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Immediate Options Exist to Integrate Value-Based Insurance Design Into Medicare Part D

Washington, DC – A new analysis shows that the Medicare program could immediately modernize its benefit structure to incorporate value-based insurance design, a proven tool used to increase healthcare quality. Potential targets include changes in the Medicare Part D program, as well as Medicare's Special Needs Plans that care for chronically ill and dual eligible populations. The paper was released today at the Diabetes Forum 2009 by Avalere Health and the Center for Value-Based Insurance Design at the University of Michigan.

Value-based insurance design (VBID) abandons the typical approach of uniformly applying cost sharing to health services regardless of their effect on a patient's health. Instead VBID tailors cost sharing: the more clinically beneficial the service is to a patient, the lower that individual's cost sharing for the service. In some cases, employers such as Marriott and Pitney Bowes have actually eliminated cost sharing associated with diabetes medications and achieved positive cost and quality outcomes.

Medicare is a large target for innovative benefit design aimed at improving quality; it has more than 26 million enrollees. 23% of Medicare beneficiaries with five or more chronic conditions account for 68% of the program's spending, and there is heavy reliance on medication to treat chronic illness. After surveying the Medicare Part D construct, the researchers propose these 5 policy options as ways to integrate VBID:

- **Option 1:** Reduce cost sharing for specific drugs or drug classes
- **Option 2:** Exempt specific drugs or drug classes from 100 percent cost sharing in the coverage gap
- **Option 3:** Reduce cost sharing for enrollees with chronic conditions
- **Option 4:** Reduce cost sharing for enrollees participating in medication therapy management programs
- **Option 5:** Reduce cost sharing for chronic condition special needs plans

"VBID has the potential to help transform Medicare into a more prudent purchaser of healthcare that meets patient needs," said Tanisha Carino, PhD, a vice president at Avalere Health and co-author of the paper. "These tools need to be considered in the context of health reform as they map directly into the Administration's goals of improving quality and preventing complications of illness."

In addition to laying out options, the researchers rank them based on 4 factors, which will ultimately affect the speed and scope of implementation: 1) the potential size of the Medicare Part D population affected; 2) CMS' authority to change policy within existing statute and regulation; 3) requirements for implementation; and 4) political support. The researchers conclude that options 1, 2, and 5 are all immediately doable within current policy, with option 1 (reducing cost sharing for specific drugs or drug classes) having the potential to reach the most Medicare lives.

“Efforts to control costs should not reduce quality of care,” said A. Mark Fendrick, MD, co-director of the University of Michigan Center for Value-Based Insurance Design. “This paper will increase the growing bipartisan, bicameral momentum to advance VBID. Our work shows that in many cases the Administration has the authority to act now, even without legislation.”

While this paper did not attempt to model any potential savings to the Medicare program, the Avalere-University of Michigan team are working on a follow-up study that will shine more light on the implications of implementing VBID in Medicare.

The paper, “*Value-Based Insurance Design in the Medicare Prescription Drug Benefit/An Analysis of Policy Options*,” was authored by Lisa Murphy, Jenny Carloss, Erika Heaton, and Tanisha Carino, PhD of Avalere Health, and A. Mark Fendrick, MD, Michael Chernew, PhD, and Allison Rosen, MD, ScD, of the Center for Value-Based Insurance Design at the University of Michigan. Ruth Brown, formerly of Avalere Health and presently an analyst for the House Ways and Means Committee, also contributed. Takeda Pharmaceuticals provided funding for the research. Avalere and the University of Michigan maintained editorial control and the conclusions expressed in its research are solely those of the authors.

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