In Depth: **PERSONAL FINANCE**

PERSONAL JOURNAL.

Wellness Plans Reach Out to the Healthy

Fit Employees Now Qualify For Financial Incentives To Stop Smoking, Lose Weight

By M.P. McQueen

As more employers pay workers to quit smoking, take up exercise or lose weight, a growing number are under pressure to devise ways to reward another group of employees—those that may already lead a healthy lifestyle.

The government recently finalized a thicket of rules governing what measures companies can take to induce workers to adopt healthier habits. The aim is to ensure that all workers are treated fairly in so-called wellness programs. As a result, employers who pay workers for giving up cigarettes, for instance, are increasingly offering nonsmokers an alternative way to earn the same reward. Even nicotine addicts who can't quit are considered eligible for awards in some cases. This means that instead of being rewarded for success, many workers are earning extra cash or discounts on their health-insurance premiums just for participating in wellness programs regardless of whether they manage to change their habits significantly.

One aim is to discourage the type of behavior **Rockford Acromatic Products** Co. encountered. The Illinois auto-parts maker used to offer $250 to employees who could stay smoke-free for several months. But some workers took up smoking just so they could then quit and qualify for the reward. The company stopped offering the incentive.

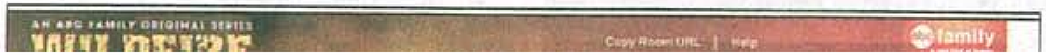
"It was not our intention to encourage people to start smoking. It was aimed at people who already had a bad habit," says Jim Knut-

Please turn to page D3

A Quick X-Ray Could Prevent Surgical Error

Doctors Split Over Procedure To Prevent Common Injury In Gallbladder Removal

By David Armstrong



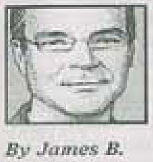
PERSONAL FINANCE

COMMON SENSE

CVS/Caremark Deal Challenges Merger Playbook

For years, the Common Sense mergers-and-acquisitions playbook has stood me in good stead. But the Caremark Rx takeover saga, which ended last week, has me wondering whether I should throw it out and start all over again.

Let me briefly recap the action: In November, CVS, the big drugstore chain, announced a friendly acquisition of Caremark Rx, a big pharmacy-benefits manager, for $21 billion. Then benefits manager Express Scripts jumped in with a much higher offer for Caremark, and a bidding war was under way. CVS had to raise its offer twice to secure shareholder approval for the deal. Ultimately, CVS paid $26.5 billion and is buying back 150 million of its shares. Where did the playbook go wrong?



By James B. Stewart

Playbook: Shares of acquiring companies drop on merger news; those of the target rise.

Reality: CVS shares did plunge, but since it never offered much of a premium, Caremark

Wellness Plans Reach Out to Healthy Employees

Continued from page D1

son, Rockford's benefits manager.

Now, Rockford contracts with **Tangerine Wellness** Inc. of Boston to run a weight-management program for its workers. There are employees enrolled who don't really need to lose weight, Mr. Knutson says. But everyone who joins gets a reward, in the range of $15 to $30 a quarter.

"There's a little extra peer pressure," says Sean Carlini, 40 years old, an engineer who participates in Rockford's program. "A few extra eyes on you when you go to the snack bar."

Today, about half of **International Business Machines** Corp.'s work force makes use of the company's three-year-old wellness program, which pays each employee as much as $300 a year to participate in programs that encourage healthy eating, physical activity and other lifestyle changes. Although less than 10% of IBM's workers smoke, the company also offers a one-time payment of $150 even to nonsmokers for not smoking.

"I'm not overweight. In general, I'm quite healthy," says Scott Hebner, a vice president of marketing at IBM. Still, Mr. Hebner, 41, recently got $150 for participating in the company's physical-activity program and now expects to earn a similar amount from the healthy-eating program. "You know how much fat is in cheese?" he says, by way of explaining how he has become more vigilant in his eating habits.

More companies are adopting wellness programs as evidence mounts that the programs can help control overall health-care costs. Besides encouraging healthy lifestyles, the programs often also monitor employees for risky medical conditions, such as diabetes, and recommend treatment. Last year, 43% of employers who offered health insurance also offered some type of incentive to encourage healthy behavior, according to the Society for Human Resources Management.

Johnson & Johnson, the big health-care products company, says it has saved $225 per employee in medical costs annually with its wellness programs, mostly because of lower hospital bills. And at **Citigroup** Inc., every $1 spent on its wellness program ended up saving the company $4.70, according to an academic study.

Privacy rules mean that employers aren't supposed to have access to workers' personal health records, so often they must hire third-party administrators to run their corporate wellness programs.

Pitney Bowes Inc., the office-equipment company, last year started a multipronged wellness program that allows workers to earn up to $225 a year toward their health expenses. Colette Cote, 42, a company spokeswoman, says she earned that amount by completing a health-risk assessment and two health-progress reports. She says she also earned points, which apply toward the bonus, because she maintains a normal body mass index and she doesn't smoke, and she was rewarded for eating recommended portions of fruits and vegetables and using her seat belts regularly.

"This is our first year of doing this. But we have been able to show that for every dollar we have spent on health-improvement programs we save $2 to $3 in health-care savings and productivity costs," says Dr. Brent Pawlecki, Pitney Bowes's associate medical director.

Rules regulating wellness programs are administered by three federal agencies, including the Health and Human Services Department, the Department of Labor and the Treasury Department. The laws involved include the Americans with Disabilities Act, Health Insurance Portability and Accountability Act (or HIPAA) of 1996 and the federal tax code. State labor laws also come into play.

In December, the labor and health departments issued final HIPAA rules to help ensure nondiscrimination in wellness programs. Effective July 1, the maximum discount an employer or insurer can provide for taking part in a program is 20% of a single employee's insurance premium. Health consultants say only a few companies will have to tweak their programs to comply with the limit.

HIPAA also now will require employers to provide "reasonable alternatives" for people with physical or medical conditions. Because nicotine addiction is considered a medical condition, for instance, employers generally have to make allowances in health plans and wellness programs for workers who can't quit. Similar principles are now being applied to fast-growing obesity programs. Last year, 29% of employers said they were offering weight-loss programs, up from 17% in 2001, according to the Society for Human Resources Management.

"Obesity is a complex condition and some percentage of it is genetics. People are at different starting points and the law is a protection. Not everyone can have a body-mass index under 25," which is considered ideal, says LuAnn Heinen, director of the institute on obesity at the National Business Group on Health, an association of large employers that focuses on health issues.

At Florida Power & Light, a unit of **FPL Group** Inc., Kim Corbitt says she has earned two $100 bonuses toward her health-reimbursement account for participating in the company's fitness and nutrition programs, which is open to all employees. Florida Power's health insurer keeps track of participation by counting how many times employees swipe their identification badge at the company's fitness center. "Four of us in my [work] group have done this and we have all lost weight," says the 44-year-old systems technology business analyst.

Privacy rules mean that employers aren't supposed to have access to workers' personal health records, so often they must hire third-party administrators to run wellness programs.