, which covers all major industry sectors. And 4 of 5 companies plan to dangle the financial incentive carrot for participation in 2012. Likewise, use of financial penalties more than doubled during the same period — and is expected to double again in 2012.¹

The promise of cheaper medical premiums or $500 cash might be enough to get people to sign up. And focusing just on wellness participation might make some folks happy, but it’s a shortsighted and ineffective way to promote long-term well-being.

From cash awards to premium differentials, financial incentives and penalties amount to bribing or coercing employees to adopt healthy behaviors. It may get employees enrolled in the current wellness program, but research shows this approach is unlikely to result in lasting health behavior change … and may even backfire.

In this paper, we’ll show you why it makes more sense — and is more effective — to help employees be self-directed in adopting a healthy lifestyle. And we’ll give you practical ideas on how to do it. Intrinsic motivation puts workers on the path to lasting behavior change — better equipping them to stay on track and overcome obstacles to well-being.

**Intrinsic**

Intrinsic motivation is defined as acting out of genuine interest instead of rewards, goals, or outcomes. Example: “I’ll sign up for the fitness challenge because it sounds like fun and I want to see if I can do it.”

**Extrinsic**

Extrinsic motivation is defined as doing something for a tangible reward, such as money, prizes, additional time off, or avoiding penalties. Example: “I’ll sign up for the fitness challenge because I want to get a discount on my insurance premiums.”
Why Paying Employees to Get Healthy Is a Bad Idea

Using money to drive wellness participation looks like a brilliant idea at first glance. In theory, enrollment numbers will jump, people will change their habits, and the money you’ll save with reduced healthcare claims will more than cover reward dollars. You’ll come out looking like a genius.

But suppose waving money in front of your employees doesn’t work. What if your wellness bribes backfire — making workers even more suspicious of your state-of-the-art, evidence-based best practices? Or what if they sign up just to get the reward — with no intention of adopting healthier lifestyles?

Research from the fields of social psychology, behavioral economics, and business management raises red flags about monetary rewards for wellness program participation:

- **Financial rewards undermine autonomy** — an essential ingredient for long-term behavior change — and can even reduce wellness participation.\(^2\)\(^3\)\(^4\) Autonomy means deciding for yourself what you want and what to do about it. While people want to know what improves health and well-being, they also want the freedom to decide how to do it and when. This is hard for some health promoters to accept.

- **Excessive control leads to defiance.**\(^5\) From an early age, people resist control and fight to be independent. Sticking a chunk of cheese at the end of a maze may work for training mice, but getting humans to make lifestyle changes is far more complex. Pay for participation may work for short-term, short-lived results, but will not yield sustainable changes. That’s more likely to happen when people decide to pursue it for themselves, for their own reasons — rather than having it imposed on them by an employer or anyone else.\(^6\)

- **Employees who aren’t ready or willing to change... won’t.** But they’ll jump through hoops to get the money or avoid penalties. If they simply enroll but don’t practice the desired health behaviors long term, you’ve just lost an expensive gamble. Requiring completion of specific tasks for money fuels cheating; even honest workers will figure out how to cash in, one way or another. Think about it; have you ever endured a lunchtime seminar — just for the free lunch?

- **Monetary incentives aren’t sustainable.** Each year, you’ll have to pay workers more to do the same thing. A National Business Group on Health survey found the average wellness incentive value was $460 in 2011 — up from $430 in 2010 and $260 in 2009.\(^7\) Another study found financial incentives increased between 2009 and 2011 by 80% — to 0.9% of payroll.\(^8\)

- **Bribery fosters a “What have you done for me lately?” mentality.** When employees become accustomed to financial rewards, they develop a sense of entitlement; when the money goes away, wellness participation plummets. Ultimately, those who lack intrinsic motivation won’t maintain the short-term successes they achieve in a worksite wellness program.\(^9\) Instead, they’ll ditch the fitness program, gain back the weight, and resume bringing in doughnuts to pass around on Fridays.

- **Financial incentives aren’t enough to change complex behaviors.** The 2011/2012 Staying@Work survey found a small difference in average weight management program participation with financial incentives —13% compared to 7% without. Companies with monetary incentives for tobacco cessation had an 8% average participation rate compared to 6% in companies without the incentives. For completing an HRA, financial incentives were more effective: 46% participation with an incentive and 19% without.\(^10\)

- **Extrinsic controls sabotage skills needed for well-being.** This approach has negative effects on performing any tasks that require creativity, conceptual understanding, or flexible problem solving\(^11\) — competencies necessary for integrating healthy behaviors with everyday life.

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“Control leads to compliance; autonomy leads to engagement.”\(^12\)  
– Daniel Pink  
*Drive: The Surprising Truth About What Motivates Us*
But Money Motivates People to Work, Doesn’t It?

Employees show up to work each day for a paycheck — so money must be an effective motivator. This false logic has been disproven in multiple studies of workplace motivation; workers consistently rate nonfinancial factors above pay:

- Respondents identify praise from immediate supervisors, attention from leadership, and the chance to lead projects or task forces as equal or more effective motivators than cash bonuses, better pay, and stock options.¹³
- Progress — getting around roadblocks and making clear headway in getting things done — is also cited as the top motivator of performance.¹⁴
- Degree of work satisfaction, work engagement, and well-being has been linked to employees’ needs for autonomy, competence, and feeling connected.¹⁵
- Financial incentives are found to crowd out intrinsic motivation.¹⁶

People need a paycheck to buy groceries, pay for gas, pursue recreation, ensure a comfortable retirement — in short, to live. But because money doesn’t top the list of things that motivate people to work and feel satisfaction in work, it’s naïve to think money is the reason people will remain engaged in wellness programs.

Why Financial Rewards Demotivate: The Dirty Little Secret

Approval is a strong motivator for prosocial behavior — such as volunteering, putting in extra hours on a team project, or acts of altruism. We want others to think of us as generous and helpful. Doing these things — when the only payoff is a sense of satisfaction — makes us feel good about making a positive contribution and developing a favorable reputation. But when a financial incentive is involved, things change; now it looks like we’re in it for the money.

Research suggests that when monetary rewards are involved, the extent prosocial activity is reduced depends on whether the behavior is public or private.¹⁷ If everyone knows that what you’re doing is tied to a cash reward, you’re less likely to do it; if it’s a private activity, you’re more likely to proceed. It’s all about preserving your image.

The implication for rewarding healthy habits is clear: if employees want to be perceived as engaging in wellness programs for personal satisfaction, to support teammates, or because of the inherent value in good health, monetary rewards actually reduce motivation.
Intrinsic Motivation — the Linchpin for Lasting Behavior Change

Why is intrinsic motivation such a big deal? Because it’s associated with richer experience, better conceptual understanding, greater creativity, and improved problem solving compared to external motivation, report researchers.18 This internal compass helps employees make wellness-oriented decisions every day as they navigate their work, home, and community environments — making long-term healthy behavior not only possible, but more likely.

Whether the goal is weight loss, fitness, or diabetes self-care, which makes more sense:

• Creating an environment that helps build the skills employees need to sustain success long after the program is over?

or

• Paying them to take temporary action that matches your wellness program timeline or corporate fiscal year?

Research supports the importance of cultivating intrinsic motivation:

• We all want to make our own choices, get better at things that matter, and feel connected to others; we yearn for a sense of belonging and purpose.19, 20

• Adults learn most effectively when self-directed — in a social, respectful, and collaborative learning environment with a system for regular feedback, among other factors.21

• From a very young age, intrinsic motivation drives us to explore, play, learn, and master new skills without external rewards. But as we get older, life can pound the motivation right out of us. Maintaining and enhancing intrinsic motivation require supportive conditions.22 Employers should seize every opportunity to cultivate a workplace that encourages this — for wellness behaviors as well as positive job performance.

Without financial incentives to lure program participants, what’s a wellness manager to do — sit back and wait for mass enrollments of intrinsically-motivated wellness groupies? Clearly, not everyone is self-motivated to pursue healthy behaviors. But a psychologically supportive culture and wellness program design set the stage for workers to take ownership — and take action — in matters of personal health and well-being.

Good Health Is its Own Reward

Enough theory… let’s consider a practical example. How would you respond if someone told you to join a weight loss program today? Even if you’d been thinking about dropping a few pounds, you might be annoyed about someone trying to take charge of your health — especially if they’re dangling money in front of you, as if ownership over your body and lifestyle can be bought. You might feel embarrassed and ashamed by the implication that you can’t lose weight on your own. A cash incentive might even cause you to resist losing weight, just to make a point about who’s actually in charge of your health.

Or maybe you do take the bait. Yeah, I need to lose some weight — if you want to pay me, I’ll take your money. But then about 3 weeks in, you’re tired of the tracking and sacrificing your favorite foods. Though you lost 4 pounds the first 2 weeks, you gained back 1½ in week 3 and you’re still 17 pounds away from your goal. I don’t need $500 that bad… so you quit. And not only have you not reached your goal, you’ve reinforced that sense of inadequacy because you failed — even with a big fat carrot held in front of you.

When you decide to lose weight according to your own terms, for your own reasons, you’re far more likely to sign up for a worksite wellness program that offers the right amount of support at the right time — with recognition for your progress toward the goal, not just the end result.

Ask a woman who’s lost 30 pounds — and fits into her favorite clothes again — how it feels. Ask a man who’s lost 50 pounds — who can play soccer with his kids without feeling he’s going to keel over — how it feels. Watch their faces light up as they go on about how much energy they have, how good they feel about themselves, and their positive outlook. The reward of good health is priceless; there’s an innate sense of pride in achieving personal health goals. Attaching a financial reward to it only cheapens the accomplishment.
To paraphrase Deci and Flaste, the question is not how can employers motivate workers? but rather how can employers create conditions where workers will motivate themselves? Envision employees enrolling in your healthy eating campaign because they’re genuinely interested; they’ve decided, on their own, to make some changes, and the program looks like so much fun they can’t wait to sign up. They enthusiastically recruit coworkers, participate wholeheartedly, achieve meaningful goals, and are thrilled with their results — so thrilled that they continue the healthy behaviors after the program is over. No cash incentives required.

When your wellness program — and corporate culture — nurture intrinsic motivation, employees have a better shot at long-term wellness success.

It comes down to this: providing opportunities to satisfy basic psychological needs fosters intrinsic motivation; controlling conditions sabotages it. So design your wellness initiatives with these guidelines in mind:

- **Communicate a meaningful rationale for wellness programming.** Help employees connect the dots: wellness activities and personal/family well-being, financial stability, and quality of life. Be honest about how employee health and wellness affect your organization’s culture, identity, productivity, expenses, and longevity.

- **Respect the need for autonomy.** Give employees the freedom to control their own health destinies and be ready to support them when they’re ready to take action. Example: Make HRA completion voluntary. Outline the benefits, but leave it up to them. Put the resources in place to assist those who are ready to quit smoking, start exercising consistently, or manage stress more effectively. Preserving autonomy is vital to cooperation.
• **Reward cooperation, not outcomes.** Awarding financial incentives for wellness outcomes amounts to paying healthy people for doing what they’re already doing and punishing those with barriers (socioeconomic, physical, psychological, or genetic) to achieving a specific body mass index, blood pressure, or cholesterol value. In contrast, rewarding cooperation through team-based wellness programs takes the focus off individual outcomes and places it squarely on the group’s well-being. This fosters an environment where coworkers support each other in making healthy choices each day.

• **Make it easy for employees to monitor and celebrate progress.** The power of seeing how far you’ve come can’t be overstated. Make wellness tracking easy, and post team standings for all to see. Instead of a race to the finish line, create multiple milestones within your program so participants can see their progress and celebrate along the way. Make the objective about the journey, not the destination.

• **Emphasize fun.** Of the thousands of wellness program managers we’ve served over the years, the ones who consistently report the most success are those where fun is a central theme. That doesn’t mean they’re not also considering the impact on health risks and productivity, but they’ve learned to engage more people with a lighthearted approach than a risk-based or economic-centered focus. And let’s face it, many things about work can be un-fun, so why not make wellness a place for smiles and laughter?

Why do hordes of school-age children sign up for community track and field programs? Participating involves a lot of hard work, a time commitment, and the possibility of competing in nasty weather — but it’s also fun. Their friends and classmates are there, they get to wear a team T-shirt, and school pride is at stake. Nobody’s paying them to run, jump, or throw; they’re simply in it to have a great time and contribute to something beyond themselves.

Infuse your next wellness campaign with this kind of fun, energy, and team spirit — you’ll have more takers and better results.

### Linking Health Outcomes to Financial Rewards — The Slippery Slope

Here’s what organizations learn about 3-4 years into a financial reward model: the carrot approach is losing its impact, the rate you need to increase the reward to maintain engagement is clearly not sustainable. So the approach shifts to something punitive — do this, or pay a higher premium. Or, to be creative and initially more effective — if you don’t do this, we’ll take something away, like employer contributions to a health savings account. But this is the equivalent of a really big stick, and employees resent getting beaten with it.

That ill will forces the organization to rethink the whole reward/punishment incentive structure. Inevitably, someone figures out the employer really doesn’t care if people participate in worksite wellness at all. The only thing that matters is health — and health can be measured. So why don’t we tie rewards and/or punishment to outcomes? After all, why should the person who’s practiced healthy habits on their own for years be forced to record fitness activity on your silly health tracker just to get $1000 added to an HSA?

### Are you going to punish someone because they got the short end of the genetic stick?

But people are not machines; 2 individuals living exactly the same lifestyle can have entirely different outcomes. Are you going to punish someone because they got the short end of the genetic stick? “So few people fall into that group; we can manage it and have their doctor sign off on this or that…” is the common retort.

It only takes about a year for people to find out they can get the reward/avoid the punishment by simply going to their doctor. That word quickly spreads — even to those capable of achieving the desired outcome — so they game the system because they can. And frankly, they want to… because they don’t like being told they must achieve the outcome in the first place.

Linking financial rewards and/or punishment to outcomes is the biggest stick of all. It can only cause resentment and more difficulty in creating an environment where employees want to adopt healthy behaviors.
20 Ways to Boost Intrinsic Motivation for Wellness Behaviors
(or What to Do With That $400 You Didn’t Waste on Financial Incentives)

1. Evaluate whether your underlying culture supports autonomy, competence, and feeling connected; if not, work with leaders to foster a psychologically healthier work environment.

2. Invite employee input regarding wellness program offerings through surveys, interviews, or working groups. People who feel they have input into program structure and content have an increased sense of ownership and are more invested in seeing it succeed.

3. Communicate a meaningful rationale for your wellness program — why is the employer offering it and how will both the company and workers benefit? Convey the message of shared responsibility for health.

4. Infuse wellness programming with intrigue, fun, and excitement — so workers won’t want to miss out.

5. Avoid the “baby steps” approach; wellness program goals should be realistic, yet challenging. While it’s tempting to repeat “take the stairs instead of the elevator” as a way to meaningful health gains, it’s misleading and potentially discouraging when participants don’t see the benefits. Above all, be honest about what it takes to really change behavior and improve health for good.

6. Make it easy for participants to track and view their wellness progress. Being able to view movement toward the goal — any goal — reinforces confidence.

7. Include a team element in your program design, where the objective is to help colleagues succeed. Contributing to a greater cause is one of the most powerful ways to keep individuals motivated. Recognize cooperation over winning.

8. Offer programs more than once a year so workers can join when they’re ready.

9. Provide multiple choices to support wellness behaviors — such as onsite walking clubs, discounted local gym memberships, and sponsored 10K run participation.

10. Ask employees to submit their wellness success stories for publication on your internal website. Seeing someone “just like me” succeed is more compelling than another health article full of do’s and don’ts.

11. Reach out to dependents in addition to employees. Appeal to parents’ desire to be role models for their children. Getting the whole family involved makes it easier to adopt and stick to healthy behaviors.

12. Sponsor employee participation in community recreation teams. The social aspects of teams and play are more reinforcing than tracking 5 days a week of heart rates in your target zone. You can’t overemphasize fun.
13. Enable employees to easily — and publicly — recognize and encourage each other’s wellness efforts with digital postcards, an internal social media shout-out, visible acknowledgment in person, or nominations for awards. No recognition is more powerfully motivating than authentic praise from your peers.

14. Create an army of wellness ambassadors — representatives from each unit who influence peers — creating a buzz about upcoming wellness events and helping plug workers into wellness services. A culture of wellness can’t be handed down from the top; it has to bubble up from the trenches.

15. Keep information about healthy behaviors — physical activity, good nutrition, tobacco cessation, managing stress — and wellness services easy to find on your website, in your lobbies, break rooms, and cafeterias. Employees are occupied with a thousand other things; it’s easy to miss if they have to hunt for it.

16. Build leadership recognition into your rewards strategy. While peer recognition is most satisfying, management can enhance these efforts if it’s genuine. Make it a manager’s job — not yours — to identify employees deserving acknowledgment. Again, authenticity is the goal.

17. Support the formation of wellness-oriented employee groups: racquetball, hiking, running, healthy cooking, mindfulness-based stress management, laughter, weight loss/maintenance, etc. Community, camaraderie, fun — these count infinitely more than the USDA guidelines for a healthy diet.

18. Allow flexible scheduling whenever possible to make it easier for employees to develop the rhythm that works for them in practicing healthy behaviors. Keeping workers happy because you’ve allowed for a little flexibility will do more for health than paying for a gym membership.

19. Give employees a variety of parenting and relationship resources (information, community sources, employee assistance programs, coaching, etc.) to help cultivate a healthy home environment.

20. Use small prizes to acknowledge participation and good efforts instead of financial rewards to control behavior. T-shirts and water bottles may be old-school, but they’re also long-lasting, practical reminders of personal achievement.

Conclusions

- Paying employees to participate in wellness activities is ineffective when the goal is sustainable behavior change — and it can backfire.

- Offering wellness programs that are fun, challenging, and allow them to contribute to something greater than themselves will get and keep employees interested without monetary bribes.

- Lasting behavior change doesn’t happen without intrinsic motivation. Creating conditions within your wellness program design — and in the workplace — that support intrinsic motivation is a smarter investment of resources than financial incentives for participation or outcomes.
A Wellness Story: Why You Should Never Spend More Than $19 on Recognition

by Dean Witherspoon

As I laced up my shoes getting ready to exit the Midland Community Center locker room, I noticed a beat-up blue canvas gym bag with a barely legible Presidential Sports Award logo. I asked the guy who set it down where he got it, expecting him to say something like I don't remember or the Salvation Army Store, but he sort of chuckled “Oh, I got that about 20 years ago at work.”

The bag looked every one of those 20 years, with a broken zipper, frayed handles, faded canvas, and more than a couple of holes revealing its contents. He went on to say “It’s seen better days, but I can’t bring myself to get rid of it.” “Why’s that?” I asked. After a moment, he told me the story of how he was pushing 300 pounds at the time, had never exercised, and was generally miserable and going downhill physically. But he decided to sign up for this 3-month program just to see if he could do it. It marked a turning point. He lost 20 pounds during the program and went on to lose another 80 over the next 2 years.

That was the end of our conversation, but in that short time it was clear to me that the little $3 gym bag held more significance in his life than most people attach to a new car or any monetary gift. That program changed his life, and the tattered bag was a daily reminder of what he had done for himself.

I know the bag cost $3 because in 1988 I bought 600 of them for Presidential Sports Award participants at The Dow Chemical Company’s wellness program. Ronald Reagan was in the final year of his second term; we handed out the bags at a breakfast banquet when the program ended, where we did a skit with a surprise visit from the Gipper, including secret service agents and “Hail to the Chief” playing over the loudspeaker.

The bag and breakfast together cost about $8/participant, but the good will, fun, and buzz for the program were priceless — participation doubled in the next wellness service.

So why should you limit recognition items to $19? Because at $20 it starts to feel like money. Giving people money to coerce them to do something we want them to want to do for themselves is at best ineffective and at worst degrading.

While the guy in this story may be the exception — carrying a gym bag around for 20 years — do you think he would have carried around a gift card for even 20 days? What if we’d handed him a $20 bill when he walked into the awards banquet. “Nice job — here’s $20.” He would have smiled, said thank you, and filled his gas tank on the way home (gas was $1.08/gallon then) and probably forgotten about the reward — along with the wellness program — in short order.

To be sure, you can get a carnival monkey to tip his hat for a quarter, and you can get people to take your HRA or sign up for health coaching for a financial reward (or avoidance of a penalty), but what have you gained? Heightened participation for 1 year? 2? If you think you can transform your population to a healthy one in that time, you’re living in a dream world. Or Iceland.

So you’re forced to change the model after 3 years because it costs too much or no longer has the desired impact — and you’ve sold management on an artificially inflated participation number. Will you now be able to make the case for not giving employees money anymore, but instead investing in activities, policies, and an infrastructure to create an environment where intrinsic motivation can flourish? Do you want to face all the employees whose money you’re taking out of their pockets?

The most pernicious aspects of a financial reward/penalty model aren’t that it doesn’t work long term and has the potential to create resentment, but that it robs people of belief in their own ability to think and do what’s best for themselves. It reduces them to spoiled children groveling for another dollar in their allowance because they had a birthday. And it sends a message that the organization thinks so little of their capability to act in their own best interest that it needs to bribe or browbeat them into compliance.

That’s not a place where I — or your most talented employees — would want to work.

Dean Witherspoon is President and founder of Health Enhancement Systems
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