



## What is Reference Based Pricing?

Choosing an insurance plan for employees can be challenging due to the flood of options now available. One of the biggest decisions you will have to make as an employer is between fully-insured and self-insured health plans. A fully-insured plan is a more traditional option where the company pays a premium to the insurance carrier.

With a self-insured (self-funded) health plan, employers can operate their own insurance plan which can save money and give them more control over their funds. Reference based pricing, or RBP is a fairly new method to price claims option for a self-funded plan. Gaining in popularity because the employer is setting the price bar, NOT the PPO contract!

With the goal of decreasing their spending on health insurance, employers are turning to reference based pricing to reduce their spending. Unlike a traditional PPO networks contract, which aims to negotiate a lower fee off the hospital/provider's billed charge, RBP(RBP) is an idea that differs from traditional pricing options.

Today's healthcare pricing model is imperfect. Hospitals and healthcare providers start with an overstated starting point, and from there, a health plan negotiates a significant "discount" through their network agreements. The question is whether this is a good price, and if starting with an inflated price could ever result in a good deal for members. Ever heard the term "chargemaster"? That's where the pricing often starts!

Through RBP, the employer can better control the cost of claims, by starting at their cost basis with "**bottom up**" pricing. These often include the most expensive claims, such as hospital stays, surgeries and other types of treatments that can significantly vary in price as well as outcomes.

Understand that the amount that a healthcare provider bills does not always reflect the true cost of the services provided. In addition, the cost billed may not properly reflect the market value of the treatment. With traditional health insurance network contracts, each insurance provider sets a pre-negotiated price or discount that they are willing to pay for each service. Cost transparency does not exist in most cases, it is a mythical unicorn.

The exception is Medicare-negotiated prices which are typically much lower, due to Medicare's power and access to actual cost data that hospitals must report.



In comparison, RBP will usually pay a stated percentage above the Medicare-negotiated price which allows for a more competitive cost paid by the employer. This is one of the key ingredients that are involved in “bottom up pricing” since the Medicare is one of the largest payors of health claims.

### **How Does Reference Based Pricing Work?**

RBP refers to pricing outside of those set by traditional insurance carriers or rented networks. Traditionally, these carriers or networks negotiate discounts from provider-billed charges resulting in a ‘contracted-rate’ or ‘allowed amount’ that the health plan pays the provider. With reference-based pricing, provider reimbursement is based on a percentage of what Medicare would typically pay the provider which often ranges from 120 to 170 percent of Medicare reimbursement.

For example, an employee may undergo a procedure that a facility typically bills \$1,000 for and the insurer negotiates a 40% discount, the contracted-rate would be \$600. Traditionally, if the health plan does cover the entire cost of the procedure or if the patient has not met his or her deductible, they may be responsible for paying this cost out-of-pocket. With reference-based pricing, the plan would pay about \$225 of the cost. While the risk of balance billing may occur, as it does in a traditional plan, a good TPA or advocacy program suggested by your broker will should reduce or eliminate these issues.

### **What are the Benefits of Reference Based Pricing?**

What makes RBP different than traditional funding arrangements is its cost transparency. No mythical unicorns here! Employers who go with RBP typically have more control over rising healthcare costs and can deal with these increases in costs without interfering with their bottom line. However, it is important to inform your employees that not all healthcare systems accept capped insurances like RBP. To ensure that your employees understand how balance billing works, it is also a good idea to hire an experienced administrator with a robust patient support system. And a broker who understands how it all works.



One of the biggest benefits of RBP is the ability to know how much a specific procedure or treatment will cost before a member sets foot in a facility. Contracts with in-network providers can ensure that as long as an employee visits a provider that is in-network, the total cost will be covered at the established price. While an employee can still choose to see a provider that is out-of-network, they may have to pay a portion of the bill out-of-pocket. RBP allows employers to save money on health care expenditures and fixed stop loss premium. These savings can be passed onto the employees. And with RBP you don't necessarily need a network!

RBP has also been proven particularly useful for services like scans and labs. The average CT can range from a hundred to thousands of dollars depending on the facility. With RBP, you can help reduce this unpredictable cost gap which can be highly beneficial to patients and providers. This same concept applies to other types of procedures, such as treating a broken bone or an outpatient procedure.

RBP benefits everyone involved in the process. With RBP, an employer does not have to risk paying excessive costs for medical services that could be completed more economically. Setting caps on certain types of procedures allows employers to encourage employees to take charge of their own healthcare. Employees are then compelled to consider both cost and quality when choosing where to have their procedure done, which often requires involvement in one's own health care and not necessarily a large deductible to overcome. Healthcare is one industry where most people do not know the cost of a service until the bill arrives later. RBP creates higher employee engagement in health care decisions.

### **Contact Total Benefit Solutions Inc. for More Information**

By utilizing reference-based pricing, employers now can bypass traditional insurance carrier contracts in favor of a more equally beneficial arrangement. RBP continues to generate a lot of interest among employers as the benefits are irrefutable. Thanks to enhancements in technology these benefits have been able to expand into smaller workforces that were previously out of reach. We are now able to offer reference based pricing benefit arrangements to groups as small as two employees when it's a good fit!

Are you interested in learning more about reference based pricing or other type of self-funding health group insurance? If so, then you will want to contact an **experienced benefits broker at Total Benefit Solutions** today at (215)355-2121 to learn more about your health insurance options.