IS REFERENCE-BASED PRICING RIGHT FOR MY ORGANIZATION?

Global health care spending is on the rise, and patient demographics are changing at an astronomical rate. With evolving consumer expectations, it can be challenging for employers to deliver affordable health benefits to their employees.

Reference-based pricing (RBP) is a viable option for many companies to consider; however, many employers are still unclear about how it genuinely works. Our first of three posts in this RBP series cuts through the noise and explores whether this health care plan may work for your business.

Industry Overview

The COVID-19 pandemic revealed plenty of vulnerabilities in America's health care system — but we had issues before. Among these problems are price transparency, invoicing, payment pricing, and patient experience, to name a few. Skyrocketing health care prices have historically posed problems for employers and employees as well.

Up to 60% of Americans have health care coverage through an employer. Unsurprisingly, health care's rising costs make it challenging for employers to offer affordable coverage to their workforce. Even worse, 15% of employees drive 80% of employers' health care costs. Lamentably, most human resources (HR) departments lack a sustainable strategy to help employees navigate health care costs.

Plenty of factors create a complicated health care ecosystem, saddling patients with undue stress and anxiety. RBP helps to establish boundaries and eliminate the muddied nature of health care insurance. It works by setting prices for high-cost medical procedures, such as hip or knee replacements. The plan then identifies providers that accept the spending limit as payment-in-full.

How Reference-Based Pricing Works

As a health care containment model, RBP caps what the plan pays for covered services from providers, such as hospitals or outpatient facilities. The "cap" is also known as an allowable amount and is based on a predetermined metric or reference point. Typically, RBP plans use the Medicare reimbursement rate as their benchmark, adding a 120-170% markup.

Employers can implement various RBP strategies; however, the self-funded RBP plan is the most popular. RBP health plans often offer a network of doctors and pharmacies, providing services and prescription drugs at discounted prices.

Unfortunately, hospitals can charge up to 20 times more than the actual cost for specific procedures. In major cities, price variance can be astronomical, with no difference in quality. These costs range from $343 for a lipid panel in Dallas to the negotiated price of $10, or $1,449 to $220 for a CT brain scan in Philadelphia. Most times, larger cities provide a more favorable environment for RBP plans.

RBP serves as a cost-savings tool, potentially advantageous for employers and employees alike. For example, Pacific Steel saved $5 million in annual spending by using the RBP model. However, employers must understand cost-sharing requirements fully to reap the rewards of an RBP health care plan.

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RBP's cost-control strategy has worked famously well for cutting-edge corporations. More recently, though, small to mid-market businesses are attracted to this model as a unique way to mitigate costs. Naturally, this model is not ideal or the best fit for every business which is why it is essential to explore available options with the guidance of an experienced insurance specialist. An insurance specialist can also help companies determine how much risk they can and should tolerate.

For example, traditional health care plans offer employers little control over health care costs for employees — but RBP plans render back this control. With RBP plans, the "payment-in-full" price is negotiable, and employers can feel confident that they are paying reasonable fees for services. Additionally, RBP plans have an element of cost-sharing for employees. The "out-of-pocket" payment varies under specific health care plans that must work for all involved.

One significant concern for many individuals is surprise (balance) billing, when providers bill patients more than expected. Usually, this happens when employees use providers that do not accept the RBP reimbursement rate as payment-in-full. Thankfully, most RBP administrators assign representatives to negotiate settlements with providers. (We will cover balance billing and stop-loss insurance later in the series.)

By implementing reference-based pricing, organizations often report immediate cost-savings, but more importantly, this model is designed to serve the organization's long-term strategy initiatives. For many companies, it is a strong and confident step in the right direction.

Finding an affordable health care solution for employees is not an easy puzzle to solve. Contact Brent Matthews and Adam Shanahan to schedule an appointment and learn more about this innovative solution.

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