Employers Cut Health Plan Costs with Reference-Based Pricing

Capping health provider payments is gaining attention

By Stephen Miller, CEBS
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The U.S. health care system is notorious for its lack of price transparency. Some self-insured employers are responding by using reference-based pricing (RBP) with doctors and hospitals—in effect, setting their own prices for health care services.

RBP is a cost-containment strategy that pays doctors, labs, clinics and hospitals a percentage of an established benchmark. Most often, the reimbursement rate is 120 percent to 300 percent of Medicare pricing for a given service, "based on what's reasonable in terms of the local health care market," said Marty Joseph, president of Chicago-based BAS Benefits Administrative Systems LLC, a third-party administrator (TPA) of self-funded plans.

A May 2019 report by the RAND Corp., a research think tank, found that prices paid to hospitals by private health plans averaged 241 percent of what Medicare would have paid (https://www.rand.org/pubs/research_reports/RR3033.html), with wide variation in prices among states. Based on their findings, the RAND authors suggested that employers design coverage using "contracts based on a multiple of Medicare or other prospective case rates."

No Networks

Unlike traditional preferred provider organization (PPO) coverage, an RBP approach typically has no in- and out-of-network payment tiers, explained Joseph when he spoke May 1 at the World Health Care Congress in Washington, D.C. Plan members can "go anywhere they choose for service, and the plan will pay the provider a fair and reasonable amount based off of Medicare plus a percentage, which is a profitable arrangement for a physician, hospital or other facility."

RBP often reduces employers' health care claims spending by 20 percent to 30 percent, he said.

While more employers are becoming aware of RBP, adoption remains limited. A 2019 survey of more than 1,300 U.S. employers by Lockton, a benefits broker and consultancy, found that 2 percent of respondents currently use reference-based pricing (https://www.prnewswire.com/news-releases/lockton-releases-results-of-national-benefits-survey-300833936.html) for targeted health care services, and an additional 10 percent are considering it for the future.

[SHRM members-only toolkit: Managing Health Care Costs (www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/managinghealthcarecosts.aspx)*]*

Controlling Costs

Employers can negotiate contracts with physician practices and hospitals to accept RBP for services, Joseph said.

Absent a contract, doctors and facilities will still be paid RBP rates, but these providers may then "balance bill" the patient for what the provider considers the remainder of its fee. In those cases, "patients should be educated to immediately contact the plan TPA, who will intercede with the provider," Joseph said. Most often, the provider ends up accepting the RBP amount as payment in full, he noted. In those instances where providers won't accept the RBP rate, the plan will negotiate a settlement or pay the outstanding bill.

With health plans using RBP, primary care physicians will typically be paid fees for their services on par with what they receive from a standard health plan. "The big savings comes from care received at hospitals and other facilities," said Matt Lund, CEO and president of Seattle-based Fortune Management Inc., a benefits brokerage that specializes in self-funded health plans.

Hospital prices for the most part are not pre-negotiated, said Lund, who co-presented with Joseph at the conference. "If there are balance-billing issues that we can't resolve, we pay the difference. But in most instances, we can resolve them," he said, because the payment rate is competitive.

"There is no transparency in health care," Lund noted. "Even when a PPO has negotiated a discount on services, that is a discount against a price the provider sets."

RBP, in contrast, leads to more-predictable claim costs, he said, and because it reduces employers' spending, "it's an alternative to shifting costs to employees."

What HR Should Know

Eileen Clark, vice president of HR at Wayne, Pa.-based ELAP Services, which provides health care solutions for self-funded employers, also is enthusiastic about RBP.

"Employers can reduce their total health care costs by up to 30 percent while also reducing out-of-pocket expenses for their employees," she said.

"While the move to RBP can seem like a change that's mainly to the employer's benefit, we've seen employers pass on cost savings to their employees" by lowering deductibles and premiums or by increasing spending on other benefits, Clark noted.

The key to a successful RBP rollout is education, she said, which "starts well before open enrollment, with HR teams being fully trained on the plan details, its benefits and what it will change for employees." HR should then be prepared to explain the new approach to plan participants and to answer their questions—and to allay any misperceptions they may have.

Helping employees become well-educated health care consumers and advocating for plan members is key to a successful RBP program, Clark said, adding, "While it's often perceived that RBP will cause a lot of disruption, in the end there's more transparency and support for employees."

Negative Perceptions

A study in the February issue of the *Journal of Managed Care* found that while few employers are using RBP benefit designs, there is broad awareness of its potential for delivering savings (https://www.ajmc.com/journals/issue/2019/2019-vol25-n2/why-arenrsquot-more-employers-implementing-referencebased-pricing-benefit-design), said the authors, from Harvard University

and Boston's Beth Israel Deaconess Medical Center.

Employers identified several concerns that kept them from implementing RBP designs, including plan complexity, fear of catastrophic out-of-pocket costs and worries that RBP could hurt employee recruitment in a tight labor market.

"Our interviews revealed that although employers were aware that RBP could lower spending, the difficulty they expected to face to put RBP in place and the possible risks for employees, both current and future, left them deciding it was not worth it," said lead author Anna Sinaiko, of Harvard's T.H. Chan School of Public Health.

Simplifying the plans, setting out-of-pocket maximums to protect patients from catastrophic costs and using turnkey solutions for communicating the changes to employees could help increase adoption rates of RBP plans, the authors wrote.

"Solutions that can eliminate employers' biggest concerns about RBP, such as these, are likely needed if there is to be broader uptake of RBP benefit design than what we are currently seeing in the market," Sinaiko said.

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Small and Midsize Employers Can Contract with Health Providers (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/small-midsize-employers-contract-with-health-providers.aspx), *SHRM Online*, May 2019

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Reference-Based Pricing: Another Self-Insured Option for Employers, (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/reference-based-pricing-is-self-insured-option.aspx)*SHRM Online*, June 2018

Self-Insurance Is Just the Start, Say Health Plan Innovators (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/self-insurance-just-the-start-say-health-plan-innovators.aspx), *SHRM Online*, May 2018