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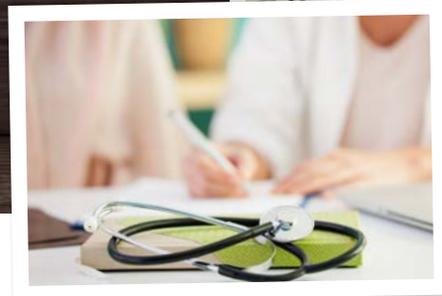
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THINGS TO KNOW WHEN EVALUATING REFERENCE-BASED PRICING MODELS FOR YOUR BUSINESS

[Mary Campbell](#) | Vice President, Account Executive

Healthcare costs continue to increase, prompting some employers to adopt strategies to help mitigate the impact. But not many have done so. One of those strategies is implementing a reference-based pricing (RBP) model.

While that is a viable solution for some, it is a complicated undertaking that can burden employees with the majority of risk, if not communicated effectively and well-thought-out.

SETTING UP AN RBP PLAN

RBP arrangements take the insurance carrier out of the equation. Instead, the employer self-funds their own benefits plan with the help of a broker and hires a third-party administrator (TPA) to pay claims on their behalf. The employer, TPA, and insurance broker would then decide on an arrangement for the amount that the employer is willing to pay for each particular service. Should the employer want to pay a flat fee for all services, it is recommended that they hire a TPA that specializes in RBP plans, (more on that later).

Most employers choose a Medicare Plus arrangement, which reimburses a claim based on the Medicare's rates, plus a certain percentage above (e.g. 200% of the Medicare rate). The reason Medicare Plus is so popular is because the Centers for Medicare and Medicaid Services

(CMS) publishes Medicare reimbursement rates; instead of using a percentage discount based on an unknown price, it is based on a rate known to the provider, broker, and TPA. However, this type of plan does not have traditional network of providers that is standard in most insurance company or TPA arrangements.

Medicare Plus arrangements were created to replace more traditional fee-for-service preferred provider contracts, where negotiating a contract starts with the hospital's chargemaster. These chargemaster rates are often proprietary and unknown to the employer. So, while the insurer or network contractor may attempt to negotiate 40% off of rates, it is unknown what the 40% discount is calculated from. Medicare's published rates remove this complication during negotiations.

THE RBP PLAN IS IN PLACE – NOW WHAT?

Once everything is in place and the rates have been negotiated, an employee seeking care would make an appointment. It is critical that the employee explain that they participate in an RBP plan while making the appointment. Some providers may know what this means immediately, while some may not. At this point, it is the employee's decision whether to use this provider based on the received answers.

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Some providers will agree to honor the RBP arrangement with no fuss, others may require the patient to pay fully for services upfront, while some may balance bill the patient for amounts not paid by the RBP. Certain providers may refuse to see the patient at all. This is why it is important to hire a TPA that is experienced in negotiating these arrangements with providers to protect employees from potential collections or other legal action.

For example, in 2014, a Virginia man on his employer's RBP plan underwent a cardiac catheterization procedure. The hospital charged him over \$100,000 based on their chargemaster rates. The RBP plan paid \$27,254, and the TPA attempted to convince the hospital to accept that as full payment for the care. However, because there were not negotiated rates set in place with this particular hospital ahead of time, the hospital declined and balance billed the man for the remaining \$83,861. The case went to court and is still pending a final ruling to this day.¹ Setting those rates ahead of time would have prevented this situation from occurring in the first place.

OPTIMIZING RBPS' VALUE FOR EMPLOYEES – EDUCATION AND QUALITY MEASUREMENT

While RBPs do save money for the employer and increase employee healthcare consumerism, employees need to be educated properly on how these plans work. Without properly understanding, these plans can be confusing and frustrating, leaving employees feeling like they have no coverage at all. Implementing an educational advocate is essential for an RBP plan's success.

Employers can also be wary of RBPs being confusing to employees considering the extremely tight labor market right now; health plans and other benefits are becoming a crucial differentiator to attract and retain employees. If an employee faces difficulties using their health plan or

has a negative experience, they may be inclined to leave for another job based on the ease of their benefits plan.

Another factor to consider is the quality of providers. In the court case mentioned previously, the question of the quality of care provided does not come up anywhere in the proceedings. While there has been an increase in the number of transparency tools that measure provider quality ratings, the accuracy of that information is still being determined.

Quality is important for the health plan's long-term financial success, as well as employees' long-term health. Insurers and other network developers are beginning to implement value-based contracts, where providers can earn more based on agreed-upon metrics to help the population be healthier.

The plan's results are reviewed annually against the negotiated metrics, and the rates are adjusted accordingly. Though these plans are often more expensive for employees than non-value-based contracts, providers must deliver effective care to maintain their rates. Over time, this decreases the number of visits for employees to deal with chronic health problems, and drives down costs.

For now, the uptake rate of RBP plans is still low amongst employers. They are confused on how the design works, afraid that employees may be faced with large out-of-pocket costs, and worried those employees will decide to leave for more simplistic plans offered elsewhere.

These are justifiable concerns, but can be addressed by partnering with knowledgeable brokers and TPAs. If you are interested in implanting an RBP plan or would like to learn more, reach out to experience employee benefits consultant today.

References and Resources

1. Court Order, http://www.courts.state.va.us/courts/scv/orders_unpublished/161019.pdf