Reducing Health Care Costs

Have you considered reference-based pricing?

Health care costs continue to rise, which means employers need to take every opportunity to lower expenses. One strategy is to implement reference-based pricing (RBP), a health care coverage option that enables employers to set limits on certain medical services, shifting the cost-analysis burden onto employees.

RBP works by setting spending limits on certain procedures or services – meaning a company's health plan would only cover an employee up to the established limit for these services, and the employee would pay out of pocket if the cost exceeds the limit.

With RBP, a health plan establishes price limits for "shoppable" services where an individual can take time to make a decision based on price and quality, such as prescriptions, lab tests and joint replacements. In all these examples, there typically are lower-cost options of the same quality as the more expensive alternatives.

The Role of Third-Party Vendors

Employers typically work with a third-party vendor to establish the reference price for a procedure. Such vendors – referred to in the industry as "third-party administrators" or "reference-based pricing specialists" – help conduct market research and negotiate the most appropriate deals with providers. Finding a reliable vendor that works well with your company is crucial for negotiating the best prices for your employees.

RBP is most effective when applied to nonemergency procedures with fluctuating costs. For instance, colonoscopies may range from $400 to $6,000, depending on the physician. In this case, an employer using RBP might set the spending limit to the median price of the procedure, based on market findings. (The fixed limit is often based on a percentage or multiplier of what Medicare would pay the provider.[1])

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[1] "Reference-Based Pricing: Another Self-Insured Option for Employers," by Melissa Shimizu, Fisher Phillips law firm. Published on the Society for Human Resource Management website.

By setting a spending limit on certain procedures, employers are empowering employees to take charge of their health care decisions.

If an employee uses a health facility that charges above the spending limit for a specific procedure, the employee will need to cover the difference out of pocket.

RBP and the Affordable Care Act

Organizations that employ reference-based pricing must be careful not to run afoul of the Affordable Care Act (ACA). The ACA limits the amount of an individual's out-of-pocket expenses for in-network health care costs.

Out-of-network charges do not count against the ACA's maximum out-of-pocket (MOOP) limitations. Thus, when there's a balance bill – meaning a provider bills your employee for the difference between the reference price and the provider's standard price – it's critical the out-of-pocket payment be treated as an out-of-network claim.

Regulators have made it clear a plan can treat any health care provider that accepts RBP negotiated prices as an in-network provider. So to avoid having balance bills apply toward the MOOP limitation, a plan must have a method of ensuring plan participants have adequate access to quality providers that will accept the reference price.

Potential Benefits for Employers

Employers who use RBP have the potential for two main benefits: lower total health care expenses and higher employee engagement in health care decisions.

Health coverage usually extends to any in-network procedure, regardless of cost. With RBP, employers don't risk paying exorbitant prices for services that

A Targeted Approach to Reference-Based Pricing

Some administrators are implementing reference-based pricing (RBP) on a targeted level. In essence, they hone in on certain high-cost procedures and care such as dialysis and infusion therapies.

The third-party administrators use a reference price on these specific procedures and negotiate on behalf of the group and individual. Some go as far as implementing this strategy with catastrophic inpatient and outpatient claims. For example, when claims that exceed a certain threshold, total payment might be limited to the RBP, such as the Medicare diagnosis-related group (DRG) fee schedule rate.

With these strategies in place, the RBP applies to a smaller population within the group but could yield large savings by focusing on the very high cost drivers. This is an option for employers who may feel uneasy moving to a full RBP format but need to reverse the trends of very high-cost claims, especially for their members with ongoing costly treatments.

could be done more inexpensively. RBP creates health care cost savings by producing three outcomes:

- Patients choosing providers that accept the reference price
- Patients paying the difference between the reference price and the allowed charge
- Providers reducing their prices to the reference price

What's more, by setting a spending limit on certain procedures, employers are encouraging employees to take charge of their health care decisions. If you establish limits on specific services, employees must consider cost, in addition to quality, when choosing where to have a procedure. This requires research on the part of employees, promoting active participation in their health care.

It's believed low health literacy costs the United States billions of dollars annually. By promoting employee engagement in health care decision-making, you help educate employees, while lowering overall health costs.

Possible Challenges

There are a number of considerations when implementing RBP, given the complexity of the model. It's paramount you work with a vendor that's reliable and experienced in the RBP process. The vendor must be able to ensure a smooth transition into this model. If you choose an inexperienced vendor, your RBP limits might be too low for the services your employees need, making the plans unaffordable.

You will also want to discuss with your vendor its strategies to deal with employee balance billing. This could include employee education, provider outreach/negotiation, patient/employee advocacy services and even, in some cases, access to legal representation for the employee. The latter may be needed in the event a provider seeks the balance of a bill through litigation.

Not using a vendor with a set strategy to deal with balance billing could lead to widespread employee dissatisfaction with the RBP strategy.

As the health care market continues to evolve, employers must develop creative strategies to reduce related costs.

An Innovative Approach

Total budgeted health care costs per employee (including employer and employee premiums and employee out-of-pocket expenses) are likely to exceed $15,000 in 2018, according to an analysis by Aon, the global professional services firm. That represents a projected one-year increase in health care costs of nearly 5.5% and a five-year rise of about 27%.[2]

As the health care market continues to evolve, employers must develop creative strategies to reduce these costs. RBP is a promising example of such a strategy. The RBP model is unique in its ability to reduce costs while simultaneously promoting employee health literacy.

[2] "U.S. Workers Poised to Spend an Average of $5,200 in Health Care Costs in 2018," Aug. 23, 2017, press release from Aon.