



CASE STUDY

How HUB Clients Scored Big Healthcare Savings with Reference-Based Pricing

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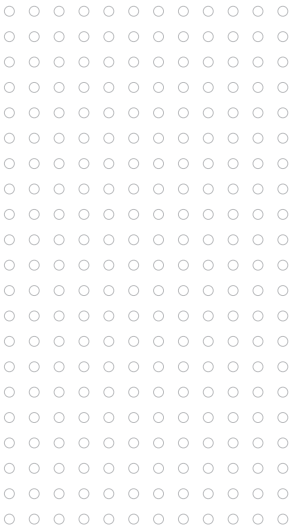
Risk & Insurance | Employee Benefits | Retirement & Private Wealth



Executive Summary

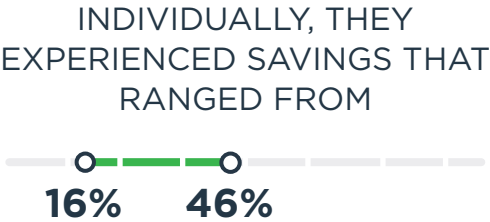
Benefit plan sponsors are discovering that reference-based pricing (RBP) can be a game-changing strategy to address rising healthcare costs. To ensure a successful outcome, employers must be prepared to address the potential risks that this model can present to plan members.

HUB International clients who adopted a reference-based pricing payment model for their self-insured medical plans between 2012 and 2017 achieved median savings that were 27 percent better than the traditional self-insured medical market, with some savings as high as 46 percent.



OF THE **24,000** AUDITED
CLAIMS OVER THE FIVE-YEAR
PERIOD RECEIVED A BALANCE
BILL BY THE PROVIDER.

Balance billing is not uncommon under referenced-based pricing; the percentage experienced by this group of HUB clients mirrors industry norms.



< 1% OF THE **24,000**
AUDITED CLAIMS IN FIVE-YEARS
WENT BEYOND A FIRST APPEAL
RESOLUTION.



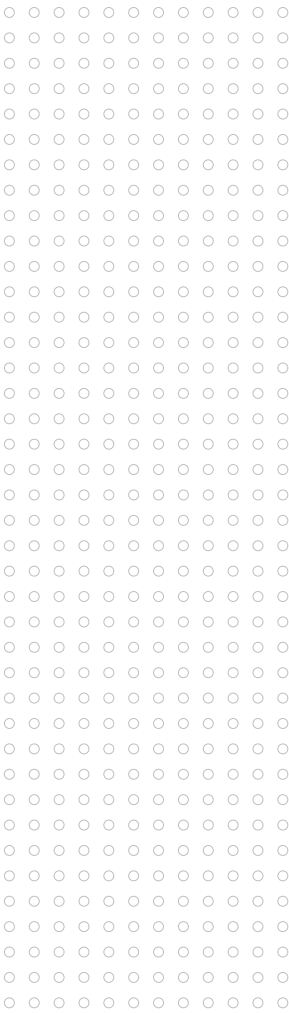
Understanding Reference-Based Pricing

Reference-based pricing is a major disruptor to a 50-year system of provider payments, and it's one that's still evolving. Before reaping the obvious rewards that this payment model offers, employers must conduct a thorough due diligence process and be prepared to address the risks and disruption that this model can present to plan members.

Reference-based pricing is a payment model commonly available to self-insured employers, where the plan establishes reimbursement caps for provider services. The reimbursement cap (or maximum allowable charges) is typically tied to Medicare reimbursement rates. So the plan reimburses a particular procedure at Medicare plus 25 percent, for example, or Medicare plus 40 percent. The price is set regardless of the healthcare provider or service rendered.

Those caps encourage comparison shopping by plan members, and pose savings for plan sponsors that can reach 20 percent of total medical claims. One early study focusing on reference-based pricing for certain medical procedures concluded that if all employers adopted this model for these procedures, their potential aggregate savings could have reached \$9.4 billion¹.

Such savings have made reference-based pricing attractive to employers nationwide. But it's become particularly relevant in an era when health spending has outpaced inflation for the first time since 2010 – and is expected to keep growing at a 5.5 percent annual rate through the decade ahead.² That also makes it worth noting that reference-based pricing payments tend to follow normal inflation, making for more sustainable health plan budgets.



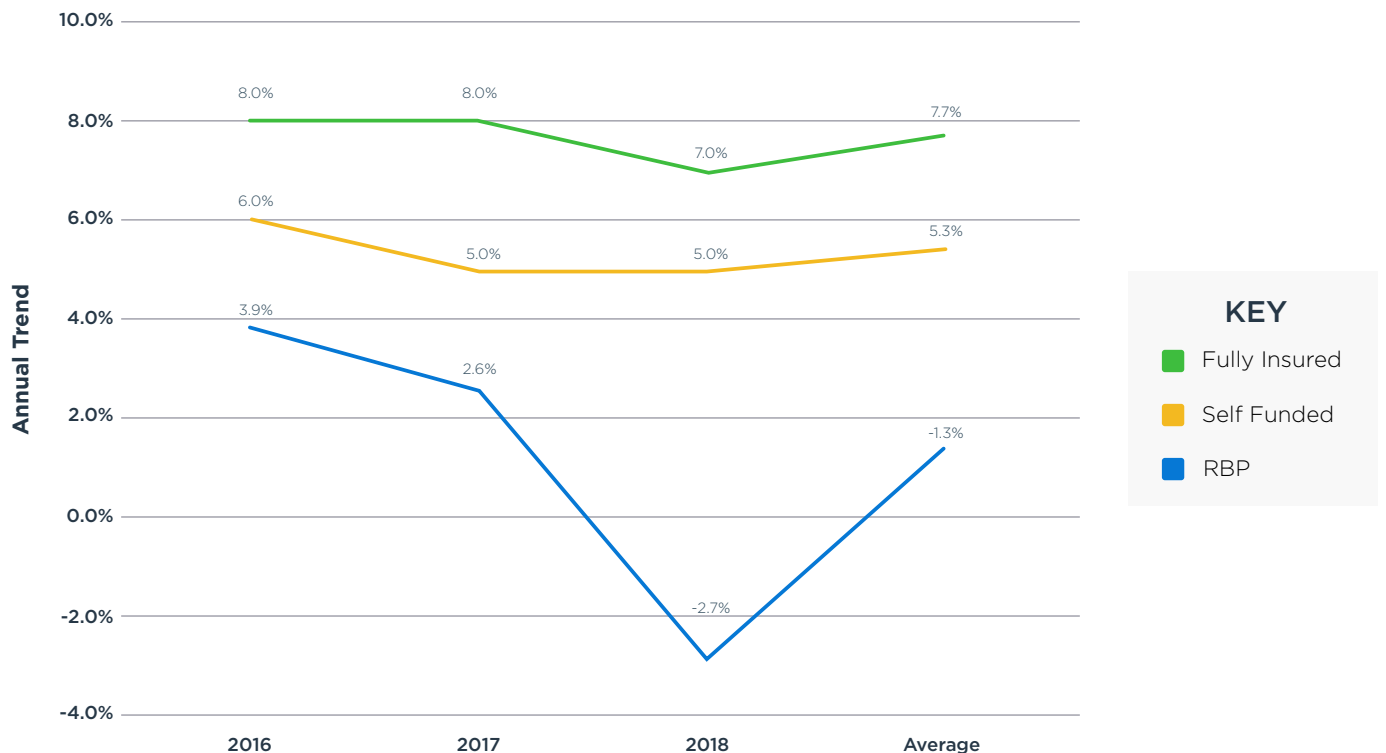
¹ https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/Documents/EBRI_IB_398_Apr14.RefPrcng.pdf
² <http://fortune.com/2018/02/15/healthcare-prices/>

How Savings Stacked Up for Clients

HUB International has been tracking the combined progress of 14 clients that phased in reference-based pricing between January, 2012 through January, 2017, comparing their payments on 24,000 audited claims to the estimated payments that would have been made for the same claims under traditional PPO discounted networks.

These companies – mainly with 150 to 200 employees and in various locations throughout the U.S. – had a combined total of \$136.8 million in billed charges. Because of the negotiated payment caps under reference-based pricing, however, their actual payments were \$54.4 million for the billed charges. Further, had these companies remained in a traditional PPO plan, payments for the same claims would have been \$74.7 million.

Annual Trend Comparisons



Annual trend for fully-insured groups is medical trend. Self-funded and RBP groups reflect actual plan experience.

Achieving Sustainable Savings

The experiences of these companies mirror what's becoming a trend, particularly among groups with 150 to 200 employees, to find innovative benefit cost savings strategies without compromising on quality benefits for employees. Reference-based pricing allows these employers to maximize the benefit of adopting a self-funded medical plan while mitigating some of the financial risks they encounter in a traditional self-funded program.

Ultimately, reference-based pricing allows the employer to assume ownership of their plan by establishing the payment parameters and reimbursement limits for products and services, while encouraging participants to “shop” for providers who will accept the plan’s reimbursement as payment in full.

Here’s what you need to know:

- It works best in larger markets and metropolitan areas where there is a greater concentration of providers. This compels providers to compete on price, accepting reimbursement limits or negotiating pricing.
- Typically, the program is managed for the employer by a vendor/partner that negotiates payment caps based on a formula that includes the accepted Medicare reimbursement rate for particular services or procedures, the actual cost to deliver the care and an analysis of the ongoing rate paid in that area.
- The plan members are responsible for finding providers that will accept the capped payment. There is no network or established set of required providers. Members can go to any provider they choose. However, the plan can identify providers who commonly accept the plan’s reimbursement as payment in full, without requiring a network contract or provider agreement.
- Employee advocacy programs are an important component and best practice when implementing reference-based practice models, as they provide plan members necessary support and information to guide their decisions on selecting quality providers and facilities that accept the plan’s payment parameters.

How Advocacy Programs Can Make A Difference

It’s one thing to comparison shop a car. But comparison shopping medical services is entirely new to most people. That’s why advocacy programs play an essential role in providing plan members the guidance and support they need.

These programs are designed to educate employees on how reference-based prices affects them. They also provide the tools that help them decide which providers and facilities to go to for services, including those that will accept reference-based pricing as payment in full or are less likely to balance bill.

And as the model continues to evolve, vendors are increasingly offering apps to help plan members become more sophisticated healthcare consumers.

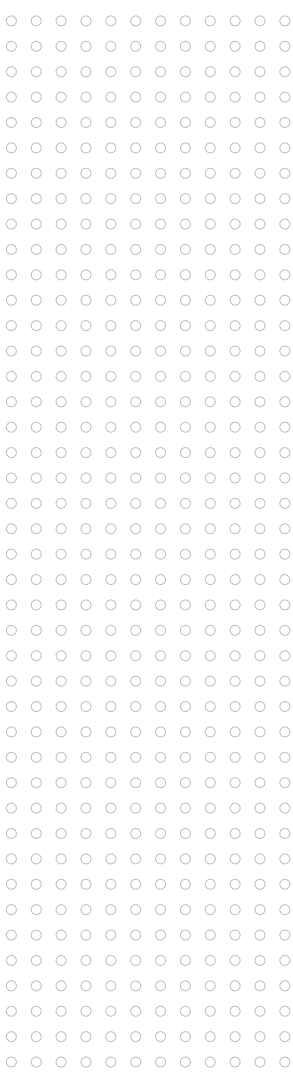
Advocacy programs, done right, can go a long way toward ensuring that it’s not just employers that are saving on their medical spend with reference-based pricing. Employees are getting something back for their efforts, too.

Best Practices Create the Best Outcomes

Here are four of the most important steps you need to take to succeed with this strategy:

- 1. **Build across-the-board leadership support.** If this is seen as an HR-only initiative, this is going to be seen less as a financial opportunity for the company and more as a hassle. While HR and finance have to be aligned for the program to work optimally, the C-level team has the bigger business perspective and needs to take ownership of the program to drive success.
- 2. **An internal champion and point person will smooth the journey.** This typically is an HR specialist who really owns the program. He or she fully understands how it works and its implications and is someone employees and their dependents can easily connect with for explanations of comparative “shopping,” balanced billing, and other issues they encounter as they learn the process.
- 3. **Employee education is not optional.** It’s not just a matter of providing employees and their dependents clearly written enrollment materials before the effective date. And it’s more than tailoring the messages to particular channels, whether in-person meetings or a website. (Though that’s important, too.) It’s a matter of clearly explaining how reference-based pricing works, communicating employees’ rights and responsibilities, and providing the tools they need to make informed decisions.
- 4. **Pay it forward.** A lot of the responsibility for making this model work falls with plan members so it’s only right that when you begin to see the financial benefits, you find ways to share them with employees. This could be done with enhanced benefits or perhaps lower contributions.

Reference-based pricing will gain traction as the healthcare marketplace continues on its current course. Organizations poised to set the example will develop payment strategies to minimize contentious provider relationships, enter into realistic bargaining to create reasonable pricing thresholds and empower employees to be informed consumers of healthcare.



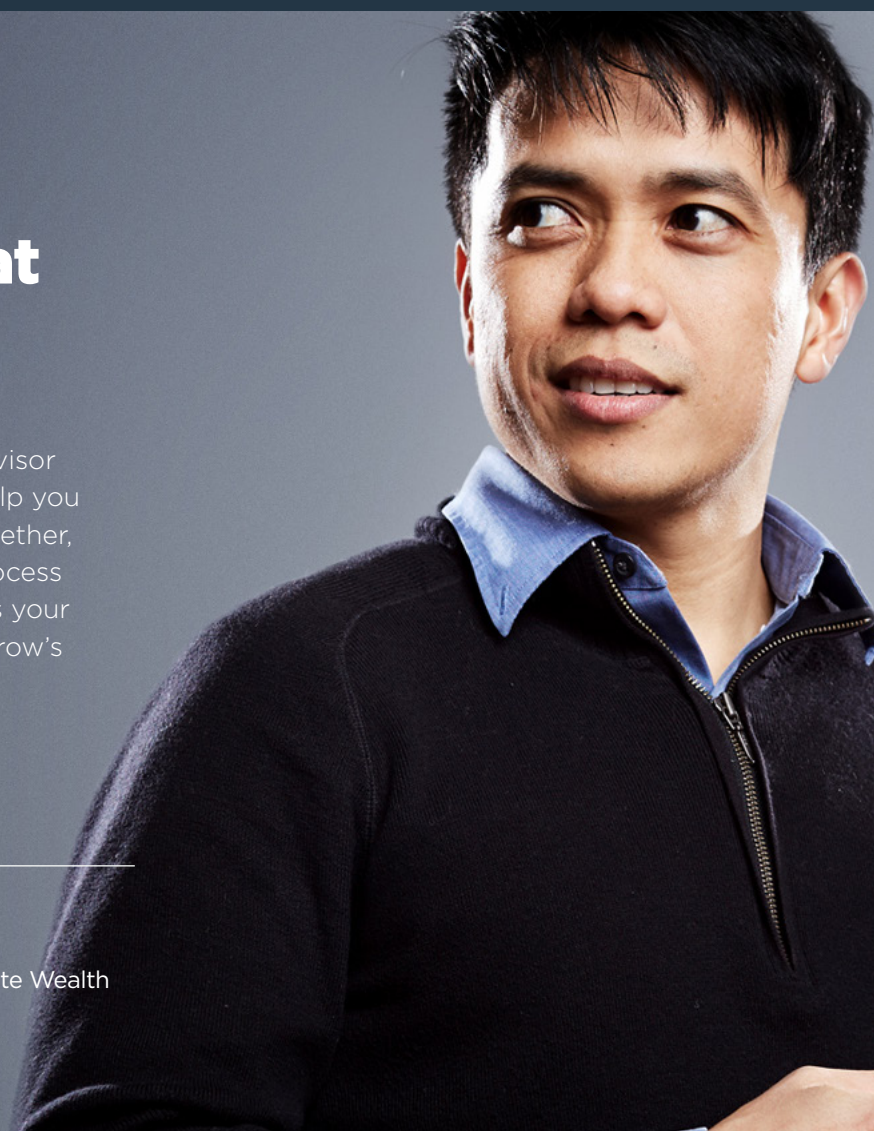
Strategic support that puts you in control

Is reference-based pricing a good fit with your organization's benefits and culture? Your HUB advisor can support you with this or other solutions to help you better manage your employee benefits costs. Together, we will work to ensure you have a streamlined process and effective plan that meets your goals, protects your employees and positions you optimally for tomorrow's challenges.

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