

escalate
messaging
variable
decoys
architecture
enhanced
choice
nudges
intuitive
segmentation
defaults
emotion
WORKFORCE
MANAGEMENT
active
Economics Finance auto-enroll
Behavioral
rational
heuristics
biases behavioral decision-making
rational
heuristics

LEVERAGING BEHAVIORAL ECONOMICS IN HUMAN RESOURCES MANAGEMENT

J. David Johnson, MBA
Vice President, Senior Consultant
djohnson@sibson.com; 202.833.6482

 Sibson Consulting

Agenda

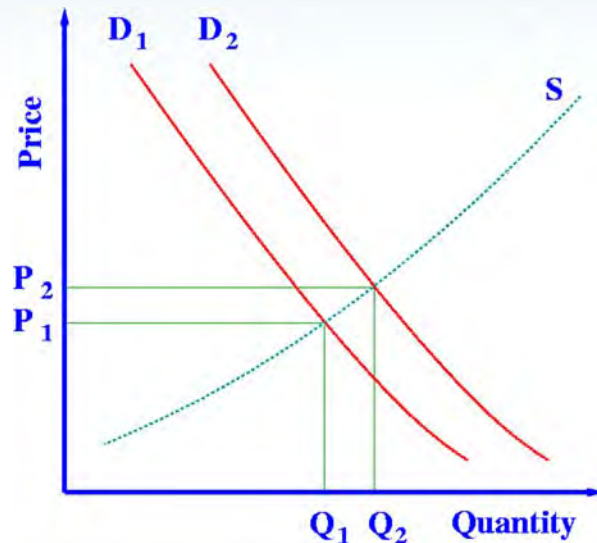
- Intro to Behavioral Economics
- Business Case for Changing Employee Behaviors
- Models for Understanding Behavior Change
- Key Insights from Behavioral Economics
- Sample Employer Strategies
- For More Information on Behavior Change...



What Is Behavioral Economics?

Traditional Economics

What rationale people *should* do



Behavioral Economics

What sometimes irrational people *actually* do



CRUMPs vs SIRPs

Behavioral Economics in the Workplace



Completely
Rational Utility
Maximizing
Person

Behaviors driven by:

- Incentives
- Information
- Capabilities / Resources



Sometimes
Irrational Real
Person

Behaviors driven by:

- Nudges
- Guardrails
- Habit Cues

Behavioral Economics: Top 10 Insights for HR Professionals

1. Insights from Behavioral Economics can help impact an organization's success in a variety of ways, from culture, to talent development to comp & benefit costs
2. HR is in an ideal position to leverage Behavioral Economics within an organization
3. Benevolent persuasion (nudging employees to do what's good for them, and the organization) is viewed by many as a completely ethical business practice
4. Employees must believe that the employer is concerned about their best interests
5. Behavior tends to change along a predictable pathway, driven by specific processes
6. Habits impact behavior more than conscious choice or motivation
7. People tend to make cognitive errors in a predictable manner
8. To sustain change, employees need *motivation* (intrinsic and extrinsic) and *ability* (skills and environment); employers can help on each of these
9. Extrinsic rewards can kill intrinsic motivation
10. It's often best to make the *Right Choice* the *Easy Choice* (and/or the *Fun Choice*)

A word cloud centered around the word "choice". The words are in various colors (red, yellow, black, grey) and sizes, arranged in a roughly rectangular shape. The word "choice" is the largest and most prominent. Other words include "escalate", "messaging", "decision-making", "biases behavioral", "variable", "decoys", "architecture", "enhanced", "nudges", "intuitive", "active MANAGEMENT", "segmentation", "defaults", "WORKFORCE", "emotion", "rational", "heuristics", "Behavioral", "Economics", "Finance", "auto-enroll", "enhanced".

escalate
messaging
biases behavioral decision-making variable
decoys
architecture enhanced
rational Behavioral choice nudges
heuristics Economics Finance auto-enroll intuitive
active MANAGEMENT segmentation defaults
WORKFORCE emotion

Business Case for Changing Employee Behaviors



Continued Rise in Healthcare Costs

Exhibit 1.11 - Average Annual Premiums for Single and Family Coverage, 1999-2014



* Estimate is statistically different from estimate for the previous year shown (p<.05).

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014.

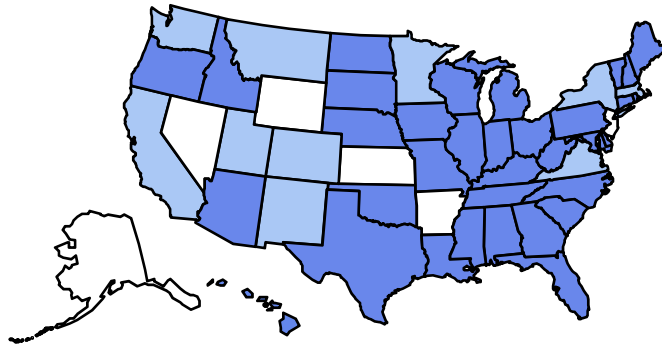
Estimated Cost of Poor Health to US Economy—\$576 Billion

	Annual Cost (Billions)	Percent of Total
Wage Replacement Incidental absence due to illness, workers' compensation, short-term disability, long-term disability	\$117	20.3%
Medical and Pharmacy Workers' compensation, employee group health medical treatments, employee group health pharmacy treatments	\$232	40.3%
Lost Productivity Absence due to illness, presenteeism	\$227	39.4%
Total	\$576	100%

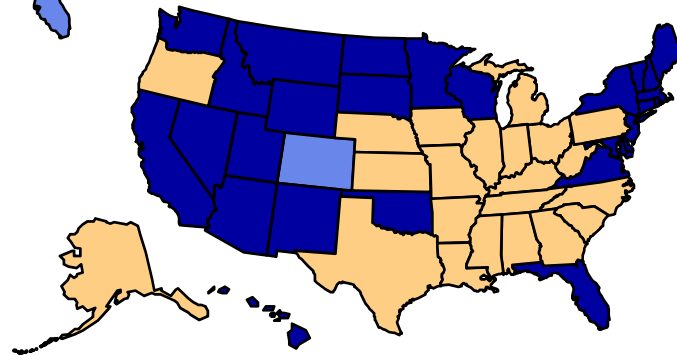
Source: Integrated Benefits Institute 2012 Analysis

Increasing Obesity Rates in US (CDC Data)

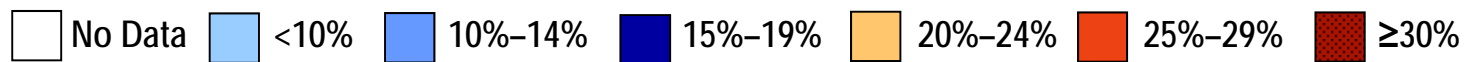
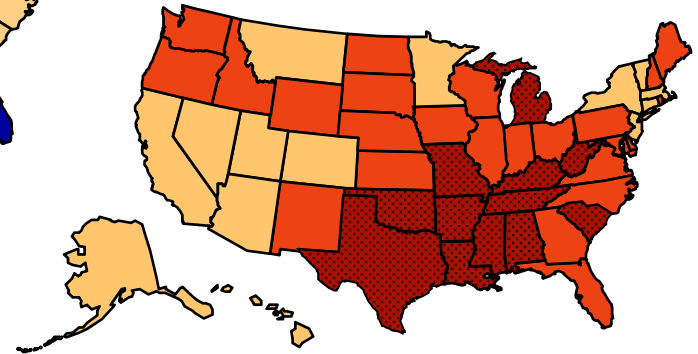
1990 OBESITY RATES



2000 OBESITY RATES



2010 OBESITY RATES



American's Are Not Saving for Retirement

- 31% of non-retired Americans reported having **no retirement savings or pension**
 - Alarming, among those ages 55 to 64, the number is 19%
- Almost **half** of adults were **not actively thinking about** financial planning for retirement
 - 24% had given only a little thought to financial planning for their retirement
 - 25% had done no planning at all
 - Of those who have given at least some thought to retirement planning, 25% didn't know how they will pay their expenses in retirement
- The Great Recession pushed back the planned date of retirement for **two-fifths** of those ages 45 and over who had not yet retired

Source: "Report on the Economic Well-Being of U.S. Households, the Federal Reserve Board, August, 2014



Sample Efforts to Change Employee Behaviors

51% of US employers with 50+ employees have a wellness program



Among employers offering wellness programs:

- **80%** screen employees for health risks
- **77%** offer lifestyle management interventions; among these:
 - **79%** provide nutrition/weight management programs
 - **77%** offer smoking cessation
 - **72%** provide fitness resources
 - **52%** offer stress management programs
- **56%** provide Disease Management programs; among these:
 - **85%** target diabetes
 - **60%** focus on asthma
 - **59%** target coronary artery disease
 - **54%** focus on heart failure
- **44%** regularly evaluate wellness program; only 2% measure financial impact

Despite Employer Efforts *Limited Engagement*

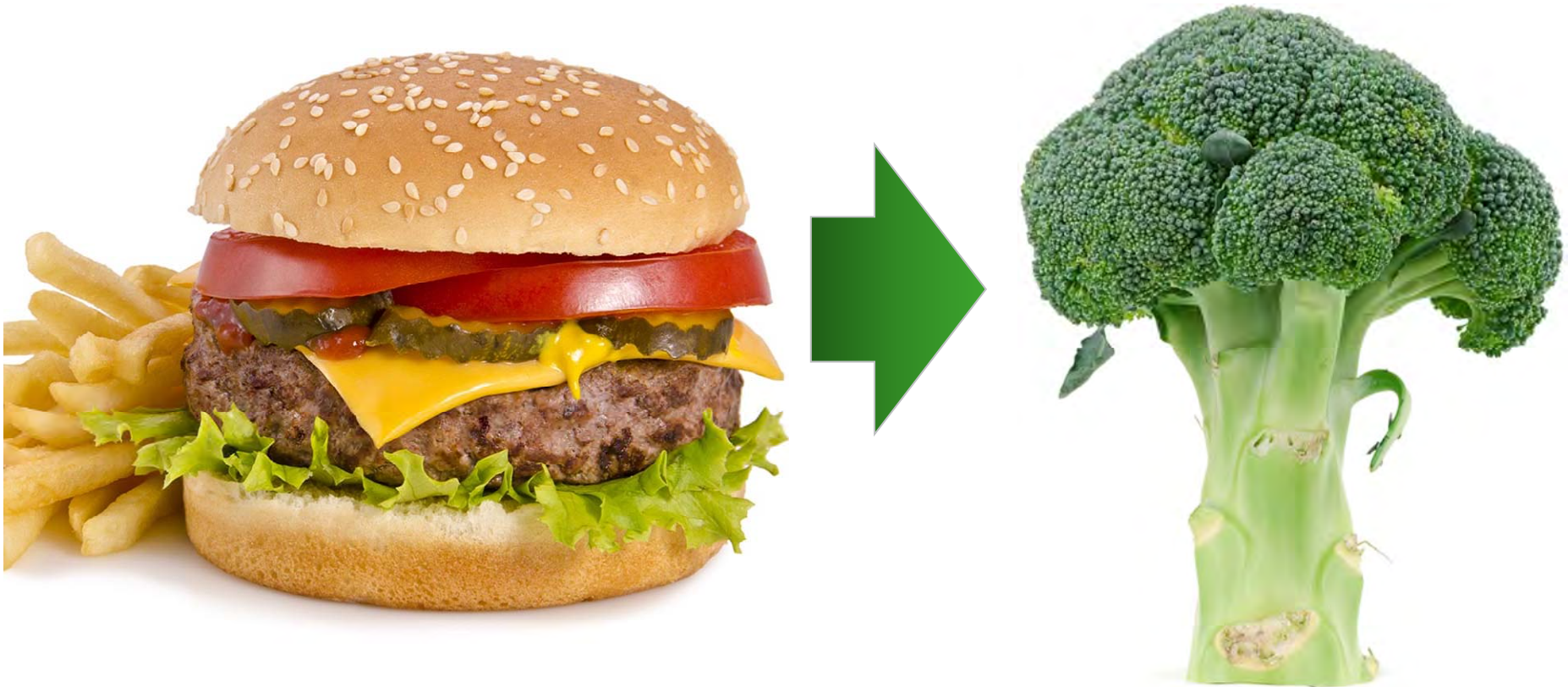


Participation Rates for Employees Identified through Screenings or Claims Data

Source: Rand Corporation – 2013 Workplace Wellness Programs Study

Biggest Challenge for Employers

Behavior change is tough,
particularly sustained change



Typical Employers Frustrations

1

“We offer great wellness programs and a generous 401(k) match —people just don’t participate”

2

“People went back to their old ways after completing the wellness initiative”

3

“We can’t force people to change— they have to want to do it”



A word cloud featuring various terms related to behavioral economics and choice. The most prominent word is "choice" in large red font. Other significant words include "behavioral", "decision-making", "nudges", "architecture", "defaults", "segmentation", "emotion", "WORKFORCE", "active", "MANAGEMENT", "intuitive", "auto-enroll", "Finance", "Economics", "rational", "heuristics", "biases", "behavioral", "messaging", "escalate", "variable", "decoys", "enhanced", and "emotional". The words are arranged in a cluster, with some oriented vertically and others horizontally.

Models for Understanding Behavior Change



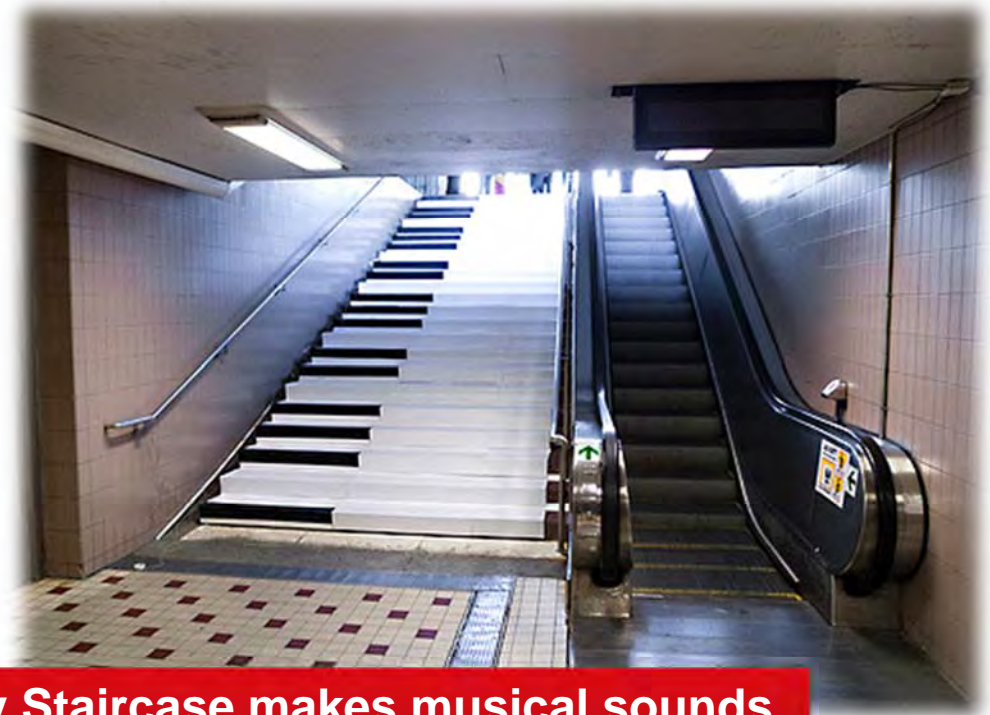
Some Behavior Change Models...

- Behaviorism
- Transtheoretical model
- Theory of planned behavior
- Protection motivation theory
- Self-determination theory



Enter Behavioral Economics...

- “Behavioral economics is the study of how real people actually make financial choices; it draws on insights from both psychology and economics.”¹
- Research based critique of rational decision theory
- The science of trying to understand how and why individuals make suboptimal and optimal consumer choices



**Stockholm's Piano Subway Staircase makes musical sounds
Impact: 66% increase in people choosing stairs.**

¹ *The Marketplace of Perceptions: Behavioral economics explains why we procrastinate, buy, borrow, and grab chocolate on the spur of the moment.* Craig Lambert, Harvard Magazine. March – April 2006

Heuristics and Choice Architecture

Heuristics ¹	Workplace Examples
Endowment Effect	“I don’t want to drop the PPO plan, even if the HSA plan costs less”
Loss Aversion	“I’m not willing to risk losing my retirement savings in mutual funds”
Status Quo Bias	“I’ve never been one to exercise much; why start now?”
Clue Seeking Bias	“The PPO plan is listed 1 st in the Enrollment Guide; it must be the best plan”
Preference for Now	“Saving for retirement doesn’t make sense for me; I need the money now”
Optimism Bias	“I’m generally healthy; I don’t really need to do a health screening”

Choice Architecture ²	Workplace Examples
Framing	Communicate “what you lose” by not getting the free health screening done
Naming	Renaming the “High Deductible Plan” the “Healthy Saver Plan”
Ordering	Listing the optimal plan (e.g., Healthy Saver Plan) first in Enrollment Guide
Default Options	Auto-enrolling employees in Target Date Funds in 401(k) plan
Pre-Commitment	Commit to doing the Health Risk Assessment (HRA) in the next 30 days to enter a drawing for \$500 (forfeit the chance to win if you don’t actually do HRA)
Priming	As employees are making an election decision regarding the 401(k) plan, have them think about what they’ll be doing in retirement

¹ **Heuristics** are mental shortcuts that influence employees’ decisions, often in irrational ways

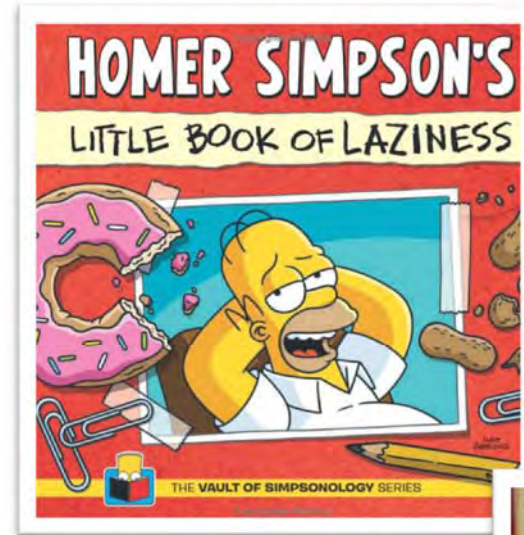
² Through **Choice Architecture** (Thaler, Sunstein), employers can nudge employees to make better decisions

Why Is Behavior Change So Tough?

*Understanding Two Systems at Work in Our Brain**

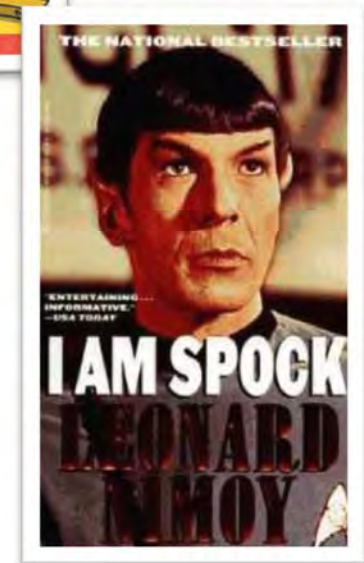
System 1: Fast

- Automatic; requires little effort
- Examples:
 - *Eat the doughnut in front of you*
 - *Answer that text that just arrived*



System 2: Slow

- Reflective; involves choice and concentration
- Examples:
 - *Determine the benefits of quitting smoking*
 - *Make a plan to exercise more, or to get more sleep*



* Thinking, Fast and Slow by Daniel Kahneman, 2011

Potential Strategies to Target the Two Systems

System 1 (Automatic)

- Make the **healthy** choice the **easy** choice
- Leverage the power of **habit**



System 2 (Reflective)

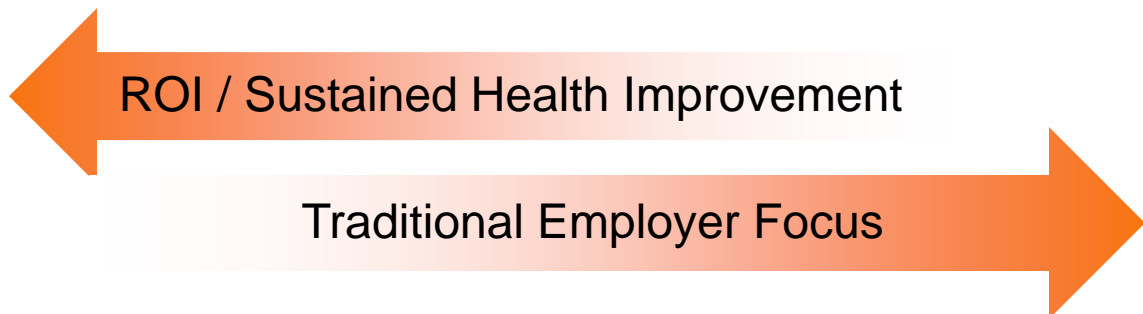
Provide the **knowledge**, **motivation** and **resources** to sustain healthy behaviors



Application in the Workplace:

What's Driving Specific Health Behaviors?

Behavior	Habit-Driven (Fast System)	Intention-Driven (Slow System)
Nutrition	Bringing lunch from home	Enrolling in nutrition class
Physical Activity	Taking the Steps	Joining a gym
Tobacco	Spending more time with non-smoking friends	Registration for smoking cessation class
Sleep	Consistent sleep schedule	Buying new window shades
Stress	Practicing mindfulness	Enrolling in yoga class
Prevention	Routine self-examination	Visiting one's PCP



Achieving Sustained Behavior Change



Extrinsic



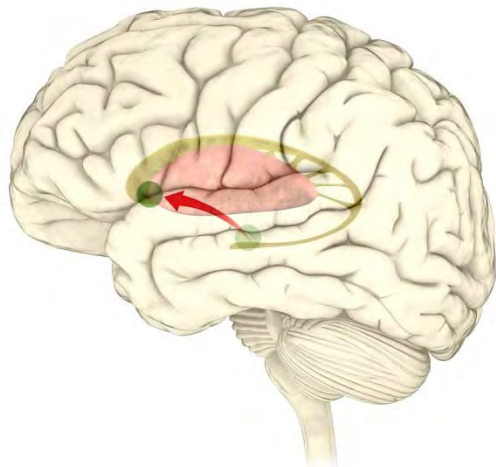
Intrinsic



Habit



Evolution of the Power of Habit



- Habitual behaviors, or routines, are driven by the basal ganglia, the oldest part of the human brain
- Brain-damaged patients can continue to demonstrate old habits, and form new ones, even after near complete memory loss
- Our ability to execute daily habits has been essential to our survival as a species

Habit > Intention in survival of the fittest

Make a Habit, Break a Habit...

Make a Habit

- Repeat desired behavior in a stable context (time, location, process, associated people)
- Be mindful of cues
- Occasional misses are OK



Break a Habit

- Notice cues (time, location, process, associated people)
- Disrupt, or remove, cues
- Replace, or at least modify, undesired behavior



Employers' Role in Shaping Health Habits

Enabling Bad Habits



Physical Activity

Nutrition

Sleep

Stress

Building Good Habits



FREE



>9:00PM



Helping Employees Build Healthy Habits



¹ Includes *periodic* events such as Health Risk Assessments, Screenings, Coaching, Education and Competitions

² Reflects *sustained* improvements in Nutrition, Physical Activity, Sleep, Stress Management and Avoiding Risking Behaviors (e.g., tobacco use or excessive alcohol use)