California HealthCare Foundation

Assessing Quality-Based Benefit Design

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EXECUTIVE SUMMARY

Designing health benefits in ways that foster high-quality clinical care and outcomes has largely been overshadowed by efforts to rein in benefit costs. Yet quality should be an important consideration in benefit design because high-quality care not only helps employers attract and retain employees, but enables companies and their workers to squeeze more value out of each health care dollar they spend, which in turn can reduce costs.

Traditional benefit packages have focused mostly on health plan choices, employees' share of premiums, the scope and level of inpatient and outpatient services, the types of prescription drugs covered and drug cost sharing, and provider networks. Quality-based benefit packages, a relatively new approach, go a step further: They also emphasize coordination of health care, support services, promotion of health and reduction of risks, and giving information to consumers that will help them make better health care decisions. Such benefit packages seek to increase the value of health benefits, i.e., the ratio of quality-to-cost.

But are they effective? Do they actually improve the quality of care, lead to better employee health and productivity, and boost the value of benefit dollars?

In an effort to answer these questions, PricewaterhouseCoopers (PwC) reviewed and scored about 100 articles published since 2000. The articles appeared either in the academic literature, including major publications such as *Health Affairs,* the *Journal of the American Medical Association,* and *Health Services Research,* or as applied health benefits research, also known as "gray research." The latter comprises materials prepared by employers, insurers, and other vendors of health-benefits services primarily for the purpose of internal corporate decision-making.

PwC narrowed the range of quality-based benefit tactics for review, all of which large employers have adopted in one form or another, to six focus areas defined by the Pacific Business Group on Health and the California HealthCare Foundation: (1) health plan options, eligibility, and premium contributions; (2) provider selection and differentiation of provider performance; (3) inpatient and outpatient benefit design; (4) pharmacy benefit design; (5) health promotion/risk reduction and chronic-care management; and (6) giving price and quality information to health care consumers.

In this context, "quality-based benefit tactic" means a benefit-design strategy that seeks to increase the net value of health care spending. There are many such tactics in place today, but published research on them often is lacking due to differences among similar strategies, which makes comparisons difficult; the extent to which companies have adopted them; and some of the tactics' short track record. Those reviewed in this

survey are a subset of quality-based benefit designs for which there is sufficient research to draw conclusions about effectiveness.

PwC's review found that for about three-fourths of the benefit-design tactics, there is only partial evidence they improve the quality of health care and limit or reduce costs. Exceptions were pharmacy benefits—specifically, the design of drug cost sharing—and health promotion programs; tactics in these categories, evidence suggests, can achieve their intended results. However, a negative trade-off of any gains in prescription drug cost sharing, as well as benefits tied to provider performance, is that they can potentially interfere with employee recruitment, retention, satisfaction, and productivity. The review also found limited evidence of a short- and long-term return on investment for quality-based benefit designs.

Importantly, little objective information is available to help employers design a quality-based benefits package. Most of the evidence in this survey came from gray research, which consists of non-peer-reviewed studies, reports, case studies, and presentations disseminated through conferences, trade journals, and other news media, rather than from the more reliable academic literature. To date, there have been few scientific studies of quality-based benefit designs, or studies have been so restricted that they did not clearly demonstrate a particular design's impact on quality.

Among the findings for the six tactical focus areas were these:

1. Health plan options, eligibility, and premium contributions

Tactic: Influence employees' benefits enrollment decisions by requiring that they pay a portion of premiums.

Findings: Employees' share of premium costs is still the most important factor in their choice of a health plan. Smaller employee contributions to a high-value plan, versus other options, can effectively persuade them to move to that plan.

2. Provider selection and differentiation of provider performance

Tactics: (a) Offer health plans that include a tier of high-performing health care providers, and (b) offer plans that have pay-for-performance incentives for providers to improve quality.

Findings: (a) Generally speaking, consumers are willing to accept less choice of providers if their share of the costs is lower, which can lead to short-term savings. On the other hand, benefit packages that differentiate among providers according to their performance can disrupt relationships between providers and employees. In addition, employers are less interested in offering benefit plans that have high-quality provider networks if those networks cost more. (b) Providers respond positively to pay-for-performance incentives and to public release of performance data. Most pay-for-performance programs are not designed to reduce costs, but rather to increase compliance with treatment protocols, target underutilization of services, and encourage investment in information technologies.

3. Inpatient and outpatient benefit design

Tactic: Offer high-deductible health plans with or without a health savings or health reimbursement account.

Findings: Case studies suggest that high-deductible health plans, which have attracted increasing employer interest, can lead to lower claims in the short term, over a two- or three-year period. Employers are more likely to offer such a plan as a benefit option along with a standard HMO or preferred-provider plan, rather than as a full replacement.

4. Pharmacy benefit design

Tactic: Adjust employees' share of costs in ways that influence their use of prescription drugs and thereby reduce costs without reducing quality.

Findings: Some evidence indicates that greater cost sharing reduces spending, but none demonstrates maintenance of, or improvement in, quality of care. Indeed, when workers pay a higher portion of prescription drug costs, it can reduce their compliance with treatment regimens and increase the number of doctor and emergency-room visits, which in turn can increase absenteeism and reduce productivity. Lower out-of-pocket cost-sharing specifically for prescription generic drugs encourages employees to use them instead of prescription brand-name medications, without any negative effect on quality.

5. Health promotion/risk reduction and chronic care management

Tactic: (a) Encourage employees to participate in health promotion programs, and (b) implement disease management programs to manage the cost of chronic illnesses more effectively.

Findings: (a) Health promotion programs can improve workers' health and productivity. But these gains are achieved over many years, which means return on investment is not immediate. (b) Disease management programs can improve patient compliance with treatment guidelines. There is limited evidence that such programs reduce costs.

6. Giving price and quality information to health care consumers

Tactics: (a) Give employees information so they can become better health care consumers, and (b) offer them monetary or other incentives to improve their health behaviors and/or health care purchasing decisions.

Findings: (a) Evidence that consumers' use of health care information, gleaned from the Internet or other sources, has an impact on their health or their health care purchasing decisions is limited. (b) Gray research suggests a correlation between monetary or other incentives and improvement in employees' health behaviors and/or health care purchasing decisions, but this link is not definitive.

The major implications of the findings for employers are:

- Both academic research and gray research offer at least some guidance on designing a quality-based benefits package.
- Academic research is less likely than gray research to be of help to employers that consider pursuing a quality-based approach.
- Sharing of information among employers may be the best resource for companies that are trying to determine which quality-based benefits work and which do not.

The full report that details the study methodology and findings, along with a complete bibliography, is available on the CHCF Web site at www.chcf.org/topics/healthinsurance/index.cfm?itemID=120246.

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