

# Health Insurance Design Choices

*Issues and Options for Change*

BY JEANNE M. LAMBREW AND JOSEPH R. ANTOS

**H**ealth insurance coverage is an essential tool to achieve the goal of affordable, high-quality, sustainable health care. It enables utilization of health services, drives prices, and provides incentives for high-value care and high-quality providers. It also ensures protection against catastrophic health care costs. For these reasons, reforms that affect the design of health insurance coverage are key elements of the health care reform discussion. Resolving the challenges facing the nation's health system will require the consideration of policies that promote insurance benefit designs that provide adequate financial protection, while producing high-value, high-quality care at the lowest cost. Ensuring that benefit designs stay up-to-date with current medical research and practice standards is another issue that must be addressed, so that health insurance coverage promotes effective, efficient use of health care services over time.

Successful health reform will require a balance between ensuring affordable insurance (for consumers, businesses, and the government), and promoting benefit designs that produce positive medical outcomes. In achieving this balance, benefit design policies must negotiate extending covered services to the point of being overly generous, and thus excessively expensive, with limiting covered services to the point that they put consumers at financial risk. It is important to note, too, that while variation in health benefit design may lead to innovative ways of providing coverage effectively, it can also result in "adverse selection." For example, competing health plans could structure a mix of covered benefits and cost-sharing requirements to try to avoid patients with chronic illnesses or other high costs, rather than

to promote high-value care. This could result in inadequate or inefficient coverage for those who need it most.

## OPTIONS FOR CHANGE

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There are a number of key questions that must be addressed when designing effective health insurance choices:

### *What essential standards for coverage must be met by insurance plans?*

Standards for insurance design could range from minimal requirements (defining in the most basic terms what constitutes health insurance for tax purposes, for example), to broad requirements (such as categories of benefits and minimum actuarial values), to more detailed requirements (mandating coverage of particular services or provider specialties).

### *How should cost-sharing be designed?*

The structure of cost-sharing, which includes deductibles and copayments, is an important factor in health benefit design, as it can encourage or discourage the use of health services or certain health care providers. Cost-sharing requirements also present a variety of issues, and can be incorporated into health reform efforts in a number of ways. For example, one way to improve value is to remove cost sharing from desired care, and impose it on care that does not improve health outcomes. An extension of this concept can be seen in the recent innovation of value-based insurance design. This approach relates copayment levels to the effectiveness of specific

services. In doing so, it removes financial barriers to appropriate care, and uses it as a tool to discourage excessive or inappropriate use of care. An alternative to using cost sharing to improve health care value is to give individuals a high-deductible health plan and informational tools, and allow them make the value determination of care themselves.

***What steps beyond restrictions on health benefit design flexibility can help prevent adverse selection?***

Irrespective of insurance design choices, adverse selection can still occur. Policymakers will likely need to consider such available policy options as risk-adjustment, subsidies for healthy people who cannot afford coverage—or a purchase requirement for healthy people who can—to mitigate its effects.

The question of who should shoulder the responsibility for determining the structure of health benefits and other aspects of insurance design is also important, as such decisions could be made at several levels, including:

- Legislatively-defined benefits
- Partially-defined benefits with some flexibility for insurers
- Delegated-benefit authority
- Market-based benefits determined jointly by insurers and purchasers (which most closely reflects the current system)

These options are differentiated by who determines the policies that influence covered services, the basis for those decisions, and how likely benefits may both promote high-value care, and reflect the most current clinical research and practice methods.

## KEY CONSIDERATIONS

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Strategies for setting health benefit design will inevitably need to strike different balances on key trade-offs. For example, standardized benefits, including benefit designs based on expert opinion, can simplify choices for individuals, make health plans accountable for ensuring specific, important features of coverage, and reduce adverse selection pressures.

On the other hand, providing greater flexibility may lead to coverage that better reflects individual preferences and health needs. Likewise, competition in benefit design can promote innovative ways to improve quality and lower costs, but may cause adverse selection. Steps like risk adjustment could reduce that likelihood, as can reinsurance and greater subsidies to purchase health insurance.

But these steps would add to federal costs and administrative complexity. An individual mandate also could reduce selection problems by bringing healthy people who currently opt-out of the voluntary health insurance market into the risk pool; but it also could bring in low-income people, who may require financial assistance to purchase coverage. This, too, could have the effect of increasing overall federal costs.

This paper aims to clarify the major decisions involved in health insurance benefit design, and then discuss them in the larger context of health reform.

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To read the full version of *Health Insurance Design Choices: Issues and Options for Change* please go to <http://www.bipartisanpolicy.org/healthbenefits>.



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