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New Research from EBRI:

“Reference Pricing” Could Save Billions in Health Costs, But Response is Key

WASHINGTON—A new approach called “reference pricing” in health insurance may help control health costs, but the savings could depend on how health care providers and individuals react, according to a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI).

Examining actual health claims data for more than 3 million individuals from 2010, EBRI found that if reference pricing (RP) was adopted for all individuals with employment-based health benefits for the six health care services it analyzed, spending on employment-based health benefits would fall about 1.6 percent (\$9.4 billion in 2010).

Under reference pricing, employers pay a fixed amount or limit their contributions toward the cost of a specific health care service. Under this “defined contribution” pricing approach to health benefits, workers would pay any difference between the “reference” price for designated procedure(s), and the cost of the provider and/or procedure they chose.

In the current study, reference pricing for knee and hip replacements was found to result in savings averaging \$10,367 per knee or hip replacement among the cases that were above the reference price. Colonoscopies, CT scans of the head or brain, and echocardiograms each accounted for between 15–20 percent of aggregate potential savings, while MRIs of the spine accounted for about 10 percent of the potential savings.

“The goal of reference pricing is to create a more engaged health care consumer, to give them more choice of providers, and make individuals more sensitive to the true costs of health care,” said Paul Fronstin, director of EBRI’s Health Research and Education Program and co-author of the report. “However, RP may not necessarily have the desired effect on provider prices.”

Among the reasons EBRI cites: High-cost health care providers might be unwilling to cut their rates to the set reference price for a service unless they can count on offsetting gains in volume, and health care providers with a dominant market share may simply refuse to reduce their rates. For some services, it is not yet clear that high-cost providers are charging more than the actual cost of the service. Further, EBRI notes that health providers that currently charge less than the reference price for a procedure or service might subsequently raise their rates to that level.

Additionally, if patients simply chose to pay the costs above the reference price, it would have no effect on driving down prices.

Fronstin said there are a number of issues health plan sponsors need to consider before adopting reference pricing: “They need to consider how the reference price is determined and how providers may react. Also, communication to workers in a health plan is key to an effective implementation of reference pricing.”

The full report, “Reference Pricing for Health Care Services: A New Twist on the Defined Contribution Concept in Employment-Based Health Benefits,” is published in the April *EBRI Issue Brief* and is available online at www.ebri.org

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