



4 STEPS TO IMPLEMENTING A REFERENCE-BASED PRICING PROGRAM

BY EMILY PAYNE

Is reference-based pricing the future of the health care industry? There are too many fluctuating variables currently in play to say for sure, but one thing is certain: it has a lot of appeal. “To me, being a financial guy, it made sense,” says Mark Gitter, chief financial officer for San Antonio-based GVTC Communications, which hopped on the RBP bandwagon in 2015. “I just want to pay fair market value for the services I get.”

More companies are taking note of the RBP model, which has been around for years, but only recently has seen increased viability and appeal. “It wasn’t until organizations decided they were going to absorb financial and legal responsibility for this balance-billing piece that it made it a real option,” says John Simmons, founder and president of StrataBen, and a benefits consultant that helped connect GVTC with Advanced Medical Pricing Solutions (AMPS), one of the first of a growing number of RBP service providers. “Those intersected at the perfect time.”

It’s too soon to say whether RBP is the future, but it’s not too soon to discuss whether it’s the right move for your client.



1. STARTING THE CONVERSATION

No matter what your clients' health costs look like or whether you think RBP is a good decision, this first step is a must for anyone. "You should still have the conversation with them that this thing is out there," says AMPS founder and president Mike Dendy. "If you don't, somebody else is going to come in and ask, 'Has your broker told you

about reference-based pricing?' 'No, he hasn't? I wonder why?'"

Clients will most often be receptive to the conversation. Medical inflation alone is driving up health care costs an average of 9 percent to 10 percent annually, and employers and employees are both feeling the pinch. "At some point, the pain is high enough

that they say they have to do something," Dendy says. "They just can't look away anymore."

GVTC reached this tipping point in 2015, when it saw a 22 percent jump in costs to its self-funded medical plan due to a couple of high claimants. "The tipping point is crucial," Simmons says. "If GVTC had been trending along at 2 percent as

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they had for years, they might not have made the move. There's a tipping point all of our clients get to."

Employers and employees reach a point of

frustration. "I'm mad as hell and I'm not going to take it anymore," Dendy says, borrowing a famous movie quote.

Cost is a major motivator, but it wasn't the

only factor for GVTC. "I don't want to be the guy sitting there getting a 20 percent discount off the 500 or 600 percent markup of Medicare and think I'm getting a great deal,"

Gitter says. "Everyone is going to end up moving one way or another. The last ones in are going to be paying more than anyone else. I'm not going to be the last one standing."

2. ESTABLISH THE LONG-TERM PLAN

So you've got a client fed up with their health care costs and ready to do something about it. Now what? Once you've opened the client's eyes to what they *can* get out of such a model, the next step is to define what they actually *want*, and how they can realistically achieve it.

For GVTC, a primary goal was limiting the incidence of high claimants that were wreaking havoc on the budget. "We had a couple really bad years," Gitter says. "I'm watching the bank account looking at all of this, and it caused us to start looking at alternatives to PPOs, ways we could control costs."

They tested the waters with medical billing review before deciding to jump headfirst into RBP. "I told them right from the beginning, you have to put your money where your mouth is. I've got to see it work," Gitter says. "Son of a gun if they didn't come through with immediate cost savings on the medical bill review."

When discussing RBP models, clients also need to have a full understanding of the relationship between all entities and how to create an arrangement that works for everyone. "Most of our clients are large and community providers," Simmons says. "We could

not have a situation where the front page of the news was 'GVTC Treats Local Hospital Unfairly.' Goal number one is to fairly reimburse providers. Cut everyone to the bone so there's no profit margin and you get terrible care."

Goal number two? "We have to figure out how to protect the model," Simmons continues. "You have to protect the future spend, as well. Not making a one-year decision, but a five- to seven-year strategic timeframe."

Finally, the plan needs to take into consideration the members who will be using it. "A really big thing I don't want to overlook is the fact that



we didn't touch personal physicians," Gitter says, noting that the company instead decided to just target facility providers, getting the most bang for their buck while making the transition as painless as possible for employees.

3. CRAFT THE MESSAGE FOR EMPLOYEES

Behind the scenes, RBP requires a lot of paperwork and procedural changes. "The way that RBP is, you have to give some responsibility to the service provider to allow them to work with the provider who is submitting the claim,"

Simmons explains. "It's new to them, and it was new to us as well. But most clients don't think about that."

What they worry about more is that the model is new to employees. "It's really a meeting of the minds," Dendy says. "An

employer and employees have decided they want to have benefits, they want them to be affordable. The conversation with employees goes like this: 'We want to continue to offer this service. Here's why it's so expensive. Are you willing



to work with us to have something different?' RBR is not as successful when the employer or broker makes that decision and doesn't have that communication with the members."

When first introduced to RBP, employees often assume (incorrectly) that it will limit them to an approved list of providers and facilities. "They

were really worried that they wouldn't be able to go to the doctor of their choice," Gitter says. "We took that as an opportunity to be in control of the message and communication. I had to explain to them that this was all HIPAA protected, HR was not going to have access to their information. There's a whole process that we go through, and

we recently refreshed our employee communication to help them understand how the process works."

Employees' skepticism and confusion can cause them to throw up their guard, which is what Gitter encountered during initial meetings with employees. "One thing I said that resonated: 'Can anyone tell me what it costs just to have a

doctor's visit? Or a tooth extraction? Appendix surgery?' They had no idea." Gitter explained to employees the connection between those costs and the premiums the company and employees paid every year. "I explained that we have to be concerned about what these things cost, just like when you go to buy a new car."

4. HELP EMPLOYEES UNDERSTAND THEIR ROLE

In the end, the success of RBP programs is dependent on the buy-in and cooperation of employees. "It's only successful to the extent employees understand what's going on and why they have to be responsible when they get an explanation of benefits," Gitter says.

The RBP model breaks with what consumers are used to, and hospitals for that matter, which will potentially send a bill for an amount beyond the negotiated service price in hopes of collecting from the consumer. Used to a different system, some assume they have to pay—or else. "We had people worried about getting their credit ruined," Gitter says. "Just because you're getting a bill doesn't mean your credit is ruined."

It's the job of the RBP service provider to resolve the issue, but

the job of the employee to send the EOB. "Sometimes they follow the rules, and sometimes they get very antsy," Simmons says. "There's a whole education process you have to go through to make sure the strategic implementation isn't upset by the member reaction."

Tying the new system to visible results can help take the pain out of the process and encourage employees to adapt. "With every employer we introduce to RBP, our first suggestion is to lower the copays and deductibles so the employees see an immediate benefit," Dendy says. "You're going to see less expense because the company has figured out a better way to purchase those services."

At GVTC, Gitter promised an incentive for employees' cooperation,

and delivered, freezing premium levels in 2017 and fully absorbing the cost of inflation—which was more than offset by the savings created under the RBP model. "They had some nice, early wins that gave enough wind in the sails to reinforce the model," Simmons says. "Some of the reticence fell by the wayside."

RBP programs have been successfully implemented for companies across the country—in Texas, Pennsylvania, Florida, Illinois, California—and Dendy expects the growth to continue, especially as medical providers face continued regulatory uncertainty. "Most hospitals recognize the system we have now is not long for this world," he says. "Intelligent hospitals trying to build their own brands or businesses are recogniz-



ing that a good way to do that is to partner with an employer group and create an incentive to utilize that hospital."

"We need this in the medical industry," agrees Gitter. "The whole issue about not understanding what we're paying for something is not how we do anything in the rest of our lives. It's just not sustainable. The industry has got to change or it's going to implode." ❖