



**Value-Based Insurance Design:  
A New Approach to Health Insurance Balancing Cost and Quality**

**Background:** With the health care industry commanding \$1.9 trillion annually, [16% of the U.S. gross domestic product], employers are struggling to provide health insurance to their employees while remaining competitive in the global marketplace. Similarly, public policymakers are exploring ways to expand coverage of the uninsured population while containing costs.

**Reform Agenda:** Momentum for reform has gathered behind two trends:

- The first trend focuses on containing the *cost* of care and uses financial incentives to alter patient and provider behavior. This trend includes increased cost sharing among patients and lower reimbursements to providers. Health savings accounts, which allow employees to set aside tax-free money for health expenses, and consumer driven health plans, which typically combine a large deductible with coverage for catastrophic expenses, reinforce this reform movement.
- The second trend focuses on improving the *quality* of care and keeping individuals healthier longer. Employers and insurers are implementing disease management initiatives that provide coaching and monitoring to help patients manage their health in an effort to avoid more costly types of care. They are also adopting pay-for-performance programs, which pay providers more for adhering to sound clinical practices and delivering specific health outcomes.

**The Inherent Conflict:** Quality improvement initiatives such as disease management programs are designed to improve patient self-management of chronic conditions by enhancing compliance with specific high value interventions. At the same time, those patients face rising co-payments which create financial barriers that discourage the use of recommended services. Studies show that patients who are required to pay more for their health care buy less – of essential and excessive therapies alike.

**Value-Based Insurance Design:**

- Value equals the clinical benefit for the money spent.
- Value-based benefit packages adjust patients' out-of-pocket costs for health services according to an assessment of the clinical benefit to the individual patient.
- Thus, the more clinically beneficial the therapy for the patient, the lower that patient's cost share will be. Higher cost sharing will apply to interventions with little or no proven benefit.

**Examples:**

- In 2001, Fortune 500 employer Pitney Bowes lowered copayments for asthma and diabetes medications, reporting to the *Wall Street Journal* a \$1 million savings from reduced complications. The city of Asheville, North Carolina; Marriott Corporation; Mohawk Carpets; Wal-Mart; CIGNA; the State of Maine; and the University of Michigan have implemented value-based insurance design approaches.

**Center for Value-Based Insurance Design:** The University of Michigan Center for Value-Based Insurance Design was established in 2005 to develop, evaluate, and promote value-based insurance initiatives in order to ensure efficient expenditure of health care dollars and maximize benefits of care. The Center is the first academic venue in which faculty with both clinical and economic expertise conduct empirical research to determine the health and economic impact of innovative benefit designs.