

Health education programs may not successfully move participants to action to address the health challenges they face. This article, the second in a two-part series, discusses how plan sponsors can use behavioral economics to help participants make better health care decisions

# Beyond Defaults:

## Using Behavioral Economics to Improve Health Outcomes

by | **Steve Vernon**

In March 2018, the International Foundation hosted a summit to explore how to deploy behavioral economics and psychological science in retirement and health plans. The summit, which gathered input from more than 200 Foundation member participants, featured behavioral economics researchers and was facilitated by Steve Vernon, FSA, research scholar at the Stanford Center on Longevity. Vernon authored a white paper summarizing the main observations and conclusions from the summit. This article is based on Vernon's findings. For a full copy of the white paper, visit [www.ifebp.org/pdf/whitepapers/Beh-Decision-Summit-Paper.pdf](http://www.ifebp.org/pdf/whitepapers/Beh-Decision-Summit-Paper.pdf).



# benefits

MAGAZINE

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**W**hile much of the initial research on behavioral economics examined methods of influencing people to save more money or invest more effectively, plan sponsors can also use these findings to develop strategies to help plan participants make better health care decisions.

A previous article discussed the reasons for considering behavioral economics in the design and communication of retirement programs. This article focuses on how behavioral economics concepts can be used for health plans. It describes common behavioral finance terms and an academic model plan sponsors may want to consider in designing a benefits and communication program. It also discusses two key action steps for improving participant health outcomes.

### An Academic Model

Using research on how people make decisions, plan sponsors can design strategies that may help participants make informed decisions such as whether a low- or high-deductible plan is the best fit or motivate them to adhere to a disease management program.

One academic model for the design of benefits and communications programs, the MORE Design, suggests that intervention campaigns should focus on four steps.

1. **Motivate** and inspire participants to spend time on a decision. This is the step that plan sponsors overlook the most.
2. **Optimize.** Analyze and explore options. This step is typically the focus of most educational efforts.
3. **Realize.** Make it easy for participants to choose among their options. Remove any barriers to making and implementing a decision.
4. **Evaluate.** Determine whether you're making progress, and make adjustments as necessary.

## learn more

### Education

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## Key Terms and Health Care Decisions

The following terms are commonly used in behavioral economics and can be applied to health care decisions.

- **Loss aversion:** People tend to feel the pain of losses about twice as much as the joy of gains. Loss aversion, coupled with framing, can influence the type of health plan a participant chooses.
- **Framing:** How do people define a loss that they are trying to avoid? If the decision not to participate in a wellness program is framed as the loss of an incentive, loss aversion would influence workers to participate.
- **Present bias:** Most people prefer a reward sooner rather than later and often place little value on rewards enjoyed in the future. This could lead to workers postponing healthy behaviors such as improving their diet or starting an exercise regimen.
- **Inertia:** Participants often have a strong tendency to do nothing. Plan sponsors could make a generic medication the default choice to reduce the number of participants who receive a more expensive brand-name drug.
- **Social norms:** If many people are doing something, others will be encouraged to participate. For example, a plan sponsor could urge participants to enroll in a wellness program by saying "Join the X% of your co-workers who are participating in our wellness program."

It's important for plan sponsors to keep this design in mind when addressing challenges facing their participants. This design can help determine where interventions might have the greatest impact and how they might deploy principles of behavioral economics. The sidebar has a list of common behavioral economics terms and examples of how they can be applied to health care decisions.

The following two key action steps provide examples of how plan sponsors can use behavioral finance concepts to positively influence participant health outcomes.

### Action Step No. 1: Help Participants Become Better Consumers of Health Care

Almost one-third of workers were covered by a high-deductible health plan in 2017, according to one survey.<sup>1</sup> Do these plans help reduce health care spending by plan sponsors?

Helping participants to become better health care consumers is challenging because many workers are confused and unsure, which often leads to decisions that avoid loss and focus only on events happening now or in the near future (in other words, decisions that exhibit a *present bias*).

## key takeaways

### Action Step No. 1: Help participants become better consumers of health care.

- Help participants and human resources practitioners understand the financial consequences of choosing between low- and high-deductible health plans, taking into consideration the differences in both premiums and deductibles.
- Frame financial incentives in health care plans as a loss if participants don't participate.
- Look for ways to encourage more efficient consumption of care by encouraging clinicians to recommend preventive care and judiciously prescribe lab tests.

### Action Step No. 2: Help participants adhere to medical treatments.

- Remove any barriers to small behaviors that can cascade into significant health improvements.
- Look for ways to motivate employees and beneficiaries who aren't participating in wellness programs. Examples include instant incentives, lotteries, loss aversion and virtual reality.
- Focus on building healthy behaviors and habits (for example, regular exercise) instead of results (such as losing weight).

Research shows that consumer-driven health care plans, also referred to as *high-deductible health plans*, have the potential to reduce overall health spending by 12%. While this may sound like a desirable result, this cost reduction usually results from reductions in care. There is no evidence of price shopping for health care; instead, participants appear to be reducing both low-value and high-value care.<sup>2</sup>

When faced with a choice of low- and high-deductible health care plans, participants often choose low-deductible plans, likely because they want to avoid high out-of-pocket costs. This outcome occurs even though a high-deductible plan could result in lower out-of-pocket expenditures, with the reduction in premiums for a high-deductible plan potentially more than compensating for the increased deductible.

To help participants become better consumers of health care, plan sponsors should consider the following suggestions:

- Frame health care incentives as a loss, which can lead to increased dollars saved among plan participants. In other words, "If you don't participate, you'll lose \$XX."
- In the electronic health record, make generic prescriptions the default choice.
- Display the cost of laboratory tests to impact how clinicians prescribe these tests.

The use of defaults, recommended tests when appropriate and visual communication of health plan spending by participants helps drive participants to more effective decisions.

Human resources practitioners may be telling their participants "If you think you'll go to the doctor a lot, choose the low-deductible plan." However, participants may have lower annual out-of-pocket spending with the high-deductible

plan when the difference in premium amounts is taken into consideration.

High-deductible plans also can have unintended consequences. Once participants reach the deductible, they often increase their utilization of health care.

### Action Step No. 2: Help Participants Adhere to Medical Treatments

There is evidence that workplace wellness programs do not significantly influence health care costs. For example, the *Illinois Workplace Wellness Study*<sup>3</sup> found that:

- Workplace wellness did not reduce health care costs after one year or change employees' measured health behaviors.
- Employees who participated in wellness programs already had lower health care costs and were already healthier before the program began.

It isn't clear whether this is evidence that workplace wellness programs don't work or that we don't yet know how to design them to be effective. The study does suggest that merely providing participants with information does not result in significant improvements.

It could be that paying more attention to motivation could improve the effectiveness of wellness programs. For example, virtual reality could project pictures of what a person might look like with an additional 20 or 30 pounds of weight. Another possibility is for people to compare pictures of a healthy version of their future self with one who is unhealthy.

One of the challenges is that many participants have good intentions to exercise, eat better or take care of medical con-

ditions tomorrow but, when tomorrow comes, they put it off again to the next tomorrow. This is a classic case of present bias. It's not evidence that people are lazy but rather that they are too optimistic that they will do the right thing in the future.

Plan sponsors may use the following strategies to help improve health outcomes.

- Eliminate copays on medicines that treat chronic conditions.
- Enhance messaging to encourage workers to participate in automatic prescription refill programs.
- Provide instant gratification incentives or lotteries to enhance excitement.
- Leverage loss aversion—"If you don't participate in our wellness program, you'll lose \$XX."
- Focus on behaviors and habits over outcomes. For example, encourage participants to exercise more instead of focusing on losing weight. 🏃

### Endnotes

1. 2006-2017 surveys of employer-sponsored health benefits. Henry J. Kaiser Family Foundation.
2. Research on high-deductible health plans was presented by Justin Sydnor, Ph.D., during the International Foundation summit on behavioral economics in March 2018.
3. The *Illinois Workplace Wellness Study*. National Bureau of Economic Research. 2018.

bio



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