Incentives Matter…and *CAN* Improve Health

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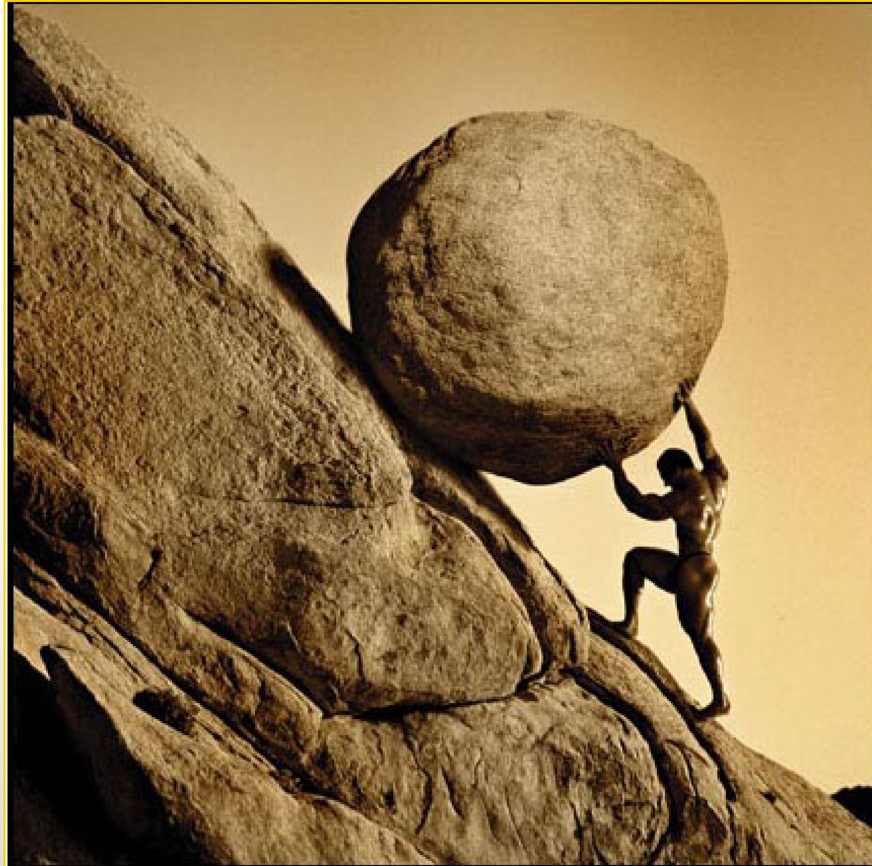
Where Innovation Is Tradition

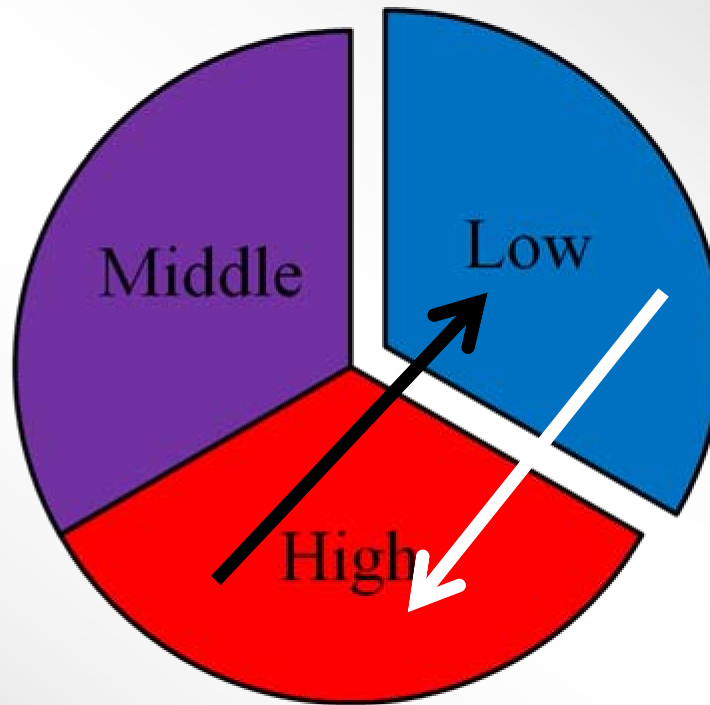
Why *Is* Reform so Hard?



Why *IS* Reform So Hard?

- Vision is clouded by Fear
- People Believe Things That Are Not True
- Reformers' excess cost is someone else's income
- Some People Refuse to Accept WAAITT

W A A I T T



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Principles of WAAITT

- Listen before you react and defend
  - Listen to the words
  - Listen to the underlying emotion
- Formulate a *nuanced* response
- Articulate your nuanced response, gently
- Convince all that YOU believe in WAAITT

Theory of Cost Sharing

- $P \uparrow \rightarrow Q \downarrow \Rightarrow PQ \downarrow$
  - Basic economics (sorta)
  - Moral Hazard
  - Rand Experiment (beginning of Nuance, for those with patience to read it all)
    - There were health effects for low income
    - All people did cut back on BOTH high and low value care

Application of Cost Sharing

- Partly based on theory
- Partly based on fear of medicaid cost growth
- Partly based on emotion of WAAITT
- Partly based on frustration with observed behavior

What DOES Evidence Say

- Higher Premiums do deter voluntary coverage decisions
- Cost-sharing – co-pays, coinsurance, deductibles – does reduce utilization
- Cost-sharing, as it has been applied, does NOT typically save Medicaid money
- This does NOT mean it should be abolished!

What does evidence also say

- Provider behavior can be self-interested
  - And payment incentives, especially around site of care, can be perverse
- Drug-tiering co-pays have been very successful
- Adherence/compliance is major issue, incentives can be truly cost-effective here
  - Including free drugs and tests for certain chronic conditions, rewards for healthy behaviors
- Reference pricing has strong support
- "Smart" ER co-pays will likely grow in use as well

Value-Based Insurance Design

- Is all about tying cost-sharing to clinical value for that particular patient
  - Is therefore quite complex
  - Is therefore quite appealing to some (incl. Michigan's Medicaid program)
- Is interesting in Medicaid managed care context

Conclusions

- Smart Cost-Sharing is the Friend of WAAITT
- Stupid Cost sharing is the enemy of all
- Cost sharing is a tool whose value depends on how its used

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