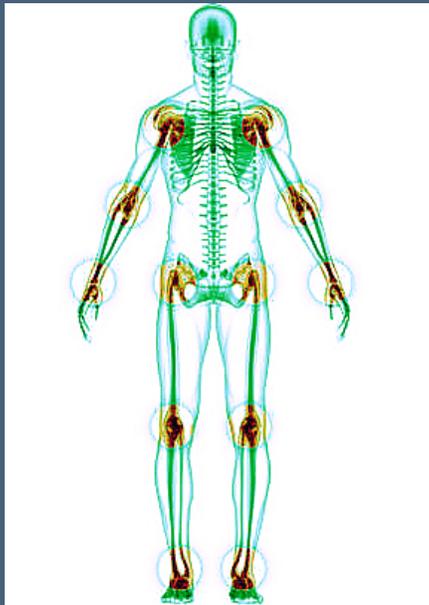




Issue Brief

Impact of Reference Pricing on Patient Choices, Employer Spending and Consumer Cost Sharing in Health Insurance: Overview

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Reference pricing is a health insurance benefit design that incentivizes patients to select high quality but low-cost providers for non-emergency medical services. It helps to correct for the wide variation in prices charged for similar tests and treatments within regional markets that result from low consumer price sensitivity and high provider pricing power.

In contrast to high deductible plans that require patients to pay for the first portion of incurred costs with insurance covering the remainder, under reference pricing the employer or insurer establishes a maximum contribution, typically the median price within the regional market, that it will pay for a health care service.

Patients retain the ability to select physicians and facilities and receive standard coverage when choosing cost-effective providers, but are responsible for a larger share of the cost when choosing providers that charge above the reference price. Reference pricing has been successfully applied to procedures such as joint replacement and colonoscopy and to components of care, such as laboratory and imaging tests. Full information on BCHT reference pricing studies can be found at bcht.berkeley.edu.

Impact on Choice, Spending, and Outcomes

The most immediate impact of reference pricing is an increase in the percentage of patients selecting facilities that charge below the established reference price. In addition, some facilities reduce prices in order to retain or expand their market share. Paired with the shift in patient volume, these changes lower the average price paid for each service. The impact of reference pricing on consumer cost-sharing, however, varies by service. Studies of reference pricing found that reference pricing for cataract removal and diagnostic colonoscopy are associated with increases in consumer cost sharing, while reference pricing for joint replacement, advanced imaging and laboratory tests is associated with decreases. The rate of surgical complications is not influenced by reference pricing.

Due to patients switching from high to low-priced facilities, some facilities reduce prices in order to retain or expand market share

Implementation

Implementation of reference pricing is most successful when applied to procedures that permit informed consumer comparisons of price and quality, and in markets with low barriers to entry and competition. An essential component is a generous exceptions policy for individuals with special clinical needs or living in remote areas.

Potential Benefits from Expansion

The potential savings from expanding reference pricing from the studied procedures to the entire commercial market was calculated using 2013 data from the CMS National Health Statistics Group. The fraction of total spending devoted to each procedure was calculated based on claims data from the Health Care Cost Institute. Total spending on procedures subjected to reference pricing by at least one employer was estimated to be \$100.6 billion.

Potential savings range from a low of \$340 million for cataract removal surgery to a high of \$7.6 billion for laboratory tests, with a total across all the included procedures of \$19.6 billion.

Indirect Effects

Reference pricing encourages specialization and efficiency by increasing consumer price sensitivity. As large hospitals acquire primary care, surgery, imaging and laboratory centers, competition decreases and prices rise. Reference pricing works in the opposite direction, lowering barriers to entry and

increasing the contestability of health care markets.

As providers become more price competitive, they face greater pressure to improve efficiency. Care often moves to stand-alone specialty clinics with lower costs, improved performance and increased volume.

Changing the Choice Architecture

Reference pricing is not a panacea for the ills of the health care system. It targets price rather than utilization and does not reduce demand for inappropriate services. It cannot be applied easily to chronic care and requires consumer engagement with price and quality information.

Reference pricing changes the health care “choice architecture” from one that imposes a financial responsibility on patients, regardless of the provider selected, to one that minimizes access barriers to cost-effective providers while increasing cost sharing if expensive providers are favored.

Even with its limitations, reference pricing shows great potential to reduce health care expenditure. Few other strategies reduce service-specific spending by double-digit percentages within the first two years of implementation. In the long run, reference pricing encourages patient engagement, shopping and informed decision making. It is a step forward on the journey towards value-based health care.

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