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Value-Based Insurance Design: Potential Strategy for Lower Costs, Increased Quality

Health insurance plans have long included various forms of consumer cost sharing, in the form of deductibles, copays and coinsurance. Value-based insurance design (VBID) introduces a new twist by aligning the amount of cost sharing with the relative value of care: reducing or eliminating cost sharing for high-value care while increasing cost sharing for low-value care. By reducing financial barriers, the goal is to incentivize consumers to make better healthcare treatment decisions.

VBID was originally conceived as a way to encourage patients with chronic conditions, such as diabetes, to adhere to long-term treatment plans. Insurers have since expanded VBID to encourage the use of preventive services and other types of high-value care. The Affordable Care Act (ACA) embraced this concept by requiring that key preventive services be provided with no patient cost sharing. More recently, HHS announced a Medicare Advantage VBID trial in seven states starting in 2017.

By reducing patient cost sharing—providing a "carrot"—insurers hope to incentivize the use of high-value care, ultimately leading to better health outcomes and lower costs. Ideally any savings associated with having healthier beneficiaries would then be passed onto consumers in the form of lower premiums. In contrast, by increasing cost sharing—providing a "stick"—VBID may be used to discourage the use of healthcare that is deemed low value. Here, the target is not patient health, but rather preventing wasteful spending on services that are either over-used or not considered cost effective. An example of low-value care would be prescribing an antibiotic for a viral sinus infection or performing an MRI for back pain that has not been given time to heal.

What Does the Evidence Say?

Surprisingly, the response to lower cost-sharing incentives under VBID is not as strong as originally predicted. An analysis of thirteen studies found an average three percent increase in treatment adherence among patients with chronic conditions. These results indicate that factors other than, or in addition to, cost continue to prevent many consumers from using the high-value care that VBID aims to promote. In many cases, consumers may simply lack the information, expertise or motivation to change their behavior. Because of this, the benefits of VBID "carrots" have largely accrued to consumers who are already relatively health conscious and treatment compliant.

Perhaps for these reasons, the evidence is mixed on the effect of VBID on health outcomes. Although some studies show health improvements, others found improved treatment adherence did not necessarily lead to better clinical outcomes.

Early but promising research shows that employing VBID as one piece of a larger and more comprehensive strategy can encourage healthy behavior. Studies indicate that plans are more effective at boosting treatment compliance when they provide more generous benefits, target high-risk patients, include wellness programs and employ mail-order pharmacies.

The other side of VBID—providing a "stick" to discourage lower value care—is rarely implemented and for the most part unstudied. While it is well understood that higher cost-sharing discourages the use of care, it is not yet known

whether patients will respond in the nuanced way that VBID intends, as opposed to reducing the use of care indiscriminately.

Perhaps owing to the emphasis on "carrots," as opposed to "sticks," long-term cost savings, a central premise of VBID, have largely failed to materialize. In many cases, VBID programs were cost neutral and, in at least one instance, VBID actually cost more. However, these results might be acceptable to patients and payers if VBID begins to demonstrate strong improvements in health outcomes.

Use of VBID Going Forward

Despite its strong theoretical underpinnings, fundamental challenges for VBID remain. Our understanding of what treatment options are low-value or high-value is far from complete. In fact, approximately half of all procedures have no clinical evidence of effectiveness to support them. As insurers look to expand the use of "clinical nuance" to encourage or discourage selected types of care, success will depend on transparent and evidence-based methods of valuation. This will be of particular importance in the context of raising barriers to procedures and drugs that may be considered low-value, but may benefit specific subgroups of patients.

Consumer Considerations

VBID deserves continued study and experimentation as a way to potentially lower cost-sharing barriers to needed services while improving health outcomes. But VBID also introduces complexity into cost-sharing benefit designs that consumers already struggle to understand.

As we gain experience with VBID, it may be prudent to limit its use to selected services that demonstrate the highest impact. Alternatively, the government could standardize its use across all health plans—as was done for preventive services under the ACA—in order to reduce variation in benefit design. Under all scenarios, we must continue to monitor consumers' ability to understand and use the resulting plan design.

The research showing that VBID increases in effectiveness when paired with other strategies is compelling but should also be viewed with caution. The evidence on wellness programs, for example, is mixed and many wellness approaches are not always consumer-friendly.

Several consumer advocacy organizations, including Consumer's Union, have developed checklists and general principles to ensure that VBID designs are implemented in a consumer-friendly way. Key principles include:

- Ensure that services targeted by VBID are based on rigorous evidence of improved health outcomes;
- Ensure that the benefit is great enough to warrant the additional health plan complexity;
- If the VBID design raises costs to patients, ensure that improved outcomes or improved health equity are sufficient to justify the costs; and
- Monitor and avoid risk selection to ensure that these programs do not have a discriminatory impact.

Conclusion

Despite challenges, VBID continues to grow in popularity. And since VBID can reduce out-of-pocket cost barriers to needed care, it deserves continued experimentation and evaluation. However, the long-term success of VBID will be defined by the ability to improve health outcomes, bend the cost curve, or both. As with many policies aimed at improving value, it may be that the benefits of VBID, while real, are simply smaller than anticipated.

Note: Citations to the evidence can be found on our website at *www.healthcarevaluehub.org/VBID-Explainer*.

About This Series

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