Reference-based Pricing: Is It the Right Move?  
4 Considerations

By Robert Townsend, Vice President of Account Management, Corporate Synergies  
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Reference-based pricing has emerged as one way for self-insured employers to control costs. But the measure is not without controversy.

So what’s the appeal? There are typically large discrepancies between what providers charge for care and what is ultimately paid by the insurance carrier. This difference, or “discount,” is what insurance carriers promote as the savings they provide to employer groups through their provider negotiations. The issue is that even after the promised discount, the paid amount is often significantly greater than what Medicare pays. Some for-profit health systems charge up to 10 times what Medicare pays.¹

In a reference-based pricing model, the employer sets a maximum amount that they’ll pay for a claim. While there are variations of the payment system, most reference priced vendors reimburse claims based on what Medicare pays plus a specific percentage. This helps plan sponsors cut costs by capping what the plan covers for some medical procedures where fees can vary widely. Example: joint replacement surgery.

Reference-based pricing is complex. Let’s break it down:

**Reasons to Move Ahead**

In a reference-based pricing model, employers enjoy most of the benefits, including lower claims payments due to capped claims and total claims transparency. Plan sponsors can see exactly what is being charged for a claim, which can provide insight into how their plan is running and the overall health of their employees. So, it’s rich in data.

Reference-based pricing means there are no networks to deal with.

The end of networks is appealing to employees who prefer to get care from certain providers. Also, it provides more care options.

Assuming the employer provides clear information on how reference-based pricing will affect plan participants, this approach also supports insurance consumerism. Employees who understand the amounts that a plan will pay, and then seek out providers that will provide the right level of care at or around that cost, can potentially achieve lower out of pocket healthcare spend towards their deductible and...
Reasons to Proceed with Caution
But reference-based pricing models aren't without challenges. To function properly, this approach requires a substantial amount of ongoing employee education & communications and personal support. It's up to the employer to teach participants how reference-based pricing works and ensure they're doing due diligence before choosing providers.

Depending on the employees' location, reference-based pricing may not be widely implemented. Many providers may not be familiar with the approach, which could lead to headaches for employees who need to access care at the right price, or pay the difference out of pocket. An employer should understand the challenges and work with their broker to ensure a proper path is followed to ensure success.

Reasons to Press the Pause Button
It is critical to ensure your program is well-defined and your employees are well educated on how to utilize it. If not, there is the potential for employees to get balance-billed after a claim is paid. Employees who don't understand how reference-based pricing works could be saddled with steep medical bills for services they thought their healthcare insurance would cover.

While many employers work with referenced-base pricing vendors that have created a structure for defining prices (and also provide legal defense to help negotiate bills and prevent employees from getting balance-billed) this process can take a long time and may be confusing for employees.

4 Factors to Consider Before Moving Forward
If you're wondering if reference-based pricing is right for your benefits program, there are a number of major factors to take into account:

1. What will reference-based pricing be used for? If reference-based pricing is only used for high-cost claims, such as inpatient and outpatient procedures, which providers will be used for professional provider services? It's important to understand that none of the four major national carriers (the Blues, Aetna, Cigna or UnitedHealthcare) allow access to their networks under this model. So how will this network change impact employees?

2. What type of reimbursement model will you use? Two models are defined contribution and defined contribution with negotiation. In the defined contribution model, employers work closely with a reference-based pricing administrator to set firm prices on services. In defined contribution with negotiation, a third party administrator sets prices but will negotiate balance bills when the provider disputes the cost, until both parties can agree.

3. What's your administrator’s model for pricing? Most models are based on Medicare or CMS reimbursement, plus a percentage. A higher margin means more providers will be likely to accept the defined payment as payment in full, without balance billing.

4. How does your stop-loss coverage play a role? In other words, will your stop-loss insurance allow
adjustments for "negotiated" costs, or will they pay costs only as outlined in the plan? Failure to properly coordinate how reimbursements are defined by your plan document and stop loss vendor could expose employers and employees to additional costs.

For reference-based pricing to be successful, we've established that ongoing employee education & communications needs to be a priority. Also provide employees with tools, such as cost transparency databases, to help them understand how this new pricing strategy works. Employee advocacy and support representatives, such as those provided by Corporate Synergies' BenefitsVIP®, can also answer participants' questions and assist them with choosing the right healthcare provider.

Reference-based pricing models will continue to gain in popularity-especially as healthcare costs continue to rise. But implementing a plan involves knowing the risks and considering what's right for everyone involved.

So do some analysis and ask yourself—is it right for you?

1 Health Affairs. “Extreme Markup: The Fifty US Hospitals With The Highest Charge-To-Cost Ratios”

For more information, please call 1.877.426.7779