

THE BENEFITS OF REFERENCE-BASED PRICING

Reference-based pricing (RBP) is a health care cost-containment model that relies on a network of medical providers to negotiate set prices for services and procedures. Not only does this methodology provide employers with cost-cutting benefits, it also offers employees certainty in an otherwise uncertain health care system. In the first post of our RBP series, we introduced referenced-based pricing. Our second post unveils specific types of companies that benefit most from RBP, as well as where this model thrives in the U.S. and what savings to expect.

Related article:

- [Is RPB right for my organization?](#)

What companies benefit most?

As reference-based pricing gains popularity among employers, it is helpful to understand the factors that impact its effectiveness. For example, RBP tends to unfold differently in rural areas as opposed to urban areas. Several reasons cause this outcome, including competition, reduced funding to rural hospitals, political influence, etc.

Additionally, the Usual, Customary and Reasonable (UCR) charges — typical prices providers charge in a given area — are generally lower in rural areas. As expected, this effect often makes RBP far more effective in urban areas where hospitals and medical providers have a more competitive margin. Due to limited competition, rural providers are often less likely to accept lower payments from RBP plans.

For instance, several TrueNorth clients have experienced excellent results from referenced-based pricing in the following urban areas:

- Stafford, VA
- Richmond, VA
- Greenville, SC
- Raleigh, NC
- Charlotte, NC
- Orlando, FL
- Atlanta, GA
- Washington, D.C.

The optimal company structure

Before Preferred Provider Organizations (PPO's) became the popular vehicle in the 1980s, health care payers and providers followed an RBP-like structure. While this payment methodology is far from breaking news, it can make a great difference for the right organization.

Referenced-based pricing is advantageous for two distinct business categories:

1. **Companies focused on saving money.** Without making a move to the RBP model, companies would have to consider reducing their workforce, increasing the workload per employee or raising the cost of benefits — all of which can impact an organization's ability to recruit and retain top talent.
2. **Sophisticated, top-tier enterprises.** These companies understand the bleeding edge of benefits solutions and weigh their options carefully.

Furthermore, getting the most out of referenced-based pricing is often about fitting the bill. RBP works best for companies with 100 or more employees who already use a self-insured or self-funded plan. As mentioned above, location also plays a significant role. Businesses located in metropolitan areas will experience more positive results from RBP than companies in rural areas.

Keep in mind that [employee education](#) also impacts RBP's effectiveness. It is nearly impossible to rally a workforce around an unknown health care plan. Only companies dedicated to a robust training and education program will reap the rewards of referenced-based pricing.

Know the Savings Using Reference-Based Pricing

Benefiting from RBP is more than businesses merely being the "perfect candidate;" it is also about knowing the plan's intricate details. Unfortunately, misconceptions about RBP run the gamut. As an example, some believe using an RBP model means dealing with surprise billing. However, that just isn't true; many fail to realize is that fully-insured plans [negotiate balance billing](#) just as frequently as companies that use reference-based pricing.

High-dollar claims tend to drive up health care costs. Consequently, smaller claims frequently become as much of a financial hassle to face as their larger counterparts due to their sheer volume. RBP works as a solution to high group costs by making significant medical procedures more negotiable.

At the end of the day, the numbers must make sense for your organization. Understanding the considerations and risks associated with RBP is an excellent place to start. TrueNorth can initiate the process for you by reviewing your claims history. Our team can run the claims your organization incurred over the past 12 months through a "reference-based chassis" to determine how claims would have been paid and identify potential savings.

Remember, while there is often extra work upfront, savings do come with time. Contact [Brent Matthews](#) and [Adam Shanahan](#) to schedule an appointment and learn more about this innovative solution.



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Sources:

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- <https://www.benefitspro.com/2019/11/22/five-myths-about-reference-based-pricing-and-how-to-respond/?slreturn=20210020122650>

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