



Case Studies in Reference Pricing

Christopher Whaley

February 26, 2019

Acknowledgements

Funding provided by:

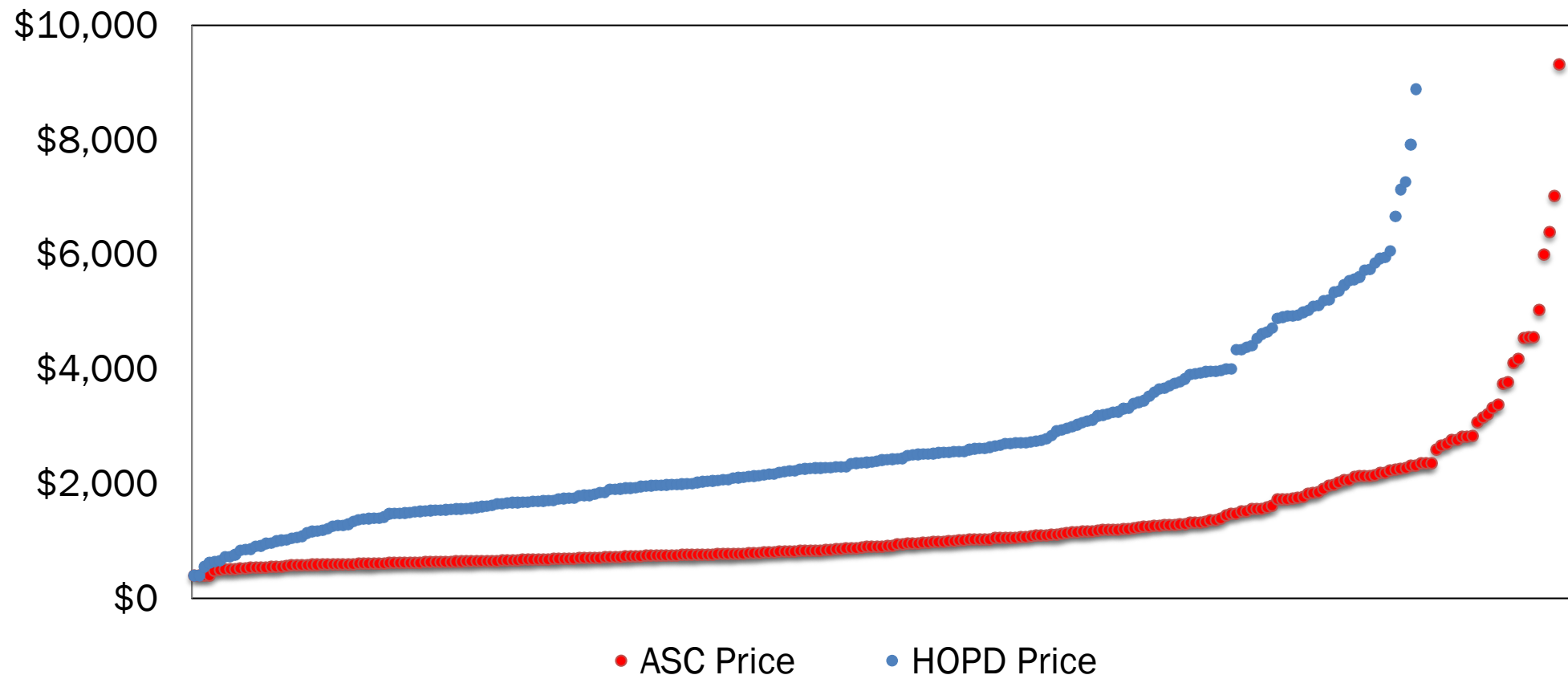
- Agency for Healthcare Research and Quality
- California Public Employees' Retirement System
- Laura and John Arnold Foundation
- NIHCM Foundation
- National Cancer Institute
- Robert Wood Johnson Foundation

Research Collaborators:

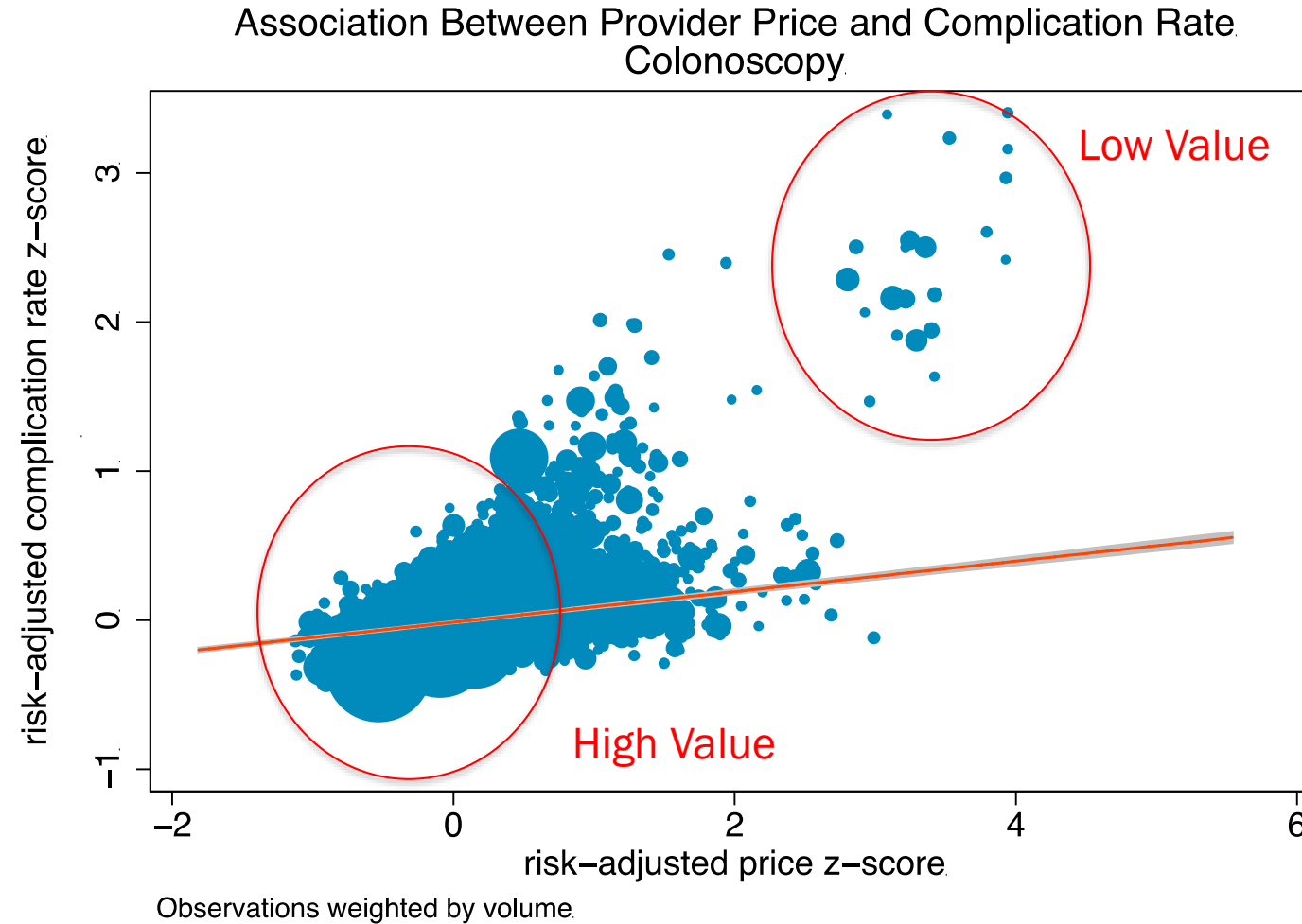
Marion Aouad, Timothy Brown, Chaoran Guo, James Robinson

Many Markets Face Wide Variation in Prices

Range in Colonoscopy Prices Across California Ambulatory Surgical Centers (ASCs) and Hospital Outpatient Departments (HOPDs)



No Observed Link Between Price and Quality

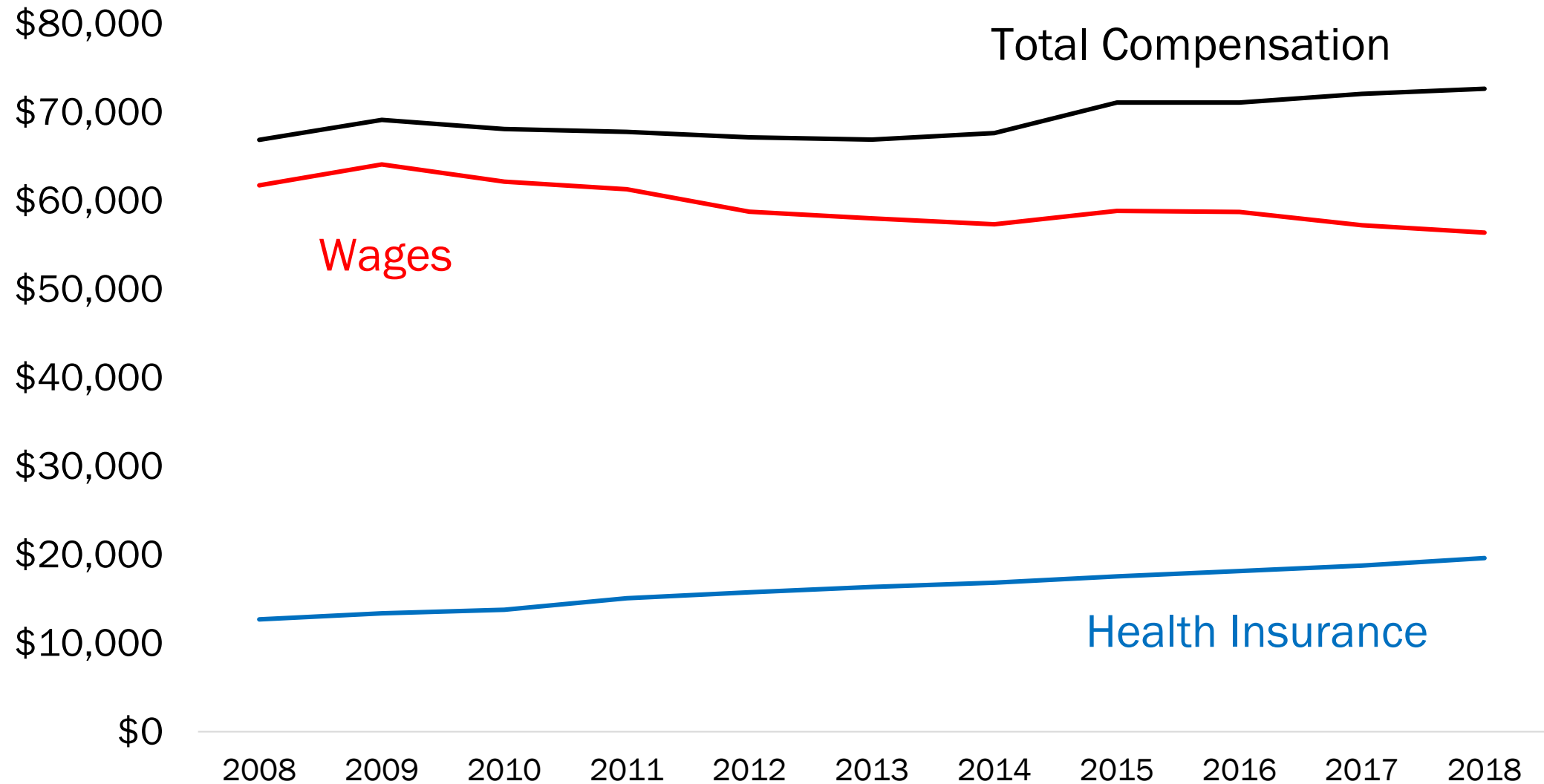


Source: Whaley (2018) *JGIM*

Why is this a problem?

- TANSTAFL: There Ain't No Such Thing as a Free Lunch
- TANSTAFHCS: There Ain't No Such Thing as Free Health Care Spending
- Econ 101: \$1 increase in health care costs → \$1 decrease in wages or other benefits

Worker Compensation Trends in the US



Source: Calculations using BLS and KFF data

Reference Pricing is One Potential Solution to High Prices

- For shoppable services, reference pricing programs cap the amount that the payer will reimburse
- Reference pricing is one model to incentivize the use of high-value providers
 - Other models include high deductible plans, narrow networks, and rewards incentives
 - All programs have their pros and cons
- Reference pricing moves the employer from a passive purchaser to a value-based purchaser

How Reference Pricing Works

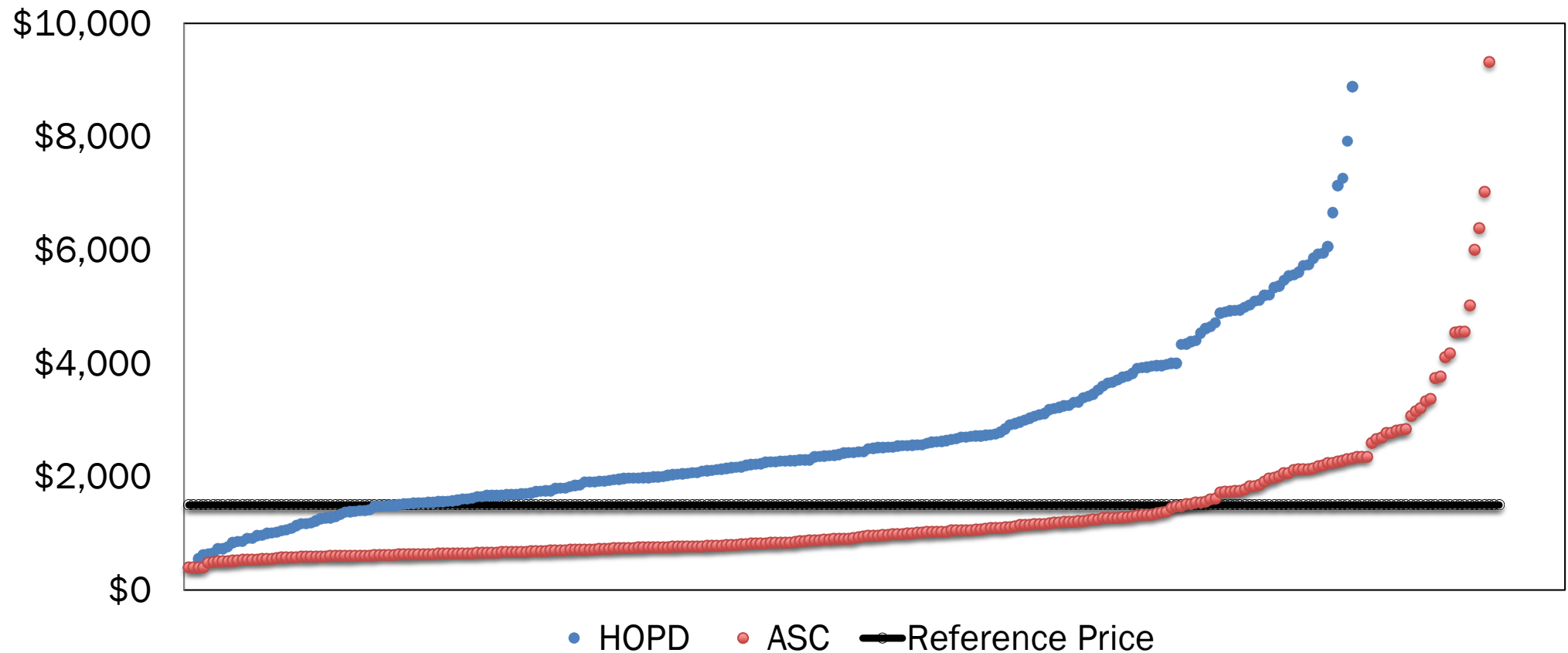
- For pre-defined and “shoppable” services, the payer (insurer or employer) sets a maximum reimbursable amount (the reference price)
- Patients whose care costs *less than* this amount pay normal cost-sharing (e.g. copays, coinsurance, and deductibles)
- Patients whose care exceeds this amount pay normal cost-sharing up to the reference price PLUS the difference between the provider’s price and the reference price
- Many programs offer an alternative provider that is not subject to reference pricing
 - E.g. CalPERS exempted ambulatory surgical centers because price is much less than hospitals

Reference Pricing at CalPERS

- Great Recession—Extreme financial pressure for State of California
- How to reduce health care spending?
 - HDHP: Shift costs to all patients
 - Narrow network: Strong limits on patient choice
 - Reference pricing: Encourage patients to save money while preserving patient choice of provider
- Challenges
 - How to convince employees to try something new?
 - Union-dominated population
 - Unions were instrumental in advocating for reference pricing

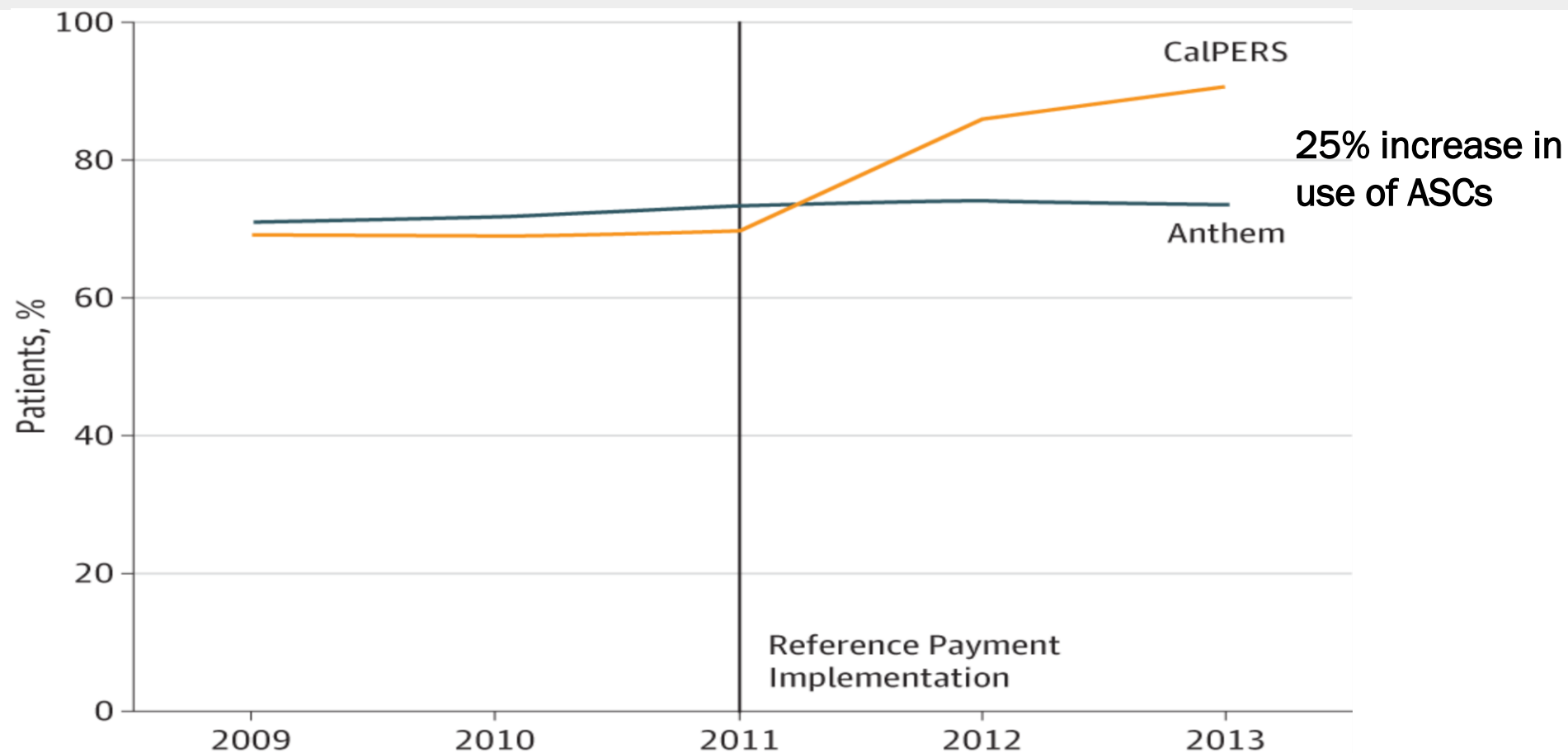
CalPERS' Colonoscopy Reference Pricing

Range in Colonoscopy Prices Across California Ambulatory Surgical Centers (ASCs) and Hospital Outpatient Departments (HOPDs)



From: **Association of Reference Payment for Colonoscopy With Consumer Choices, Insurer Spending, and Procedural Complications**

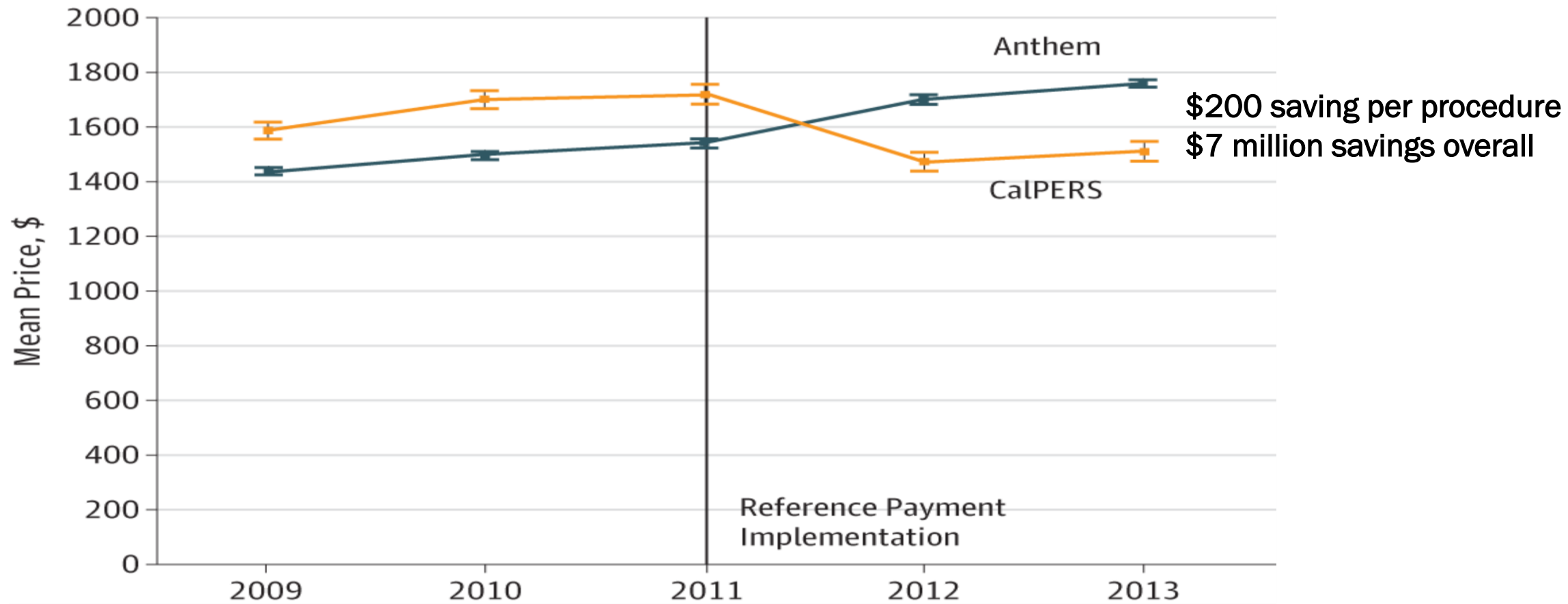
JAMA Intern Med. 2015;175(11):1783-1789. doi:10.1001/jamainternmed.2015.4588



Percentage of Patients Choosing Ambulatory Surgery Centers Over Hospital Outpatient Departments Before and After Implementation of Reference-Based Benefits at California Public Employees Retirement System (CalPERS)

From: **Association of Reference Payment for Colonoscopy With Consumer Choices, Insurer Spending, and Procedural Complications**

JAMA Intern Med. 2015;175(11):1783-1789. doi:10.1001/jamainternmed.2015.4588



Mean Price (Allowed Charge) Before and After Implementation of Reference-Based Benefits at California Public Employees Retirement System (CalPERS) Error bars indicate 95% confidence interval.

Employers are Using Reference Pricing to Achieve Value

	Employer	Increase in use of low-price facilities (p.p.)	Percent reduction in price	Spending by commercial insured population (billions)	Potential spending reductions from reference pricing (billions)
Joint replacement	CalPERS	14.2	19.8%	\$17.1	\$3.4
Knee arthroscopy	CalPERS	14.3	17.6%	\$5.7	\$1.0
Shoulder arthroscopy	CalPERS	9.9	17.0%	\$3.8	\$0.7
Cataract surgery	CalPERS	8.6	17.9%	\$1.9	\$0.3
Colonoscopy	CalPERS	17.6	21.0%	\$11.4	\$2.4
Laboratory tests	Safeway	18.6	32.0%	\$23.7	\$7.6
Imaging: CT scans	Safeway	9.0	12.5%	\$17.1	\$2.1
Imaging: MRI	Safeway	16.0	10.5%	\$20.0	\$2.1
Pharmaceuticals	RETA Trust	7.0	13.9%	NA	NA
Total		7.0 – 18.6	10.5% - 32.0%	\$100.6	\$19.6

Source: Robinson, Brown, Whaley (2017) *Health Affairs*

Potential Impacts of Reference Pricing Expansions

- If reference pricing was expanded to the services that we have previously evaluated, and achieved the same effects, medical spending would decrease by \$19.6 billion.
 - 2.2% of total medical spending.
- If reference pricing was applied more broadly, spending could fall by \$76.2 billion.
 - 8.6% of total medical spending.
- Expanded reference pricing programs are likely to exert pricing pressure on high-priced providers.

Conditions for Successful Implementation of Reference Pricing

- Services should be “shoppable”
- Quality should be measurable (and actually measured)
- Patients must have usable price and quality information
- Patients must have access to a sufficient number of low-price, high-quality providers
- Patients with special needs or clinical considerations should be exempted

Reference Pricing and Choice Architecture

- Successful reference pricing programs change the “choice architecture” for patients
 - Make it easy for the patients to comply with reference pricing
- CalPERS told patients to go to a freestanding ambulatory surgical center, and only applied reference pricing if they went to a hospital
- Safeway told patients to go to Quest/Labcorp, and then set the reference price at those prices
- Other employers have developed complex system that sets the reference price at the 60th price percentile in each market.
 - Providers have different prices for different services
 - People live in different markets
 - These employers no longer do reference pricing!

Barriers Remain

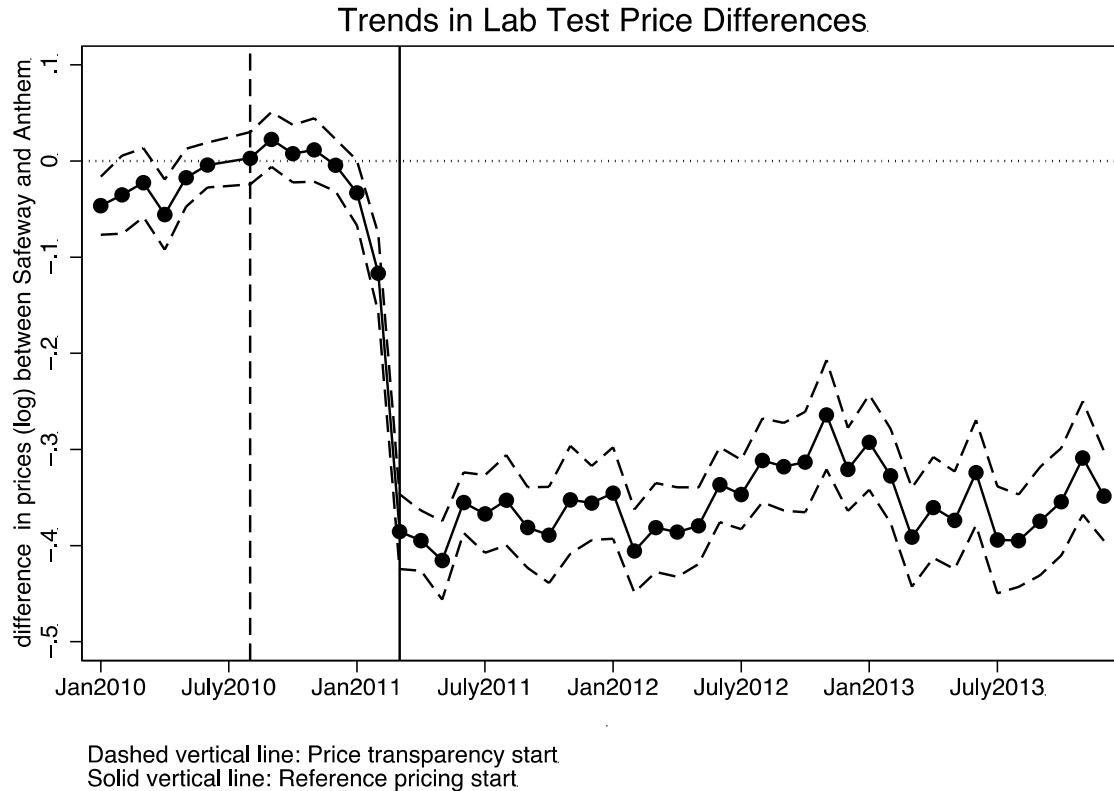
- Low adoption of reference pricing
 - Caution around cost sharing for patients
- Contractual clauses that limit the ability of employers to implement reference pricing
 - E.g. price non-disclosure clauses and “all-or-nothing” networks
- If employers do not find ways to pay for value, rising health care costs will continue to place pressure on wages and other benefits

Contact Information

Christopher Whaley

cwhaley@rand.org

Reference Pricing vs. Price Transparency



- Generous insurance coverage lessens incentives to price shop
- Reference pricing requires patients to make tradeoff between their own money and going to high-priced providers
 - Just like every other market!!
- Similar policies use same mechanisms:
 - Narrow networks
 - Tiered networks
 - Rewards programs