



EMPLOYEE BENEFITS

Reference-Based Pricing: Setting Price Limits on Healthcare

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RBP works by setting pricing limits on certain procedures or services, typically services that are “shoppable,” such as hospital or facility charges and complex imaging.

Healthcare costs continue to rise at a rate that drives employers to search for techniques to contain or reduce their group health plan expenses. One self-funded strategy some health plan sponsors have explored is reference-based pricing (RBP). RBP is a method for calculating payment to certain providers (i.e., hospitals) using a “reasonable fee” based on a reference point. The most common reference point is the Medicare fee schedule. For example, reimbursements for hospital or diagnostic services may be set at 150% of the Medicare fee schedule. In this manner, many consider RBP a strategy to reduce healthcare-provider reimbursements while making healthcare expenses more predictable for employees.

How It Works

RBP works by eliminating the network and setting price limits on certain procedures or services. These are typically services that are “shoppable” and have wide price variations from one provider to the next, such as hospital charges and complex imaging (e.g., MRIs, CTs, etc.). This typically includes elective services where an individual can take time to make a decision based on price, such as an MRI or joint replacements.

Since there is no network, providers are not contractually obligated to accept the reference price. For some patients, this may lead to balance bills. The provider can send a balance bill to the patient for charges in excess of the amount paid by the plan.

RBP plans often direct contract with certain facilities and apply RBP to all other locations. This approach gives members a path to no-balance bills with the contracted facility.

Employers typically work with a third-party vendor to establish the best price limit for a procedure. The vendor will help conduct market research and negotiate the most appropriate compensation arrangements with providers, typically before the patient has the procedure. Finding a reliable vendor that works well with your company and your third-party administrator is crucial for negotiating the best prices and providing your employees with timely access to care.

Although RBP is applied generally across the spectrum of elective procedures, it is most effective when applied to procedures with fluctuating costs. For instance, colonoscopies may range from \$1,200 to \$6,000, depending on the facility. In this case, an employer using RBP might set the spending limit to the median price of the procedure, based on market findings. If an employee uses a health facility that charges above the spending limit reference-based price for a specific procedure, they may be subject to a balance bill and need to cover the difference. This potential for “balance billing” gives employees a strong incentive to “shop” for care at an affordable price.

Therefore, high-quality RBP vendors must offer robust transparency tools to enable employees to shop healthcare cost and quality options. Employee education is critically important to the success of the program.



Potential Advantages

- **Cost Savings** – RBP typically reimburses providers at a fixed percentage above Medicare rates (e.g., 120-160%), which is often significantly lower than traditional PPO rates.
- **Transparency** – It promotes pricing transparency by using a clear benchmark (like Medicare) rather than opaque negotiated rates.
- **Employer Control** – Employers can better predict and manage healthcare spending.
- **No Network Restrictions** – Employees can access a broader range of providers since RBP doesn't rely on traditional networks.

Health coverage usually extends to any in-network procedure, regardless of cost. With RBP, employers do not risk paying exorbitant prices for services that could be done more inexpensively.

Establishing limits on specific services requires employees to consider cost, in addition to quality, when choosing where to have a procedure. This requires research on the employee's part, encouraging active participation in their healthcare. It is estimated that low health literacy costs the United States \$106 billion to \$238 billion annually. By promoting employee engagement in healthcare decision-making, employers can educate employees while potentially lowering overall health costs.

Potential Challenges

There are a number of potential challenges to consider when implementing RBP, given the complexity of the model. It is paramount that you work with a vendor who is reliable and experienced in the RBP process. The vendor must be able to ensure a smooth transition into this model; otherwise, you risk disrupting patient care as they navigate the new plan. If you choose an inexperienced vendor, your RBP limits might be too low for the services your employees need, leading to more "balance billing," which creates an affordability issue for employees.

Potential Disadvantages

- **Balance Billing** – Employees may be required to pay the difference between the provider's charge and the allowed payment under the RBP fee schedule. This expense does not apply to the patient's out-of-pocket maximum since it exceeds the fee schedule. Some vendors offer performance guarantees regarding balance billing and provide assistance with litigation should it happen.
- **Provider Response** – In some markets, large healthcare systems are pushing back on RBP and, in many cases, actively pursuing large balances owed by employees. Some are refusing elective care to plan participants altogether, creating an access-to-care concern. This is typically driven by popular hospital systems and varies by market.
- **Employee Satisfaction** – Employees can be caught in the middle of balance billing and provider conflicts at the point when they need care. You should consider how your RBP vendor will insulate and protect employees from legal entanglements with providers and impact their credit ratings. Increased education initiatives and service support are required from the vendors and employers who implement RBP.
- **Setting the Right Reference-Based Price** – Understanding the impact of setting the percentage of Medicare too low or too high is critical to making the best plan design decisions at implementation. Careful consideration should be given to patients' access to care for the plan to succeed.

Conclusion

As the market evolves, employers are tasked with developing creative strategies for saving money. RBP is an innovative strategy for lowering healthcare costs. It is unique in its ability to reduce costs while simultaneously promoting employee health literacy, but it has inherent risks that must be considered carefully.

To discuss whether RBP could be a positive cost-containment strategy for your organization, contact your Hylant representative today.