

Harnessing Your Healthcare Costs: Reference-Based Pricing

As the cost of healthcare continues to increase, employers continue to seek effective solutions to control the expense of healthcare benefits while providing valuable offerings to their employees. Traditional healthcare options such as HMO/PPO and High Deductible Health Plans utilizing PPO networks are proving to be ineffective cost containment solutions in the long run. The consistent cost increases when an employer renews their health benefits coverage often lead to additional cost-shifting in the form of greater employer contributions, higher deductibles, and higher coinsurance – sometimes making access to affordable healthcare a challenge for their employees.



Whether an employer selects a fully insured plan or any of the forms of self-funding, reliance on PPO networks can be an obstacle to implementing impactful cost containment strategies: Provider fee-for-service reimbursement formulas used by PPO networks are a function of discounts from billed charges.

A different approach to healthcare benefits is Reference-Based Pricing, where providers are reimbursed on a cost-plus basis using a commonly accepted reference such as Medicare. Medicare bases provider reimbursement on the actual cost plus a moderate profit margin.

Medicare is typically the basis because it is one of the most commonly used “references” and most providers routinely accept it. Additionally, Medicare Plus pricing is consistent, defensible, arguably fair, and most importantly transparent.

Reference-Based Pricing gained Federal approval in May 2014. The Departments of Labor and Health & Human Service both approved Reference-Based Pricing plans as reasonable methods to ensure access to quality providers.

How does Reference-Based Pricing translate to healthcare cost containment for employers and employees?

In an apples-to-apples analysis of actual healthcare claims from 31 different Cincinnati employers conducted by third party administrator, Custom Design Benefits in 2015, the average PPO discount was 32% of the “billed charges” with a

high of 58% and low of 18%. A Reference-Based Pricing plan based on Medicare plus 40% would have generated an average 61% discount off the same billed charges.

Employers taking advantage of a Reference-Based Pricing plan are able to pass on those savings to their employees in the form of affordable, rich plan designs that reduce out-of-pocket expenses. Providers appreciate the predictability of reimbursement and the elimination of collection efforts for the patient's portion of the high-deductible health plan.

In response to your request for help with benefits cost containment, ERA is partnering with Custom Design Benefits to offer you *TrueCost*, a Reference Based Pricing plan. Launched in Cincinnati in 2011, *TrueCost* enables direct contracting between hospital systems and employers - eliminating of the PPO middle-man.

While results vary by employer, *TrueCost* clients are experiencing annual renewal rate plan cost increases between 0% and 2%, compared to renewal increases of between 12% and 15% with traditional PPO plans

How can you get more information?

Learn more about Reference-Based Pricing and *TrueCost* by contacting Peter Landesman at Custom Design Benefits at 513-598-2900 or at plandesman@customdesignbenefits.com.