

Incentive Legislation Campaign **FAQs**

1 Why should businesses use incentives and recognition programs?

Incentive and recognition programs help corporate America generate positive financial results through people. Business improves when employees and customers are recognized, rewarded and engaged through effectively structured programs with defined goals and proven returns.

In today's economy, competitive advantage rests with employees because, according to the Brookings Institution, fully 85% of a company's assets are tied up in intangible resources defined as knowledge, reputation and human talent.¹ Research shows that employee engagement is linked to customer satisfaction and organizational performance. Moreover, better than half of America's largest companies use motivation programs as part of their business strategies.²

2 What constitutes the Incentive Marketplace?

The incentive industry marketplace is estimated at \$46 billion annually³ and includes: Advertising/Sales Promotion Agencies; Consultants, Distributors; Gift Card/Certificate Suppliers; Fulfillment Companies; Incentive Houses; Manufacturers; National Marketing Companies; Performance Improvement Companies; Representatives; Recognition Companies; Travel Specialists and the industry's major trade publications and trade show managers.

3 What types of incentives and programs are used?

Programs operate successfully today in a variety of ways to support safety, loyalty, years of service, productivity, sales, recognition and engagement. Some types of incentives and their uses are:

- **Employee Recognition Programs:** Motivational and rewards programs aimed at employees of a sponsoring company. These programs often target safety, length of service, sales, wellness, attendance and overall performance.
- **Safety Incentive Programs:** Recognition programs designed to motivate employees and/or contractors to work safely, drive safely, and work ergonomically in their work environment. A properly designed safety incentive program not only rewards safe work, but also promotes proactive behavior such as making safety suggestions, identifying hazards and joining safety committees.
- **Channel Incentive Programs:** Rewards programs used to induce certain behaviors from business partners. Initiatives often include streamlining distribution processes, motivating sales, improving speed and accuracy.
- **Customer Loyalty Programs:** Programs designed to create loyal customers who demonstrate a preference for a specific brand. By doing so, these programs improve profitability and reduce the cost of new customer acquisition.

Programs can also be designed as:

- Sales Incentive programs designed to boost sales
- Non-Sales Recognition and Motivation programs, the most popular incentive strategy
- Consumer promotions that motivate the end user to buy
- Dealer Incentives designed for channel partners
- Business gifts that represent sales potential for the right items.

4 What is an incentive?

An incentive is a reward for performance. It is something valued by an individual or group that is offered in exchange for increased performance activity. To be successful, incentive programs must:

- Promote or encourage specific actions
- By a specific audience
- To produce measurable outcomes
- Through integrated motivational strategies
- During a defined time period.

5 What is an Incentive System?

An incentive system is an organized program of business rules culminating in individual awards and/or recognition offered for the purpose of motivating employees. Attributes include: intentionality (deliberately developed with the intention of influencing employee performance); externality (devised and administered by agents external to the employee or employee group); standardization (applied in a clearly defined manner that specifies employees affected by the incentive system, the nature of the incentives and the rules for attaining specified rewards).

6 How effective are incentive programs?

- Incentives improve performance by an average of 22%.⁴
- Team incentives can improve performance by as much as 44%.⁵
- When incentive programs are used to encourage “thinking smarter,” performance improves by 26%.⁶
- When companies use merchandise or gift cards, sales are 46% better than when programs reward cash.⁷
- Longer programs are more effective:
 - When programs are first offered for completing a task, a 15% increase in performance occurs.⁸
 - Asked to persist toward a goal, people increase their performance by 27% when motivated by incentive programs.⁹
 - Programs running six months or less increase performance 30%.¹⁰
 - Programs that run for a year or more increase performance 44%.¹¹
- Organizations that offer properly structured incentive programs can attract and retain higher quality workers than other organizations.
- Both employees and managers say they highly value incentive programs. A program’s success and return on investment depends on how well it’s designed and operated.
- Programs that reward performance based on meeting or exceeding goals, and give everyone a chance, generate the most positive results.

7 Can the use of incentives benefit the well-being of the American workforce?

Regardless of your political view of Healthcare Reform, the American worker needs to become healthier and more productive. By encouraging workers to engage in wellness programs, we can help promote the healthier lifestyles that will reduce overall health care costs, improve worker productivity and influence the worker’s family and friends as they witness the results of a healthier lifestyle. In reality, the long term effects often spread well beyond the workplace. In order to achieve the ultimate objectives:

- There must be a commitment by all companies to promote wellness programs in order for them to have widespread effects.
- It must become a national cause that helps leverage our skilled workforce in a competitive global economy.
- There must be a commitment over time, not just the next quarterly earnings cycle. Because the average time an employee stays with a company is only 3.4 years, individual companies cannot be expected to make the investment or have a significant impact on the expected long term results.

Well-Being is about Health and Wellness

Properly designed wellness programs can help corporations reduce employee benefit expenses, increase productivity, and positively affect the bottom line. Employee morale measurably improves in 56% of the companies that offer wellness programs.¹² According to the American Institute of Preventive Medicine, companies with effective health management programs can expect to:

- Generate up to 20% more revenue per employee¹³
- Improve market value by as much as 16%¹⁴
- Deliver up to 57% more in shareholder returns¹⁵
- Increase employee time on the job
- Improve quality of care
- Reduce usage of outpatient/emergency resources
- Promote healthier lifestyles
- Increase employee productivity.

A long-term study by Johnson & Johnson, conducted by Thomson Medstat (an Ann Arbor, MI, health information company), indicated that health care costs were \$225 less for each employee who participated in a four-year period and **voluntary participation increased from 26% to 90% when incentives were offered.**¹⁶

It is much more effective to reward employees for healthy behavior and other benchmarks rather than punish for unhealthy behavior. Companies that have been able to contain costs are more likely to use financial incentives to influence appropriate health care decisions; more likely to provide employees with the education and tools needed to become informed health care consumers; and more likely to offer programs for lifestyle behavior change, smoking cessation and disease management.

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8 What kind of incentives can be used for health and wellness programs?

Incentives may take the form of charging less for plan contributions, offering lower coverage levels, providing reimbursement for wellness programs, giving premium discounts to employees who engage in healthy lifestyles and merchandise incentives such as pedometers, yoga mats, T-shirts, water bottles, golf equipment, etc., for participation/registration and when other goals are met. Incentives to decrease tobacco use are the most common and are used by 84% of the employers that offer incentives.¹⁷

9 Why do we need to offer health and wellness incentives?

Health care costs per employee have ballooned more than 40% in the last five years. The U.S. is ranked 45th in life expectancy in the world due to lack of insurance, high obesity rates, high infant death rates, disparity of care and a focus on treatment rather than prevention.¹⁸ A wide variety of lifestyle risks also impact worker productivity. Changing individual behaviors related to health has been a major obstacle for many companies—and the population as a whole. In fact, the lack of employee engagement (low participation or interest in programs) is cited by 58% of the companies as the biggest obstacle to encouraging employees to live healthier lifestyles and to take appropriate care of chronic conditions.¹⁹ Ultimately, the use of incentives to encourage workers to engage in healthier lifestyles will not only save companies money, but also result in a healthier American workforce.

10 What is the Incentive Legislation Campaign?

Federal and state legislation can have a significant impact on the conduct of business in any field, especially the incentive, engagement and related fields. How federal and state governments tax incentives, and how they regulate promotions or employee reward practices can either positively or negatively affect business. The Incentive Federation supports the best practices in the field and the highest ethical standards to motivate customers and employees. It stands vigilant to make sure that legislatures and/or regulators recognize the value of properly constructed programs, favor them when possible from a tax or regulatory point of view or, at the very least, do nothing to impede their proper use.

The Incentive Legislative Campaign was created to:

- Establish a robust connection with legislators—especially those in our nation's capital—to proactively address opportunities and threats to the incentive industry.
- Raise awareness of the incentive and recognition industry's role in business.
- Demonstrate that recognition and reward solutions are powerful business tools.

11 What is the Incentive Federation?

The Incentive Federation is the umbrella organization founded to promote, protect and research the incentive field. It is primarily known for monitoring legislation that could affect the use of incentive and related promotional programs.

12 What is the Incentive Legislation Campaign currently trying to accomplish? Why?

The ILC supports a tax incentive for employers and employees who participate in wellness programs, namely, a qualified wellness award of up to \$400 in the form of tangible personal property (not cash or cash equivalent) for each eligible employee who participates in a qualified wellness program that would be nontaxable to the employee and deductible by the employer.

Because employees are often reluctant to enter these programs and need an immediate tangible benefit for participating, incentives, awards and recognition provide a compelling reason to enroll.

As studies show, incentives have a proven track record of influencing good employee behavior and are a powerful tool in ensuring the success of wellness programs. Incentives and recognition awards would be much more prominently utilized by corporations if they also conferred a tax benefit. Qualified wellness awards help motivate employees to participate and succeed in an employer's wellness programs and benefit both the employee and employer.

To ensure that qualified wellness awards are not used as disguised compensation, the awards need to be in the form of tangible personal property and awarded as part of a targeted plan. Tangible awards have the added benefit of having "trophy" value as a reminder of the employee's personal health achievement.

Appropriately designed qualified wellness award programs are valuable tools that ensure the success of a wellness program and help create a healthier American workforce. The Federation's proposed tax incentive program would serve that goal.

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13 Why should Americans subsidize a tax benefit? Why don't employers just do it without a tax break?

There are many reasons why the American government should promote this tax benefit:

- Because tangible incentives are powerful motivators, wellness incentive programs will help reduce health care costs by encouraging workers and, by association, their families to engage in healthier behaviors that reduce medical related costs and absenteeism while improving productivity and competitiveness.
- After the recent economic recession, most employers are not positioned to make investments in their businesses that will not show an immediate economic benefit. The situation is complicated by the fact that most of today's workforce changes jobs every few years and would probably not be in place long enough to provide significant performance improvements to a single employer.
- In order for the country to achieve quick adoption and substantial benefits of wellness programs, the approach needs to be as widespread as possible and incentives are the key. Having a tax benefit that encourages companies to adopt and expand these programs will help spread the initiative and generate deeper and quicker results.

14 How do companies that have incentives in place compare to those that do not?

"Research has shown that an integrated employee recognition system, comprised of different programs targeted for specific goals (for example, improved safety, increased performance or higher retention), is the best way to achieve measurable results."²⁰

Organizations with higher than average employee engagement realize:

- 27% higher profits
- 50% higher sales
- 50% higher customer loyalty
- 38% above average productivity²¹

The S & P 500 averaged a 45.6% cumulative stock return (1998-2006) while Fortune's "100 Best Companies to Work for" had a 200.6% return.²²

15 Why aren't recognition and incentives considered part of employee compensation?

Recognition and incentives are designed for specific target audiences to achieve specific changes in behavior to accomplish identified goals. Unlike compensation, they are not negotiated as part of the employer-employee hiring contract. While incentives may be open to all employees, they are only awarded to those employees who achieve the program goal. They are usually tangible items that have more "trophy" inspirational value than actual value. Including them as part of compensation would rob them of a great deal of their motivational power and disconnect them from their ties to specific, time-lined objectives.

16 Who does the Incentive Federation represent?

The Incentive Federation is the only organization whose membership and leadership includes all of the industry's national trade associations, as well as individual companies. It is under The Incentive Federation umbrella that the collective interests of the Incentive Marketing Association (IMA), the Promotion Marketing Association (PMA), the Promotional Products Association International (PPAI), The Incentive Research Foundation (IRF), and International SITE Foundation (ISITE) are discussed, nurtured and advanced. For a list of current members, please select the Members tab at:

<http://incentivefederation.org>.

¹ Recognition Council white paper: The Time for Employee Recognition and Rewards Programs Is Now, 2009

² Incentive Marketing Association, Incentive Industry Bootcamp, August 1, 2010

³ Incentive Federation Study 2007: A Study of the Incentive Merchandise and Travel Marketplace

⁴ Incentive Marketing Association, Power of Incentives, 2010

⁵ Incentive Marketing Association, Incentive Industry Bootcamp

⁶ Incentive Research Foundation: Incentives, Motivation & Workplace Performance, Incentive Performance Center, 2008

⁷ Incentive Marketing Association, Incentive Industry Bootcamp

⁸ Incentive Research Foundation: Incentives, Motivation & Workplace Performance

⁹ Incentive Research Foundation: Incentives, Motivation & Workplace Performance

¹⁰ Incentive Research Foundation: Incentives, Motivation & Workplace Performance

¹¹ Incentive Research Foundation: Incentives, Motivation & Workplace Performance

¹² Staying @ work report: Building an Effective Health and Productivity Framework, Watson Wyatt, 2007.

¹³ Staying @ work report: Building an Effective Health and Productivity Framework

¹⁴ Staying @ work report: Building an Effective Health and Productivity Framework

¹⁵ Staying @ work report: Building an Effective Health and Productivity Framework

¹⁶ Corp! Magazine, March 2007

¹⁷ Bottom Line Booster Shot: A Study of Corporate Wellness Programs, Barb Hendrickson, Stacie Pinnavaia, Design Incentives Inc., 2009

¹⁸ Hendrickson and Pinnavaia

¹⁹ 2010 Employer Survey on Purchasing Value in Health Care Report | National Business Group on Health/Towers Watson

²⁰ Human Capital Institute study: The Value and ROI in Employee Recognition: Linking Recognition to Improved Job Performance and Increased Business Value, 2009

²¹ Incentives, Motivation, and Workplace Performance: Research and Best Practices, 2002 Incentive Research Foundation

²² Russell Investment Group analysis, 2006

