# Reference-Based Pricing: Employer Considerations

There is a lot of noise in the marketplace regarding referenced-based pricing (RBP) as a viable payment model for employer-sponsored health plans.  RBP is a payment model that does not utilize a network of providers, but rather bases reimbursement for claims on a percentage of Medicare, which serves as the “reference” point. The advantage of RBP to an employer is clear as most employers see savings ranging from 20% – 40%.  The RBP model can be applied across the board, or just for inpatient and outpatient facility charges.

### Business Impacts of Reference-Based Pricing to Consider

When considering the RBP model, employers should consider the following related to their business:

- **Employee Benefits Program Goals:** Does RBP support your program goals and will it help or harm your efforts to attract and retain talented employees?

- **Staffing Impacts:** Will your Human Resources team need to be expanded due to the increase in education and ongoing employee assistance?

- **Litigation Risk:** Without protections from provider contracts, reference-based pricing can lead to potential litigation for employers.

- **Location Matters**: Will your local hospital system(s) accept RBP?

### Employee/Member Impacts of Reference-Based Pricing to Consider

Employers should be aware of the following potential impacts to employees and their dependents:

- **Balance Billing**: With RBP, the hospital may perform a service and expect to receive $25,000 for that service. If the hospital is only paid $20,000 based on the established “Medicare+” percentage model, the hospital may seek the $5,000 balance from the patient. This concept is known as “balance billing.” The third-party administrator (TPA) will typically negotiate the amount balance-billed. The success of these negotiations widely varies and sometimes results in members being sent to collections for the unpaid medical balances. This could negatively impact members credit report.

- **Employee Responsibility:** Unlike with a traditional network, employees will not easily be able to determine the amount they will owe for a medical service.

While RBP can potentially lead to significant claims cost savings for employers, there is also a potential downside and, at a minimum, there are questions that need to be answered for each specific employer’s circumstances and culture.

At Scott, we can help you ask the right questions and evaluate whether RBP, or another alternative cost-containment solution, is a good fit for your organization.  If RBP is a good fit, we can also evaluate TPA options as there are administrators that specialize in helping employers implement these programs and provide ongoing management. Feel free to contact me or another Scott Benefits Consultant for more information about the potential benefits, risks and other considerations of the RBP model.

**Written by**