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Shape Up or Pay Up: Firms Put in New Health Penalties

Kwoh, Leslie. **Wall Street Journal, Eastern edition** [New York, N.Y] 06 Apr 2013: A.1.

Abstract (summary)

[...]steps also portend a murky future in which a chronic condition, such as hypertension, could cost workers jobs or promotions -- or prevent them from being hired in the first place. [...]recently, Michelin awarded workers automatic $600 credits toward deductibles, along with extra money for completing health-assessment surveys or participating in a nonbinding "action plan" for wellness.

Full Text

Are you a man with a waist measuring 40 inches or more? If you want to work at Michelin North America Inc., that spare tire could cost you.

Employees at the tire maker who have high blood pressure or certain size waistlines may have to pay as much as $1,000 more for health-care coverage starting next year.

As they fight rising health-care costs and poor results from voluntary wellness programs, companies across America are penalizing workers for a range of conditions, including high blood pressure and thick waistlines. They 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.

Corporate leaders say they can't lower health-care costs without changing workers' habits, and they cite the findings of behavioral economists showing that people respond more effectively to potential losses, such as penalties, than expected gains, such as rewards. With corporate spending on health care expected to reach an average of $12,136 per employee this year, according to a study by the consulting firm Towers Watson, penalties may soon be the new norm.

Employers may argue that tough-love measures, such as punishing workers who evade health screenings, benefit their staff and lower health-care costs. But such steps also portend a murky future in which a chronic condition, such as hypertension, could cost workers jobs or promotions -- or prevent them from being hired in the first place.

Until recently, Michelin awarded workers automatic $600 credits toward deductibles, along with extra money for completing health-assessment surveys or participating in a nonbinding "action plan" for wellness. It adopted its stricter policy after its health costs spiked in 2012.

Now, the company will reward only those workers who meet healthy standards for blood pressure, glucose, cholesterol, triglycerides and waist size -- under 35 inches for women and 40 inches for men. Employees who hit baseline requirements in three or more categories will receive up to $1,000 to reduce their annual deductibles. Those who don't qualify must sign up for a health-coaching program in order to earn a smaller credit.

Employee-rights advocates say the penalties are akin to "legal discrimination." While companies are calling them wellness incentives, the penalties are essentially salary cuts by a different name, says Lew Maltby, president of Princeton, N.J.-based National Workrights Institute, a nonprofit advocacy group for employee rights in the workplace. "No one ever calls a bad thing what it really is," he says. "It means millions of people are getting their pay cut for no legitimate reason."

Companies may say they have tried softer approaches, but many haven't exhausted their options, like putting healthier food in their cafeterias, building a fitness center or subsidizing gym memberships, he adds. "At best, these programs are giving employers an enormous amount of control over our private lives."

Michelin denies any discrimination and says the policy is voluntary. Not participating means employees won't get the incentives. Wayne Culbertson, Michelin's chief human resources officer, says the old incentive programs didn't lead to meaningful change. For example, an employee could pledge to start walking daily, he says, but never have to prove it. "It was sort of free, you know? You got $600 just for being a good employee."

Six in 10 employers say they plan to impose penalties in the next few years on employees who don't take action to improve their health, according to a recent study of 800 mid- to large-size firms by human-resources consultancy Aon Hewitt. 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.

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. John Hancock, a veteran labor and employment attorney at Butzel Long, a Detroit-based law firm, says that while companies can't legally dock a worker's pay for a health issue, they can tie an employee's health-care bill to whether the worker meets 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.

The situation is less clear if, for example, a company ends up singling out obese employees by charging them more for health coverage. If the obesity is linked to an underlying condition, the employer may be liable for discrimination, Mr. Hancock says.

Currently, most companies tie between 5% and 10% of health-care costs to incentives, but that will likely go up, says Charlie Smith, chief medical officer for national accounts at insurer Cigna Corp.

Pharmacy chain CVS Caremark sparked outrage among employees and workers-rights advocates last month by asking staff members to report personal health metrics, including their body fat, blood sugar, blood pressure and cholesterol levels, to the company's insurer by May or pay a $600 penalty.

Few workers can afford to refuse, but some aren't happy. "It opens a Pandora's box," says a full-time CVS employee who works at a distribution center in Florida. "It's none of their business." While the 26-year-old describes himself as healthy, he says he is worried about disclosing health information that could be shared without his knowledge. He says he plans to cancel his health plan, which also covers his wife and child, and will start looking for work elsewhere.

CVS, which maintains that the change is intended to make workers aware of their health risks, says it doesn't have access to workers' screening results.

Mohawk Industries, a Calhoun, Ga.-based flooring company, says participation in its company's health-risk assessment process shot up to 97% after the company imposed a $100 monthly penalty on nonparticipants. The company had previously offered rewards for participating in the assessment, but enrollment rates were low, says Phil Brown, senior vice president of human resources.

Honeywell International Inc. recently introduced a $1,000 penalty -- deducted from health-savings accounts -- for workers who elect to get certain procedures such as knee and hip 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 the staff joined up. Since it flipped the incentive to a penalty, the company says, enrollment has been above 90%.

There are no new data on surgeries, but the change is projected to save at least $3 million annually, says Brian Marcotte, Honeywell's vice president of compensation and benefits, who presented the plan at the Conference Board's Employee Health Care Conference last month.

Typically, 20% of a company's workforce drives 80% of health-care costs, according to Cigna's Mr. Smith, and roughly 70% of health-care costs are related to chronic conditions brought on by lifestyle choices, such as overeating or sedentary behavior. But when employers target those conditions, employees themselves may feel targeted, especially when it comes to their weight. While companies can't say it outright, many of their measures -- such as high cholesterol and high blood pressure -- are proxies for obesity.

A 2011 Gallup survey estimated obese or overweight full-time U.S. workers miss an additional 450 million days of work a year, compared with healthy workers, resulting in more than $153 billion in lost productivity.

Worse, chronic conditions could someday harm workers' chances of getting hired, says Deborah Peel, a psychiatrist and founder of the Austin, Texas-based nonprofit Patient Privacy Rights. Patient information sometimes gets leaked, sold or stolen, she warns, noting that she has fielded complaints from job seekers claiming that employers requested health records before extending an offer. "It's incredibly unfair," she says. "It should be about our track record" doing our jobs.

For now, employers are trying to balance the carrot and the stick. Plenty of companies will be watching to see if inflicting a little financial pain leads to change in the long run. "What are the right pain points?" asks Paul Keckley, executive director of Deloitte LLP's health-care research arm, the Center for Health Solutions. "Ultimately, you have to make behavior change automatic. We've got to make this like brushing your teeth."

Lauren Weber contributed to this article.

(See related article: "Warning: Smoking Is Hazardous to Your Employment" -- WSJ April 6, 2013)

(See related letter: "Letters to the Editor: Michelin Promotes Workers' Health" -- WSJ April 12, 2013)

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