



Value-Based Insurance Design

NCQA FACT SHEET

Smart cost sharing can lead to better health at lower costs.

Increasing copays and deductibles is an easy way to quickly cut insurance premiums. How insurers structure such cost sharing will determine whether this strategy can keep costs down in the long run.

Simply charging high cost sharing for all health care services will backfire over time and actually lead to worse health and higher costs. Several studies show that high cost sharing reduces use of cost-effective prevention and maintenance therapies for chronic conditions. That increases costs over time because people need expensive treatments for serious complications that cost effective care can prevent. This is especially true for people with low incomes, but occurs even for those with moderate incomes.

A more effective cost sharing strategy is “value-based insurance design” (VBID). VBID, also called “evidence-based benefit design,” aligns incentives to promote appropriate use of high-value services and adherence to treatment regimens and healthy behaviors.

- VBID programs lower or eliminate cost sharing for efficient and effective treatments proven to keep people healthy. This includes effective prevention and chronic care therapies, where research shows even modest cost sharing can keep people from getting care they need. Lower cost sharing greatly improves adherence to high-value care and prevents expensive complications.
- VBID programs increase cost sharing for unproven, misused or low-benefit care, like inappropriate emergency department use or imaging for low back pain. This encourages people to consider alternatives and works especially well with “shared decision-making” tools that explain treatment option pros and cons objectively in plain language. Shared decision-making gets people more involved in their own care, which improves compliance. It also often results in more cost-effective choices because people judge risks and benefits based on their own needs and preferences.
- A closely related approach lowers cost sharing for high-value providers, like Patient-Centered Medical Homes that meet NCQA’s high standards for well-coordinated, patient-centered care. This type of provider “tiering” also can include higher cost sharing for low quality or inefficient providers.

Cost sharing based on these VBID principles can yield many benefits:

- Lower total costs because of fewer surgeries, hospital stays and emergency department visits;
- Healthier people who miss fewer days of work and school because of illness; and
- Better scores on both clinical performance (as measured by HEDIS®) and patient satisfaction (as measured by CAHPS®). That increases health plans reimbursement rates under the growing number of pay-for-performance systems, which in turn helps to further lower costs to consumers.

VBID Examples, Evidence and Resources

Pitney Bowes, a 90-year-old, \$5.6 billion company with 33,000 employees was among the first employers to add VBID to its benefits in 2001. It made headlines in 2004 when it reported \$1,000,000 in savings from reduced complications after it lowered copayments for asthma and diabetes medications.

Oregon's Public Employee's and Oregon Educators Benefit Board has one of the most comprehensive public-sector VBID programs. It features free prevention, weight loss and tobacco cessation programs, lower copays in medical homes and for chronic care medications, higher copays for low-value surgeries and imaging, shared decision-making and programs to help employees understand the new benefit structure. Results include improved HEDIS scores, more use of preventive services, fewer smokers and a substantial return on investment. Learn more at <http://pebb.das.state.or.us/DAS/PEBB/vision.shtml>.

The University of Michigan Center for Value-Based Insurance Design is a leading VBID proponent that conducts research, development, and advocacy for innovative plans. It helped get V-BID incorporated into the Patient Protection and Affordable Care Act (Section 2713(c)). It posts VBID, case studies, and much more at <http://www.sph.umich.edu/vbidcenter>.

The Department of Health & Human Services prominently features VBID in both its and Human Services' National Quality Strategy and HHS guidelines for implementing the new health reform law.

The National Business Coalition on Health continually updates case studies and publishes a Health Value-Based Purchasing Guide. Learn more at <http://www.nbch.org/vbpguide>.

Studies on VBID

- *Applying Value-Based Insurance Design To Low-Value Health Services*, Fendrick et al, Health Affairs, November 2010
- *First-Dollar Coverage for Chronic Disease Care: Can It Save Money And Improve Patient Outcomes?* UC Berkeley Center for Labor Research and Education, September 2008
- *The Health Insurance Experiment, A Classic RAND Study Speaks to the Current Health Care Reform Debate*, 2006
- *Reducing Patient Drug Acquisition Costs Can Lower Diabetes Health Claims*, Mahoney, American Journal of Managed Care, August 2005

Studies on the Impact of High Cost-Sharing

- *Healthcare Spending and Preventive Care in High-Deductible and Consumer-Directed Health Plans*, Buntin et al, American Journal of Managed Care, March 2011
- *Nearly Half of Families In High-Deductible Health Plans Whose Members Have Chronic Conditions Face Substantial Financial Burden*, Galbraith et al, Health Affairs, May 2011
- *How High Is Too High? Implications of High-Deductible Health Plans*, Davis et al, Commonwealth Fund, April 2005

