



Value-Based Insurance Design can drive innovation in Health Insurance Exchanges

The Value-Based Insurance Design (V-BID) premise is to align patients' out-of-pocket costs, such as copays and deductibles, with the value of health services. This approach to designing benefit plans recognizes that different health services have different levels of value. By reducing barriers to high-value treatments (through lower costs to patients) and discouraging low-value treatments (through higher costs to patients), these plans can achieve improved health outcomes at any level of health care expenditure.

More background on V-BID is available at: www.vbidcenter.org

Principles for State Exchanges

V-BID can add value to exchanges in several ways: it encourages smarter healthcare spending in order to provide comprehensive health benefits at lower cost, promotes access to needed services and higher quality care, and it increases the capacity to integrate new clinical evidence and standards by providing appropriate incentives. Studies show that when barriers to high-value care are reduced, patient compliance with recommended treatments increasesⁱ and potential cost savings result.ⁱⁱ

There is substantial momentum in the both the private and public sectors toward greater adoption of V-BID. A national survey conducted by Mercer in 2010 found that 81 percent of large employers plan to offer a V-BID option in the near future.ⁱⁱⁱ States can maximize opportunities for plans to innovate using V-BID to encourage better health and smarter spending using these principles:

- 1) **Avoid over-prescriptive cost-sharing rules.** V-BID works by varying cost-sharing based on clinical evidence with regard to a specific clinical service (e.g., mammography), and often directed to a specific patient population (e.g., eye examinations for individuals with diabetes). Therefore, while the desire to set standardized benefits is understandable, setting uniform requirements for co-pays and deductibles can have the unintended effect of prohibiting value-based principles. The potential result of strict cost-sharing requirements without clinical nuance would be underuse of high-value services and overuse of low-value services. Additionally, once set, such rules would be difficult to change, making the timely adoption of best practices based on new clinical evidence less likely. Rather, a rule more protective of patients, such as one recommending that copays be related to clinical value, will allow necessary flexibility and better protect patients from high out of pocket costs for essential medical services.

- 2) **Maintain flexibility and limit mandates in benefit designs.** Value-based benefits generally raise the actuarial value of a plan, even though they may reduce health spending in the long run. This is due to the lower up-front cost, which leads to increased use of high-value services. This result—increased short term expenditures and lower long-term aggregate costs—is similar to the actuarial projections for Section 2713 of the Affordable Care Act (ACA), which mandates no patient cost-sharing for high value preventive services such as immunizations, wellness visits, and cancer screenings. Under the ACA, plans in each tier—platinum, gold, silver and bronze—have corresponding limits in actuarial value. Consequently, states should take care when mandating specific benefits and services for plans. Too many prescribed benefits will exclude value-based designs, especially for the bronze and silver plans, which will be sold to the very populations who have the potential to benefit from V-BID the most.^{iv}

- 3) **Quality ratings for health plans should incorporate value-based principles.** Value-based insurance design improves quality because it encourages patients to seek high-value care, improving health outcomes per dollar spent. The new quality rating tools available in Exchanges should provide consumers with the information needed to allow them to choose plans that include clinically nuanced incentives for high value care. Where appropriate, preference can be given to plans that incorporate value-based designs.

For More Information

Since 2005, the University of Michigan Center for Value-Based Insurance Design has led efforts to promote the development, implementation, and evaluation of innovative health benefit designs balancing cost and quality. Our multidisciplinary team, first published and named the V-BID concept, and has guided this approach from early principles to widespread adoption in the private and public sectors.

We stand ready to assist states in learning more about V-BID and the contributions it can make to higher quality, more cost-effective health care in the Exchanges, including specific implementation strategies. Please contact the V-BID Center at (734) 615-9635 and through www.vbidcenter.org.

ⁱ Chernew ME, Shah MR, Wegh A, Rosenberg SN, Juster IA, Rosen AB, Sokol MC, Yu-Isenberg K, Fendrick AM. Impact Of Decreasing Copayments On Medication Adherence Within A Disease Management Environment. *Health Affairs*, 2008; 27; 103-112.

ⁱⁱ Chernew ME, Juster IA, Shah M, Wegh A, Rosenberg S, Rosen AB, Sokol MC, Yu-Isenberg K, and Fendrick AM. Evidence That Value-Based Insurance Can Be Effective. *Health Affairs*, 2010; 29; 1-7.

ⁱⁱⁱ Niteesh K. Choudhry, Meredith B. Rosenthal, Arnold Milstein. Assessing the Evidence for Value-Based Insurance Design. *Health Affairs* 29: 1988-1944 (2010).

^{iv} Chernew ME, Gibson TB, Yu-Isenberg K, Sokol MC, Rosen AB, and Fendrick AM. Effects of Increased Patient Cost Sharing on Socioeconomic Disparities in Health Care. *J Gen Intern Med* 2008 23(8):1131–6