



# TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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## SAVINGS AND CHALLENGES WITH REFERENCE-BASED PRICING IN HEALTHCARE

### Background

The costs of healthcare and health insurance impose a significant burden for many individuals and their families. Today, healthcare consumes nearly one-fifth of US gross domestic product and a large portion of household budgets. The cost of insurance premiums and deductibles have outpaced inflation for years, and just over 40% of Americans carry some amount of medical debt, with Tennesseans bearing one of the highest rates of medical debt that has gone to collections.

In this context, many policymakers have sought means to restrain healthcare prices. Reference-based pricing is one method that sets a limit on what is paid for a given healthcare service, with that limit indexed to an objective benchmark, such as Medicare rates. In addition to its use by some private employers for their employee health plans, reference-based pricing has been applied in different ways for the state employee health plans of California, Montana, North Carolina, and Oregon. Washington has also applied reference-based pricing in what it calls public option plans, or plans with benefits designed by the state but offered by commercial insurers through the individual insurance marketplace, and Colorado may use reference-based pricing for its public option plans in the future. The Tennessee Advisory Commission on Intergovernmental Relations (TACIR) has released its study of the effects of reference-based pricing on health insurance prices that was prepared in response to Senate Bill 2330 by Senator Hensley and House Bill 2456 by Representative Sparks.

### Findings

The Commission's study finds that it is likely to generate savings for insurers and employers. California achieved savings of between 13% and 27% on certain medical procedures, while Montana's state health plan saw overall savings of 22%, and Oregon saw estimated savings of 33%. Reference-based pricing may generate savings for patients if it is structured to prevent balance billing, and it can slow or halt premium increases; in Montana's state health plan, for example, premiums have been unchanged since 2016. Reference-based pricing might motivate higher-priced healthcare providers to lower their costs as has occurred in California, though this is not guaranteed. However, healthcare providers, and hospitals in particular, are strongly opposed to reference-based pricing and have resisted its implementation in each state that has adopted it.

See TACIR's full report at the following link for additional information: <https://www.tn.gov/tacir/tacir-publications.html>.