



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

Background: With the health care industry commanding \$1.9 trillion annually, [16% of the U.S. gross domestic product]¹, employers are struggling to provide health insurance to their employees while remaining competitive in the global marketplace. Similarly, public policymakers are considering ways to expand coverage of the uninsured population while containing costs.

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

- The 1st trend focuses on containing the *cost* of care and uses financial incentives to alter patient and provider behavior. This includes increased cost sharing among patients and lower reimbursements to providers. Health savings accounts and consumer driven health plans reinforce this reform movement.
- The 2nd trend focuses on the *quality* of care and keeping individuals healthier longer. Employers and insurers are implementing disease management initiatives and pay for performance programs to help manage patient health in an effort to avoid more costly types of care.

The Inherent Conflict: Quality improvement initiatives are designed to improve patient self-management by enhancing compliance with specific high value interventions. At the same time, rising co-payments 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 on an assessment of the clinical benefit to the individual patient, based on population studies.
- 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 medication 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 V-BID approaches.²

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.

¹ Centers for Medicare & Medicaid Services. National health accounts, 1960-2004. Available at www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf.

² Freudenheim, New York Times, Feb. 21, 2007.