Pension and Health Benefits Committee

Agenda Item 9

September 20, 2016

Item Name: Exploring Opportunities in Value-Based Insurance Design

Program: Health Benefits

Item Type: Information

Executive Summary
Value-Based Insurance Design (VBID), in general, encourages health plan participants to maintain good health and discourages utilization of unnecessary health care services. This is often accomplished by aligning patients' out-of-pocket costs, such as copayments, with the value of health services. By reducing out-of-pocket costs for high-value, medically-necessary treatments and increasing costs for low-value, unnecessary treatments, health plans can achieve improved health outcomes for their members over the long-term and potentially reduce health care expenditures for both members and the health plan.

California Public Employees' Retirement System (CalPERS) health program staff is currently exploring a variety of emerging VBID strategies to determine potential benefits and risks for CalPERS health plan members. Several public employers outside of California, including states, counties, and cities, have implemented VBID within their employee health programs and have focused their benefit designs on increasing chronic disease maintenance and preventive screening. Various studies of these implementations have shown success at increasing the use of high-value care, but further evaluation of health outcomes and cost impacts are required to determine if these VBID approaches are suitable for CalPERS' member population.

Strategic Plan
This item supports CalPERS 2012-17 Strategic Goal A: Improve long-term health benefit sustainability. VBID is a set of strategies that can improve health outcomes and potentially reduce health care costs.

Background
At the July 2016, CalPERS Board of Administration and Executive Office Offsite, Mark Fendrick, M.D., director of the University of Michigan Center for Value-Based Insurance Design and editor-in-chief of *The American Journal of Managed Care,* provided an overview of VBID. In his presentation, he discussed strategies that have been implemented by a number of public and private employers, including Pitney Bowes, Mayo Clinic, Marriott, and Novartis Pharmaceuticals, and the State of Connecticut in a variety of ways for at least the past 15 years.

In addition to the entities named above, CalPERS itself has a proven record of successfully implementing certain VBID strategies, as a number of benefit designs already in practice could be considered VBID because they alter incentives for patients to curtail or encourage the use of

specific types of medical services. For example, CalPERS benefit design strategies addressing high value care include:

- Lower co-pays for generic drugs
- Low co-pays for 90-day supply long-term medications for chronic conditions
- No co-pay for preventive care, such as immunizations and routine health exams
- No co-pays for colonoscopies performed at in-network ambulatory surgery centers

And strategies addressing low value care include:

- $50 deductible for emergency room unless admitted
- Centers of Excellence model for bariatric surgery
- Annual limit of $350 for outpatient prosthetic appliances
- 50 percent co-insurance for erectile or sexual dysfunction drugs
- High Performance Generic Step Therapy
- Reference pricing for hip and knee, cataract and arthroscopy surgeries

Analysis

The most common VBID implementation strategy is to reduce member cost or out-of-pocket spending for chronic condition management. Reviews of this approach in *Health Affairs*[1] and the *American Journal of Managed Care*[2], respectively, showed increased drug adherence not associated with a change in overall medical spend and this adherence often improved when implemented along with disease management strategies. Both reviews indicated the need for longer term evaluations to assess whether medication adherence could be sustained and if disease control would realize longer-term savings and more information is needed to determine how coordination of multiple strategies (i.e. patient-centered disease programs, larger-tiered cost-sharing structures, rebates) would impact outcome effects over time.

One aspect of successful VBID implementations in other states has been the importance of employee group support. In Connecticut, as part of negotiations with the state, labor groups proposed VBID as a strategy to improve employee health and address long-term costs. This was seen as a 'win-win' for labor and management. Because the design changes mainly focused on reducing barriers to achieving high value care (carrot approach), such as maintenance medication co-pays for chronic disease conditions or office visit co-pays, acceptance was easier. Similarly, the state of Oregon experiencing large budget deficits, labor groups viewed value-based insurance design strategies as an approach that could address costs while reducing unwarranted care. The strategy of reducing the use of low value care by increasing member co-pays is founded in evidence based medicine, which is a fundamental principal of the Oregon Public Employees Benefit Board, which made acceptance easier. For a more thorough analysis of public employer VBID implementations, including those in Connecticut and Oregon, please see Attachment 1.

[1] Lee, Joy L. *Value-Based Insurance Design: Quality Improvement But No Cost Savings*. Health Affairs 32, no.7 (2013). http://content.healthaffairs.org/content/32/7/1251.full.pdf+html

[2] Gibson, Theresa B. *Value-Based Insurance Design: Benefits Beyond Cost and Utilization*. American Journal of Managed Care, 2015. http://www.ajmc.com/journals/issue/2015/2015-vol21-n1/value-based-insurance-design-benefits-beyond-cost-and-utilization#sthash.a17vc1zm.dpuf

CalPERS staff is continuing to review published literature[3] and interview other health plan administrators who have implemented VBID to identify possible useful strategies. CalPERS staff will also be using an analytic tool offered by its data warehouse administrator to search for utilization of low-value of services that could be targeted. CalPERS staff will continue to explore the costs, savings and long-term implications of various VBID strategies, including:

- Reducing or eliminating co-pays for selected chronic disease maintenance medications to increase adherence
- Reducing or eliminating co-pays for office visits for chronic disease maintenance appointments
- Increasing co-pays for lower value medications
- Addressing unwarranted care related to radiology, lab tests, and surgeries
- Participation requirements of members to increase usage of disease management and preventive screening
- Consideration of pilot testing of strategies to evaluate which strategies are most effective using rigorous methodology

An approach that appears not useful as part of a VBID implementation strategy is the inclusion of a High Deductible Health Plan (HDHP). HDHPs offer higher deductibles in exchange for lower premiums than traditional health plans and typically these plans are offered along with a tax-free Health Savings Account (HSA). The U.S. Department of the Treasury specifies that HSA-eligible HDHPs require participants to pay for the full cost of services and medications until the deductible is met, except for a few primary preventive services. Consequently, members are required to pay out-of-pocket for necessary services to treat their existing conditions, which limits the ability of a value-based design to incentivize the use of high value care and creates a monetary disincentive to obtain necessary chronic condition management services. Unless secondary preventive care, which may represent up to six percent of total spending, is included in the definition of preventive care, a VBID strategy within HDHP would have negligible financial impact. On July 7, 2016, a bipartisan bill was introduced in the U.S. Congress to allow the option of providing pre-deductible coverage of the management of chronic conditions[4].

Budget and Fiscal Impacts

The budget and fiscal impacts on health care costs are uncertain as outcomes may vary depending on the VBID strategies selected and implemented, which can influence both the short- and long-term health care cost savings. The largest and best-evaluated VBID implementations indicate increased short-term health care costs usually associated with improved chronic condition management from increased medication adherence and office visits. However, benefit designs aimed to reduce overuse of care could improve short-term cost savings by lowering the utilization of low relative value care.

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[3] Center for Health Value Innovation. *Value-Based Design in Action: How Five Public Sector Employers are Managing Cost and Improving Health Using Value-Based Designs*. August 2009. http://vbidcenter.org/wp-content/uploads/2014/10/V-BID-in-action-how-five-public-sector-employees-are-managing-costs.pdf

[4] *H.R. 5652 – Access to Better Care Act of 2016*. https://www.congress.gov/bill/114th-congress/house-bill/5652/text.

Benefits and Risks
The benefits of implementing VBID strategies possibly include improved member health and reduced long-term health care costs. The possible risks will be dependent on the selection of VBID strategies implemented. When considering evidence-based medicine principles, consensus in defining high and low relative value care may pose a challenge across stakeholders. Overall, member uncertainty of how the benefit design will impact their care can be expected for any strategy adopted.

Attachments
Attachment 1 – *Value-based Insurance Design (VBID) Implementations in the Public Sector*

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