To: PBMS Clients and Friends

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Re: Essential Health Benefit Report Released to HHS by the Institute of Medicine

Late last week the Institute of Medicine (IOM) issued its report (297 pages) to the Secretary of HHS, entitled *Essential Health Benefits: Balancing Coverage and Costs*. This report was much anticipated because many incorrectly believed that the report would recommend what the essential health benefits (EHB) package would actually look like in 2014. However, the specific charge of the IOM was *not* to decide what would be covered in the EHB but rather to propose a set of criteria and methods that should be used by HHS in deciding what benefits are most important for coverage.

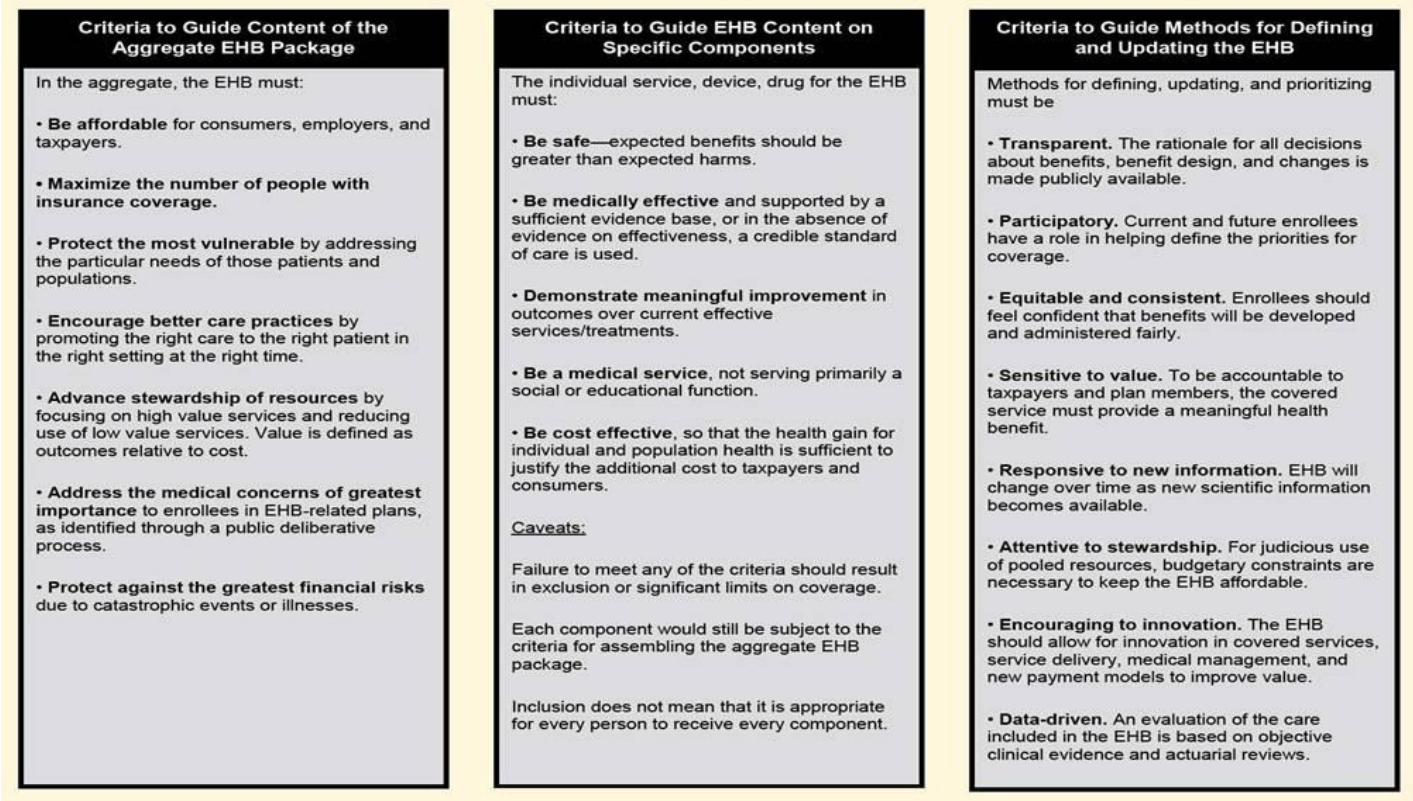
The ACA establishes an EHB package and defines 10 general categories that must be included in that package commencing in 2014. The ACA, however, left considerable discretion to the Secretary of HHS to design this package. The Secretary, in turn, asked the IOM to recommend a process that would help HHS do two things: 1) define the benefits that should be in the EHB, and 2) update the benefits to take into account advances in science, gaps in access, and the impact of any benefit changes on cost. In its deliberations, the most critical issue identified by the IOM was the need to explicitly address the tradeoff between the cost of a benefit package and the comprehensiveness of coverage. The report indicates that if the tradeoff is not addressed, then a number of consequences are possible:

- If the benefits are not affordable, fewer people will buy insurance.

- If the benefit design makes access too difficult, people will not get the care they need.

- If health care spending continues to rise faster than GDP, the value of the EHB is likely to be eroded.

The IOM concluded that the benefit package should be designed within the context of financial constraints, using a structured public process to establish priorities. The IOM developed a set of criteria to guide the process for designing and updating EHB, which are summarized by IOM as follows:



Criteria to Guide Content of the Aggregate EHB Package

In the aggregate, the EHB must:

- **Be affordable** for consumers, employers, and taxpayers.
- **Maximize the number of people with insurance coverage.**
- **Protect the most vulnerable** by addressing the particular needs of those patients and populations.
- **Encourage better care practices** by promoting the right care to the right patient in the right setting at the right time.
- **Advance stewardship of resources** by focusing on high value services and reducing use of low value services. Value is defined as outcomes relative to cost.
- **Address the medical concerns of greatest importance** to enrollees in EHB-related plans, as identified through a public deliberative process.
- **Protect against the greatest financial risks** due to catastrophic events or illnesses.

Criteria to Guide EHB Content on Specific Components

The individual service, device, drug for the EHB must:

- **Be safe**—expected benefits should be greater than expected harms.
- **Be medically effective** and supported by a sufficient evidence base, or in the absence of evidence on effectiveness, a credible standard of care is used.
- **Demonstrate meaningful improvement** in outcomes over current effective services/treatments.
- **Be a medical service**, not serving primarily a social or educational function.
- **Be cost effective**, so that the health gain for individual and population health is sufficient to justify the additional cost to taxpayers and consumers.

Caveats:

Failure to meet any of the criteria should result in exclusion or significant limits on coverage.

Each component would still be subject to the criteria for assembling the aggregate EHB package.

Inclusion does not mean that it is appropriate for every person to receive every component.

Criteria to Guide Methods for Defining and Updating the EHB

Methods for defining, updating, and prioritizing must be

- **Transparent.** The rationale for all decisions about benefits, benefit design, and changes is made publicly available.
- **Participatory.** Current and future enrollees have a role in helping define the priorities for coverage.
- **Equitable and consistent.** Enrollees should feel confident that benefits will be developed and administered fairly.
- **Sensitive to value.** To be accountable to taxpayers and plan members, the covered service must provide a meaningful health benefit.
- **Responsive to new information.** EHB will change over time as new scientific information becomes available.
- **Attentive to stewardship.** For judicious use of pooled resources, budgetary constraints are necessary to keep the EHB affordable.
- **Encouraging to innovation.** The EHB should allow for innovation in covered services, service delivery, medical management, and new payment models to improve value.
- **Data-driven.** An evaluation of the care included in the EHB is based on objective clinical evidence and actuarial reviews.

The IOM report analogizes HHS's task of defining the EHB package to going grocery shopping. One option is to go shopping, fill up your cart with the groceries you want, and then find out what it costs. The other option is to walk into store with a firm idea of what you can spend and to fill the cart carefully, with only enough food to fit within your budget. The IOM report recommends that HHS take the latter approach to developing the EHB package and to keep in mind what small employers and their employees can afford.

Therefore, the report recommends that HHS determine what the national average premium of typical silver level, small employer plans would be in 2014 and ensure that the package's scope of benefits does not exceed this amount. This premium target would be used only as a criterion in developing the package; the premium that a particular employer or individual purchaser ultimately pays for a plan with the package could be different because of a variety of other factors.

The IOM's approach, and its emphasis on affordability, certainly seems to be a step in the right direction. It remains to be seen how closely HHS follows the IOM's recommendations and processes in the coming months and years. HHS has indicated that it would review the panel's report and hold a series of "listening sessions" across the country to get public comment. Such sessions could take months; during which time many outside voices will likely seek to shape the final EHB package.

While no official timeline was mentioned, proposed EHB regulations will not likely appear until at least mid-2012.

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