The reference-based pricing report

BlueCross BlueShield Arizona

Reference-Based Pricing: A Cure for High Costs or Too Good to Be True?

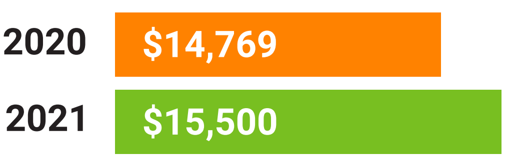
One of the latest approaches in healthcare that some claim will help reduce employer health plan costs is reference-based pricing. This approach isn't insurance, but a methodology used to lower prices for healthcare services. It shows some promise, but it is also controversial.

To understand this model, you need to appreciate the background — of which health insurance brokers, insurers and healthcare providers are only too aware.

Soaring Costs

According to the Society for Human Resource Management (SHRM) 2021 Large Employers' Health Care Strategy and Plan Design Survey:

Large employers and their employees estimated expenditure on health insurance benefits[1]



These costs increased 6% year over year, and have been well above and sometimes multiples of the rate of inflation for two decades now. And estimates of future healthcare costs offer little hope. PwC's Health Research Institute projects a 6.5% increase of medical costs in 2022.[2]

This is not sustainable — certainly not for self-funded plans. According to proponents, reference-based pricing, or RBP, in theory, is designed to help stem the tide. Critics argue it is not a cure-all and that it subjects employers and employees to unnecessary risks.

> **"Employers see their healthcare benefit costs rising year after year — they've gone haywire.**
>
> **Now, you see people touting reference-based pricing as a replacement for employer-provided health insurance claiming it can cut costs by half or more.**
>
> **Employers are drawn to the allure of cutting costs in half or more. But they need to be aware that while it may make sense for some individual procedures, it is not a wholesale insurance replacement and is nothing more than snake oil."**
>
> Jeff Griffin, President and CEO, JP Griffin Group

Cost Disparity

What's the buzz? In the simplest terms, RBP is a discounted healthcare payment methodology — it's not insurance. It is a strategy or program through which a vendor negotiates the price for healthcare services, in some cases ***after*** an employee is billed for them. When providers don't have an agreement with the RBP vendor, prices are negotiated after the service is provided. Providers are under no obligation to negotiate, leaving employees on the hook for all or some of the balance of a negotiated price.

[1] https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/employers-project-health-plan-cost-rise-for-2021.aspx

[2] https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html#:~:text=PwC's%20Health%20Research%20Institute%20(HRI,was%20between%202016%20and%202020

There are many differences between RBP and the traditional pay-for-service model, but the difference in hypothetical cost savings is the main attraction when employers are trying to contain runaway health benefit expenses. The following example makes this difference apparent:

Many healthcare providers establish a reference point for rendered services. From this point, Medicare will typically pay a Medicare-approved amount for services that is deeply discounted. Health insurance companies also discount provider prices, but generally not nearly as steeply as Medicare. RBP hypothetically looks to split the difference.

Middle Ground?

One study found that the difference between what Medicare and health insurers pay for the same service can range from around 240% to almost 300%[3] — a major driver behind constantly escalating employer plan costs. RBP claims to reduce this markup.

> **“I find employers’ number one concern is health benefit cost containment.**
>
> **Reference-based pricing is definitely not a turnkey solution. Most people who are pro-RBP admit it isn’t an endgame, but a bridge to a more transparent cash-pay arrangement.**
>
> **What makes healthcare so confusing, and frustrating, is we don’t know costs until after a service is rendered. Reference-based prices can help lead to more price transparency.”**
>
> Byron Shultz, Principal,
> MJ Insurance, Phoenix

Pros and Cons

Like anything else in life, there is more than one side of the RBP story.

The Good

RBP may cut the cost of certain procedures and services received by medical providers who agree to negotiate with vendors. Whether this becomes an effective remedy for holding down employers’ health benefit costs is another story, but it can prove effective when targeted.

The following example, which can be duplicated in many parts of the country, shows how:

An employer is treated for moderately severe back problems — a common insurance claim — in St. Petersburg, Florida. The provider overcharges $50,000 because Medicare drastically discounts what it will pay. In this case, Medicare pays $4,000. An insurer may slash prices, too, but only by half to $25,000. This difference is drastic. RBP proponents will tell you that even if they split the difference between what insurance and Medicare pay, they’ll reduce the cost of healthcare substantially, which should translate into employer savings.

Transparency is another big advantage of RBP. When RBP repricing vendors negotiate with providers, they’ll typically take a line-item approach to reducing charges. Employees rarely see or have easy access to the often opaque charges of insurance-paid services. Even when they do, there is little incentive to pay close attention when insurance will pay their bills. An effective RBP strategy requires employees to become more discerning about where they choose to go for care.

[3] https://www.rand.org/pubs/research_reports/RR3033.html

The Bad

RBP has the potential to cut healthcare costs, but this health benefit doesn't exist in a vacuum.

> **"There are administrative, repricing, implementation and potential legal costs involved, which could bring the total cost of RBP closer to what employers would pay for insurance.**
>
> **But any savings are nothing compared to the damage that can be inflicted when employees are stuck with bills that can reach tens of thousands of dollars."**
>
> Michael Groeger, Vice President,
> Group Commercial & Specialty Sales
> at Blue Cross® Blue Shield® of Arizona

How can this happen? Remember RBP has no contract, so **nothing prevents healthcare providers from balance billing**, a practice where providers charge patients the difference between what RBP negotiates and the actual cost of service.

And it can get worse for employees. RBP proponents claim that patients have their choice of healthcare providers. That's true, but it doesn't mean they will agree to not balance bill or, for that matter, negotiate on price at all. Take the hypothetical example earlier of a $50,000 bill for back treatment. If an employee chooses a provider that refuses to negotiate, that employee is responsible for the entire bill. Financial hardship is not what employees think about when they hear they can choose any provider.

Any promise of a network of providers agreeing to pay RBP-negotiated rates is also problematic. A further reduction in healthcare providers' income while expenses continue to increase with today's medical innovations will likely limit the number of those who accept the RBP-negotiated price.

So, it's easy to see how one or more bad employee experiences with RBP could hurt an organization's attempt to attract and retain the most skilled employees, particularly among hard-to-find professionals. After all, comprehensive healthcare benefits are typically the most important employee benefits to jobseekers. RBP can be seen as rationing.

The Ugly (and Unknown)

Balance billing can produce a spiraling negativity from which employers can have a hard time emerging. The squeaky wheel makes all the noise, so one bad employee experience with balance billing can spread like wildfire, damaging a company's reputation and productivity. Worse still are litigation and associated legal costs that have just begun and will likely continue as surprised employees are shocked by big healthcare bills left over after RBP pays its part.

Even without bad RBP experiences, employees have difficulty managing change. One only needs to look at the confusion surrounding increased deductibles and other out-of-pocket costs. RBP is a monumental change comparatively. It will require a new understanding of a new process and greater and significant financial exposure for employees. This should concern employers greatly.

> I've had hundreds of situations over the year with cost buyers and never found a situation where reference-based was right. It goes smoothly until someone uses it and has a problem with it. I just had a $1.4 million preemie baby the other day.
>
> How would that work under reference-based pricing? Are they going to ask the parents to shop for emergency healthcare so they can get a lower price? It's not going to happen.
>
> Jeff Griffin, President and CEO, JP Griffin Group

What Should Plan Sponsors Do?

Is reference-based pricing a cure-all or too good to be true? It could be either in individual circumstances, but generally it is neither. It could benefit a company that offers it as one of two or more health plan choices, which could attract a younger, healthier demographic looking for the lowest-cost plan.

It may also work for common individual procedures, such as knee and hip replacements or an MRI, which can vary unnecessarily widely in cost.

> RBP may work as one way to reduce certain procedures and services. But any employer considering it should do a line-item comparison with what is covered by their existing plans before making any decision about RBP's <u>total</u> costs.
>
> Byron Shultz, Principal, MJ Insurance, Phoenix

The potential for problems would seem greatest for those who adopt RBP as their sole healthcare reimbursement benefit. RBP could also prove detrimental to organizations that want to feature the most competitive benefits. One bad balance-billing experience can easily damage reputation and finances.

Ultimately, an organization needs to perform a risk analysis on their exposure with this methodology, just as they would with any risk. They should include both hard and soft costs and potential exposure in addition to the nuisance factor, should RBP backfire just one time.

Really explore how a firm's employees will view a change to RBP. Will it be perceived to be as caring and helpful as the alternatives? If a company chooses RBP for any part of its healthcare offering, be sure to have it align with a plan document and any stop-loss coverage.

Ultimately, employers have found very limited opportunities where RBP is the panacea it is promoted to be. Employers who are interested in this approach must do their homework to learn whether or not reference-based pricing works for them.

To find out how BCBSAZ can help with your talent acquisition and retention, call Mike Groeger, Vice President, Commercial Sales at 520-400-3410