Value-based insurance design initiatives seeing the light of day

Summary

Health Technology Trends *spoke with the director of the University of Michigan's Center for Value-Based Insurance Design about outcomes-based contracts between pharmaceutical companies and health plans and how these initiatives move closer to the goals of value-based healthcare.*

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The concept is simple enough: lower the cost of care, and patients will adhere to their regimens. A growing body of evidence demonstrates this, especially with lowered or eliminated copays for prescription medications in employer health plans. A. Mark Fendrick, M.D., director of the University of Michigan's (Ann Arbor, MI, USA) Center for Value-Based Insurance Design (www.vbidcenter.org), has been contributing to this evidence, working with stakeholders, publishing research and white papers on aligning incentives, benefits, and evidence—concepts of value-based insurance design (V-BID)—that apply to screening, treatment, and preventive services. *Health Technology Trends* spoke with Fendrick about the addition of pharmaceutical manufacturers at the stakeholder table, evidenced by outcomes-based contracts between pharmaceutical companies and health plans.

Shedding light on V-BID

By definition, V-BID is an employer-driven benefit design strategy intended for members to optimize higher-value healthcare services and reduce use of lower-value services to generate better results from employer healthcare expenditures. Fendrick calls it a "demand-side" initiative, meaning that it focuses on patients, using incentives to enhance use of medical services of proven value to improve patient outcomes.

"The premise of V-BID is that services are viewed not on what they cost, but on the health they achieve for the money spent," Fendrick explained. In terms of medication costs, a health plan that focuses on value also factors in hospitalizations, emergency room visits, lost time at work, and disability.

Still, Fendrick said that with private health plans, particularly in the rapidly growing area of specialty pharmaceuticals, it's not uncommon for patients to pay an increased share of medication costs. "To make things worse, out-of-pocket costs are determined on the cost, not value of the service," he said. For example, "people pay the same for a drug that will cure cancer, a drug that extends life for six months, or a drug used to treat a skin disorder."

Outcomes-based contracts and V-BID

As more specialty medications with single-dose price tags in the five- to six-figure range reach the market, some pharmaceutical companies and health plans have gotten creative with agreements, adopting outcomes-based contracts that employ rebates and outcomes measures. Cigna (Bloomfield, CT, USA) and Merck (Whitehouse Station, NJ, USA) have outcomes-based contracts for Merck's diabetes drug Januvia (sitagliptin) and Janumet (sitagliptin/metformin), and the specialty multiple sclerosis drug Rebif (interferon beta-1a). Several other pharmaceutical companies and health plans have followed suit with similar contracts (see "Outcomes-based contracts not just another drug deal for health plans" in this issue).

"More people in specialty pharma are not only looking at the cost of drugs, but are actually looking at the benefit," noted Fendrick. And in the case of health plans, it's about "looking at what they are getting for their money in terms of health, as opposed to focusing only on what it costs."

Fendrick said he had some early involvement in the Merck/Cigna outcomes-based contract, in which Merck agreed to refund the cost of its diabetes drug to Cigna if certain patient outcomes are not achieved, such as reduction in hemoglobin A1c.

"Outcomes-based contracts are very innovative in that they explicitly reflect the value of drugs in that plan prices are now partially based on clinical outcomes, as opposed to existing models, which look only at the purchase price," observed Fendrick. Essentially, he said, "the more health that is produced, the less the manufacturer is on the hook." Consequently, "if the drug does not reach expectations

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arguing that it "inherits the bias in the literature it uses" and that "it was programmed by people who had beliefs and goals." Kohn conceded that "Watson is no better than the information in it," perhaps even in "the way Watson assesses confidence intervals and rates the [reliability of] sources." But he added "it will learn over time, and if it sees inconsistencies [in its results], it can address them." And unlike humans, "it doesn't add bias," Kohn said. "I view Watson more as a diplomatic partner." ▶

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regarding improvements to clinical outcomes, the manufacturer is responsible for an increased part of the price." Essentially, Fendrick added, "it's like a money-back guarantee that we see in many other aspects of American business. As is the case with other goods, the satisfaction is based on an expected outcome, and in this case it is making patients healthier."

To that end, Fendrick sees outcomes-based contracts as complementary to V-BID. "Outcomes-based contracts show that we're making some progress on the supply side . . . which some people would call value-based purchasing," he explained. "Any innovation that moves our thinking away from what things cost, to what services deliver in terms of health produced for the dollars spent is a necessary step forward in moving us from a volume-based system to a value-based system." ▶