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Blue Shield Of California Quietly Explores Value-Based Designs

BY CHRIS LEWIS

Blue Shield of California is the first HMO in California to be approved to offer the latest trend in pharmacy benefit management—value-based insurance design—for the fully insured group market in California. So far, the program is limited and in the early stages, but state regulators seem eager to approve more of them.

The VBID concept, gaining traction around the country, reduces cost barriers to medications deemed most effective in controlling chronic diseases to drive patient compliance with treatment. Sometimes the price reduction for one drug is offset by the increase of another deemed less critical. For instance, a life-saving statin drug might be on the free tier, while a lifestyle drug, such as Viagra, might be in the most expensive category.

Blue Shield is applying a new "Select Tier" status to lower copays on generic and brand-name drugs that treat diabetes, asthma, depression, hypertension and hyperlipdema—depending on what the health plan and the employer group decides. Some information is spelled out in regulatory filings with the state Department of Managed Health Care. Blue Shield said it was too early to provide comment on this product.

Chuck Larsen, senior director of product development at Blue Shield, said, "We're always looking at interesting new ways to try to provide the kind of innovative, affordable insurance products that people are looking for, especially in today's market. We're excited about our upcoming offerings, and we think that brokers, employers and new members will really appreciate some of the new features."

The regulatory filing said the product is only being offered to custom large groups now, with the possibility of expanding the offering to all employer groups later. Blue Shield's application, filed last May, was approved in less than a month by the state HMO watchdog agency, which has been streamlining the approval process for health plan filings to enable Californians to access new products more quickly.

"This product filing was approved in only 22 calendar days, based largely on the fact that it makes it easier for consumers to afford their medications, helps with disease management, and ultimately improves consumer health," said department spokeswoman Lynne Randolph. "Because consumer protections were already built in, the process went quickly. It requires much more scrutiny to approve a product that raises premiums or disadvantages consumers."

Blue Shield's optional prescription drug riders have either two tiers (generic and formulary brand drugs)

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or three tiers (generic, formulary brand and non-formulary brand drugs. Its application called for the additional tiers for Select Tiered Formulary Generic Drugs and Select Tiered Formulary Drugs on PPO, HMO and point-of-service products. Members who get their drugs through a participating pharmacy could pay nothing or low copays, based on the contract with the group.

Most Action Has Been With Self-Insured Segment

So far, VBID has been pioneered by the largest companies that self-insure their workers, taking on the financial risk of managing employees' care and paying health plans a fee to provide administrative services. The idea is that by removing cost barriers to medications, it is more likely that employees will take them, heading off higher healthcare costs down the road.

But it's very unusual for such a plan to be offered for fully insured customers, where the health plan is on the hook for paying the medical claims, said Cyndy Nayer, president and cofounder of the Center for Health Value Innovation.

"I strongly support what they're doing because it's the right thing to do for the plan, for the employer, for the physician and ultimately for the patient," she said. The Center has been pushing value-based design for the broad array of chronic-care management and individual health-management programs.

Table 2-1: Blue Shield Pharmacy Benefit Design Options*

Benefit	Copay for participating pharmacy**	HMO, POS copay for non-participating pharmacy	PPO copay for non-participating pharmacy**
Select Tiered formulary generic drugs	No copay or $1-$10	Not covered	Not covered
Formulary generic drugs	No copay or $1-$15	Not covered	Following submission of a claim, 75% minus member copay
Select Tiered formulary brand drugs	No copay or $5-$25	Not covered	Not covered
Formulary brand drugs	$10-$30	Not covered	Following submission of a claim, 75% minus member copay or not covered
Non-formulary brand drugs	$25-$50 or not covered	Not covered	Following submission of a claim, 75% minus member copay or not covered
Home self-administered injectibles	20-30% of the Blue Shield negotiated pharmacy contracted rate up to a max of $100-$150 per prescription	Not covered	Following submission of a claim, 75% minus member copay or not covered

* Mail-order rates are left out of this example.

** Options based on plan sponsors

Source: Blue Shield of California filing to California Department of Managed Health Care

"This is no longer the outlier. VBID in pharmacy benefit design is quickly becoming if not the norm, the second-level norm," she said. "I will tell you I have interviewed over 80 companies. We are just getting ready to launch a national VBID registry so that other employers can tell us what they are doing."

For now, she said, the design is most common for diabetes—not just because it's an epidemic—but also because there's enough business-based evidence to show that hands-on management of the disease can make a difference.

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In California, she knows of at least a half-dozen companies in some stage of VBID development, including a couple of hospital systems. "Value-based design almost never starts at the health plan level. It usually starts at the self-insured level, pushing to the health plan. Once the health plan figures out how to administer it for a self-insured company, then they can actually think about moving into the fully insured space," Nayer said. For one thing, she said, health plans are holding back because they perceive they will be losing rebates on the drugs they purchase by moving brand-name drugs to the first tier, representing the lowest copay.

Quantifying Value Options In Benefit Design

Emma Hoo, director of value-based purchasing for the Pacific Business Group on Health, which represents plan sponsors of groups generally over 2,000 employees, said VBID is more talk than action, and primarily limited to self-insured companies. She said it's more doable on a self-insured platform, because fully insured employer groups don't have a way of realizing the full potential of savings in terms of the premiums they pay.

"In the PPO setting, if an employer is self-funded they're going to realize the savings very directly if the ER visits are reduced and the hospitalization is reduced. In an insurance [fully insured] setting, I think historically it has been a challenge," Hoo said. "Often times an HMO will calculate the give-back in reducing a copay, but they don't necessarily give you the credit for the reduced ER visits or hospitalization that would potentially will occur not in the first year but maybe in subsequent years."

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The PBGH is working on a project with the global consulting firm Milliman Inc. to quantify some of the value options besides copay in value-based benefit design, not just for drugs, but also for other preventive services that can have an impact on diabetes, like colonoscopies. The project also involves value-based designs for provider selection and health management interventions such as treatment option support.

Nayer said the answer to the fully insured problem Hoo alluded to is convincing more health plans to move to outcomes-based contracting, which her organization is pushing the industry now. It's different than typical pay-for-performance programs based on process measures. Instead of reliance on completing certain screenings and tests, outcomes-based contracting tracks whether treatments result in improvements on health indicators, such as lowering hemoglobin A1c levels.

"What it says is, we as employers want to share in the engagement of the employee and their family in this condition, but we also want to share in the total savings, and that's incredibly important in a fully insured market," Nayer said. Such shared-savings deals could also be struck between pharmaceutical companies and health plans to offset the potential loss of rebates from down-tiering drugs.

In the same vein, Nayer also believes that for a VBID program to be successful, it has to be tied to member compliance in a disease management program or something that requires a change of behavior to participate. For instance, Horizon Blue Cross Blue Shield of New Jersey just started offering medication discounts to diabetic employees of its own company last fall. As of this year, employees who want to continue with the benefit must complete a health risk assessment, submit to screenings and participate in the company's wellness program.

Nayer can understand why Blue Shield would want to test the program on custom large clients, since the only way to really see a dividend is to analyze cost and benefits across a large population. "You need enough people in a value-based design that the cost of the drugs that you've now lowered … doesn't overwhelm the cost of the savings in the first year or two," she said. "As an example, the national average is, when you lower the copay to zero for drugs for diabetes, it costs somewhere between $400 and $500 a year for the drugs," she said.

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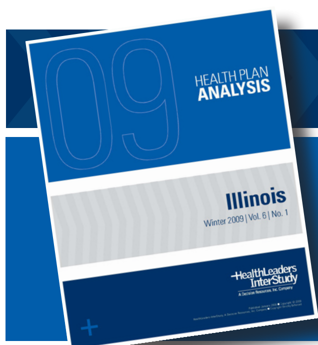
Companies must determine whether they can get enough compliance from the patients to reduce the use of costly medical services. If that doesn't occur in the first year, they have to figure out how to cover the costs.

"We are seeing enough evidence in multiple conditions and in prevention/wellness efforts to reduce the health cost trend. This is important so that other companies can emulate the success," Nayer said.

Outlook

Blue Shield of California is blazing new trails by trying out value-based insurance design on the fully insured market. The results will be widely watched, and if successful, it could propel widespread adoption of this intriguing strategy to encourage compliance with medications and better health outcomes.



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