

Is Reference-Based Pricing Right for Your Company?

Ask Yourself Three Questions.

ON AVERAGE, employers contributed \$5,711 per employee toward single coverage health insurance and \$14,069 toward family coverage in 2018, according to a 2018 employer health benefits study conducted by Kaiser Family Foundation. This represents a 10-year average increase of 43% for single coverage (from \$3,983 to \$5,711) and 51% for family coverage (from \$9,325 to \$14,069).

Correspondingly, the average employee contributions toward single and family coverage have both increased by 65%—from \$721 to \$1,186 for single coverage and from \$3,354 to \$5,547 for family coverage—since 2008. To remain competitive, employers are researching alternatives that will reduce health insurance costs for both the company and its employees.

One of the emerging trends in healthcare is reference-based pricing (RBP), but how do you know if it's the right solution for your company? Ask yourself these three questions as you evaluate insurance cost-saving options for your organization.

1. Does my company have the data to evaluate RBP?

When considering an alternative financing arrangement like RBP, you must first determine if your company has sufficient historical claims data to allow the underwriters to quote for RBP. Whether your company is self-insured or fully-insured with a large number of enrolled employees, if you have detailed information regarding claims experience, you'll have more accurate projections to evaluate RBP as a potential cost-saving option for your business.

2. What benefits does RBP offer my company and its employees?

Reference-based pricing lowers an employer's costs by eliminating the traditional healthcare insurance system where the network, providers, and facilities assign the charges for patient services, which are often inflated. With an RBP plan, employers by way of their co-fiduciary negotiate a fixed-price contract for non-emergency healthcare services with various providers based on 1) a percentage above what Medicare would pay for the same service or, 2) cost plus a reasonable percentage above cost. This establishes costs that are fair and affordable yet still create a profit margin for the providers.

In addition to cost savings for the company and employees, individuals can be more actively involved in their healthcare choices, which creates a feeling of empowerment. Employees can research the medical services they need, select the best provider based on their needs, and better understand the overall cost before they receive care.

When considering the advantages, you must also consider any drawbacks for your company. For example, employee cooperation is vital for an RBP program to work. Since RBP is very different from traditional insurance plans, a coordinated, ongoing employee education program is extremely important when implementing an RBP plan. Employees also need to fully understand the "balance billing" process and monitor their medical bills and explanation of benefits statements closely so they don't inadvertently pay more for their services than they should. Finally,

depending on the provider agreement structure and negotiating power of the company's balance billing partner, employees could face massive medical bills that cause financial stress or foster poor employee relations.

3. Do I have access to trusted healthcare partners to administer an RBP plan?

For companies that feel confident its employees will benefit from an RBP program, the final question to ask is whether there are expert partners in your geographic area to help administer and manage the RBP plan. This includes a variety of healthcare partners, such as: service providers—hospitals, pharmacies, imaging centers, and others—that enter contractual agreements to participate in RBP without sacrificing quality of care; a service coordinator that helps employees evaluate and coordinate their care; a third-party administrator (TPA) that processes medical claims; and a "balance billing" partner that audits employee medical invoices, negotiates discounts on their behalf, and offers legal services to reduce litigation.

With the goal of creating more transparency to healthcare costs through fixed pricing, RBP can be a powerful savings alternative to traditional health insurance systems. An experienced employee benefits consultant, like Lyons Companies, can be a valuable resource as you evaluate whether reference-based pricing is a viable insurance option for your company. Our team of professionals understand the many facets of RBP and its implications for your business operations and employee satisfaction. If

you have questions about RBP or other insurance options, contact Lyons Companies today at benefits@lyonsinsurance.com or (800) 456-5508. ■



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