



RESEARCH REPORT

Payment Methods and Benefit Designs: How They Work and How They Work Together to Improve Health Care

Introduction to *Benefit Designs: How They Work*

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Payment reform promises to substitute value for volume. Yet, value- and volume-based approaches typically are implemented together. All payment methods have strengths and weaknesses, and how they affect the behavior of health care providers depends on their operational design features and, crucially, on how they interact with benefit design. Those seeking greater value for their health care dollar are also turning to innovation in benefit design, which also typically involves the implementation of more than one approach at a time—each with its own strengths, weaknesses, and effect on consumer health care behavior. Although payment and benefit design each has received significant attention independently, the intersection between the two has received little if any. The Urban Institute partnered with Catalyst for Payment Reform to explore how established and proposed payment methods and benefit design options work on their own and together. We also examined how payment and benefit design can be blended to improve health care delivery. This is the introduction to the report *Benefit Designs: How They Work*. All reports and chapters can be found on our project page: [Payment Methods and Benefit Designs: How They Work and How They Work Together to Improve Health Care](#).

Introduction

Benefit designs are a key part of reform efforts. They work in tandem with payment methods to encourage consumers to use the providers that accept new forms of payment and are high value or to seek services they need to improve their outcomes. However, benefit designs have not been the focus of health care reform discussions. This is perhaps because the innovation does not exist in the public sector and is largely restricted to the private sector. In addition, employers and other health care purchasers are facing big challenges trying to get better value for the health care dollar and, because they have the responsibility of paying for a majority of their members' health care, they have a stronger hold over the benefit designs that incentivize their consumers to seek high-value care. While the focus thus far has been on payment reforms, benefit designs could have a similarly powerful effect encouraging high-value health care.

But a single benefit design does not exist in isolation. There is a larger context of other benefit designs, payments, and market forces that are at work and should be considered by those interested in designing benefits. Understanding the context in which the benefit designs is implemented as well as the design of the incentives themselves, other operational issues that stakeholders may encounter with the benefit design, and how they can work in unison with each other and with payment methods can educate purchasers about how to package and design consumer benefits to get better value for the care

they finance. Accordingly, we think it important to understand the options available to employers and other purchasers to achieve better value, to encourage employees to be better shoppers, and to understand both how different benefit designs work in the marketplace and how providers are paid.

Context, Design, and Operational Issues Affect Benefit Design Impact

Analyses of benefit designs often lack understanding of the inherent nuances of each method—the context in which it is implemented, the design of the incentives and their impact, and operational issues that implementers may encounter.

The context in which the benefit design exists can affect the success of the design. For example, benefit designs that operate in markets with a dominant provider system may not have their intended effect. Dominant provider systems have the clout and leverage to demand inclusion in the network or design or to stop the effort by refusing to participate. The dominant provider system may be necessary to ensure adequate consumer access to providers and therefore would need to be included. Including the dominant provider system in the benefit design could lead to higher rates than originally intended, which would defeat the purpose of the effort.

The specific design of the incentives, including the relative cost sharing consumers may face, can also strongly influence the effect on consumers' behavior. A benefit design that uses strong cost differentials may more successfully encourage consumers to seek care from high-value providers or seek high-value services. For example, a consumer in need of a hip replacement has 10 percent coinsurance for care from a high-value provider or 60 percent coinsurance from a low-value provider. If the cost of the hip replacement is \$1,000, the consumer may prefer to seek care from the high-value provider, with a cost difference of \$100 versus \$600. If the cost differentials were less significant—20 percent coinsurance versus 30 percent—the consumer may be less likely to seek care from the high-value provider.

Finally, analyses of benefit designs may often miss the operational challenges that come with their implementation, including, administrative feasibility. Understanding and anticipating operational challenges with benefit designs during implementation can ensure that the designs have their intended impact and not generate unintended effects. However, some of these challenges may be impractical to anticipate and mitigate.

Benefit Design Attributes

Many of those experimenting or interested in implementing benefit designs lack understanding of the nuances involved. Therefore, the benefit designs tend not to be effective in the intended manner. Instructing health care purchasers and other stakeholders about the positives and negatives of each approach and how to mitigate the negative aspects that may be inherent in the approach can help implementers ensure that their benefit designs have their desired effect. And, because none of these methods exist in isolation, understanding how benefit designs work with each other can drive consumers to high-value care. Payment methods also have an effect on the success of benefit designs. They can work together to align the incentives of consumers and providers to encourage consumers to seek high-value care and providers to deliver it.

Advised by a panel of payment and benefit design experts, we selected seven benefit designs used to encourage consumers to seek high-value care through cost sharing. Understanding how each benefit design works—its strengths, weaknesses, and other attributes—will help us find complementary benefit design and payment approaches that combine the strengths and mitigate the weaknesses inherent in the benefit design.

Methods and Analysis

For most of the benefit designs reviewed here, relevant evidence exists in peer-reviewed literature. We do not, however, consider the available research-based evidence definitive, largely because research on benefit designs depends crucially on the specific design and incentive levels and on its organizational context. We think generalizing from the available, somewhat limited literature is potentially misleading. Additionally, attempts to categorize benefit designs have largely not been attempted. What makes our typology somewhat unique is our attempt to present concise summaries of the most salient attributes of these methods.

In addition, we have relied to a large extent on informed, expert opinion, not only by the authors but also by a technical expert panel of payment and benefit design experts who collectively represent views of informed payers and purchasers, providers, payment administrators, academics and consumers. The attributes listed, then, reflect consideration of the peer-reviewed evidence and its limitations, experience of the authors, and the wide and deep expertise of the technical expert panel, producing some consensus judgments as well as informed speculation.

We have selected seven major benefit designs that are most commonly implemented by purchasers and health plans in an attempt to steer consumers toward high-value care. These models are a subset of the broader array of benefit designs presented in another publication of this project, *A Typology of Benefit Designs* (Delbanco et al. 2016).

The discussion within these papers is more oriented to private insurance. The commercial sector has more flexibility and ability to structure benefit designs to fit the needs of employers and use cost-sharing to accomplish objectives than Medicare and Medicaid, in which benefit design typically is fixed by law and regulation. Therefore, concepts described in the attributes papers often apply particularly to private payers.

We organize the discussion of core attributes of benefit designs in the following way:

- **Background information.** An explanation of how the benefit design works and relevant experience with the approach
- **Key objectives.** What the benefit design is designed primarily, sometimes uniquely, to achieve
- **Strengths.** Both theoretical, incentive-related likely advantages and practical, operational ones
- **Weaknesses.** Both theoretical, incentive-related likely disadvantages and practical, operational ones
- **Design choices to mitigate weaknesses.** Opportunities in actual implementation, largely based on the weaknesses identified, to reduce potential detrimental effects
- **Compatibility with other benefit designs and with payment methods.** Given that any benefit design will be strongly interdependent with (1) concurrent methods for the same or related consumers and (2) variations in payment methods, we identify common interactions, both positive and negative
- **Focus of performance measurement.** Here we emphasize the vulnerabilities of benefit designs, for which performance measurement would be particularly desirable
- **Potential impact on providers' prices.** Most discussions of benefit designs focus on the likely impact on health care costs, not on the impact on prices per se, prices being a major determinant of costs

The selected benefit designs are:

- Value-based insurance design (V-BID)
- High Deductible Health Plans (HDHP)
- Tiered Networks
- Narrow Networks
- Reference Pricing
- Centers of Excellence
- Alternative Sites of Care

Reference

Delbanco, Suzanne F. 2016. *A Typology of Benefit Designs*. Washington, DC: Urban Institute.

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A [technical expert panel](#) advised the project team and reviewed the reports at different stages.

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