

# Innovations In Healthcare: Value-based Insurance Design

July 19, 2016

CalPERS Board Of Administration & Executive Offsite





SCHOOL OF PUBLIC HEALTH

CENTER FOR VALUE-BASED INSURANCE DESIGN

UNIVERSITY OF MICHIGAN

**Value-Based Insurance Design:  
Using “Smarter” Cost-sharing to Align Consumer  
Incentives with Alternative Payment Models**

**A. Mark Fendrick, MD**

**University of Michigan Center for  
Value-Based Insurance Design**

**[www.vbidcenter.org](http://www.vbidcenter.org)**



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# Overview

- **Aligning Payer and Consumer Incentives**
- **Getting to Health Care Value**
- **Clinical Nuance**
- **Value-Based Insurance Design**
- **Translating Research into Policy**
- **Examples from Connecticut and New York**
- **Health Waste Calculator**
- **Applications to CalPERS**

# **Aligning Payer and Consumer Incentives: As Easy as Peanut Butter and Jelly**



# Aligning Payer and Consumer Incentives: As Easy as Peanut Butter and Jelly

- **Many “supply side” initiatives are restructuring provider incentives to move from volume to value:**
- **Medical Homes**
- **Accountable Care**
- **Bundled Payments**
- **Reference Pricing**
- **Global Budgets**
- **High Performing Networks**
- **Health Information Technology**

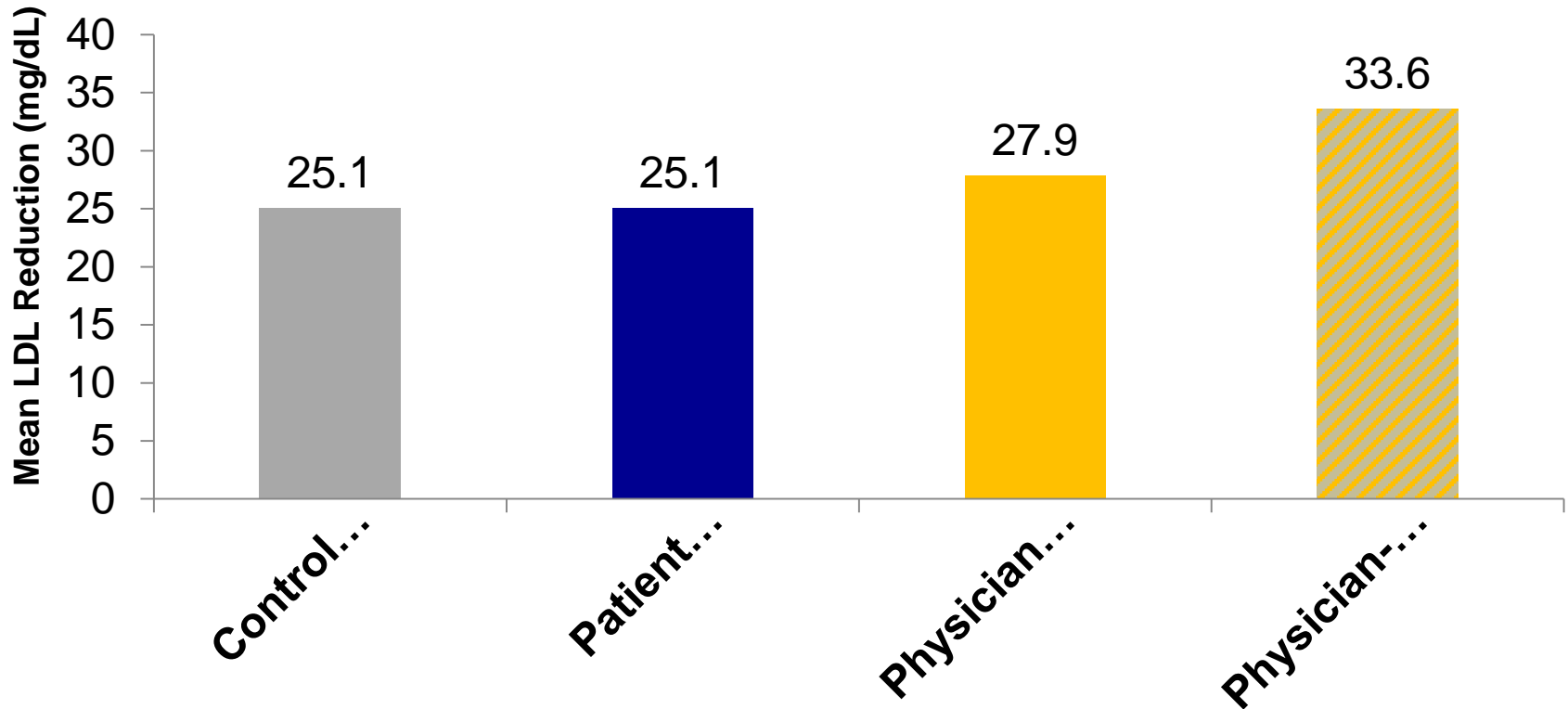


## Aligning Payer and Consumer Incentives: As Easy as Peanut Butter and Jelly

- **Unfortunately, some “demand-side” initiatives – including consumer cost sharing and a lack of incentives to stay within an ACO - discourage consumers from pursuing the “Triple Aim”**



# Impact of Aligning Physicians and Patients: Financial Incentives to Lower Cholesterol



Source: *JAMA*. 2015;314(18):1926-1935

## Align Payer and Consumer Incentives: As Easy as Peanut Butter and Jelly

- **The alignment of clinically nuanced, provider-facing and consumer engagement initiatives is a necessary and critical step to improve quality of care, enhance employee experience, and contain cost growth**





# Getting to Health Care Value

# Getting to Health Care Value

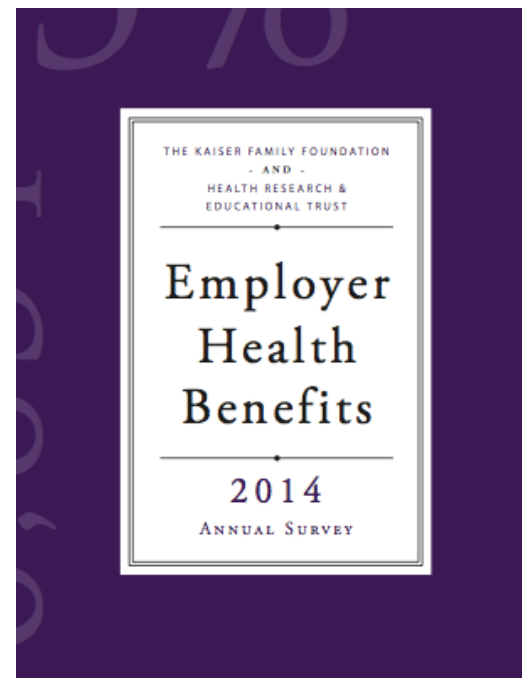
## Shifting the discussion from “How much” to “How well”

- **Innovations to prevent and treat disease have led to impressive reductions in morbidity and mortality**
- **Regardless of these advances, cost growth is often the principle focus of health care reform discussions**
- **Despite unequivocal evidence of clinical benefit, substantial underutilization of high-value services persists across the entire spectrum of clinical care**
- **Attention should turn from *how much* to *how well* we spend our health care dollars**

# Getting to Health Care Value

## Role of Consumer Cost-Sharing in Clinical Decisions

- **Archaic “one-size-fits-all” cost-sharing fails to acknowledge the differences in clinical value among medical interventions**
- **Consumer cost-sharing is rising rapidly**



Claxton G, Rae M, Panchal N, Whitmore H, Damico A, Kenward K. Health benefits in 2014: stability in premiums and coverage for employer-sponsored plans. *Health Aff (Millwood)*. 2014 Oct;33(10):1851-60.

# Getting to Health Care Value

## Consumer Solutions Needed to Enhance Efficiency

- **While important, the provision of accurate price and quality data does not address appropriateness of care nor substantially impact consumer behavior**
- **Additional solutions are necessary to better allocate health expenditures on the clinical benefit – not only the price or profitability – of services**



# Understanding Clinical Nuance

# Understanding CLINICAL NUANCE

Clinical Services Differ in the Benefit Produced



Office  
Visits



Diagnostic  
Tests



Prescription  
Drugs

# Consumer out-of-pocket costs are the same for drugs within a formulary tier



## Statins



## Anti-Depressants



## Toenail Fungus Rx



## Heartburn Treatment



# Consumer out-of-pocket costs are the same for every clinician visit within a network



**Cardiologist**  
Post Heart-Attack



**Dermatologist**  
Mild Acne





## The Clinical Benefit Derived From a Service Depends On:



**Who**  
receives it



**Who**  
provides it



**Where**  
it's provided

# Clinical benefit depends on **who** receives it

## Example: Screening for Colorectal Cancer



Screening  
Recipients

First-degree  
relative of colon  
cancer sufferer



**Exceptional  
Value**

Average risk  
50 year old



**High  
Value**

30 year old with  
no family history  
of colon cancer



**Low  
Value**

# Clinical benefit depends on **where** it is provided



**Ambulatory  
Care Center**



\$

**Hospital**



\$\$\$

# Value-Based Insurance Design

# Implementing Clinical Nuance

## Value-Based Insurance Design

Sets cost-sharing to encourage greater utilization of high-value services and providers and discourage use of low-value care

- **Sets consumer cost-sharing level on clinical benefit – not acquisition price – of the service**
  - **Reduce or eliminate financial barriers to high-value clinical services and providers**
- **Successfully implemented by hundreds of public and private payers**



**THE WALL STREET JOURNAL**  
ONLINE

June 16, 2004

**FOLLOW THE MONEY**

**From 'One Size Fits All'  
To Tailored Co-Payments**

June 16, 2004

University of Michigan researchers say a patient's  
how much he or she will  
to lower co

# Value-Based Insurance Design

V-BID sets cost-sharing to encourage use of high-value services and providers and discourage use of low-value care

## Current Plans

VS

## V-BID Plans

Increase out-of-pocket costs

Offer one-size-fits-all cost-sharing

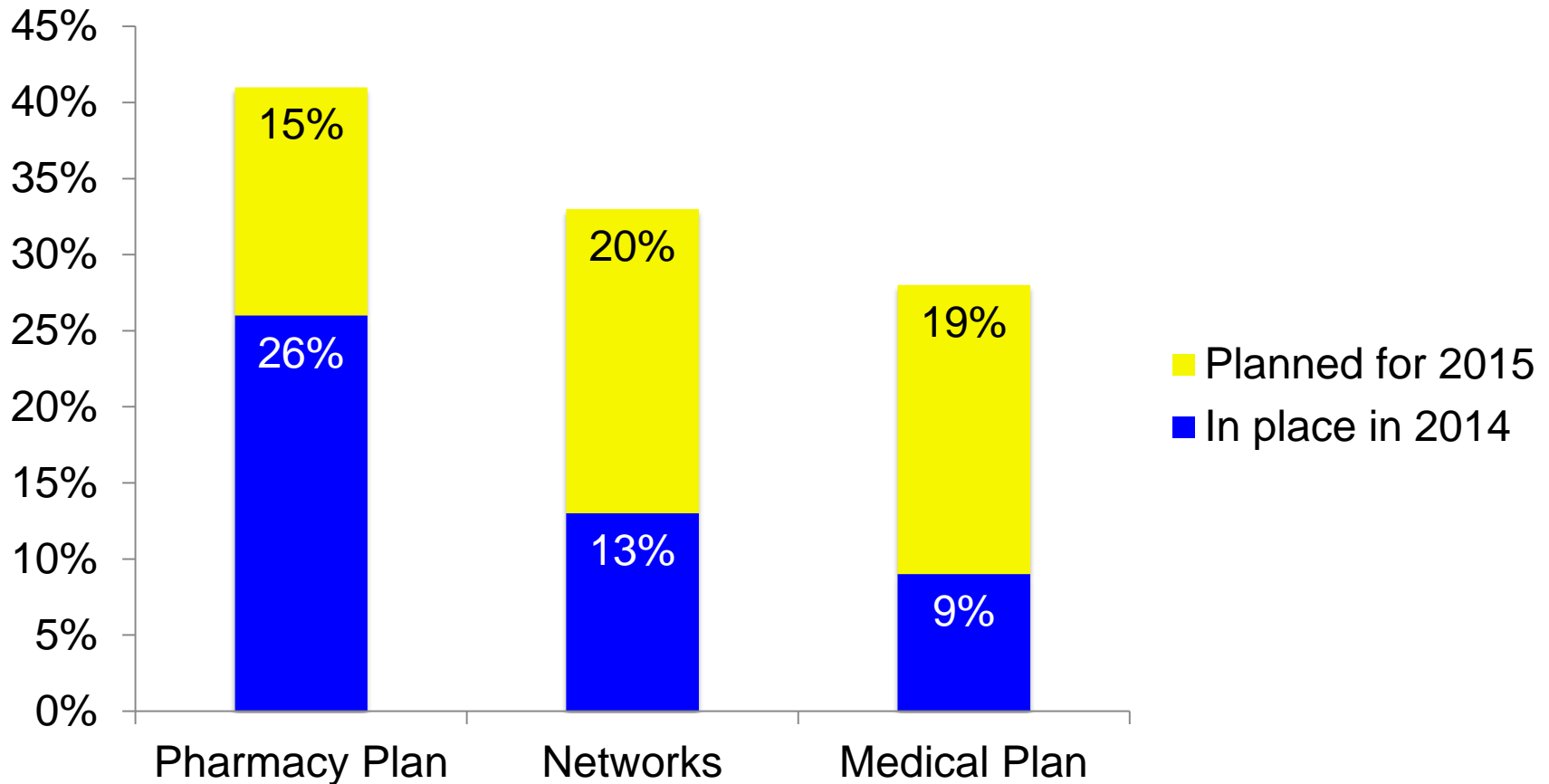
Misalign consumer and provider incentives

Lower cost-sharing for high-value services and providers

Enhance patient-centered outcomes

Align with provider initiatives

# V-BID Momentum Continues



Source: 19th Annual Towers Watson/National Business Group on Health Employer Survey

# V-BID: Who Benefits and How?



**CONSUMERS**



Improves access

Lowers out-of-pocket costs



**PAYERS**



Promotes efficient expenditures

Reduces wasteful spending



**PROVIDERS**



Enhances patient-centered outcomes

Aligns with provider initiatives





# Motivation for "Dynamic" Benefit Design

- The natural history of chronic conditions often necessitate multiple therapies to achieve desired clinical outcomes
- Health plans frequently require certain steps be performed before access to additional therapies
- Increasing out-of-pocket costs for alternative therapies may prevent consumers from accessing recommended treatment

**RIGHT DRUG. RIGHT PERSON. RIGHT TIME. RIGHT PRICE.**

# *Reward the Good Soldier*<sup>TM</sup>

## A Dynamic Approach to Consumer Cost-sharing

- ✓ Commitment to established policies that encourage lower cost, first-line therapies
- ✓ Acknowledgment that clinical scenarios may require multiple treatment options
- ✓ Reduces cost-related non-adherence
- ✓ Enhances access to effective therapies when clinically appropriate

**RIGHT DRUG. RIGHT PERSON. RIGHT TIME. RIGHT PRICE.**

# Putting Innovation into Action

## Broad Multi-Stakeholder Support

- **HHS**
- **CBO**
- **SEIU**
- **MedPAC**
- **Brookings Institution**
- **The Commonwealth Fund**
- **NBCH**
- **PCPCC**
- **Families USA**
- **AHIP**
- **AARP**
- **National Governor's Assoc.**
- **US Chamber of Commerce**
- **Bipartisan Policy Center**
- **Kaiser Family Foundation**
- **NBGH**
- **National Coalition on Health Care**
- **Urban Institute**
- **RWJF**
- **IOM**
- **PhRMA**

# Translating Research into Policy

# Translating Research into Policy: Implementing V-BID in Medicare

## Why not lower cost-sharing on high-value services?



The anti-discrimination clause of the Social Security Act does not allow clinically nuanced consumer cost-sharing.

**"providers may not deny, limit, or condition the coverage or provision of benefits"**

## CMS Announces Medicare Advantage Value-Based Insurance Design Model Test

A 5-year demonstration program will test the utility of structuring consumer cost-sharing and other health plan design elements to encourage patients to use high-value clinical services and providers.



Red denotes states included in V-BID model test

***IRS Safe Harbor Guidance allows zero  
consumer cost-sharing for specific  
preventive services***

**INCLUDING:**

- ✓ periodic health evaluations/screenings
- ✓ routine prenatal and well-child care
- ✓ child and adult immunizations
- ✓ tobacco cessation programs
- ✓ obesity weight-loss programs

[www.irs.gov/pub/irs-drop/n-04-23.pdf](http://www.irs.gov/pub/irs-drop/n-04-23.pdf)

# Trade in Your "Cadillac Plan"

Turn in a "Cadillac Plan" loaded with unnecessary features...

**40%**



Covers low-value services



Subject to 40% excise tax in 2018

Dodge a non-nuanced High Deductible Health Plan...



Higher out-of-pocket costs



Increased rates of non-adherence

Choose a clinically nuanced V-BID plan that...



Covers evidence-based services



Enhances adherence



Avoids the Cadillac tax



# Getting to Health Care Value - What's Your State's Path? V-BID Role in State Health Reform

- **State Exchanges – Encourage V-BID (CA, MD)**
- **CO-OPs - Maine**
- **Medicaid – Michigan**
- **State Innovation Models – NY, PA, CT, VA**
- **State Employee Benefit Plans**

# Examples from Connecticut and New York

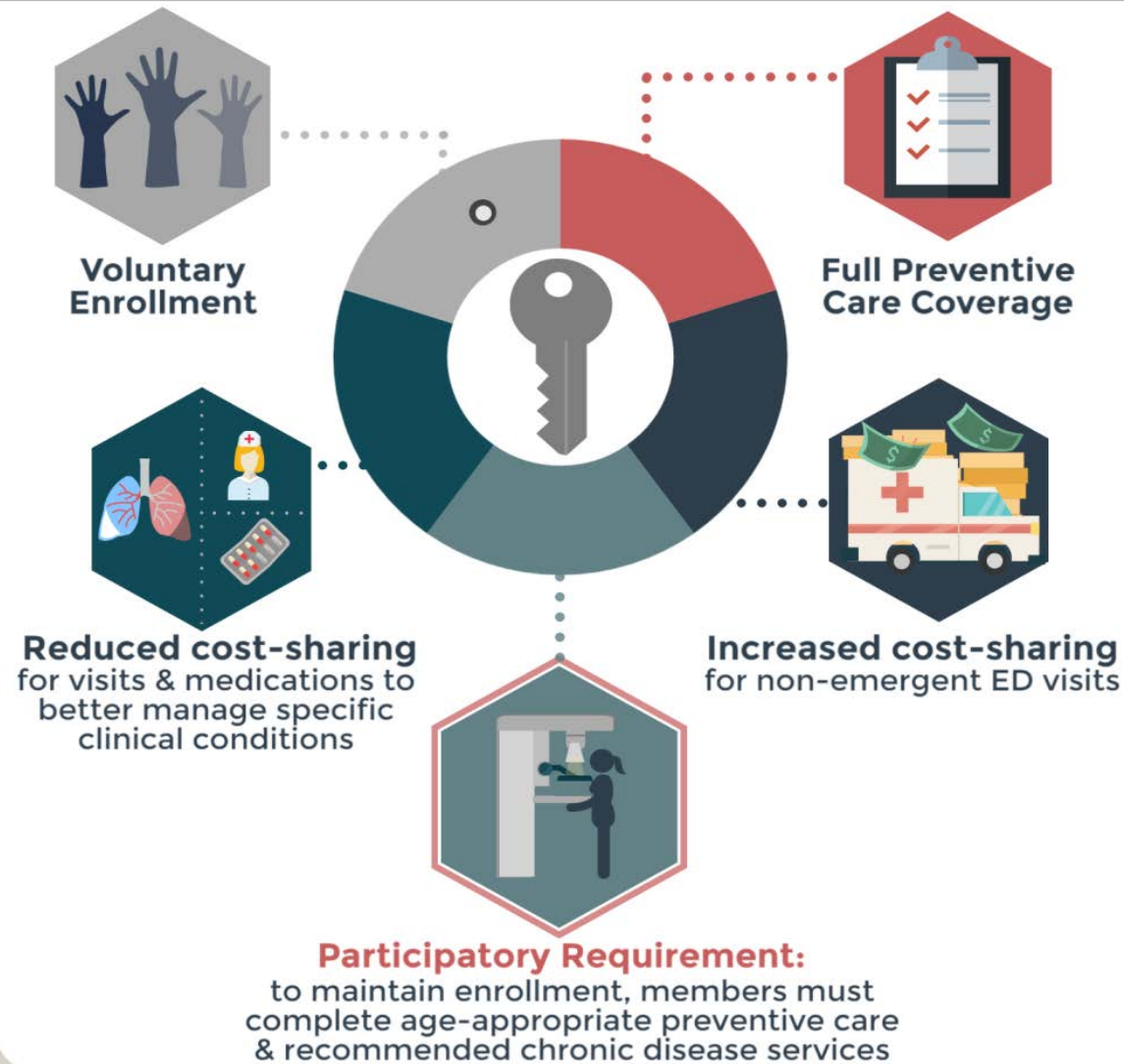
ENGAGING PATIENTS ON PRICE & QUALITY

By Richard A. Hirth, Elizabeth Q. Cliff, Teresa B. Gibson, M. Richard McKellar, and A. Mark Fendrick

# Connecticut's Value-Based Insurance Plan Increased The Use Of Targeted Services And Medication Adherence

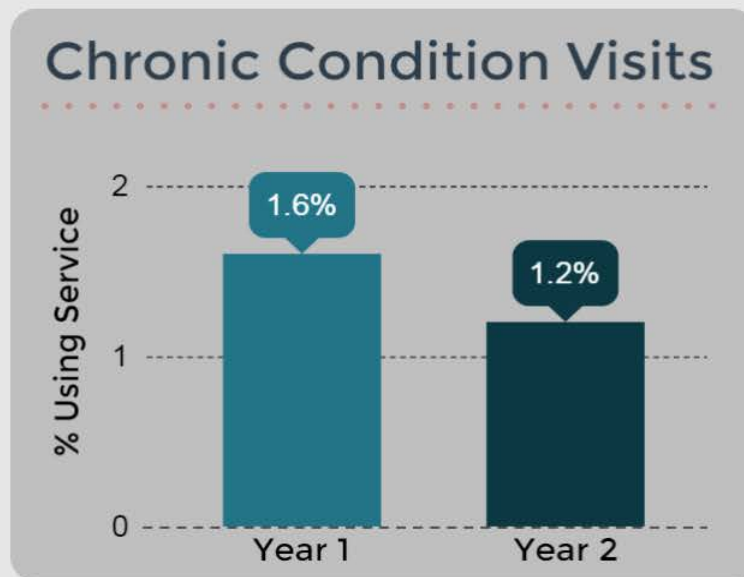
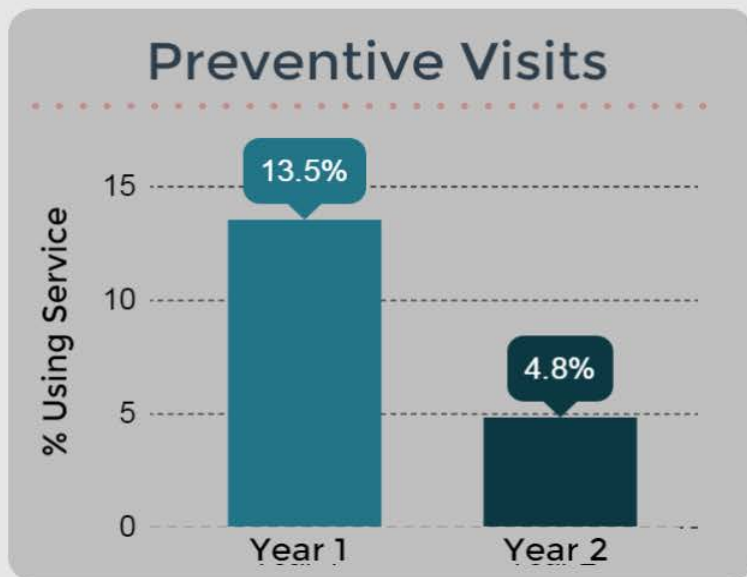
# Key Features of the HEP

Align out-of-pocket costs with healthy behaviors



# HEP Impact: 2 Year Results

## [1] Office Visit Increases



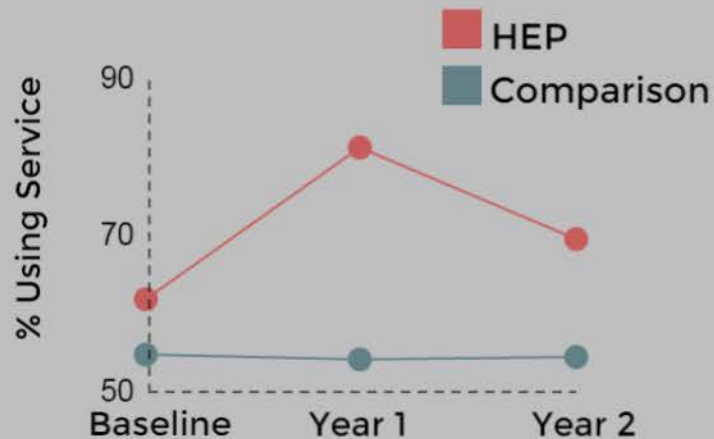
Relative change for HEP members compared to enrollees in control states

HealthAffairs

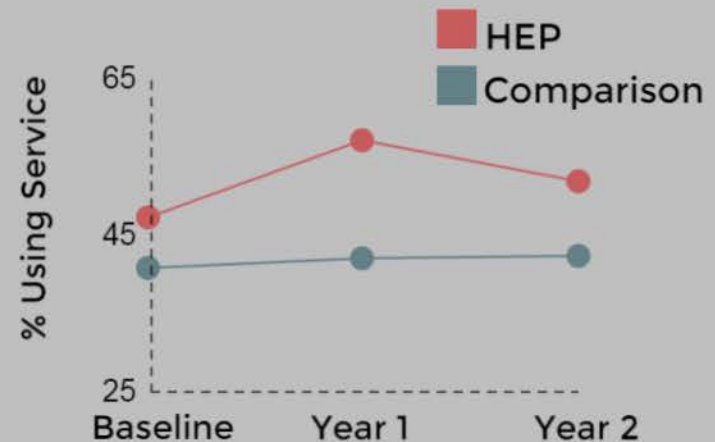
# HEP Impact: 2 Year Results

## [2] Preventive Care Utilization

### Lipid Screening

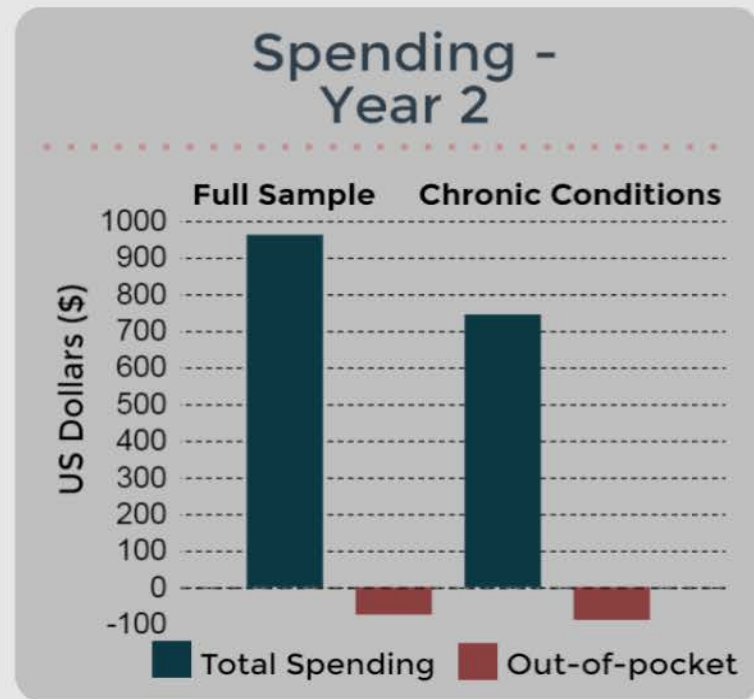
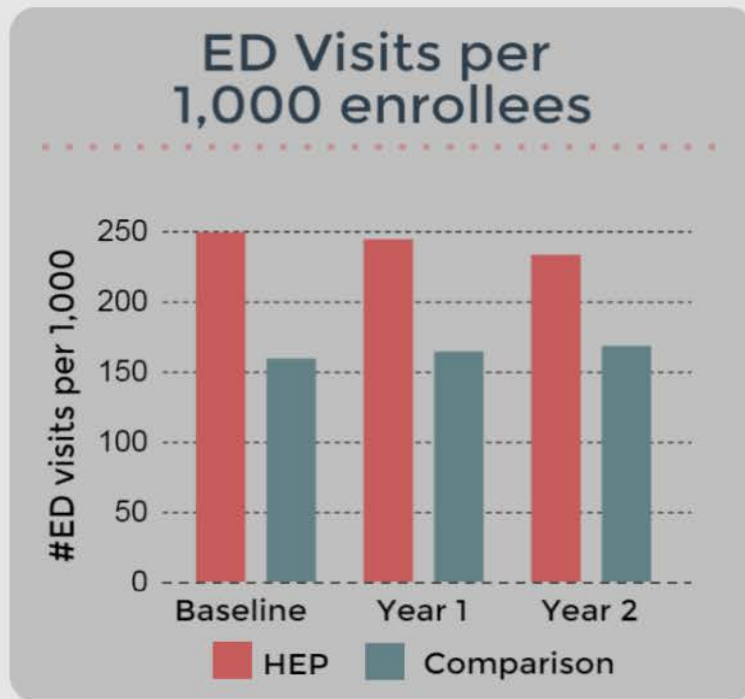


### Mammography



# HEP Impact: 2 Year Results

## [3] Resource Use



Health Affairs. 2016;35(4):637-46.

# Putting Innovation into Action

## V-BID for NYC Municipal Workers

**CRAIN'S**  
NEW YORK BUSINESS

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### **City overhauls health plans for municipal workers in shift toward preventive care**

Changes to employees' co-pays will make primary care cheaper while ER visits and urgent care will be pricier

**“These changes will not only secure the promised health savings, but will also promote better utilization of health care resources and improved health outcomes for City employees”**



# Putting Innovation into Action

## Selected V-BID Elements of NYC Plan Changes

### **GHI CBP plan**

- **PCP and Mental Health co-payment – Lowered to \$0 for preferred provider network**
- **ER co-payment - Increased**
- **High cost imaging – Increased**
- **Diagnostic testing and physical therapy – Increased**

# Removing Health Care Waste

# Removing Waste

## Health Waste Calculator (HWC)

Category	Sources	Estimate of Excess Costs	% of Waste	% of Total
<b>Unnecessary Services</b>	<ul style="list-style-type: none"> <li>Overuse beyond evidence-established levels</li> <li>Discretionary use beyond benchmarks</li> <li>Unnecessary choice of higher-cost services</li> </ul>	\$210 billion	27%	9.15%
<b>Inefficiently Delivered Services</b>	<ul style="list-style-type: none"> <li>Mistakes, errors, preventable complications</li> <li>Care fragmentation</li> <li>Unnecessary use of higher-cost providers</li> <li>Operational inefficiencies at care delivery sites</li> </ul>	\$130 billion	17%	5.66%
<b>Excess Admin Costs</b>	<ul style="list-style-type: none"> <li>Insurance paperwork costs beyond benchmarks</li> <li>Insurers' administrative inefficiencies</li> <li>Inefficiencies due to care documentation requirements</li> </ul>	\$190 billion	25%	8.28%
<b>Prices that are too high</b>	<ul style="list-style-type: none"> <li>Service prices beyond competitive benchmarks</li> <li>Product prices beyond competitive benchmarks</li> </ul>	\$105 billion	14%	4.58%
<b>Missed Prevention Opportunities</b>	<ul style="list-style-type: none"> <li>Primary prevention</li> <li>Secondary prevention</li> <li>Tertiary prevention</li> </ul>	\$55 billion	7%	2.40%
<b>Fraud</b>	<ul style="list-style-type: none"> <li>All sources – payers, clinicians, patients</li> </ul>	\$75 billion	10%	3.27%
<b>Total</b>		<b>\$765 billion</b>		<b>33.33%</b>

# Removing Waste

## Health Waste Calculator

**Software tool designed to identify wasteful medical spending:**

- **U.S. Preventive Services Task Force**
- **Choosing Wisely**

**Underlying algorithms process claims, billing or EMR data to identify waste**

**Defines services with a degree of appropriateness of care**

- **Necessary**
- **Likely to be wasteful**
- **Wasteful**

# Waste Defined: Vitamin D Testing

- **Measure Description** – Vitamin D testing in all ages in the absence of any risk factors.
- **Services being measured** – Pathology/laboratory services including facility and professional services.
- **Services measured are categorized as:**

## HIGH VALUE “Necessary”

Presence of any chronic conditions such as rickets, osteomalacia, etc. 1 year prior to the testing

Presence of risk factors for Vitamin D deficiency 3 months prior to the testing

On high risk medications 3 months prior to the testing

Pregnant or obese at the time of testing

## LIKELY LOW VALUE “Likely Wasteful”

None

## LOW VALUE “Wasteful”

Absence of any chronic conditions

Absence of risk factors for vitamin D deficiency

No history of high risk medications 90 days prior to the testing

Not pregnant or obese at the time of testing

## ULTIMATE RISK Summary of Wasteful

Unnecessary vitamin D treatment in such people when they do not really need it

Vitamin D screening test may suggest that some people are vitamin D deficient when they are actually healthy

Unnecessary vitamin D treatment may lead to Vitamin D toxicity

No proven benefits of improved health in asymptomatic adults who had Vitamin D testing

# Removing Waste

## Health Waste Calculator – Sample Results Large Payer

**20%** of members exposed to 1+ wasteful service

**36%** of services were wasteful

**2.4%** or \$11.94 PMPM in claims wasted

# Applications for CalPERS

# Potential Application of V-BID for CalPERS

- **Better Align Consumer Engagement with Existing Provider-Facing Initiatives**
  - **Alternative Payment Models**
    - **Reference pricing**
    - **Centers of excellence**
  - **Preventive Services**
- **Prescription Drugs**
  - **Targeted Chronic Diseases**
  - **Dynamic Benefit Design for Specialty Drugs**
- **Identify and Remove Low Value Services**



# V-BID: Who Benefits and How?



# Discussion

• [www.vbidcenter.org](http://www.vbidcenter.org)



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