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# Changing the choice architecture: The impact of reference pricing on decision-making, prices, and spending in health care

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As part of a March *Health Affairs* issue examining health care delivery system innovations, a trio of UC Berkeley School of Public Health experts [analyzed the efficacy of reference pricing](#)—a new component of health insurance design that motivates the patient to select low-price, high-quality care settings for “shoppable” health care services. They looked at the impact on patient choice, provider prices, surgical complications, and employer spending and estimated that expanding reference pricing efforts to more services could reduce spending for the commercially insured population by as much as 8.6 percent.

“An eight percent savings in the three trillion dollar health care economy is a serious chunk of change,” says study author **James Robinson**, Leonard D. Schaeffer Endowed Chair in Health Economics and Policy and director of the [Berkeley Center for Health Technology](#) (<http://bcht.berkeley.edu/>). Coauthors were Timothy Brown and Christopher Whaley, both professors of health economics within the division of Health Policy and Management at the School.



Under reference pricing, the employer or insurer establishes a maximum contribution toward payment for a service, usually at a level close to the midpoint of the price distribution within the local market or therapeutic class. If members select a facility charging less than the limit, they receive full coverage (minus any co-payment provisions.) If they select a facility charging more or a higher-priced product, they pay the full difference in cost.

“Everywhere in health care we look, there are unjustified ten-fold differences in price for similar services in the same local market,” says Professor Robinson. “This is due partly to consolidation by providers and patent protection for products, but especially due to insurance coverage that makes consumers indifferent to price differences. Why shouldn’t suppliers raise prices, if consumers make the choices but insurers and employers pay the price?”

In summarizing their studies of reference pricing in hospital surgery, outpatient surgery, diagnostic procedures, and laboratory tests, the authors found an 8-19 percent point increase in patients selecting facilities charging below the reference price, as well as price reductions clustered around 17-21 percent. They also note that studies on consumer out-of-pocket spending showed mixed results—consumer costs went up for some procedures like cataract removal, but down for others such as joint replacements and advanced imaging.

“Cost sharing declines if reference pricing motivates patients to move to lower-acuity settings, where they are subject to lower deductibles and copays,” they write. Lower acuity settings include freestanding surgery centers and physicians’ offices, as opposed to hospitals.

Some of the data on reference pricing comes from the California Public Employees’ Retirement System (CalPERS), which in 2011 began using a reference pricing model to determine coverage levels for some surgical procedures, including joint replacements. After two years, the average price that CalPERS members were charged for joint replacements dropped 20 percent.

The professors conclude that, although “not a panacea for the shortcomings in the health care system,” reference pricing has potential to engage both insurers and enrollees and increase pressures for price competition, leading to further cost-reducing innovations in health care. They give parameters for successful scope and implementation of this tool.

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By Linda Anderberg

## Related information

- [Reference Pricing Changes The ‘Choice Architecture’ Of Health Care For Consumers](#), *Health Affairs* March 2017
- [Information and incentives can reduce the cost of laboratory tests for patients and insurers \(http://sph.berkeley.edu/reference-pricing-lab-costs\)](http://sph.berkeley.edu/reference-pricing-lab-costs)