Value-Based Health Care: The Role of Pharmaceuticals

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OVERVIEW

- Three approaches to incentive design for drugs
  - Consumer driven health plans (CDHP)
  - Value-based insurance design (VBID)
  - Value-based health care (VBHC)
- Value for specialty drugs and vaccines
- This summit: structure and goals
Why the Rising Focus on Out-of-Pocket Payment?

- Continued growth in medical costs, faster than growth in GDP, productivity, wages
- Retreat from provider incentives (e.g., capitation)
- Increasing role of consumer as decision-maker
  - Increasing direct-to-consumer advertising
  - Ideology of “consumer-directed health care”
- Success of tiered formularies (consumer incentives) in reducing costs to insurers and consumers
Consumer-Driven Health Plans (CDHP)

- Consumers choose more wisely when spending their own money (“moral hazard”)
- Direct payment “empowers” consumers, reduces paternalism and cost-unconscious demand
- Self-rationing is better than rationing by others
  - Critique of provider incentives in managed care
- RAND study (1970s) found major cost reductions and no major adverse health effects of cost-sharing
Consumer-Driven Health Plans: Product Design

- High-deductible health plan (HDHP)
- Tax-favored reimbursement/savings account
- Hence most preventive, primary care services, and drugs are paid out-of-pocket
- Advocates reject managed care networks, payment incentives, medical management
Consumer-Driven Health Plans: Comparison to Auto Insurance

- Consumer-driven health plan paradigm models health insurance on auto insurance
- Auto insurance imposes deductible to limit low-cost claims (administrative burden)
- It does not cover oil changes and other “preventive” interventions even though these are effective
- Auto insurance is more costly, not less costly, for drivers with history of claims (by analogy, there is no special treatment in CDHP for chronically ill enrollees)
Value-based Insurance Design (VBID)

- Consumers often make poor choices
  - Example: refrain from taking effective lipid-lowering and hypertension control medications if pay OOP
  - Example: refrain from taking appropriate screening (e.g., mammography) tests
- Insurance design should promote access/use of effective and cost-effective treatments
- VBID criticizes CDHP cost sharing provisions as penny wise but pound foolish
Value-based Insurance Design: Product Design

- “Donut hole” models in private sector
  - CDHP or PPO with first-dollar coverage for effective treatments and drugs
    - Preventive services (pap smear, vaccinations, mammography)
    - Cost effective drugs (lipids, hypertension, etc.)
    - Physician visits (limited number of PCP visits per year)

- Restructure formularies to assign particularly effective drugs to Tier 1 (regardless of cost)
Value-based Health Care (VBHC)

- Both consumers and physicians are key decision-makers and need to face appropriate incentives
  - Blend of CDHP and VBID principles
- Incentives for providers (e.g., payment methods and medical management) need to be coordinated with incentives for consumers (e.g., cost sharing)
- “Choice architecture” matters
Value-based Health Care: Product Design

- Network design: “high performance networks”
  - Selective contracting, COE, P4P, episode payment
- Medical management
  - Wellness, acute care coordination, DM, CM
- Benefit design
  - Evidence-based formularies
  - Cost sharing creates incentives for consumer cooperation with network design and medical mgmt.
Value-Based Health Care: Product Design (continued)

- Benefit design and OOP payment rewards consumer participation in other programs
  - Lower OOP if use high-performance network providers
  - Lower OOP if participate in wellness, care coordination, disease management, case management programs

- More generally, the components of insurance design should promote consumer choices that reward efficient performance by providers of care
Features of specialty drugs (mostly biologics):

- Often very toxic; patient education is imperative
- Patients are very ill; care management programs are imperative
- Special handling and distribution is imperative
- Often infused or injected; site of care is important
- Often covered under “medical” rather than “pharmacy” benefit
  - Different provider payment (buy & bill) and consumer cost sharing than for oral drugs
  - Part B rather than Part D for Medicare
- Very expensive
Specialty Drugs in Contemporary Benefit Designs

- If covered by medical benefit, often no cost sharing
  - Sometimes 20% coinsurance
  - Special out-of-pocket maximum for drugs?
- Under pure HDHP, full coverage above deductible
- Under tiered formulary, in tier 3
- Increasingly, in tier 4 or 5: High copay (e.g., $500 per month) or coinsurance (25%, 33%)
Patients either face too little cost sharing or too much cost sharing for specialty drugs

Coinsurance and 4th tier placement are punitive for high-cost drugs
  - The high costs of these drugs are what “insurance” is designed for

Most importantly, the extent of cost sharing is not linked to whether the patient is an appropriate candidate for the drug

Difficult to define “appropriate”:
VBID was pioneered for primary care drugs that treat diabetes and other chronic conditions.

It can and should be applied to specialty drugs:
- Low cost sharing when drug is taken appropriately
- No coverage when drug is taken inappropriately
- High cost sharing in between, e.g., when the evidence on appropriateness is equivocal and more research is needed
Needed: VBHC for Specialty Drugs

- Appropriate benefit design is only the first step
- Specialty drugs need special treatment, and benefit design needs to be coordinated with:
  - Care management and patient education programs
  - Provider network contracting (e.g., centers of excellence)
  - Physician payment methods
  - Distribution and handling (specialty pharmacy)
This Summit

- Plenary panel: framing the issues
- Breakout sessions: deeper dives into two key areas
  - Biopharmaceuticals
  - Vaccines
- Beyond the summit
  - Identification and dissemination of best practices
  - Improvement in benefit designs: Medicare, commercial
  - Improvement in the system of health care for patients suffering from severe yet treatable conditions