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July 2014

## In this issue:

[Home](#)

[Why Reference Pricing and Fee Caps Matter in Healthcare](#)

[SCU Success Story](#)

[HCC Life is now on LinkedIn](#)

[2014 HCC A&H Partnership Summit Recap](#)

[2015 HCC A&H Partnership Summit Announcement](#)

## Why Reference Pricing and Fee Caps Matter in Healthcare

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Pricing variations for medical services are a key factor to the skyrocketing cost of healthcare. Take the case of a national insurance carrier where a provider billed \$59,490 for an ultrasound that typically cost \$74. These provider billing practices occur daily for virtually all medical services ranging from simple x-rays to more complicated procedures such as spinal fusions. While healthcare spending accounts for roughly 18% of GDP it has not historically been subject to the basic laws of supply and demand. Healthcare consumers are typically unaware of the price or the quality of medical care prior to obtaining services even though it's one of their largest expenses. Unlike other major household purchases such as buying a car or securing a mortgage where consumers perform competitive research to ensure they're getting the best price, healthcare has until now been shrouded in secrecy and confidential pricing arrangements.

Plan sponsors and payers have also been working at a disadvantage due to the lack of price and cost transparency. PPOs have significantly contributed to market distortions where prices only move in one direction...up. When trying to assess the value of PPO discounts, networks and providers routinely invoke a confidentiality clause that leaves everyone wondering; a discount off of what? This is quickly followed up by the PPO contract provisions that prevent any audit or recourse rights for erroneous (duplicate) or inflated billings. These contracted "discounts" allow providers to dictate prices regardless of cost or outcomes thereby creating a "buyer beware" approach to medical services.

In order to address a dysfunctional market where US healthcare expenditures significantly exceed other industrial countries while ranking amongst the lowest in quality and outcomes, the Centers for Medicare and Medicaid Services (CMS) have started publishing price and cost data. This is a material development as CMS accounts for over 60% of US

medical payments thereby establishing the de facto prevailing rates. The CMS data combined with other industry reference databases allow payers for the first time to impose pricing accountability for medical services. It's also the starting point that allows consumers to compare prices to make informed decisions prior to seeking medical services.

Payers and consumers can now use objective industry data to establish the reference price for medical services to ensure fair and reasonable payments. Reference-based pricing (RBP) has been met by providers with the same double speak inherent in PPO contracts. On the one hand they assert that the published price and cost data is not applicable to commercial reimbursements while at the same time asserting in their CMS filings that the cost and prices are true and accurate representations.

Recent industry trends reinforce the imperative for RBP. According to CMS (June 2014), charges for 100 of the most common inpatient procedures surged at hospitals across the country in 2012 from a year earlier, some at more than four times the national rate of inflation. The data includes bills submitted in 2012 by 3,300 hospitals nationwide. Other industry studies reinforce CMS findings particularly for catastrophic claims where the total dollar amount has spiked dramatically. The studies also found the frequency of claims over \$1M has doubled over the past four years.

The widening gap between wages and medical expenses per household income continues to pose a significant challenge to American families. Payers and plan sponsors face a similar challenge in developing a sustainable reimbursement model in light of increasing healthcare cost, rising regulatory burden and taxes. If you're not using reference pricing to cap reimbursements to hold providers accountable you can be assured of one thing...your claims cost will continue to rise unabated.

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*Centers for Medicare & Medicaid Services (CMS) recently released its first annual update to the Medicare hospital charge database, which compares the average amount of hospital charges for inpatient and outpatient services. The data is based on bills from 2012. CMS also released a suite of other data benchmarks and tools which increases transparency and includes interactive dashboards for the CMS chronic conditions data warehouse and a Geographic variation database. Below are some links you may find helpful:*

[www.hcc.com/life](http://www.hcc.com/life)

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<http://www.hhs.gov/news/press/2014pres/06/20140602a.html>

<https://data.cms.gov/utilization-and-payment-explorer>