

Benefits Insights

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Reference-based Pricing

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

How it Works

RBP works by setting spending limits on certain procedures or services—meaning an individual would only be covered up to the established limit for these services and would have to pay the cost difference out of pocket. However, limits should only be set on “shoppable” services. These are services where an individual can take time to make a decision based on price and quality, like for prescriptions, lab tests or joint replacements. In all of these examples, there are lower-cost options that are typically the same quality as the more expensive alternatives.

Employers typically work with a third-party vendor to establish the best limit for a procedure. The vendor will 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 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. If an employee uses a health facility that charges above the spending limit for a specific procedure, he or she will need to cover the difference out of pocket.

Employer Value

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 do not risk paying exorbitant prices for services that could be done more inexpensively. By setting a limit on certain procedures, employers are empowering employees to take charge of their health care decisions.

Having established limits on specific services means employees must 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 his or her health care. It is estimated that low health literacy costs the United States \$106 billion to \$238 billion annually. By promoting employee engagement in health care decision-making, you are helping to educate employees, while lowering overall health costs.

Potential Cons

There are a number of considerations to make when implementing RBP, given the complexity of the model. It is paramount 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 highly utilized providers. If you choose a



vendor who is inexperienced, your RBP limits might be too low for the services your employees need, making the plans unaffordable. Moreover, not using a vendor (and its legal advocacy) could potentially leave you vulnerable to providers attempting to balance bill.

Conclusion

RBP is an innovative strategy for lowering health care costs. As the market continues to evolve, employers are tasked with developing creative strategies for saving money. The RBP model is unique in its ability to reduce costs while simultaneously promoting employee health literacy.

To learn more about RBP, and to see if it is right for your organization, contact your Demarie & Timmerman, LLC representative today.