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Creating a Consumer-Friendly Reference Pricing Program

SUMMARY

Reference pricing is a strategy in which insurers and/or other purchasers set a cap – or "reference price" – to limit the amount they will pay for a certain procedure. When combined with quality thresholds, this strategy is a way to guide consumers toward choosing more reasonably priced providers and to encourage providers to meet set pricing. This paper provides a set of consumer protection principles intended to ensure that insurers and others maintain consumers' access to affordable, quality care and an adequate network of providers when implementing a reference pricing program.

Reference pricing is an insurer pricing strategy intended to guide enrollees toward higher value providers and to encourage providers to meet a pricing standard.

When designing a reference pricing program, it is critical to avoid having consumer interests caught in the middle between insurer and provider interests. The restrictions of provider choice inherent in a reference pricing program should be carefully balanced with the benefit to consumers in the form of cost savings and better provider quality.

In addition, consumers need adequate education about the program so they do not take on unexpected and potentially overwhelming out-of-pocket costs. They need complete transparency about participating providers and the methodology used to set the reference price. Absent transparency and rigorous standards, such a pricing structure may be used as a subterfuge for the imposition of otherwise prohibited limitations on coverage, without ensuring access to quality care and an adequate network of providers.

Below, we provide a set of standards purchasers or insurers should meet when building a consumer-friendly reference pricing program. We propose these standards as methods to ensure that within any reference pricing strategy, consumers are protected from unexpectedly high costs and insufficient provider networks. Underlying these recommendations is a need for accurate data on price, quality, and health outcomes.

Examples from two existing reference pricing programs (one implemented by the California Public Employees' Retirement System and another by Safeway) are used throughout to illustrate some of the learnings that inform our recommendations. See the Appendix at the end of this document for more information about these programs.

What Is Reference Pricing?

Reference pricing is a strategy in which insurers or employers evaluate how much facilities or providers charge for a certain procedure, combine that with quality thresholds, and set a cap — or "reference price" – to limit the amount they will pay for that procedure. This strategy has two goals: guiding consumers toward choosing more reasonably priced, higher value providers and encouraging more providers to bring their prices in line with the set price.

In instances where providers charge more than the reference price, consumers are usually required to pay out-of-pocket to cover the provider charges above the set reference price. Reference pricing is not common and tends to be used for particular medical services, items or procedures that have a wide variation in pricing without corresponding variation in quality, such as joint replacements.

Standards for A Consumer-Friendly Reference Pricing Program

I. START THE PROGRAM THE RIGHT WAY

Insurers should use available claims data to select appropriate procedures and determine the correct reference price.

A reference pricing program should be built on a strong base of evidence that the program will reduce costs without a negative impact on enrollees' health outcomes. This could be challenging, as existing cost and quality data is by no means uniform, and data is sparse for the procedures under consideration. Existing programs, such as those initiated by CalPERS, have been built around results from analyses of existing plan enrollees' claims data, ensuring that the program accurately reflects the experience of the relevant enrollee population.

The program should start with a pilot project.

Beginning the program by selecting one or a small number of procedures for reference pricing will likely minimize consumer confusion and build evidence that

the program can be successful. This strategy also allows flexibility for alterations to the program if the results are different than expected.

Applying a reference price to many procedures could make it difficult for enrollees to understand the program. For example, CalPERS began with reference pricing only for hip and knee replacements; when the program was expanded to other procedures, the agency encountered confusion among enrollees about how the program worked.[1]

Procedures should demonstrate high cost variation.

If a reference pricing program is to be effective in bringing down costs, a significant variation in cost for a certain procedure or procedures must exist in the first place within the given geographic location or population of enrollees. The reference price should represent an amount somewhere in a range that reflects a reasonable cost and ensures other consumer protections will continue to exist, e.g., an adequate network.

Procedures should demonstrate little or no quality variation.

Enrollees participating in a reference pricing program need assurance that they will not have to compromise on quality by using a provider that accepts the reference price. Purchasers or insurers developing a reference pricing strategy should apply a reference price only to procedures for which quality does not vary depending on the price charged by the provider. Given the limited availability of consistent or validated quality, safety, and health outcomes data, this may require significant investment in collecting and monitoring quality data.

Procedures should be elective and non-urgent.

Procedures subject to reference pricing should be elective and non-urgent, to allow patients time to research their provider options and understand how the reference pricing program will affect out-of-pocket costs. Reference pricing should not be applied to procedures where postponing the procedure could negatively impact health outcomes.

[1] Lechner, A., Gourevitch, R., Ginsburg, P. The Potential of Reference Pricing to Generate Health Care Savings: Lessons from a California Pioneer (December 2013). Accessed at http://www.hschange.org/CONTENT/1397/.

CalPERS considered expanding its program to apply reference prices to high-volume, high-cost laboratory and imaging tests, but decided against it due to concerns that enrollees may want or need to have these procedures performed quickly.[2]

Procedures should be routine.

Selected procedures should be routinely performed in the given geographic area or for the population of enrollees to which the program would apply. More substantial price and quality information may be available for high-volume procedures; additionally, consumers may be more comfortable having their choice of provider restricted for common procedures than for rarely performed procedures.

Enrollees for whom the given procedure is likely to involve complications or unusually high costs should be exempted from the reference pricing program. Non-routine procedures may involve significant costs above the reference price, leaving the enrollee vulnerable to high out-of-pocket costs.

The CalPERS program exempted people who received a bilateral joint replacement, combination knee and hip replacement, or revision surgery, and those whose procedures were performed outside of California.[3] In Safeway's reference pricing program, non-routine colonoscopies, including those requiring a biopsy, were not subject to the reference price; instead, standard reimbursement and standard co-insurance applied to these procedures.[4]

Procedures where there is inconsistency on appropriate treatment should not be included.

Reference pricing programs should only include procedures for which good consensus exists on the medical appropriateness of the procedures. Program leaders at CalPERS considered making spinal fusions part of the reference pricing program, but decided against it after considering the fact that physicians often disagree on the appropriateness of this procedure. In this instance, an enrollee's referring physician and the surgeon who accepts the reference price might make differing

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[2] Reference-Pricing Policy for Hip/Knee Replacements Generates Significant Savings by Encouraging Enrollees To Choose High-Value Facilities. Agency for Health Care Research and Quality Innovations Exchange (May 2014). Accessed at http://www.innovations.ahrq.gov/content.aspx?id=4069 .

[3] Robinson, James C., and Brown, Timothy T. Increases in Consumer Cost Sharing Redirect Patient Volumes and Reduce Hospital Prices for Orthopedic Surgery (August 2013). Health Affairs. Accessed at http://content.healthaffairs.org/content/32/8/1392.abstract.

[4] Robinson, James C. Applying Value-Based Insurance Design to High-Cost Health Services. (November 2010). Health Affairs. Accessed at http://content.healthaffairs.org/content/29/11/2009.full.

recommendations on the correct course of treatment, resulting in confusion and disruption of care.[5]

II. ENSURE PROVIDER UNDERSTANDING OF THE PROGRAM

Implement a detailed education plan for providers to inform them of the program.

Ensuring that the plan's providers understand the reference pricing program and its cost implications could help protect consumers from unexpected out-of-pocket costs and enhance consumers' understanding of the program. The insurer or purchaser should distribute general information about the program to all providers in the network and more specific, targeted information to providers and staff at facilities that would be performing reference-priced procedures.

CalPERS sent notices explaining the program to all doctors and hospitals in its network and also reached out to orthopedic surgeons and held meetings with hospital leaders before implementing the program.[6]

Provide a list of facilities that accept reference pricing to all network physicians, along with the relevant quality and safety metrics

Physicians with a full range of information about which providers accept the reference price might be more likely to refer patients to reference-priced providers or facilities. Purchasers should ensure that all participating physicians have access to an up-to-date, detailed directory including a list of providers and facilities accepting the reference price and cost and quality information for all providers.

III. ENSURE CONSUMER UNDERSTANDING OF THE PROGRAM

Conduct consumer testing to develop easy-to-understand consumer education materials.

In developing a reference pricing program, purchasers should conduct consumer testing to ensure that education materials will be effective in ensuring enrollees' understanding the program.

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[5] Agency for Health Care Research and Quality Innovations Exchange.

[6] Agency for Health Care Research and Quality Innovations Exchange. (An unexpected effect of CalPERS' communications with providers: some orthopedists reportedly convinced non-designated hospitals to reduce their prices to accommodate CalPERS patients.)

Make it clear to enrollees what is included in the reference price.

It should be made clear to enrollees what part of the procedure cost is included in the reference price. For example, CalPERS' reference price for hip or knee replacements applied only to the facility fee, not the surgeon's fee or other fees involved in the total cost.[7] This is important information for consumers to know when "shopping" for a provider for a reference-priced procedure.

Create and implement a multifaceted communications plan explaining the program to enrollees.

Purchasers should employ both broad and targeted communications to enrollees to inform them about the program. If possible, enrollees who are most likely to use the program should be provided with additional, more specific information.

For CalPERS' hip and knee replacement reference pricing program, Anthem mailed announcements to all enrollees, provided information in open-enrollment meetings, and sent additional letters to enrollees who had seen an orthopedic surgeon in the past year for a hip or knee issue. Yearly enrollment materials included a list of "high-value" providers who charged the reference price and a map of these facilities. Information was also included on Anthem's website.[8]

Benefit information posted on plan websites should also be updated to include general information about the reference pricing program, cost information, and different pricing scenarios to help consumers understand the effect of the program on their out-of-pocket costs.

Create and frequently update an easily accessible directory of providers.

In particular, it should be clear to enrollees which providers in the plan's network do and do not accept the reference price. Enrollees should have access to a directory where they can search for providers accepting the reference price and find cost and quality information for all providers in the network. This directory should include prices for providers charging above the reference price, so consumers can weigh the costs and benefits of using a non-reference-priced provider.

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[7] Robinson and Brown, op. cit.
[8] Lechner and Gourevitch, op.cit.

Ideally, the availability of clear and regularly updated information about which providers accept the reference price should limit the number of consumers who unknowingly incur costs above the reference price. Maintaining this readily available tool could also minimize the need to resolve disputes after the fact.

According to a survey of individuals involved in the implementation of the CalPERS hip and knee replacement program, in only a handful of instances did patients have surgeries at non-designated hospitals because of a lack of awareness of the program – possibly because of CalPERS' significant efforts to educate consumers about the program.[9]

However, evidence from CalPERS' expanded reference pricing program shows that with less substantial consumer education materials, consumers face significant difficulty effectively using the program. For procedures more recently added to CalPERS' reference pricing program (arthroscopies, colonoscopies, and cataract surgeries), CalPERS did not provide members with a list of designated facilities, which has reportedly led to confusion as enrollees face difficulty identifying designated facilities.[10]

IV. OBTAIN CONSUMERS' AFFIRMATIVE CONSENT TO REFERRALS TO PROVIDERS CHARGING ABOVE THE REFERENCE PRICE

Even if a reference pricing program includes substantial consumer education materials and outreach to enrollees, consumers may have difficulty understanding which providers they can use without risking significant out-of-pocket costs. Additionally, even if providers understand the program, they may have little incentive to share cost information with patients and make referrals accordingly.

In order to further protect consumers from unknowingly incurring high costs above the reference price, the provider performing the procedure should have an obligation to disclose to the patient the potential cost of undergoing the procedure at a non-reference-priced facility.

In CalPERS' program, hip and knee replacements already required pre-authorization, creating an additional opportunity to inform consumers about the additional out-of-

[9] These issues all reportedly occurred in the first month of the program and were all resolved between the hospital and the patient. It is not clear how respondents could know which patients used non-designated hospitals by choice and which did because of lack of awareness of the additional cost. In 2011, 37% of participants went to non-designated hospitals, some of which agreed to waive amounts above $30,000 to retain CalPERS members.

[10] Lechner and Gourevitch.

pocket costs associated with using non-reference-priced providers. However, no such mechanism was in place for CalPERS' other reference pricing procedures (elective colonoscopies, cataract surgeries, and arthroscopy procedures) because they do not already require pre-authorization. This has apparently contributed to a higher level of confusion for enrollees, emphasizing the importance of an additional point at which consumers receive information about what they can expect to pay for a procedure.[11]

V. ENSURE AN ADEQUATE NETWORK OF PROVIDERS ACCEPTING THE REFERENCE PRICE

The plan's included "network" of reference-priced providers should ensure adequate and meaningful access, geographically and temporally, to a sufficient number of high quality providers accepting the reference price for all enrollees subject to the program. This adequate network of providers should include:

- An adequate number of providers who can accommodate the linguistic and cultural needs of the enrollee population, based on standards such as state and federal language threshold requirements.
- A sufficient number of providers near enrollees' residences or workplace to provide reasonable access; alternatively, insurers should reimburse the cost of travel to a reference-priced facility for the patient and a family member or companion.
- An adequate number of reference-priced providers accepting new patients.
- Reasonable wait times for reference-priced providers.
- An adequate number of reference-priced providers meeting a set of quality standards for performing that procedure, including sufficient volume of procedures performed.[12]
- An exceptions and appeals process for enrollees who have difficulty finding a reference-priced provider that meets their needs. In exigent circumstances, insurer should not apply reference pricing.

[11] Lechner and Gourevitch.

[12] CalPERS' designated hospitals were selected using the following quality criteria: whether the facility had been accredited by a recognized quality accrediting entity, whether it performed a sufficient number of the surgeries annually, its scores on the surgical prevention indicators reported to the Joint Commission, its participation in the California hospital quality reporting system, and the results reported to that system.

Additionally, the "network" of reference-priced providers should meet state and federal network adequacy requirements, if applicable.

VI. PASS ON SAVINGS TO ENROLLEES

Cost savings resulting from the reference pricing program should be passed on to enrollees in the form of lower premiums or cost-sharing. Incentive programs, like reimbursements to consumers for part of the savings resulting from choosing a reference-priced provider, could further encourage the use of reference-priced providers.[13] Safeway's program stipulated that if enrollees used a colonoscopy provider who accepted the reference price, they would pay no out-of-pocket costs for the procedure,[14] even before reaching the plan's deductible.[15]

VII. IMPLEMENT CONTINUOUS MONITORING AND DATA COLLECTION

To ensure the program is working as intended and make any necessary changes, purchasers implementing reference pricing should implement ongoing monitoring and data collection and make gathered information publicly available. This data collection should include the following:

- Ensure the program does not have a disproportionately negative effect on certain populations of enrollees.
- Monitor for gaps in enrollee understanding of the program: track the number of enrollees who use facilities charging above the reference price and collect data on their reasons for doing so; conduct consumer surveys on utilization.
- Measure any increases or decreases in enrollees' out-of-pocket costs.

[13] One source (Robinson, "Increases in Consumer Cost Sharing") notes that $0.3 million of CalPERS' total 2011 savings ($3.1 million) accrued to CalPERS enrollees from lower out-of-pocket cost-sharing. Another evaluation of the program ("Evaluation of Reference Pricing: Final Report") reported the change in consumer cost-sharing for 2011 as not statistically significant. The same report found that in 2012, consumer cost-sharing was reduced by 30.5%, but apparently only for consumers who either did not participate in the reference pricing program or did not use a designated reference-priced facility. It is unclear from this data exactly how much of CalPERS' cost savings was passed on to enrollees and exactly how enrollees saw those cost savings.

[14] The Safeway program was in effect prior to passage of the ACA, which now prohibits out-of-pocket costs for preventive services.

[15] Robinson, Applying Value-Based Insurance Design to High-Cost Health Services.

- Monitor cost information for all procedures to ensure that hospitals do not shift costs from one procedure to another.
- Monitor for any effects on quality outcomes. Require providers participating in the reference pricing program to deliver quality outcomes data.
- Make adjustments to the program as needed based on collected data, including updating the reference price as appropriate or expanding to new procedures.[16]
- Implement a robust system for soliciting, monitoring and addressing consumer experience and complaints.

VIII. COST-SHARING CONSIDERATIONS

By their design, reference pricing programs may leave consumers with the responsibility to pay provider charges that are over and above the set reference price. Even though the provider may be identified as an "in-network" provider, if she doesn't accept the reference price for a specific procedure or service, the consumer may find that the charges for the procedure are treated as if they are out-of-network services. The consumer will be responsible for the balance of the bill that is over the reference price. The amount the consumer pays over the reference price also might not be applied to the consumer's out-of-pocket maximum – the key plan provision that protects consumers from excessive provider charges.

It is our position that all the consumer protections described above must be solidly in place and operational before removing protections such as applying non-reference priced, in-network provider charges to out-of-pocket maximums for services subject to reference pricing.

If these consumer protections are not in place, consumers could find themselves with an unexpectedly large medical bill for a reference-priced procedure— for example because they unknowingly used a provider that didn't accept the reference price—or with larger required out-of-pocket expenditures overall because an in-network, non-reference-priced provider's charges were not attributed to the usual out-of-pocket maximum.

[16] After the pilot year, Safeway reduced its reference price for colonoscopies from $1,500 to $1,250.

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Appendix: CalPERS and Safeway

One of the largest-scale examples of a reference pricing program is CalPERS' (California Public Employees' Retirement System) program of reference pricing for hip and knee replacements in collaboration with Anthem Blue Cross. CalPERS identified these procedures as a good candidate for reference pricing because the procedures exhibited variation in cost in the same markets without a difference in quality; they were elective, non-emergency, and could be scheduled according to the patient's preference; and they were performed in sufficient volume at designated facilities.[17] Additionally, these procedures were extremely high-cost –hip and knee replacements accounted for a significant portion of CalPERS' total claim costs.

After examining claims data and finding that joint and muscle conditions accounted for 7.5% of total healthcare spending, CalPERS and Anthem examined the cost of hip and knee replacements in California. Anthem's analysis returned a high level of price variation unrelated to differences in quality. Using this data, CalPERS and Anthem settled upon a reference price of $30,000, slightly above the average cost of the procedure. CalPERS and Anthem then compiled a list of 46 facilities that met a set of quality, cost, and geographic requirements. After the first two years of the pilot project, the program was credited with a savings of $5.5 million to CalPERS and a 26% decline in the average price for the procedures (or about $9,000 per procedure).[18] CalPERS has since expanded reference pricing to colonoscopies, cataract surgeries, and arthroscopy procedures.

Safeway's reference pricing program for colonoscopies is another relatively large-scale example. In 2009, the company (which has been using reference pricing for pharmaceuticals since 2008) launched a regional pilot program applying a reference price to colonoscopies. An analysis of recent claims data for this specific region found a range of $900 to $7,200 for a colonoscopy.[19] Safeway settled on a reference price of $1500. After a year, the program was expanded to the rest of Safeway's employees. Program administrators reported that in the pilot program, the company saved an estimated 35% of potential costs. In the expanded program, the company expected to save more than 70%.[20] In addition, the program, which was intended to both save costs

[17] Robinson and Brown.

[18] Robinson, James C., and Brown, Timothy T. Evaluation of Reference Pricing: Final Report (Letter to David Cowling). May 15, 2013. Accessed at http://capsules.kaiserhealthnews.org/wp-content/uploads/2014/05/reference-pricing-california-berkeley.pdf.

[19] Letter from Safeway to HHS, Treasury, and DOL on Interim Final Rules for Group Health Plans and Health Insurance Issuers Relating to Coverage of Preventive Services under the Patient Protection and Affordable Care Act. September 2010. Accessed at https://www.dol.gov/ebsa/pdf/1210-AB44-0207.pdf.

[20] Renda, Laree. Focusing on What Matters Most: Healthy Behavior and Accountability. Institute for Health Care Consumerism. Accessed at: http://www.theihcc.com/en/communities/employee_communication_education/focusing-on-what-matters-most-%E2%80%93-healthy-behavior-a_gqk6ur59.html

and increase early cancer detection, resulted in a 40% increase in the number of enrollees obtaining colonoscopies in the pilot year.[21]

Safeway also adopted reference pricing for imaging and labs in its 2009 pilot, with reference prices for about 450 laboratory procedures set at around the 60th percentile for each test.[22]

Other large companies have also implemented reference pricing for a variety of procedures. For example, grocery chain Kroger, in collaboration with WellPoint, applied an $800 reference price to certain imaging scans in some states.[23]

[21] Letter from Safeway to HHS, Treasury, and DOL. (A relatively small amount of information is available about Safeway's reference pricing program compared to the amount of information available about CalPERS' program. In June 2014, researchers were awarded a grant to analyze the impact of Safeway's program).
[22] Lechner and Gourevitch.
[23] Lechner and Gourevitch.

Key Literature on Value-based Insurance Design Options

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