

The Right Step

Important considerations in referenced-based pricing

When it comes to health insurance, employers, and their employees want two things – transparency and cost savings. Over the years there have been many different strategies aimed at achieving this, each promising different levels of certainty. One strategy growing in popularity is the creation of custom or narrow networks, which exclude certain high-cost medical providers.

A more aggressive strategy is referenced-based pricing. This approach pays doctors, labs, clinics, and hospitals a percentage of an established benchmark. With referenced-based pricing, employers are essentially trying to set the price for their employees' medical care based on a certain "reference price." Some of the most popular parameters for pricing are Medicare pricing, reported costs from providers, or average wholesale price, among others. A similar approach is to set spending limits on certain high-cost procedures only and identify providers who accept that limit as full payment.

While referenced-based pricing seems like the perfect cost-saving scenario, some important considerations should not be overlooked.

Employee abrasion

Some referenced-based pricing strategies remove the traditional network of contracted providers from the plan. Removing access to a robust network of providers and focusing solely on referenced-based pricing may have a big impact on employees. If an employee visits a doctor that does not accept referenced-based pricing as full payment for services, they may be responsible for charges. Employees could be balance billed for the difference between the doctor's charges and the allowed amount, which could lead to financial strain.

There is also the chance that medical providers will deny care for patients who are covered on a plan that uses referenced-based pricing. Some medical providers may reject this pricing completely and only see patients covered under a contracted network. Others may accept referenced-based pricing, but deny care when the number of their patients using referenced-based pricing hits a certain limit.

Fees

The fees associated with a referenced-based pricing arrangement are not always transparent and could be based on a variety of parameters, such as a percentage of the billed charges, a percentage of savings, or another parameter. And without a solid contract in place, referenced-based pricing could lead to potential litigations over reimbursement disputes. Employers with a self-funded health plan would be especially vulnerable in these situations because they are on the hook for paying any fees associated with their health plan.

Talent acquisition and retention

One big lesson learned from the pandemic is that employee benefits, including mental health resources and worksite flexibility, play a big role in attracting and retaining talent. Referenced-based pricing may translate to cost savings for the employer, but it may appear as unstable or lackluster benefits to an employee. It is possible that this negative perception of referenced-based pricing can be changed with employee education, but that can take time, which may not be an option when it comes to attracting new talent.

No matter how you fund your health plan it is important to work with a trusted partner to determine which network and pricing strategies are most effective for your company. If you have questions about referenced-based pricing, or if you are looking for a trusted network partner, contact HealthLink at Sales-AcctMgmt@healthlink.com.