



APPROACHING REFERENCE-BASED PRICING: PROS & CONS

It's no secret that healthcare is expensive, with the cost of care increasing year over year. Healthcare spending is expected to reach pre-pandemic levels in 2022, which amounts to a projected **6.5 percent increase from 2021**.

In response to rising costs, employers are looking for strategies to reduce healthcare expenses and find alternatives to traditional group health plans. This is why the popularity of Reference-Based Pricing (RBP) has grown significantly in the past few years.

RBP is a cost containment strategy where an employer pays healthcare providers a set price for different services instead of negotiating prices with providers. This type of plan doesn't contract with a network of doctors or hospitals. By avoiding insurance and network contracts with RBP, employers hope to lower their overall healthcare expense.

Employers typically partner with a third-party administrator (TPA) to establish maximum price limits for procedures and services. A TPA helps employers by conducting the research for price setting. Many times, the reimbursement rate is 120 to 300 percent of Medicare pricing for the service in question. When a provider bills a service, the TPA pays the provider based on the limits established in the plan. Should the provider balance bill the patient for an amount not covered by the preset price, the TPA negotiates on behalf of the patient.

However, RBPs are not without obstacles, which is why employers considering this option need to weigh the positives and negatives. Failure to do so can lead to pitfalls and unwanted results.

SO, WHAT ARE THE PROS AND CONS OF REFERENCE BASED PRICING?

PROS:



Improved transparency into healthcare pricing: Implementing RBP requires an understanding of pricing, and gives plan sponsors more visibility into what is being billed. Since costs are set from an established benchmark, there's less room for hidden fees or unclear cost structures.



Lowered healthcare expenses: With negotiated, preset pricing for procedures, RBP can have a lower cost than traditional health insurance plans. Employers can reduce their healthcare spend by up to 30 percent.



Promotes employee ownership over healthcare decisions: RBP allows employees to have a better point of reference on costs when choosing between treatment options. Since there are no networks, employees also have the responsibility of picking their providers based on price and quality, which increases ownership over healthcare decisions.



Potential to lower prices: If a plan is large enough and has market leverage, it can influence the overall price of procedures.



CONS:



Complicated design and set up: Employers need to decide to what extent they wish to use RBP, whether it's for some procedures or all. Designing a plan that balances savings and provider friction isn't a simple task. Additionally, because these plans are complex, employers will have to invest more time and money into educating employees about the ins and outs of RBP.



Dependence on TPA: Implementing RBP is complicated, and without a reliable, experienced TPA, employers will have to fend for themselves should they have to go to court to face providers for payment of services.



Patients can become victims of balance billing: If a provider is unwilling to accept the RBP amount as payment in full, they bill the patient for the remainder of the bill. This practice is called balance billing. If a TPA is unable to successfully defend the employee in court, then the patient will end up stuck with a bill that could be financially devastating.



Denial of care: Without a contract in place, providers can easily deny employees care. People with chronic illnesses or in need of intensive procedures often have difficulty finding the care that meets their needs with RBP.

Though RBP has the potential to save employers money, there's also the risk that employees could end up carrying the burden of a poorly implemented plan. RBP might be a viable option for your company, but there are a lot of variables to consider.

[Contact our employee benefits team today to learn more about this approach and if it's a good fit for your company.](#)



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