

# Reference Pricing and Consumer Use of Low-Priced Providers and Services



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# Acknowledgements

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# Motivation for Reference Pricing

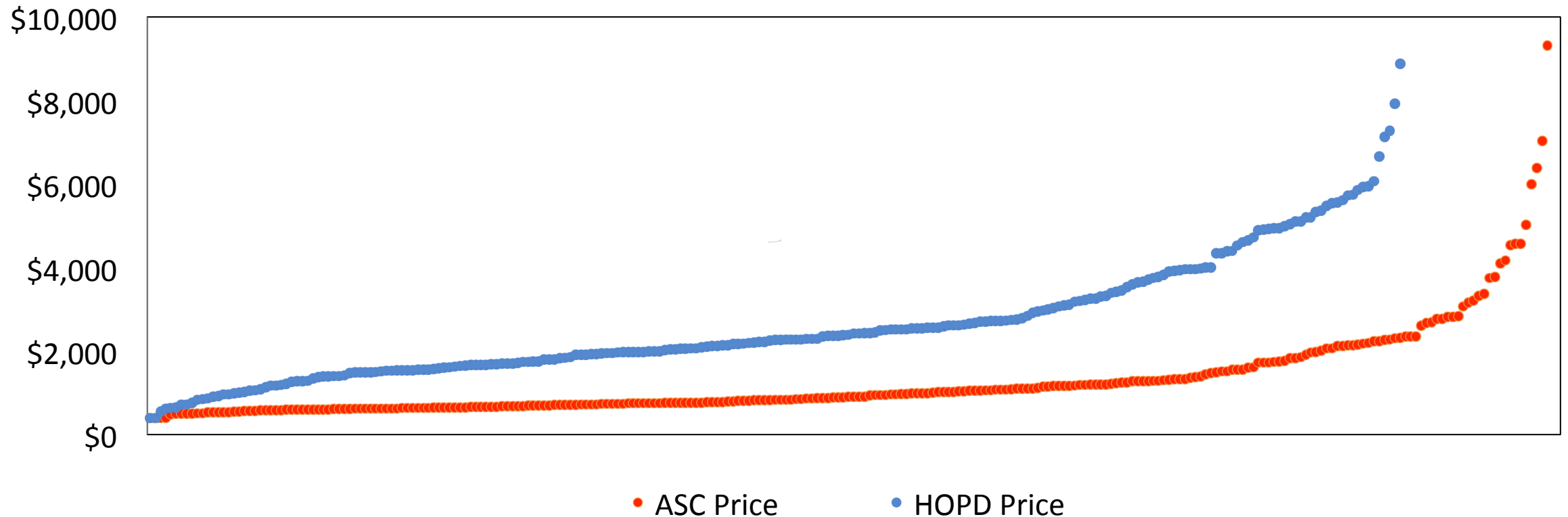
- For common “shoppable” services and procedures, prices vary widely
- 10x difference in prices within the same market are not uncommon
- Often there is no quality component, or price and quality are not related
- Reference pricing is one potential response to price variation

# History of Reference Pricing

- Originally developed in European pharmaceutical markets
- In the U.S., self-funded employers have applied it to a variety of services
  - Knee and hip replacement (CalPERS)
  - Outpatient surgery (CalPERS)
  - Lab and imaging tests (Safeway)
  - Pharmaceuticals (RETA Trust)

# Variation in Colonoscopy Prices

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



# Price Variation and Market Shares in 2012,

**Table 1. Price Variation and Market Shares in 2012, According to Therapeutic Class.\***

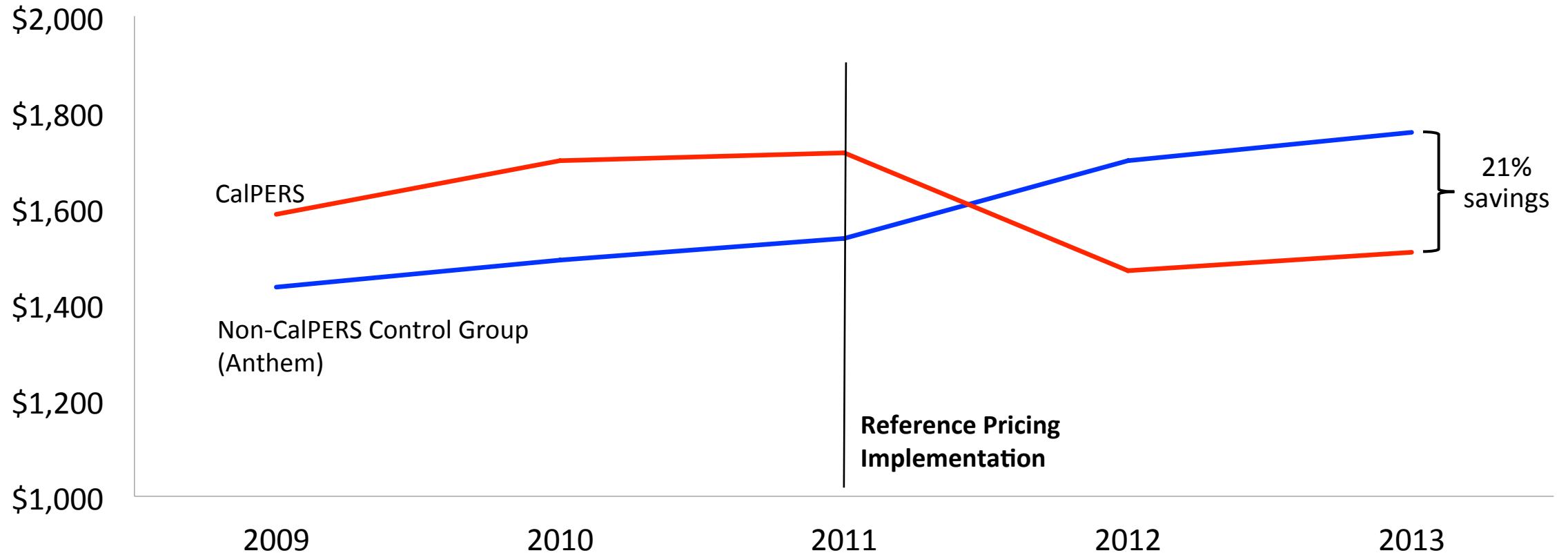
Drug Class	Prescriptions Filled	Price of Drug in Class		Difference between Highest and Lowest Price	Share of Drug in Class	
		Lowest-Priced	Highest-Priced		Lowest-Priced	Highest-Priced
		<i>no.</i>	<i>dollars</i>		<i>%</i>	
Statins	11,701	12.3	447.2	434.9	0.3	<0.1
Thyroid hormones	8,386	5.3	33.4	28.1	0.3	0.1
Selective serotonin-reuptake inhibitors	7,287	10.3	201.0	190.7	10.2	0.1
ACE inhibitors	6,601	5.9	50.4	44.5	2.0	0.1
Beta-blockers	5,490	6.1	78.0	71.9	6.1	3.9
Proton-pump inhibitors	5,345	25.7	296.1	270.4	28.7	0.5
Biguanides	4,185	11.8	525.2	513.4	41.0	0.8
Hydrocodone combinations	4,073	27.8	297.4	269.6	7.7	1.4
Nonsteroidal antiinflammatory drugs	4,021	9.9	521.0	511.1	12.3	0.1
Calcium-channel blockers	3,864	14.6	221.8	207.2	3.2	0.4

# 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

# Impact of Reference Pricing for Colonoscopy

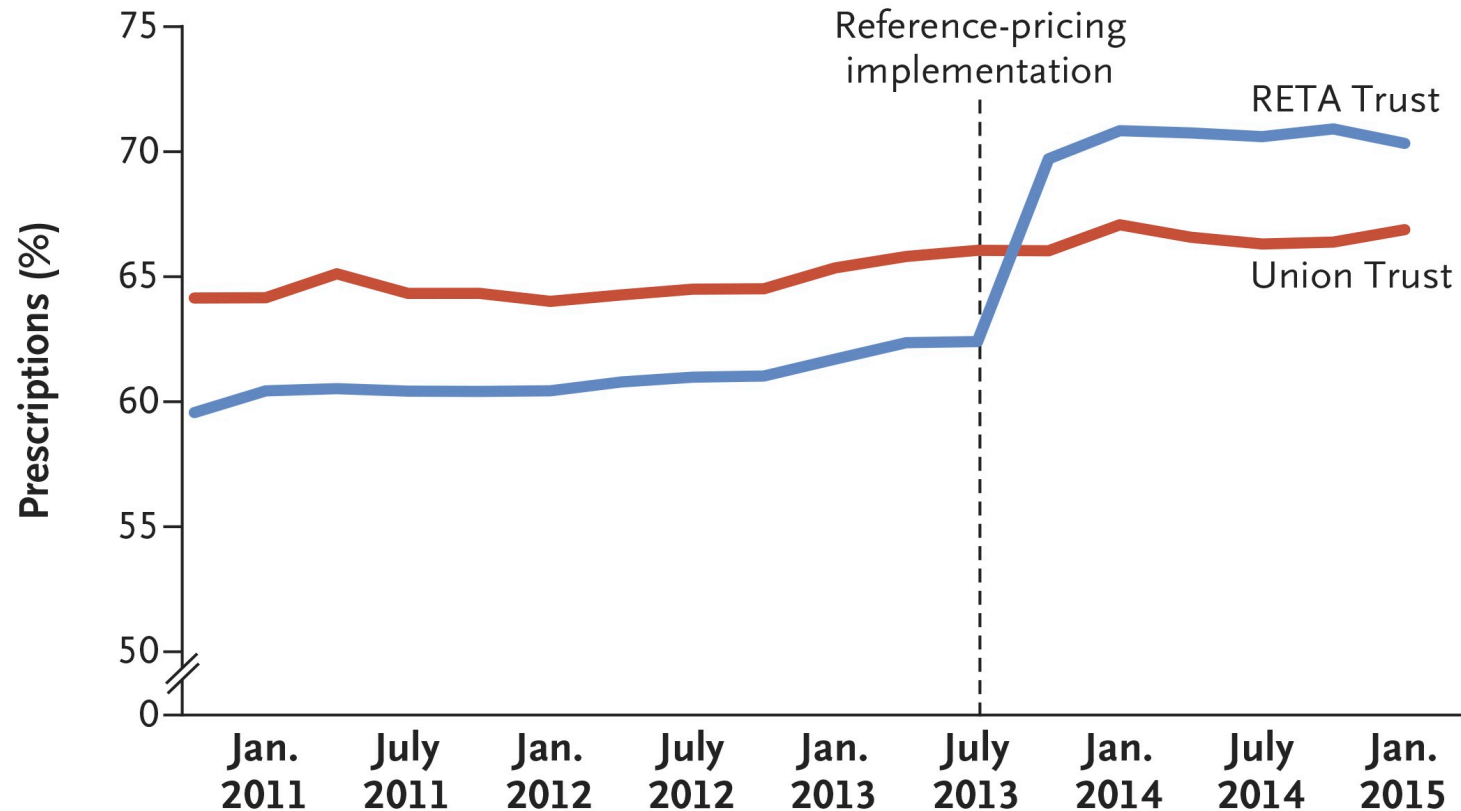
## Payment per Procedure for Colonoscopy Before and After Implementation of Reference-Based Payments by CalPERS





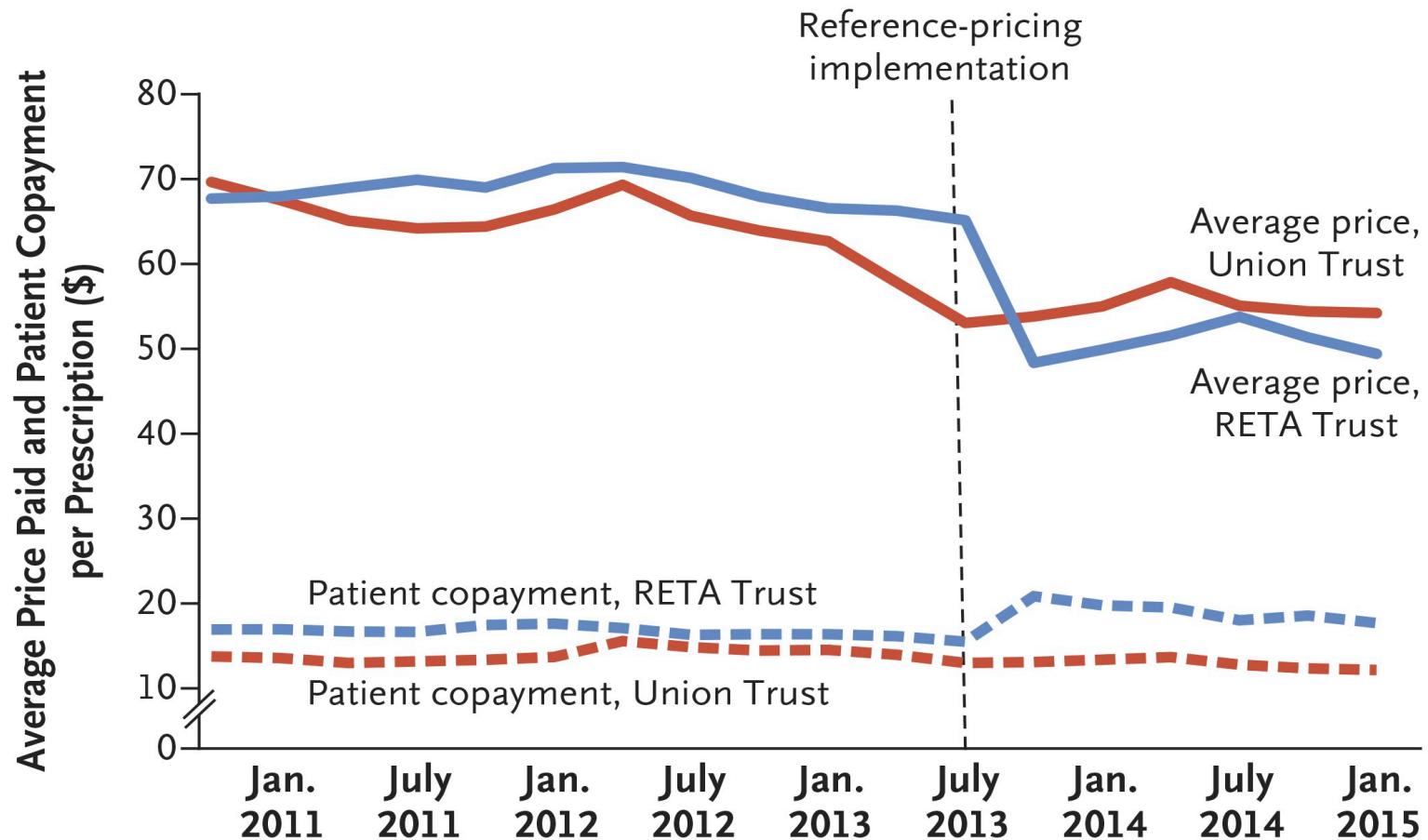
# Impact of Reference Pricing for Pharmaceuticals

## Percentage of Prescriptions Written for Lowest-Priced Drugs within Therapeutic Classes



# Impact of Reference Pricing for Pharmaceuticals

## Monthly Drug Prices and Co-Payments per Prescription (2010–2014)



# Impact of Reference Pricing on Consumer Choices, Prices Paid, and Potential Spending Reductions

	Percentage point increase in use of low-price facilities	Percent reduction in price paid per procedure or test	Total spending by commercially insured individuals in the US (\$Billion)	Potential spending reduction from reference pricing (\$Billion)
Joint replacement	14.2	19.8%	17.09	3.38
Knee arthroscopy	14.3	17.6%	5.70	1.00
Shoulder arthroscopy	9.9	17.0%	3.80	0.65
Cataract surgery	8.6	17.9%	1.90	0.34
Colonoscopy	17.6	21.0%	11.39	2.39
Laboratory tests	18.6	32.0%	23.73	7.59
Imaging: CT scans	9.0	12.5%	17.09	2.14
Imaging: MRI	16.0	10.5%	19.93	2.09
Pharmaceuticals	7.0	13.9%	NA	NA
Total	NA	NA	100.62	19.59

# 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
- Patients must have price and quality information
- Patients must have access to a sufficient number of low-price, high-quality providers
- Patients with special needs should be exempted
- Reference pricing should simplify the choice process
  - CalPERS, Safeway, and RETA Trust direct patients to specific providers or treatments

# Limitations of Reference Pricing

- Not all procedures are “shoppable”
- Consumers exposed to potentially high out-of-pocket payments
- Reference pricing places the burden of responding to price variation entirely on the consumer, rather than on the health plans for negotiating better prices, and regulators for addressing provider market power

# References

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