

# REFERENCE-BASED PRICING: THE UNICORN OF COST CONTAINMENT OR THE LATEST FAD?

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Reference-based pricing has emerged as a tool self-insured organizations are utilizing to combat the growing financial burden of rising healthcare costs across the U.S.

After years of consistent increases, a recent report found that healthcare costs are expected to rise by another 6% in 2020, driven primarily by rising prices.

Employers are also facing cost uncertainty thanks to hospitals and outpatient facilities charging a wide variety of prices for similar procedures and services.

Reference-based pricing alleviates these issues and provides employers with greater cost clarity by allowing companies to set limits on how much they will pay for medical services. Under most reference-based pricing systems, employers agree to pay a reasonable fee for each particular service, which is typically calculated based on Medicare pricing and general cost information.

For example, if an employee is seeking a knee replacement, he or she can choose between two hospitals for their procedure, Hospital A and Hospital B. Hospital A charges approximately \$75,000 for the procedure, while Hospital B only charges \$50,000 for the same service. If Medicare typically pays \$40,000 for a knee replacement and the employer has agreed to pay 125% of what Medicare pays, the employer will pay up to a maximum of \$50,000 for the procedure. The employee then has a choice to make: get the surgery done at Hospital B and let their employer foot the entire bill or go to Hospital A and pay the remaining \$25,000 balance. No matter what choice the employee makes, the employer's cost is capped at \$50,000 in a reference-based pricing system.

Reference-based pricing offers dual benefits for both employers and employees. For employers, it offers significant cost savings, maintains consistent quality of care for their employees and eliminates the need for network negotiations.

For employees, these systems provide cost transparency and certainty. They also allow employees to choose any hospital or outpatient facility they desire through the elimination of provider networks.

Reference-based pricing is rising in popularity, but it may not be the right fit for all employers. While the financial benefits are appealing, making a shift to a reference-based pricing system is a big change for employees. It's also a transformation that requires a significant investment of time to complete.

Before diving headfirst into a reference-based pricing system, employers must ask themselves the following four questions:

# 1 ARE YOU WILLING TO CHAMPION CHANGE?

Switching over to a reference-based pricing model is a change that can take some time for your employees to get used to. For the first time, they'll be asked to consider the costs of the healthcare they receive. They'll have to do some due diligence on pricing before making a decision about where to receive care. Then, they'll have to consider their options, which is more than they've previously been asked to do.

**Companies that adopt reference-based pricing often reject the status quo and are looking for something innovative.**

With ever-increasing healthcare costs, they may be financially unable to sustain coverage as they have always provided it. While this change can be disruptive initially, it can prove to be a viable long-term solution. A successful implementation requires the adopting company to be patient and live through some growing pains in the early goings.

# 2 WHAT DOES YOUR EMPLOYEE DATA SAY?

As a self-insured organization, you have access to a large amount of health care claims data. This data can tell you a lot about what services your employees are using, where they're getting care and what factors are playing into this decision making.

**For instance, if most of your employees are already going to low cost healthcare providers, a shift to reference-based pricing might not feel like much of a burden.**

On the other hand, if your employees are heavily relying on high-cost providers, this switch could turn out to be too disruptive. Seeing as the ultimate goal of all employee benefits plans are to add utility to your employee's lives, the last thing your organization wants to do is significantly reduce their ability to receive high-quality healthcare.

# 3 ARE YOU WILLING TO USE A THIRD-PARTY ADMINISTRATOR?

Companies must be willing to leave their current health plan administrator for another third-party administrator (TPA) that is well versed in the intricacies of reference-based pricing systems. TPAs will help you set prices, negotiate with hospitals and other healthcare providers, process claims and keep track of employee records. Companies considering reference-based pricing must be comfortable hiring a TPA to help handle these essential functions. Thankfully, the right brokers have partnerships with highly-experienced TPAs which can help your company smoothly implement and effectively utilize this strategy over the long term.

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## 4 DO YOU HAVE THE CAPABILITY TO EFFECTIVELY COMMUNICATE THIS CHANGE TO YOUR EMPLOYEES?

The final but perhaps most critical question employers must answer before implementing reference-based pricing is whether or not they can effectively communicate the changes to their employees. Your employees will likely be wary of any alterations to their health insurance. When presented incorrectly, some employees may interpret this move as imposing unnecessary limitations on how and where they receive care.

Employers must make a concerted effort to help their employees understand why this decision was made and exactly how it will impact their coverage.

Employers have to go the extra mile by creating internal FAQs, opening lines of communication to answer any questions and facilitating conversations between managers and junior employees. If internal communication is not your company's strong suit, extra precautions must be taken to ensure a smooth transition.

## WHEN THE GLOVE FITS

While not for everyone, reference-based pricing can effectively keep healthcare costs down for the right organizations. As the premiums paid by employers continue to rise and hospitals charge varying rates, reference-based pricing is another tool in an employer's arsenal to help combat these rising expenses that have become overly onerous for some companies. Before committing in, it's important to walk through the pros and cons to see if it could be a good fit for your organization.

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To discuss reference based pricing:

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