



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: November 24, 2015

TO: Legislative Finance Committee

FROM: Kris Wilkinson, Lead Fiscal Analyst  
Legislative Fiscal Division

RE: Reference-based pricing

Reference-based pricing refers to a payment methodology used in the health industry if the plan is self-insured, whereby the insurer or employer sets a reference price (maximum amount) which it will pay for a single service or bundle of services. For example, a payer could use the Medicare rate to establish the base price then add a percentage amount to the base. Medicare establishes rates using several methodologies including:

- Fee for service for ambulances, clinical laboratory fees, durable medical equipment, prosthetics/orthotics and supplies, and physicians
- Prospective payment systems for acute inpatient hospitals, home health, hospice centers, inpatient psychiatric facilities, inpatient rehabilitation facilities, long-term care hospitals, skilled nursing facilities, hospital outpatient, and end stage renal disease
- Value-based purchasing for ambulatory surgical centers
- All-inclusive rate system for rural health clinics and federally qualified health centers

Reference-based pricing is intended to reduce or eliminate the wide variation in charges for medical care between providers. For example a Kaiser study on hospital charges found a wide variation in charges including:

- Blood cholesterol tests ranging from \$10 to \$10,169
- Basic metabolic panel ranging from \$35 to \$7,303

The Health Care and Benefits Division (HCBBD) commissioned a review of Montana hospital charges for its plan as part of its review of costs and examination of potential cost saving measures. The review determined that hospitals charges ranged between 200% and 500% above the Medicare rate.

According to the Robert Wood Johnson Foundation report on Exploring the Use of Reference Pricing by Insurers and Employers "early evidence suggests that reference pricing may be a promising cost-control strategy when applied to frequently performed, non-emergency tests and procedures where the prices charged vary widely across providers but the quality of results remains largely similar."

A reference-based pricing does not come without challenges. Plan participants who are charged more than the reference-based price can be balance billed the difference between the provider's charge for the service and the reference-based price. For those plan participants this can result in the participant incurring higher costs for the balance of their medical bills. Other

challenges with reference-based pricing include establishing an adequate network of providers and ensuring consumers are receiving quality medical care.

The Health Care and Benefits Division issued a Request for Proposal (RFP) for third party administrative services as well as provider network coordination/administration earlier this year. Proposals were due by 2:00 p.m. on September 30. Listed as the first of the primary objectives of the RFP is to design and implement reference based pricing networks or arrangements and/or other payment options. Further in the RFP is the following statement:

*The RFP process is designed, in part, to identify those vendors that have the ability and experience to implement a referenced-based pricing arrangement and/or alternative provider reimbursement methodologies to control costs*

Evaluation criteria provided as an addendum to the contract provide the scoring details for the RFP. Total percentage for the scoring is 100%. Reference-based pricing is 25% of the total scored:

- 10% - ability to administer a reference-based pricing strategy
- 10% - offeror who is currently administering reference-based pricing benefit designs
- 5% - provided a typical strategic timeline and steps required to implement a successful reference-based strategy

Nine companies submitted proposals to HCBD, with Allegiance, a wholly owned subsidiary of Cigna, awarded the contract. Appendix A provides the information submitted by Allegiance in response to the RFP regarding reference-based pricing.

Please let me know if you have any questions or would like additional information regarding reference based pricing.

# APPENDIX A

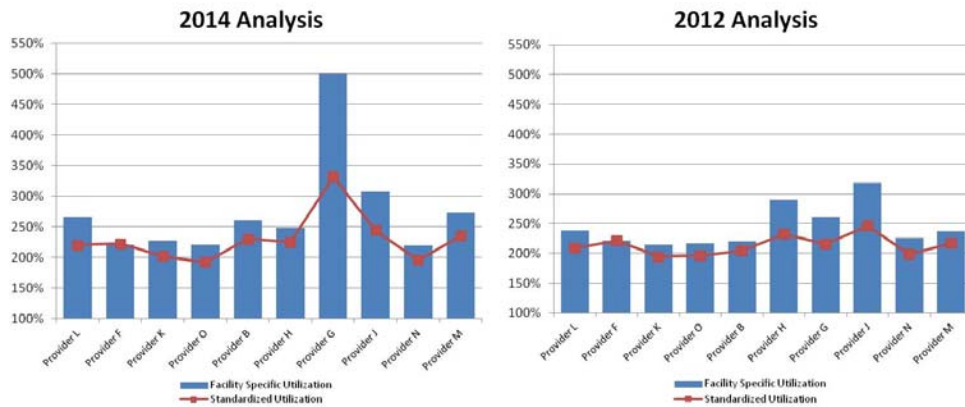
## ALLEGIANCE REFERENCE BASED PRICING PROPOSAL

From the Department of Administration: Health Care and Benefits Division

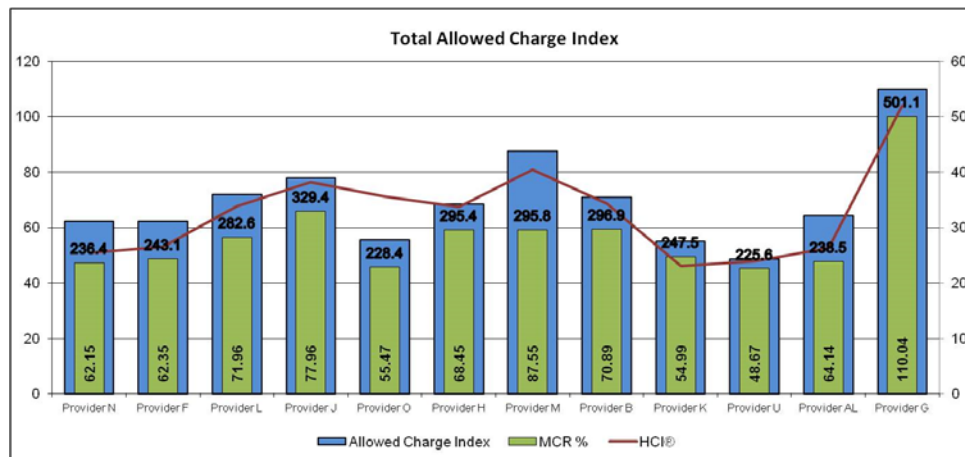
- Describe your capability to administer Referenced Based Pricing (RBP) benefit designs: *Allegiance, in conjunction with its employer clients and in full collaboration with Montana providers has developed a process to reward the more efficient facilities by maintaining current revenue streams while creating strong incentives for less efficient facilities to improve their price position. In addition, this methodology does not require that services be provided at specific facilities in narrowed networks, but allows patients to choose among all providers while reducing costs for the employer by scheduling payment at levels equivalent to the more efficient facilities.*

*Allegiance is the only company to have:*

- completed a comprehensive longitudinal study of the pricing of health care services by Montana providers that compares allowed amount (contracted rates) with Medicare.*



- validated its results with a nationally known healthcare provider consulting firm.*



- *begun actual contract negotiations, not just using Medicare methodologies, but actual Medicare reference based pricing across all service lines with Montana healthcare providers.*
- a. Do you currently administer any RBP plan designs? If so, what is your RBP strategy?  
*Yes, Allegiance currently administers several employer plans with maximum eligible expense benefits, such as implants, dialysis, air ambulance, and other defined services where the maximum is based on a multiple of Medicare for out-of-network providers and the in-network contracts have been based on multiples of Medicare.*

*In addition, as described above, Allegiance is administering Medicare Reference Based plan designs with many of our Montana clients. Below is an outline of our expanded RBP strategy:*

⇒ *Initial contract strategy*

- ✓ *Self-funded employers have expressed a desire for:*
  - *Transparency,*
  - *Comparability,*
  - *Consistency, and*
  - *Predictability.*
- ✓ *Comparing prices for complex healthcare services and supplies is difficult given*
  - *The variation in charge masters*
  - *Differences in billing practices.*
- ✓ *Medicare is the only nationally consistent pricing reference as a baseline to compare risk and geography adjusted payments.*
- ✓ *This reimbursement methodology is NOT designed to reduce the revenue to those facilities already showing strong financial efficiency.*
- ✓ *The employers adopting this reimbursement methodology wish*
  - *to encourage broader financial efficiency and*
  - *to provide comparable benefits regardless of the facility chosen by the patient*
- ✓ *These employers are looking into*
  - *A benefit philosophy based on a standard multiple of Medicare Allowed; and*
  - *Communicating the names of the facilities that accept this allowed amount as*
    - *Satisfaction in full of the financial obligation of the patient*
    - *With no-balance billing.*
  - *Tie commercial plan reimbursement to a multiple of the Medicare Allowed Amount:*
    - *For inpatient services and supplies, XXX% of Medicare including outliers determined in collaboration with the employers and the providers;*

- *For outpatient services and supplies, YYY% of Medicare including outliers determined in collaboration with the employers and the providers; and*
- *For professional services and supplies, ZZZ% of Medicare determined in collaboration with the employers and the providers.*
- ✓ *Medicare may revise DRGs, APCs, RVUs, etc., impacting future revenue, therefore*
  - *If the adjustment from Medicare would have a negative impact on the contracted provider's anticipated revenue*
  - *Adjust the Multiple of Medicare Allowed Amount to ensure an increase of*
    - *The lesser of X% as determined in collaboration with the employers and the providers; or*
    - *CPI-U as measured for the 12 month period ending December 31.*
- ✓ *Employers opting to participate in this program will commit to:*
  - *Communicate the names of those healthcare providers willing to accept the allowed amount as payment in full without balance billing the patient for any additional expenses except amount attributable to co-pays, deductibles, and non-covered services.*
  - *Facilitate the payment of co-pays and deductibles for high-deductible health plans through HRAs or HSAs or other mechanisms to limit the healthcare provider's exposure;*
  - *Implement a travel benefit to reimburse the patient and one companion for up to an amount defined by the client per incident;*
  - *Provide transparency tools to the covered population; and/or*
- ✓ *Develop an incentive program to reward quality and efficiency as measured by readmission and emergency room usage rates.*
- ✓ *Commitment to a full communication process with*
  - *Participants*
  - *Providers*
- ✓ *Assist employees in finding participating providers*

b. Do you provide reference pricing as an in-house service, or is it outsourced to a 3rd party vendor? If so, who? – *Allegiance has contracted with Payer Compass for Medicare-Based repricing services. Medicare-Reference Pricing and Medicare repricing have similar elements but are distinctly different in their application. Payer Compass has broad experience using Medicare rules to create a viable price for the commercial market whether the plan chooses to pay from the plan document, or whether it chooses to contract with a provider. Medicare-Reference Pricing uses Medicare payment methods along with customized reimbursement methods to create reimbursement for a particular plan. And while Medicare payment methods have pricing for about 85 percent of all claims and items on claims, Payer Compass can reprice almost all claims through three additional critical modules:*

- (1) *Visium Medicare Equivalency Tool – Creates a price for care NOT covered by Medicare*
- (2) *Visium Medicare Approximation Tool – Creates a price for facilities NOT Medicare certified; and*
- (3) *Visium Medicare Care Cross-Walk Tool – Creates a price for care NOT covered by Medicare in a particular setting.*

*Payer Compass supports all operational Medicare payment systems as well as the whole gamut of commercial repricing methods.*

- c. Are you able to administer cost plus based reference pricing (i.e. % of Medicare)? Usual and Customary based? Other? Please describe – *Yes. The Allegiance RBP strategy is focused on using Medicare allowable charges as a key benchmark in determining reasonable reimbursement levels. UCR data or any other industry reference base can be implemented. If a cost plus reference based pricing methodology is selected by the plan sponsor, the cost method is programmed into the system as part of the repricing and plan building processes.*
- d. If applicable, describe a scenario(s) where you have been involved with RBP benefit designs to successfully lower cost for a client. - *Allegiance has implemented multiple RBP programs within client plans for focused benefits to help control costs in those healthcare areas that are often difficult or impossible to manage under traditional benefit designs and network options.*

*End-Stage Renal Disease (ESRD) provides a particular challenge to health plans. At Allegiance, we work to manage the costs associated with this condition by involving multiple departments in coordinating the most effective available treatment strategy. Case Managers from StarPoint work with patients to steer them towards Centers of Excellence for any necessary transplants. StarPoint will also encourage the patient to sign up for Medicare, reducing expenses for both the patient and the employer-sponsored health plan: if the ESRD patient is signed up for Medicare, the Allegiance claims department is able to process the claims at the current Medicare rate for dialysis while removing the potential for balance bills to the patient.*

<b>Sample Recent ESRD Claims and Savings</b>		
<b>Claim</b>	<b>Billed Charges</b>	<b>Allowed Charges</b>
<b>3 Days Hemodialysis Treatment</b>	<b>\$20,045.19</b>	<b>\$1,436.58</b>
<b>3 Days Hemodialysis Treatment</b>	<b>\$15,899.04</b>	<b>\$1,436.58</b>
<b>1 Month Dialysis CCPD Treatment</b>	<b>\$54,743.00</b>	<b>\$13,872.61</b>
<b>Average Savings for ESRD Claims – ex: 3 treatments per month over 12 months</b>		
<b>Savings per case: \$524,600</b>	<b>Average Discount off of billed charges: 86%</b>	

We have also developed unique approaches to managing the massive costs associated with air ambulance services. Air Transport providers often refuse to contract with administrators and networks in order to retain their ability to charge rates that far exceed their costs. Facility-to-facility air transportation provides an opportunity for facilities, administrators, and plan sponsors to intervene in the situation to ensure services are provided by contracted providers with reasonable charges. Allegiance has aggressively pursued contracts with air transport providers (both facility-based and standalone) across the state and region. Our Air Transport contracts utilize Medicare-Based Pricing to establish contracted rates that allow for adequate reimbursement to the provider while significantly limiting the potential financial liability to the plan and member. Allegiance also recommends plan language limiting health plan reimbursement for out-of-network Air Transport service. By limiting allowable charges to a Maximum Eligible Expense based on a multiple of Medicare (or reference to Medicare), the health plan sees an average savings of \$17,500 per claim with individual claim savings ranging from \$3000-\$54,000.

<b>Air Ambulance Claim Savings (as a result of Medicare Reference Based plan designs)</b>	
<b>Average Savings Per Claim</b>	<b>Savings Range on Individual Claims</b>
<b>\$17,500</b>	<b>\$3000 - \$54,000</b>

- e. Provide a typical strategic timeline and steps required to implement a successful RBP strategy. - *Allegiance has already completed significant analysis and evaluation of RBP possibilities in Montana and with Montana providers. The large majority of Allegiance contracted providers are already on Medicare Reference-Based pricing contracts. Further, Allegiance has previously had DRG-based contracts with certain Montana facilities and can continue to administer in accordance with this methodology if desired.*

We continue to pursue full Medicare Reference-Based contracts with hospitals and facilities across Montana and, based on our current contracting efforts, anticipate having these contracts in place with major facilities beginning in November 2015. As the current network administrator for SOM, HCBD has participated in these contract discussions. Beyond contracting, a significant communications effort would be required to educate enrollees and their physicians about how to select participating providers and prepare for possible balance billing. As such, Allegiance is pursuing the following strategy related to RBP plan designs and contracting:

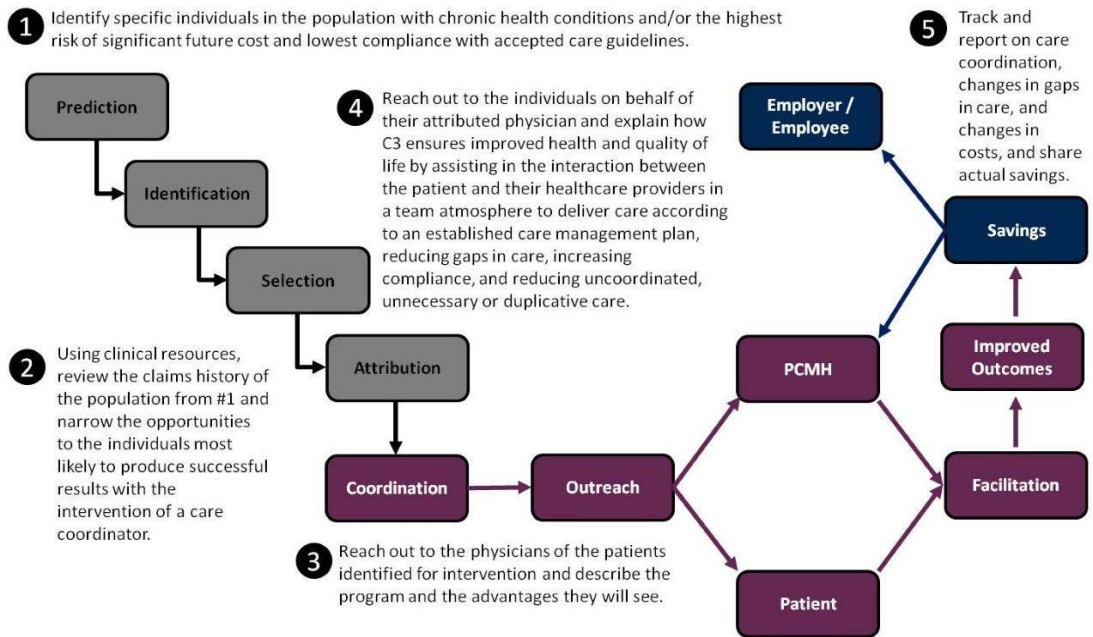
<b>2015</b>	<b>September</b>	<b>17th</b>	Received written agreement to the proposed strategy from one major facility and scheduled a meeting for September 28 <sup>th</sup>	
	<b>October</b>		<b>6th &amp; 22nd</b>	Meet with the two hospitals who have already received Medicare Reference Based Pricing contracts and finalize negotiations

<b>2016</b>	<b>October</b>	<b>23rd</b>	<i>Send contracts to the remaining large facilities and begin contracting efforts with Critical Access Hospitals</i>
	<b>November</b>	<b>(all)</b>	<i>Execute contracts with the two initial hospitals</i>
	<b>December</b>	<b>18th</b>	<i>Announce contracts and collaborate with other facilities to finalize contracts</i>
	<b>January</b>	<b>15th</b>	<i>Develop communication materials (print, web, and video) for enrollees and physicians</i>
	<b>February</b>	<b>19th</b>	<i>Send initial communications to enrollees and physicians announcing the program and effective date, and providing an introduction to RBP strategy and what it means for their benefits and healthcare costs</i>
	<b>March</b>	<b>(all)</b>	<i>Continue communications program with a campaign directing enrollees and other interested parties to a dedicated website for additional information and video explanations regarding finding a RBP participating provider, what questions to ask, how to determine financial impact, travel benefits, etc.</i>
	<b>April</b>	<b>15th</b>	<i>Complete contract negotiations with remaining facilities and communicate to enrollees and physicians which facilities have chosen to participate</i>
	<b>May</b>	<b>TBD</b>	<i>Hold in-person meetings to answer questions</i>
<b>June</b>	<b>TBD</b>	<i>Additional in-person/on-site meetings</i>	
<b>July</b>	<b>1st</b>	<i>Full implementation</i>	

- f. Do you currently or have you ever administered RBP plan designs in the State of Montana? Please describe – *Yes, Allegiance currently administers partial RBP plan designs for many of our Montana clients with maximum eligible expense benefits, such as implants, dialysis, air ambulance, and other defined services where the maximum is based on a multiple of Medicare for out-of-network providers and the in-network contracts have been based on multiples of Medicare. As outlined above, Allegiance has also performed extensive analysis in this area, and would bring incomparable expertise to the table were SOM to implement an RBP plan design.*
- g. Do you have any exclusive provider networks; bundling of services contracts; or medical tourism arrangements? Please describe  
*Beyond reference-based pricing, Allegiance has developed several other payment innovations including:*
- ⇒ *Exclusive and client specific provider networks with multiple tiers where benefits are limited to the defined network of providers or are greatly enhanced for a subset of a larger network many of these for large healthcare institutions across the nation;*



- ⇒ *Travel benefits for use of Centers of Excellence particularly with transplant and high-cost cancer services;*
- ⇒ *Implementation of bundled payments for knees and hips with 7 major facilities in Montana*
- ⇒ *Review of additional bundled payment options including*
  - ✓ *Bariatric surgery*
  - ✓ *Heart valve surgery*
  - ✓ *Coronary artery bypass grafts*
- ⇒ *Development and implementation of shared savings constructs*
- ⇒ *Reimbursement of non-clinical embedded care coordination for treatment of higher risk complex and/or chronic care patients using predictive modeling, risk assessment and provider utilization analysis as shown in the diagram below. Allegiance makes Verisk available to embedded care coordinators as well as the State to monitor and exchange information about attributed patients and to measure the close in gaps in care and risk adjusted cost information.*



- h. Do you have the ability to reimburse facilities for Rev. Code 278 at invoiced price plus a percentage mark-up? Or the ability to limit benefit to an established maximum allowable charge? – *Yes, Allegiance currently performs cost-plus analysis on specific supplies and can extend this benefit and reimbursement design to the SOM plan. Alternatively, SOM and Allegiance can establish a maximum eligible expense for revenue code 278.*