Academic Articles & Reports Roundup: August 2017

Happy September! In this Roundup, we cover four articles from July and August. The topics this month include (1) how states could use the excise tax to discourage forum shopping by insurance plans, (2) the effect of reference pricing on consumers' drug selection, (3) proposals to promote the use of cost-effective technology in insurance, and (4) possible barriers that prevent consumers from seeking out price information.

How States Could Use the Excise Tax to Discourage Forum Shopping by Insurance Plans

In How States Can Respond to the AHCA: Using the McCarran-Ferguson Act (State Tax Notes), David Gamage and Darien Shanske propose that states could shore up their insurance markets by levying a discriminatory excise tax on bare-bones insurance plans. While the AHCA is, at the time of this writing, no longer viable, future healthcare reform may include certain ACHA provisions, such allowing states to significantly weaken the "essential health benefits" (EHB) requirements. If state legislators significantly reduce the "essential health benefits" requirements, the authors argue that a ripple effect would occur. Under current federal regulations, large multistate employer-provided insurance plans can elect the most favorable "essential health benefits" definition of any state the plan operates in. This means if one state weakened its EHB requirements, a large multistate employer-provided insurance plan could apply that state's reduced EHB definition to employee plans in all the states where it operates. To prevent weakening EHB offerings via forum shopping, Gamage and Shanske propose that states could

impose an excise tax on insurance plans with reduced EHB requirements. The authors argue that states can regulate or tax its insurance plans without substantial legal limitations in two ways: (1) the McCarran-Ferguson Act modifies the dormant commerce clause to not restrict states when it comes to regulating or taxing insurance plans, and (2) the tax would have a legitimate purpose in protecting a particular state's insurance market as the tax would reduce the externalities of other states caused by their weakened "essential health benefit" mandate.

Effect of Reference Pricing on Consumers' Drug Selection

In Association of Reference Pricing with Drug Selection and Spending (New England Journal of Medicine), James Robinson, Christopher Waley, and Timothy Brown explore changes in consumer behavior around drug selection due to the imposition of a reference price. Reference pricing involves grouping drugs based on their therapeutic class, and then, the insurer or employer selects the reference price, often the lowest or second lowest price, for the drugs in that particular therapeutic class. That selected price would become the basis for the insurer's or employer's maximum contribution. Consumers who want a different, higher priced drug must pay the difference between the reference price and the price of their chosen drug. The study focused on the self-insured RETA Trust before and after its implementation of reference pricing. RETA Trust equated its maximum contribution to be the price of the least costly drug in each therapeutic class. Since implementation of reference pricing, shares of prescription for the lowest priced drug increased by 7%. Average prices per prescription dropped 13.9%. Compared to its labor union trust which did not implement reference pricing and served as a control, RETA Trust's share of prescriptions for the lowest priced drug significantly increased and conversely, average prices per prescription significantly

dropped. At the same time, copayments by employees rose by 5.2%. While this study was limited to one particular insurance provider, reference pricing seems to have, to some extent, influenced the drug choices of employees.

Proposals to Promote the Use of Cost-Effective Technology in Insurance

In Why It's So Hard for Insurers to Compete Over Technology (JAMA Forum), Austin Frakt and Nicholas Bagley discuss why there is little competition between insurance plans on new treatments and therapies, and how to increase access to more cost-effective treatments and therapies. The authors argue that the lack of good evidence and lack of incentives to find good evidence means plans do not know which therapies are cost-effective, and therefore cannot make good coverage decisions. Additionally, two factors support continued coverage of treatments that are not cost-effective: (1) current laws, such as the essential health benefits rule or favorable tax treatment for employer-sponsored coverage, often offer incentives to broaden of coverage|and (2) courts' medical necessity determinations also discourage narrowing of coverage. As such, insurance plans rarely compete to offer cost-effective treatments. To increase consideration of cost-effectiveness in insurance plans, Frakt and Bagley propose narrowing the scope of tax exclusion for employer-sponsored coverage to promote budget-conscious plan selection by employers or strengthening Medicare coverage determinations to require more evidence for new therapies before permitting coverage.

Possible Barriers that Prevent Consumers from Seeking Out Price Information

In Americans Support Price Shopping for Health, But Few

Actually Seek Out Price Information (Health Affairs), Ateeve Mehrotra, et. al., discuss possible barriers to consumer use of price information. This study found that 72% of respondents viewed price shopping as beneficial. However, only 13% searched for expected out of pocket spending, and only 3% compared costs across providers, despite the fact that 93% were aware of cost variations among providers. The authors point out that one barrier for price shopping is that consumers do not know where to find the price information. In the study, 75% of respondents did not know of a resource to compare costs. Those who did try to find price information usually just called their own health plan. The authors suggested that confusion by consumers on how cost-sharing works and the complexities of knowing diagnostic codes make price shopping too complex to be effective. Additionally, 77% chose their providers because they had gone to this provider before. Thus, not only is there the barrier of complexity that prevents effective price shopping, the authors note that some consumers may not even want to switch due to their history with a provider or due to the lack of alternatives. Thus, the authors propose that effective price shopping can happen when policymakers focus policymaking efforts in areas that are more amenable to price shopping, such as physical therapy, and provide comprehensible access to comparing prices.

That's all for this month. As always, if you find articles or reports that you think should be
included in the monthly Roundup, please send them our way. Enjoy your reading!