WHY $$$$$$$$$ → $ REFERENCE-BASED PRICING HAS BEEN LEAPFROGGED

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Despite the best of intentions, RBP (reference-based pricing) is inherently flawed and not a sustainable solution. But a meaningful replacement that avoids RBP limitations and represents greater payment integrity is available.

Sustainable Claims Pricing™ reprices with greater accuracy and transparency, reducing the threat of litigation and eliminating balance bills along the way to indemnifying health plan sponsors and participants from financial and legal liability.

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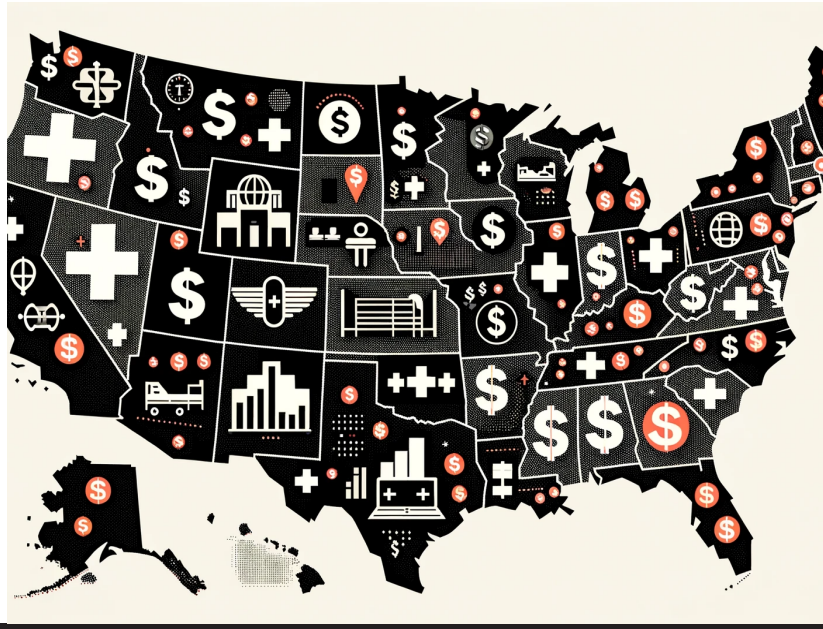
INTRODUCTION

With roughly 7,900 hospitals across the U.S., each with approximately 900 revenue codes that fit into about 30 revenue centers, group health plans need deep expertise to procure accurate prices on costly medical procedures for their members. One such strategy involves RBP.



What is RBP?

Under this approach, self-insured health plans establish a reference price for medical procedures, usually a multiplier of Medicare reimbursement in the 140% to 180% range, to keep their costs affordable and predictable. The reference price serves as an alternative to discounts from billed charges that traditional networks use to price claims based on usual, customary, and reasonable (UCR) pricing in their particular market.[1]

RBP may be offered in conjunction with a traditional PPO network or replace it entirely, frequently promoting usage of medical services "with or without a network." Claims reimbursement is occasionally negotiated with providers before services are rendered.

In other cases, a third-party administrator (TPA) or other vendor acting on behalf of an employer pays a set price for each service. The problem, of course, is that if a hospital or provider isn't satisfied with the payment, they can bill the patient for any unpaid portion of the claim – a practice known as balance billing. Most payors use RBP for out-of-network emergency and laboratory claims, while self-insured health plans regulated under the Employee Retirement Income Security Act are allowed to use RBP as a comprehensive payment strategy.[2]

HISTORY

RBP's roots can be traced to 2011 when the California Public Employees' Retirement System (CalPERS) sought to reduce the cost of hip and knee replacements. What prompted this bold move was a seven-fold difference in price for these procedures without any correlation to quality of care. CalPERS identified 46 hospitals statewide that were willing to accept a reference price of $30,000 or less, with health plan members that selected a higher-cost hospital paying the difference out-of-pocket. Several hospitals that charged more than that amount later voluntarily renegotiated their contracts to win the favor of what was then called reference-based "benefits."

Another variation of the model took shape in 2016 when the Montana State Employee Health Plan renegotiated hospital contracts by tying payment amounts to a multiple not exceeding 230% of Medicare rates. With strength in numbers (i.e. 33,000 covered members), Montana made an offer that every hospital in the state had no choice but to accept as part of an arrangement called reference-based "contracting."

North Carolina wasn't as lucky three years later when the state sought to mirror that strategy at 196% of Medicare. Now widely known as reference-based "pricing," the strategy boasts what one source cleverly described as a "reserve army of advocates and legal representatives" to negotiate on the patient's behalf until a settlement is reached or pursue litigation.[4]

Recognizing its shortcomings, an improved version of this model often referred to as RBP 2.0 sought to reduce or eliminate employee friction, litigation, and balance billing. But those efforts have fallen short of the mark.

Why RBP?

Reference-based pricing is a strategic response to the need for healthcare transparency in the face of significant price variations for medical procedures. It is an alternative to escalating costs associated with the traditional fee-for-service model, which have increased 31-fold over past four decades and 6.5 times on an inflation-adjusted basis.[3]

THE PROBLEM

While RBP allows employers more than one way to pay a medical bill without having to establish a provider network, thereby opening the marketplace, it has still failed to provide a methodology that is transparent and understandable. RBP's pure Medicare multiple is arbitrary and does not meet the definition of UCR pricing.

In short, it does not offer a fair-market value for medical services. Group plans that adopt RBP will invariably find themselves having to explain why they're willing to pay, say, 130% of Medicare instead of 142% or 152%. There's no escaping the arbitrary nature of the methodology involving these multipliers.

Medicare is an imperfect system that doesn't have an allowance for every medical procedure, making it impossible to reasonably price some claims. Other potential trouble spots may include a significant hospital stay that exceeds the typical diagnosis-related group (DRG) allowance or complex inpatient medical claims for which there is no DRG number for Medicare to reference and add a multiple. While uncommon, it is not possible to fairly price those claims.

Among its other limitations, RBP is highly inconsistent, with a tendency to underpay hospitals and overpay for laboratory services. There is also variation within hospitals, paying some areas too much and other areas too little – a pattern seen across some hospitals that have lower cost structures.

Moreover, regional acceptance or rejection of RBP complicates provider negotiations, especially for multi-state employers whose search for standardized pricing is foiled. For instance, there are many restrictive rules in Indiana, Illinois, Michigan, Missouri, California, and New Jersey that tie the hands of self-insured employers in states where Blues plans are familiar and popular among health plan members.

With providers under increasing pressure to claw back whatever reimbursement they can to make up for below-market rates, RBP creates acrimony that pits patients against providers, which results in balance billing and dissatisfaction among both parties. It is no wonder that employee friction is still an issue, with even savvy healthcare consumers lost in a confusing maze of complexity.

Legal battles persist over RBP's adversarial approach that critics dismiss as a shakedown of hospitals to procure below-market rates. In short, RBP is indefensible in court. The need for advocacy and legal assistance represents an admission that this method does not actually work. What would work far better for group plans, of course, is to offer a turnkey solution that removes payors and patients from the equation entirely, along with any friction, and indemnifies them from any financial and legal liability.

THE SOLUTION

While RBP served as an alternative to PPO discounts that employers eventually saw as inflated, the same is now true for RBP. Fortunately a far superior method has been developed: Sustainable Claims Pricing™ (SCP). SCP uses a proprietary medical pricing database to reprice medical bills line-by-line based on hospital cost-to-charge ratios reported quarterly to the Centers for Medicare & Medicaid Services, as well as geographical cost variations and quarterly inflationary adjustments from the U.S. Department of Labor.

Under the SCP approach, daily room rates are priced alongside medical services for inpatient claims. Once all these costs are determined, a profit margin is then calculated based on geography, medical inflation and other factors (i.e., adding a reasonable surcharge to manage an influx of COVID-19 cases).

WellRithms SCP, for example, utilizes the expertise of physicians and surgeons, rather than coders or administrative personnel, to manage a technically advanced bill review process. This guarantees precision in claims payment accuracy, prevents overbilling, and eliminates fraud, waste, and abuse. The only way to ensure that a medical bill is properly reviewed is to fully understand the medicine behind it. When medical professionals are the ones who scrub bills line-by-line, they are easily able to spot redundancies and items such as durable equipment that should never be separately billed or paid.

Accurate bill review and claims payment are predicated upon understanding the medicine behind the charges for medical procedures. Without that expertise, there is no true payment integrity. But paying providers fairly is also an important guiding principle of payment integrity. Hospitals appreciate having a more

thoughtful system in place and prefer engaging in constructive discussions rather than acrimonious exchanges that often mar RBP.

Between an ironclad repricing method and high level of medical expertise employed in the bill-review process, savings are actually guaranteed. SCP features the industry's only payment integrity solution bolted to a protective captive insurance program, WellRithms Shield™, which transfers risk exposure for excessive claims away from payors and members – avoiding financial and legal liability.

Relative to RBP, providers often will be paid more under SCP while health plan sponsors reap greater savings from more accurate reimbursement that prevents overbilling, promotes transparency, and reduces the chances of litigation.

CONCLUSION

At a time of rising healthcare costs and crackdown on medical pricing transparency, employers and their advisors looking for alternatives to inflated provider network discounts face a clear choice: continue rolling the dice on RBP at their own peril or adopt a defensible strategy in SCP that satisfies all major stakeholders.

Footnotes

1 "Six Common Questions About Reference-Based Pricing Answered. MultiPlan. April 27, 2022. https://www.multiplan.us/six-common-questions-about-reference-based-pricing-answered/
2 "Fact Sheet: Reference-based Pricing." American Hospital Association. https://www.aha.org/fact-sheets/2021-06-08-fact-sheet-reference-based-pricing
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4 "Reference-Based Pricing Risks and Rewards of Playing Health Care Hardball." Catalyst Payment Reform. April 2021. https://www.catalyze.org/wp-content/uploads/2021/04/RBP-Whitepaper_April-2021_Published.pdf
5 Soman, Nick. "What Is Reference Based Pricing (RBP) in Healthcare? Understanding Its Implications for the Digital Age." Decent. October 11, 2023. https://www.decent.com/post/what-is-reference-based-pricing-rbp-in-healthcare-understanding-its-implications-for-the-digital-age#:~:text=It's%20the%20percentage%20of%20the,Is%20RBP%20insurance%20good%3F
6 "Fact Sheet: Reference-based Pricing." American Hospital Association. https://www.aha.org/fact-sheets/2021-06-08-fact-sheet-reference-based-pricing

FOR MORE INFORMATION ON HOW WELLRITHMS CAN GET YOU RESULTS, CONTACT US TODAY

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