

Benefits Insights

Brought to you by the insurance professionals at
Creative Benefits, Inc.

Reference-based Pricing and the COVID-19 Pandemic

Many experts believe that the coronavirus (COVID-19) pandemic will cause health care costs to rise at a higher rate than in years past. This rise in costs will lead employers across the country to explore alternative health plan funding options, including reference-based pricing (RBP).

How It Works

RBP works by setting spending limits on certain procedures or services—meaning an individual would only be covered up to the established limit for these services and would have to pay the cost difference out of pocket. However, limits should only be set on “shoppable” services. These are services for which an individual can take time to make a decision based on price and quality, like for prescriptions, lab tests or joint replacements. In all of these examples, there are lower-cost options that are typically the same quality as the more expensive alternatives.

Employers typically work with a third-party vendor to establish the best limit for a procedure. The vendor will help conduct market research and negotiate the most appropriate deals with providers. Finding a reliable vendor that works well with your company is crucial for negotiating the best prices for your employees.

Prevalence of RBP

RBP is not right for every employer, and its U.S. adoption rate reflects that. According to the most recent data, only 2% of U.S. employers use RBP. As an alternative funding option, RBP has its benefits and drawbacks.

Employer Value

Employers that use RBP have the potential for two main benefits: lower total health care expenses and higher employee engagement in health care decisions.

Health coverage usually extends to any in-network procedure, regardless of cost. By setting a limit on certain procedures, employers are empowering employees to take charge of their health care decisions.

Potential Cons

There are a number of considerations to make when implementing RBP, given the complexity of the model. It is paramount you work with a vendor who is reliable and experienced in the RBP process. The vendor must be able to ensure a smooth transition into this model, otherwise you risk disrupting highly utilized providers. If you choose a vendor who is inexperienced, your RBP limits might be too low for the services your employees need, making the plans unaffordable. Moreover, not using a vendor (and its legal advocacy) could potentially leave you vulnerable to providers attempting to balance bill.

Conclusion

RBP is an innovative strategy for lowering health care costs. As the market continues to evolve, employers are tasked with developing creative strategies for saving money. The RBP model is unique in its ability to reduce costs while simultaneously promoting employee health literacy.

To learn more about RBP, and to see if it is right for your organization, contact your Creative Benefits, Inc. representative today.

