Reference Based Pricing in Health Plans as a Cost Savings Tool

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The Problem

- Congressional indecision about health care issues
  - Federal indecision in Washington
  - California facing Single Payer Ballot initiatives and Legislation
- Continuing escalation of health care costs
  - Lack of transparency
  - Variations of pricing provider to provider
  - Huge mark-ups on services, inconsistent pricing
  - Providers can charge whatever they want; 5 facilities, 5 completely different prices!
- Continuing escalation of health insurance premiums
  - As healthcare costs rise, so do health insurance premiums
  - Self-funding has been a good option/solution to the escalation of health premiums, cutting out a lot of additional layering of costs
- The true "unaffordability" issue
  - Failure to make health care costs more effective and predictable

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What is Reference Based Pricing?

- Reference Based Pricing is a health plan strategy leveraged by large, mostly self-funded employers that can result in significant claims cost, while providing freedom of choice of providers and complete transparency of the true cost of facilities/hospitals/surgical centers, etc.
- Replaces traditional PPO contracts
- **Uses Medicare rates as the payment allowance benchmark**
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Reference Based Pricing- How it's Used Currently

- **Self-funded plans have started using Reference Based Pricing to lower costs substantially**
- **Use of Medicare Rates for services base price (most 140% to 150% of Medicare)**
- ID Card Language, Plan Document/SPD Language and Employee Education by HR Department Critical
- *Eliminates hospital PPO Network; replaces with Medicare+ Rates*, which are known in advance and usually significantly less than PPO rates

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Reference Based Pricing Flexibility in Establishing Percentage of Medicare Rates

- **Some RBP managing firms will allow you to select a rate other than 140% of Medicare. For example, you can select 150% of Medicare, to decrease the possible push-back of providers.**
- You can also pre-establish a maximum percentage benchmark, such as 200% of Medicare, in the event of provider push-back (vendor contract).

Plans Now Using RBP

- **Today, reference based pricing is being used primarily by self-funded employers**
- **Could this be used in the future elsewhere?**
  - *CAHU would like to examine using RBP in fully-insured markets as well, to bring down the costs in the fully insured marketplace*
  - *The idea is to ask fully-insured carriers to consider developing and offering one plan choice which includes reference based pricing, to see if this model could bring down the cost of fully insured premiums as well*
  - *If this was successful, it could potentially be used in the battle to fight Single Payer initiatives… Let the market correct itself and bring costs down!*

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Why Does the Use of Medicare Rates Make Sense?

- **Known starting point – Medicare Rates!**
- **The "chargemaster" fee schedule**
  - How this breaks down the cost item by item
  - **Provides Price Transparency!**
- **Paying Providers Rates Above the Medicare Rates**
  - Common Program Rates
  - Options available in the marketplace
  - **Guarantees providers a profit above the provider cost of services**, resulting from the Medicare Modernization Act
  - **RBP trades fast pay for RBP acceptance (usually 7-10 days)**
    - Agreement to accept payment in full
    - Agreement not to balance-bill the patient
  - How Prices vary
    - Geographic areas
    - Other adjustment factors

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Until Now, There Has Been No Transparency in the Health Insurance Market!

- Referenced Pricing allows the users to see the actual prices charged, and see the amounts to be paid
- No more game-playing of discounts off of an unknown and ever-changing number!

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Reference Based Pricing vs PPO

- PPO Network Pricing Models
- Types of PPO/EPO Networks
  - Facility
  - Doctor networks
- RBP Models
  - Point of service
  - No network contract
  - Agreement to pay at stated percentage of Medicare Rates addressed on ID card and at time of verification of benefits
- What's the Difference?

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The Math in the Discounts

- Starting Point before the discounts?
- Examples of PPO pricing vs RBP discounts

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Reference Based Pricing – Pricing Example

- Referenced Base Pricing Example
- *As an example, a hospital charges $75,000 for a procedure and offers a 40% discount off of the billed rate, allowing $45,000, or a PPO contract rate of $45,000. In contrast, the **RBP plan pays 140% of Medicare**, or $22,250. This results in a savings of $22,750 for this procedure.*
- *In a traditional PPO, the hospital sets the price; then the plan receives a discount (say 40%), or "top-down" pricing…*
- *In a RBP plan, the health plan operates from the "bottom up", instead of top down. Medicare sets the price and the plan pays a set percentage of the government allowed Medicare rate (say 140% of Medicare)*

Example provided by HST, Irvine, CA

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Another Example of Potential Cost Savings

Example Using 150% of Medicare Rates

Actual Cost of Service (as reported to Medicare)	Provider's Billed Charge for Service	Sample Medicare Allowed Charge for Service (150%)	Sample PPO Network Fee Allowance for Service
$150	**$900**	**$225**	**$420**
"Base Cost"	$600 Mark-Up	50% Mark-Up	280% Mark-Up

Example provided by Shepler & Fear, A General Agency, Sacramento, CA, using 150% of Medicare Rates.

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The Truth is in the Math!

- Compare the "discounted" PPO rate to the Medicare + Rate that is Reference Based Pricing
- Majority of the time there are savings
- Excess loss carriers now giving substantial discounts (over PPO use discounts) for the use of a reference based pricing plan

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Variance in PPO Discounting

- PPO networks offer 40-65% off the rates for facility use.. But 40% to 65% off what rate?
- What is the base rate that providers charge?
  - Mystery to us all
- Hospitals don't tell us up front what the rate will be when someone calls in for insurance verification; we know the co-pay or coinsurance amount, but we are all oblivious to the actual charge of the service
- Discounts taken off a contracted rate, billed rate (yikes!), or per diem rates. PPO networks don't generally release their contracted rates
- No Transparency
- In contrast, Reference Based Pricing is Transparent!
- The Medicare Rates are known in advance!
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The Possible Savings with RBP

- **Claim Cost**
- **Premium Savings** (in SF plans, reductions in specific premiums and aggregate premiums)
- **Aggregate attachment point savings** (in SF plans, aggregate factor reductions for use of RBP)
- TPA and excess loss participation/understanding and value
- Plans must pay administrative fees for use of RBP vendors/administrators, but still significant savings can occur

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What the Patient/Covered Person Sees

- Gross billed charges vs negotiated fee discounts – EOBs could look different than what we're used to seeing!
- Network write-offs
- Provider balance billing?
- Educate the covered persons to understand their EOBs
- Educate the HR Departments to understand the issues that could occur
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The Medicare Acceptance Concern

- Consumer Fear of provider not accepting Medicare payment
- Underpayment Reports
- Are Providers Losing Money on Medicare Rates?
  - Medicare vs Medicaid or MediCal
  - RBP Medicare Plus Factor
  - Why would hospitals advertise about accepting Medicare Patients if they were losing money? Plus, RBP pays 40 to 50% above Medicare Rates.
- How can you see if Medicare Rates are Accepted?
  - Medicare.gov website assistance

Provider Push- Back; Facility Balance Billing Concerns

- **Ways to prevent or solve balance billing and provider push-back**
  - Advanced communication with ID Cards, plan language, claim/provider verification of plan terms
  - Written references to RBP program and percentage of Medicare rates paid
  - Challenges related to the education of providers
  - Educate the HR Departments as well!
  - Provider Push- Back is not the norm, it's the exception, but you have to be ready for the small percentage of providers that may negatively react to this concept. Remember, it's new and they may not be (or staffs might not be) practiced in this concept yet!

Patient Advocate Department/Attorney or Negotiator for the Administrator's Role

- Best to use Administrators that are familiar with how reference based pricing works, and the challenges that could occur
- Best to use an administrator or vendor that has an in-house patient advocacy department or attorney on staff to deal with and negotiate with providers that try to balance bill or not accept the RBP schedule after the fact
  - Provide Mitigation support and handling
  - Negotiate with providers if necessary
  - Arbitration
  - Adverse Credit Reporting must be eliminated

The Importance of Consumer/Employee and Human Resources Education

- Reference Based Pricing Only works when all parties are knowing, understanding and willing to work with it.
- Although significant savings can result, this is a new concept in California and there is always a learning curve!
- To implement such a program, you need longer lead time to implement (at least 90 days recommended), more education of Decision Makers, Human Resources and Employees
- ID Card Language Must Be Clear and Precise!
- Plan Doc and SPD Language must be clear and precise!
- Member acknowledgement materials, including mitigation and support services, should be generated in advanced, and walked through with the employees.

The Fear of Giving Up a Known PPO Network

- One of the biggest fears/hurdles of an employer is the fear of giving up a PPO Network that has helped them save money over the years
- Employees are used to a network of providers to choose from
- Reference Based Pricing allows you to keep the Doctor/Professional Provider network, and eliminate just the hospital network, which offers comfort to the employees and HR Department, knowing their doctors are still in a network (some plans eliminate both facility/hospital network and physician/professional services networks)
- Concerns of no advance "contracting" with the Hospitals and Other Facilities
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CAHU Think-Tank Group Looking Into Reference Based Pricing as a Tool to Fight Single Payer in California

- Several prominent members of CAHU and our Legislative Advocates are looking closely at RBP to determine if this idea can be used in other markets to bring down the cost of health plans, and allow the market to self-correct, as a way to fight initiatives like Single Payer and to bring health insurance costs down for the long run!
- We urge you to consider this concept and how it could be used in the future!
- Live Q&A with experts – bring your questions to them!

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RBP Experienced Panel for Q&A

- I've invited an experienced group to assist in a brief Q&A to help you to understand the real world of RBP
- **Welcome to Ryan Day, President, HST (a RBP vendor based in Orange County), who is a pioneer in the RBP market**
- **Welcome to MaryAnn Wessel, VP of New Business Development, and Angelica Scott, Account Manager, EBA&M, an Orange County based TPA who has clients with RBP Plans**
- **Welcome Ryan Dorigan, OCAHU President-Elect, from AGA, our resident Medicare Expert**

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Presenter Information

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