

Small Business Prescription for National Healthcare Reform

Benefit Design in National Health Reform

The issue

For any coverage requirement to be meaningful, and to strike the best balance between affordability and essential coverage that ensures high-quality care and long-term cost control, a comprehensive national reform plan should include a definition of minimum benefits.

Affordability—The benefit plan must be affordable for employers and employees.

Comprehensiveness—The benefit plan should include coverage for basic health services and protect people from catastrophic costs due to serious and expensive medical conditions. A “skinny” plan might have more affordable premiums, but it might also exclude important health services and impose an unaffordable cost-sharing burden on people.

The problem for small businesses

Affordable, accessible healthcare is the number one problem facing small businesses in this country.¹ Small business health insurance premiums are increasingly unaffordable, having risen 113% over the last 9 years²—a growth rate of nearly 9% annually. The smallest businesses pay on average 18% more than very large employers for similar health benefit plans.³ As a result, small business owners have been forced to reduce health benefits or eliminate them all together. Those who want to lower their costs while continuing to offer benefits are typically given two uncomfortable choices for benefit design:

Cost sharing—Traditionally, insurers have created more affordable plans by increasing consumer cost sharing at the point of service, i.e., deductibles and coinsurance. Research shows that benefit plans offered by small firms are more likely to have a deductible, and a higher one at that, than those offered by large firms. The percentage of small business employees with an annual deductible of \$1,000+ increased from 16% to 35% in just the past two years. Furthermore, benefit plans offered by small firms are less likely to have an out-of-pocket maximum, thus reducing the incentive to seek preventive care as well as increasing the employees’ exposure to very high costs.⁴ Increased cost sharing can lower the premium, but it creates barriers to necessary care and can cause a serious financial burden on low-income people—especially those who are sick and need medical services.

Benefit exclusions and limitations—Another traditional approach has been to exclude certain services from coverage. Prescription drugs, dental services, and mental health services have been considered “optional” benefits in many commercial plans. For example, the benefit plans offered by small businesses are more likely to have limits on mental health services than those offered by larger firms.⁵ Limitations such as these have been overcome to some degree by legislation requiring coverage of specific services, but real reform requires finding the appropriate balance between necessary care and cost.

¹ “Study shows small business owners support health reform,” Robert Wood Johnson Foundation, 2008.

² Kaiser Family Foundation/HRET Employer Health Benefits Annual Survey, 2008.

³ J. Gabel et al., Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down, *Health Affairs*, May/June 2006.

⁴ Kaiser Family Foundation/HRET Employer Health Benefits Annual Survey, 2008.

⁵ Kaiser Family Foundation/HRET Employer Health Benefits Annual Survey, 2008.

A new approach

Clearly, a better approach is needed. Fortunately, a new benefit design strategy has emerged in recent years, although it's more prevalent among large employers. In contrast to the traditional approaches, the new strategy uses a more targeted approach to designing affordable plans—using a “scalpel” rather than a “meat-axe.” The new approach is often called “**value-based benefit design**,” reflecting the goal that people should have access to services that improve health. As the science of evidence-based medicine using comparative effectiveness research advances, it allows us to link clinical information and targeted financial incentives to create more affordable benefit plans.

Value-based benefit designs have been piloted by a number of private insurers, but these new insurance products have not yet become widespread. Although we're in an early stage of innovation in this area, several basic principles and common frameworks have emerged:

- People should be protected from the **catastrophic costs** of serious medical problems.
- There should be no financial barriers to critical **preventive services and disease screening**. For example, women over 40 should have mammograms every one to two years; this should be a covered benefit with minimal cost sharing.
- Patients with serious **chronic conditions** should have access to services that enable them to manage their conditions and avoid medical crises. For example, diabetics should have access to a certain number of outpatient visits, regular testing and dietary counseling with minimal cost sharing.
- People should have financial incentives to use **cost-effective treatments**. For many conditions, there is a range of clinically equivalent treatments that have very different costs. For these “preference-sensitive” treatments, the patient should pay a significant amount of the additional cost for the more expensive options.
- People should take **personal responsibility** for keeping themselves healthy. For example, there should be financial incentives for smokers to stop smoking (and similar incentives to not smoke at all).
- People should have the option of “**buying up**” from the basic minimum benefit.

A legislative proposal

Congress needs to address benefit design as it develops healthcare reform legislation, but designing a minimum benefit plan—using a “value-based benefit” approach—must be done very carefully. In the process of creating a comprehensive national reform plan, the following approach is the most likely to succeed:

- Innovation, flexibility and the ability to adapt to changing needs and market conditions are very important to slow the rate of healthcare cost inflation. A detailed description of specific benefits in federal law would create a rigid system that couldn't respond adequately to changes in medical science, consumer preferences or market conditions over time. It would be wiser for Congress to establish an overall **financial level** for the standard plans and develop the **principles** rather than the details of benefit design. Too much specificity will create rigidity and inflexibility, driving costs up over the long term and preventing innovation and cost savings.
- The legislation should create an **independent administrative board** to develop the detailed benefit design within the guidelines established by Congress. This board would establish **standards** and approve benefit plans offered in the individual, micro-group and small group markets, with oversight by Congress. Congress should require the board to

analyze benefits annually with input from stakeholders and make recommended changes to ensure the system is dynamic and not rigid. This approach would allow innovation in benefit design and be adaptive to new findings from comparative effectiveness research.

Impact on cost containment

The wider use of value-based benefit design is likely to have significant impacts on cost containment. First, it reduces financial barriers to **preventive services and screening**, thereby increasing the likelihood that serious illnesses will be caught earlier before they become more severe and expensive to treat. Second, it creates the incentive for the appropriate management of **chronic conditions**, reducing the likelihood of serious and expensive medical complications. Third, it introduces appropriate cost sharing and a sense of **personal financial responsibility** where it can have the most impact on costs—when treatments with similar outcomes have very different costs, i.e., “last dollar” rather than “first dollar” cost sharing. Finally, the use of value-based benefit design can have the maximum impact if employer-based programs, as well as public ones, use it consistently.