Reference-Based Pricing – A Key Strategy for Healthcare Savings

Sixty-eight percent of large and mid-size employers said they plan to adopt reference-based pricing as a cost-control strategy, while 10 percent had already adopted this approach.¹

A relative newcomer to the small to mid-size market, self-funded reference-based pricing plan designs can provide the opportunity for you to stand out from other brokers and offer clients a new way to save on healthcare costs. When considering this type of plan design, it is important to educate yourself and your clients about the advantages and risks.

Basics of Reference-Based Pricing

Historically, mostly large employers have used reference-based pricing as a health benefit plan cost-savings strategy. But more recently, this strategy has emerged in the small to mid-size employer market, giving employers a unique way to mitigate costs while encouraging employee knowledge of and participation in wiser healthcare choices.

Reference-based pricing plan designs are “designed to encourage plans to negotiate treatments with high-quality providers at reduced costs”², and can work in different ways, depending on the insurance carrier or third-party administrator. Below are examples of different reference-based pricing arrangements:

- Reimbursement based on a fixed amount for a particular procedure, such as a knee replacement, which certain providers will accept as payment in full.
- Reimbursement based on a program-determined, reasonable fee or a multiple of Medicare.
  - Under this type of arrangement, reimbursement rates range between 120 percent and 180 percent of Medicare³. Reimbursement percentages may vary.
- Certain procedures or services may be assigned a maximum provider reimbursement level based on the median price. If the covered employee uses a facility that charges above this amount for the service or procedure, the covered employee may be responsible for paying the difference.

The Positive Side of Reference-Based Pricing

A self-funded reference-based pricing plan design can have advantages for both the employer and the covered employee.

Cost savings: These plan designs are typically less expensive than traditional PPO plan designs and can provide significant cost savings.

A reference-based pricing arrangement based on a multiple of Medicare helps mitigate pricing variances. Price variances for healthcare procedures can be as much as 500%, with no difference in quality.³

For example, according to one analysis, the following price ranges were charged by in-network providers or facilities within the same city⁴:

- Dallas- Up to 34 times for a lipid panel (from $10 to $343)
- Philadelphia- Up to 6.5 times for a CT scan of head/brain (from $220 to $1,449)
- New York City- Up to 12 times for an MRI of lower back (from $334 to $3,939)
- Phoenix- Up to 5 times for an adult preventive primary care visit (from $72 to $379)
No network restrictions: With the multiple of Medicare repricing, covered employees have the ability to choose providers who best suit their needs, enabling them to maintain current provider relationships. Some plan designs may have exceptions, for example certain services may require the use of select networks.

Balance bill protection: Some self-funded reference-based pricing plan designs may include balance bill protection for covered employees, in which the employer’s plan and stop-loss insurance (if the minimum stop-loss attachment points have been met), covers billed amounts for covered services exceeding the repriced balance. Balance bill protection is valuable for small to mid-size employers because they don’t have the same negotiating power with local providers as larger employers. A third-party administrator (TPA)/carrier may contract with a third-party vendor to negotiate balance bill amounts with providers, which can provide savings for the employer and member.

Encourages employees to become better consumers: Employees can get the most savings by shopping for their healthcare, which can include:

- Using telemedicine services, walk-in clinics, or other lower-cost alternatives to a doctor visit
- Choosing generic prescription drugs, when possible
- Researching cost and quality information for physicians, facilities, medical tests, and procedures

In some instances TPA/carriers offer access to these resources to encourage employees to control costs.

Additional financial responsibility for employer or covered employee: The provider’s charges may exceed the reference-based re-priced amount, resulting in a balance bill. The balance bill could be the responsibility of the employee, which could be significant. Alternatively, the balance bill amount can be negotiated and the remaining amount paid by the employer’s health plan funds and stop-loss insurance (if the minimum stop-loss attachment points have been met).

More communication and education needed: Since reference-based pricing plan designs are fairly new in the small to mid-size employer marketplace, brokers will need to invest more time educating employers about the advantages and risks of these plan designs.

Discover the Possibilities

With rising healthcare costs, your clients are looking for something different that may help them save while also offering comprehensive medical coverage to their employees. Discover how a self-funded reference-based pricing plan design can give you the edge you need to secure their business. While it will take some extra time to educate your clients about these plan designs, you will be viewed as an elite broker with a variety of offerings.

Remember to reinforce to your clients the importance of educating employees about ways to save on healthcare costs with this type of plan design. While there are many reasons to offer self-funded reference-based pricing plan designs, they may not be a fit for every small to mid-size business. Get started today by familiarizing yourself with unique solutions available in the marketplace.

Potential Downside of Reference-Based Pricing

Providers may not be familiar with this type of health benefit plan design: A provider’s unfamiliarity with reference-based pricing strategies could result in questions and a need for education. In some cases, a TPA/carrier may enlist a third-party vendor to educate, and if necessary negotiate an acceptable payment level with the provider. According to a leading cost-containment solutions company, less than one percent of providers do not accept this type of health benefit plan.6
Footnotes:

3. Secrets to making reference-based pricing work. HR Daily Advisor. 1/14/16.
6. Estimate provided February 2017 by ClearHealth Strategies. Varies by geography and percent of Medicare reimbursement. Subject to change.