

# Value-Based Insurance Design

In 2010, the United States spent \$2.6 trillion in health care expenditures with private employers footing the bill for nearly \$743 billion (21%) of the costs.<sup>1</sup> Despite continued frustration with rising health care costs in a seemingly unsustainable system, innovative payers and purchasers have identified a promising strategy that critically transforms the way health care services are chosen and paid for, with the goal of ultimately improving health and lowering costs.<sup>2</sup> Value-based insurance design (V-BID) comprehensively addresses the way health benefits are both structured as well as utilized by employees.<sup>3</sup> This Action Brief outlines V-BID concepts, strategies, and impact as well as how health plans are supporting V-BID based on data from eValue8™ —a resource used by purchasers to assess health plan performance. Lastly, the brief offers V-BID resources and actions employers can take to plan for and implement benefit design strategies within the workplace.

## WHAT'S THE ISSUE?

**75% OF HEALTH CARE COSTS ARE LINKED TO INDIVIDUAL LIFESTYLE CHOICES AND POOR MANAGEMENT OF CHRONIC CONDITIONS.**<sup>4</sup>

### V-BID IN A NUTSHELL

V-BID is one of the most innovative and widely implemented approaches to enhance clinical outcomes and control the cost of health care. A broad and diverse coalition of health care and business leaders from across the country, as well as political leaders from across party aisles, support utilization of V-BID programs, both for preventive care as well as the management of chronic medical conditions. (More information available at [www.vbidcenter.org](http://www.vbidcenter.org))

The goal of V-BID is to add “clinical nuance” to health plan design elements by reducing financial barriers to high-value care to optimize patient health through increased utilization of evidence-based services and providers. Restructuring wellness programs and health insurance plans to provide consumer incentives for evidence-based care can help refocus health care expenditures on quality outcomes rather than volume, especially if the provider payment system is restructured along similar lines.

Like patients, health care services are not “one size fits all,” with price, value, appropriateness, and effectiveness varying from case to case. V-BID grew out of the recognition that some medical care is of greater value to certain individuals than to others when considering the cost, effectiveness, and resulting benefit from a treatment or service.<sup>5</sup>

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Further, because lifestyle interventions and better chronic care management require active beneficiary engagement, V-BID helps steer consumers to make healthier lifestyle and health care decisions.<sup>6</sup>

V-BID utilizes incentives to encourage enrollee adoption of the following:

- ▶ Use of high-value services, including certain prescription drugs and preventive services, often covered at low co-pay levels that encourage appropriate use;
- ▶ Healthy lifestyles, such as smoking cessation or increased physical activity, often fostered by a worksite culture of health; and
- ▶ Use of high-performing providers who offer better value and adhere to evidence-based treatment guidelines.<sup>7</sup>

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## WHAT'S THE ISSUE? CONTINUED

Enrollee incentives can include rewards, reduced premium share, adjustments to deductible and co-pay amounts, and contributions to fund-based plans, such as health savings accounts.<sup>8</sup> Disincentives can also be used to discourage the use of low value or harmful care.

To learn more about the concept, employers are encouraged to read the award-winning [“Value-Based Insurance Design \(VBID\) Landscape Digest,”](#) a guide to the strategy that includes great case studies on implementation.

### THE BUSINESS CASE FOR EMPLOYERS

In calculating return on investment (ROI) for V-BID, time frame is very important. Because the purchaser assumes costs previously borne by the already-engaged members, the purchaser’s total health care costs may increase in the short term before direct medical costs start to decline.

While it is too soon to say definitively that V-BID initiatives will result in a positive ROI, advocates of the strategy make the strong point that it provides “an opportunity to fundamentally change the way health benefits are structured and to reframe the national debate on health care to focus on the value of health services—not on cost or quality alone.”<sup>9</sup>

The potential for achieving a positive ROI is greater when the V-BID implementation

- ▶ is highly targeted,
- ▶ uses disincentives for low value care to offset incentives for high value care,
- ▶ accounts for the benefits of higher productivity,
- ▶ integrates the V-BID program with other wellness incentives, and
- ▶ communicates clearly with employees about the benefits available to them to improve uptake.<sup>10</sup>

Lastly, the foundational elements of V-BID remain the same regardless of the size of the organization. Although many of the early adopters of V-BID have been large companies, the last few years have seen a flurry of smaller organizations also adopting value-based strategies with great success.<sup>11</sup>

To learn more about making health investments, employers are encouraged to read [“Synergies at Work: Realizing the Full Value of Health Investments”](#) which highlights the importance of measuring your health investment impacts, including productivity improvements.

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## MEASURING UP

### ***EVALU8* RESULTS FROM 2011 SHOW THAT PLANS HAVE STEADILY INCREASED THEIR COMMITMENT TO V-BID BY INCENTIVIZING MORE TREATMENTS AND SERVICES, CUTTING UNNECESSARY COSTS, AND SUPPORTING HIGH-PERFORMING PROVIDERS.**

- ▶ Research has demonstrated that financial incentives can influence health-related behavior.<sup>12</sup>
  - Over three-quarters of plans (76%) provide financial incentives for participation in shared decision making before proceeding with treatment, and over half (59%) provide financial incentives for use of more cost-effective treatment alternatives in acute care settings.
  - Plan use of incentives for other consumer engagement activities has been a bit slower, however, with only 16% providing consumer financial incentives for web consultation and 34% incentivizing use of a personal health record (PHR).
- ▶ Chronic diseases are the leading cause of health care costs and a major cause of lost productivity and disability, yet 75% of these costs stem from *preventable* conditions.<sup>13</sup>
  - Nearly all plans incentivize participation in weight loss programs (98%) and smoking cessation programs (97%), and 88% of plans provide financial incentives for weight loss success.
  - Most plans provide financial rewards for participation in chronic disease coaching (87%) and for reaching specific clinical targets (82%) and a growing number of plans provide financial incentives for depression care (62%) and diabetes care (88%).
- ▶ Providers who perform well on measures of quality and efficiency can provide better value. The majority of responding plans (81%) steer users to better-performing physicians through the use of financial incentives.

### **MORE HEALTH FOR THE MONEY**

Moving from archaic “one size fits all” programs to “clinically nuanced” targeted interventions can yield better outcomes for beneficiaries and greater value for payers. The employer community should expand the use of the V-BID concept—already in place for high value preventive services as mandated by Section 2713 of the Affordable Care Act—to improve adherence to high value wellness and health care interventions by incorporating an approach based on the value of service, not the acquisition price. Such an approach will yield more health at any level of health care expenditure.

## TAKE ACTION

### Action Item #1: Assess your population

It is critical to understand that V-BID strategies lack “cookie cutter” approaches. Ask your health plan to conduct preliminary analyses of medical and prescription drug claims, and encourage (or incentivize!) your employees to complete confidential health assessments. Assessment of claims and available medical information can be used to identify opportunities to increase treatment compliance. Current costs as well as potential cost-savings estimates can then be calculated to develop a targeted V-BID approach.

### Action Item #2: Engage local plans, and understand your options

Survey health plans in your market area to determine their capabilities to offer and support a value-based insurance design such as enrollee incentives to use high-value services and providers and/or to adopt healthy behaviors. Using an [RFI process](#) will result in more systematic information, which can be compared across carriers.

### Action Item #3: Implement a pilot program

A pilot program can be an excellent way to model and test V-BID strategies. A pilot should incorporate some combination of the following: reduced co-pays for essential drugs in exchange for participation in a disease management program; incentives for participating in

wellness activities; incentives for enrollees to use high-performing providers (if known); and premium share reductions in exchange for adherence to preventive and chronic care guidelines.

When partnering with your health plan to implement the pilot, pay close attention to:

- ▶ Coordinating the program with your disease management or health coach vendor and pharmacy benefit manager (PBM);
- ▶ Developing and implementing a multi-faceted communication plan that emphasizes the benefit of the program to all enrollees and brings providers into the communication loop; and
- ▶ Collecting baseline information so that the impact of the V-BID pilot can be evaluated.<sup>14</sup>

### Action Item #4: Join your local business health care coalition

The [coalition movement](#) is a proven vehicle for meaningful change at the local level. Coalitions leverage the voice and power of their employer purchaser members by serving as community leaders working to advance change. Many coalitions are already involved in V-BID efforts and can likely support your interests in V-BID and broader efforts in health care delivery improvement.

To access the NBCH Action Brief library, visit <http://nbch.org/NBCH-Action-Briefs>

## Endnotes

- 1 [“Growth in U.S. Health Spending Stayed Slow in 2010.” Healthfinder.gov. U.S. Department of Health and Human Services. January 2012.](#)
- 2 Fendrick AM, Chernew ME: Value-based insurance design: aligning incentives to bridge the divide between quality improvement and cost containment. *Am J Manag Care*; 2006 Dec;12 Spec no.:SP5-SP10
- 3 Chernew ME, Rosen AB, Fendrick AM. Value-based insurance design. *Health Aff (Millwood)*; 2007 Mar-Apr;26(2):w195-203
- 4 [Thorpe, K. and Ogden, L. “What Accounts for the Rise in Health Care Spending?” Institute for Advanced Policy Solutions, Emory University. August 2008.](#)
- 5 [Houy, M. “Value-Based Benefit Design: A Purchaser Guide.” National Business Coalition on Health. January 2009.](#)
- 6 Ibid.
- 7 Fendrick AM, Smith DG, Chernew ME. Applying value-based insurance design to low-value health services. *Health Aff (Millwood)*; 2010 Nov;29(11):2017-21.
- 8 [Houy, M. “Value-Based Benefit Design: A Purchaser Guide.” National Business Coalition on Health. January 2009.](#)
- 9 Ibid
- 10 Ibid
- 11 [Berger, J. and Bucholz M. “Value-Based Benefit Design.” Value-Based Purchasing Guide. National Business Coalition on Health. January 2011.](#)
- 12 [Johnson, L. Study: “Paying smokers to quit boosts success rate.” The Boston Globe. February, 2009.](#)
- 13 [“The Business Case for Prevention: Why Investing in Prevention is Good for Business.” National Business Group on Health.](#)
- 14 [Houy, M. “Value-Based Benefit Design: A Purchaser Guide.” National Business Coalition on Health. January 2009.](#)