HM
STOP LOSS

HM InSights:
Reference-Based Pricing

In recent years, employers have been controlling the cost of providing health care for their employees by managing care options, encouraging healthier lifestyles and shifting costs to employees. While these techniques have been effective, many plan sponsors and administrators are turning to reference-based pricing to control costs at the source – what hospitals and facilities charge for such services. This approach is being implemented in a couple of ways, but the basic premise is to reduce medical spending by defining what the plan will pay for services based on industry benchmarks or prevailing provider charges.

Benefits Based on a Reference Price

One method used for reference-based pricing is for a plan to define reimbursements based on prevailing charges for certain high-volume services. For example, the plan may define what it will pay for diagnostic services or hip or knee replacements. Plan members are provided access to in-network provider charges for the listed services, allowing the member to choose a provider who will accept the reference amount as payment in full or one that charges more. When members choose the higher priced provider, they may be responsible for the balance.

A study by the Employee Benefit Research Institute (EBRI) found that if employers had adopted reference-based pricing for only six health care services that have fairly uniform protocols (signifying little chance for variation in quality), they would have achieved savings of 1.6 percent for the year analyzed.*

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Reimbursements Based on a Reference Price

Another approach to this method is to utilize reference-based reimbursements instead of a traditional PPO network – on a full PPO replacement basis. This is used more-so with hospital and facility claims, while a physician network remains in place for managing physician charges. Plan sponsors work with their plan administrator to establish a benefit plan that specifies the level of provider reimbursements in the plan document and a repricing vendor to reprice claims. The payment levels may be defined by the Medicare fee schedule or another industry reference, such as the costs that providers report to the Centers for Medicare and Medicaid Services (CMS), also known as the CMS Cost Ratio. With this approach, language in the plan specifies the payment level as the scheduled Medicare reimbursement amount plus a certain percent, such as Medicare plus 40 percent, or "Cost" plus a certain percent or another fee schedule.

As there are no contracts with the hospitals and facilities when using this repricing method, the provider may accept the payment or dispute the reimbursement. When a provider disputes the payment level, the member can be at risk for balance billing. Typically, plan administrators provide the member support when a provider balance bills, and often, the dispute is settled based on the rationale of the reimbursement.

This repricing approach provides transparency into what the plan sponsor will pay, as well as the plan sponsor's expected costs, because the payment amount is based on well-established benchmarks instead of provider discounts off an unknown price.

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ABOUT HM INSIGHTS

HM developed InSights to provide producers and their clients with information about industry trends that impact Stop Loss insurance. The information is intended to empower readers with market knowledge that can help them to better make coverage decisions in the changing health care environment.

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Below is an example of how a claim reimbursement based on the Medicare fee schedule can be less costly to the plan.

PPO Claim	
Billed	$100,000
PPO discount	($45,000)
Reduced cost	$55,000
Member deductible	($500)
PLAN PAYS	**$54,500**

Medicare Plus Repricing	
Medicare fees	$20,000
Plus 50 percent	$10,000
Repricing fee	$2,000
Reduced cost	$32,000
Member deductible	($500)
PLAN PAYS	**$31,500**

While reference-based pricing can help to control costs, it is not the right fit for every organization. Either method requires a fair amount of employee education and additional work on the plan administrator's part. As plan sponsors seek ways to manage the growing costs of providing health coverage to their employees, reference-based pricing is a tool to consider. They should, however, be comfortable with the additional work and review involved in this process.

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