



Reference-Based Pricing

Opportunities in Vermont, Lessons from Other States

House Health Care Committee Presentation

February 5, 2025



HEALTH INSURANCE HUSTLE

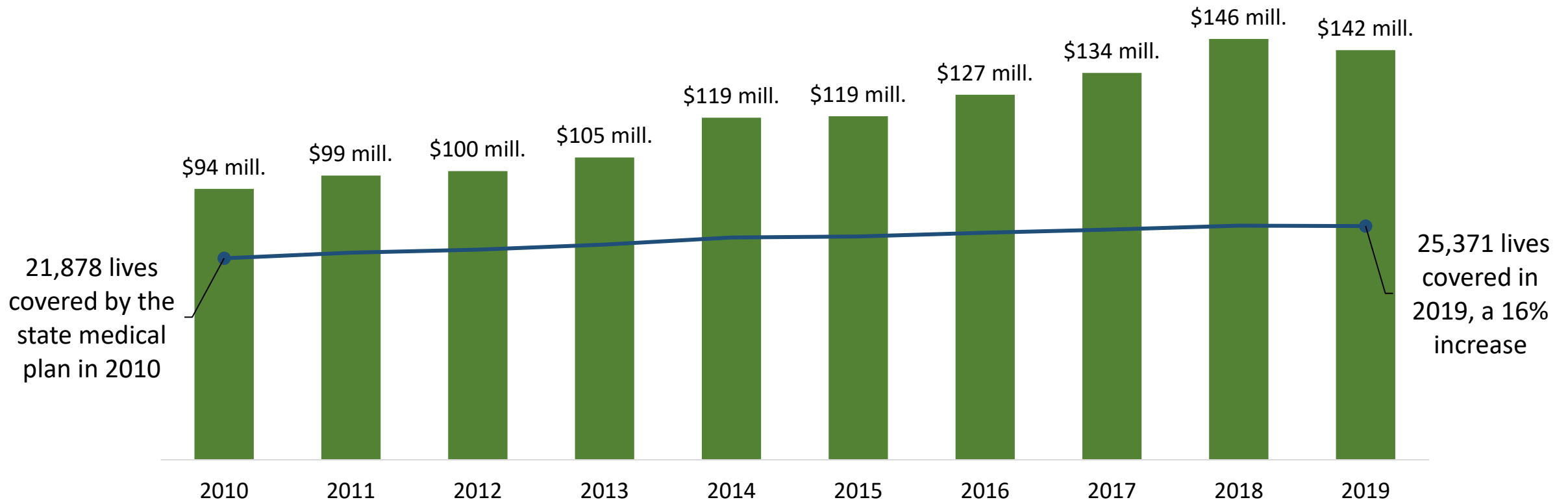
In Montana, a Tough Negotiator Proved Employers Don't Have to Pay So Much for Health Care

With its employee health plan in financial crisis, Montana hired a former insurance insider who pushed back against industry players with vested interests in keeping costs high. She proved, essentially, that bargaining down health care prices works.

by Marshall Allen, Oct. 2, 2018, 5 a.m. EDT

Medical payments for the State plan grew 51% between 2010 and 2019

The State's employee health plan is administered by Blue Cross Blue Shield of Vermont

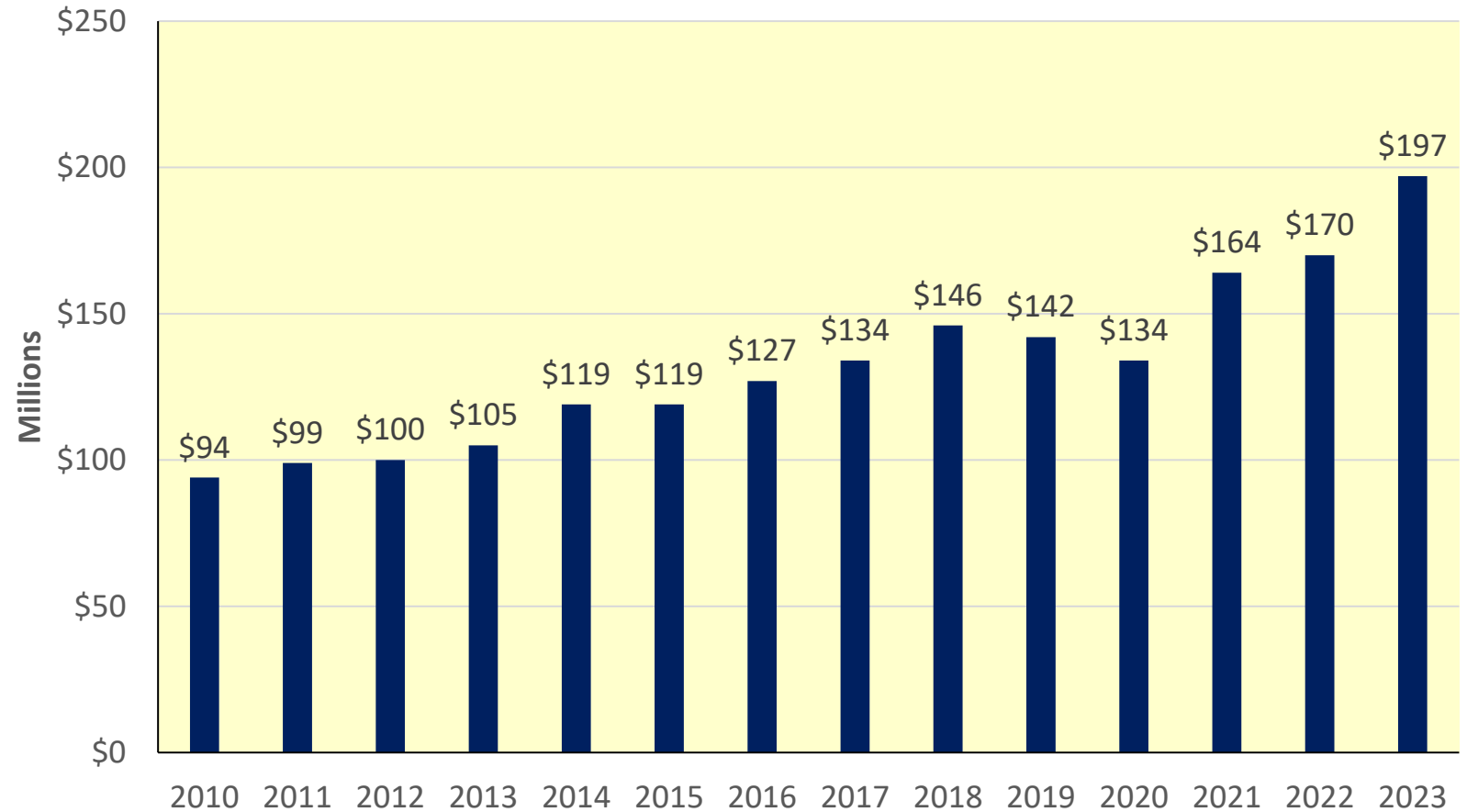


Source: Vermont Department of Human Resources

In the years since our report, state employee plan cost growth has escalated, including the largest-ever one year increase in 2023.

Note: Rx not included in chart.

**Medical and behavioral health claims for the State plan
grew 109% from 2010 to 2023**

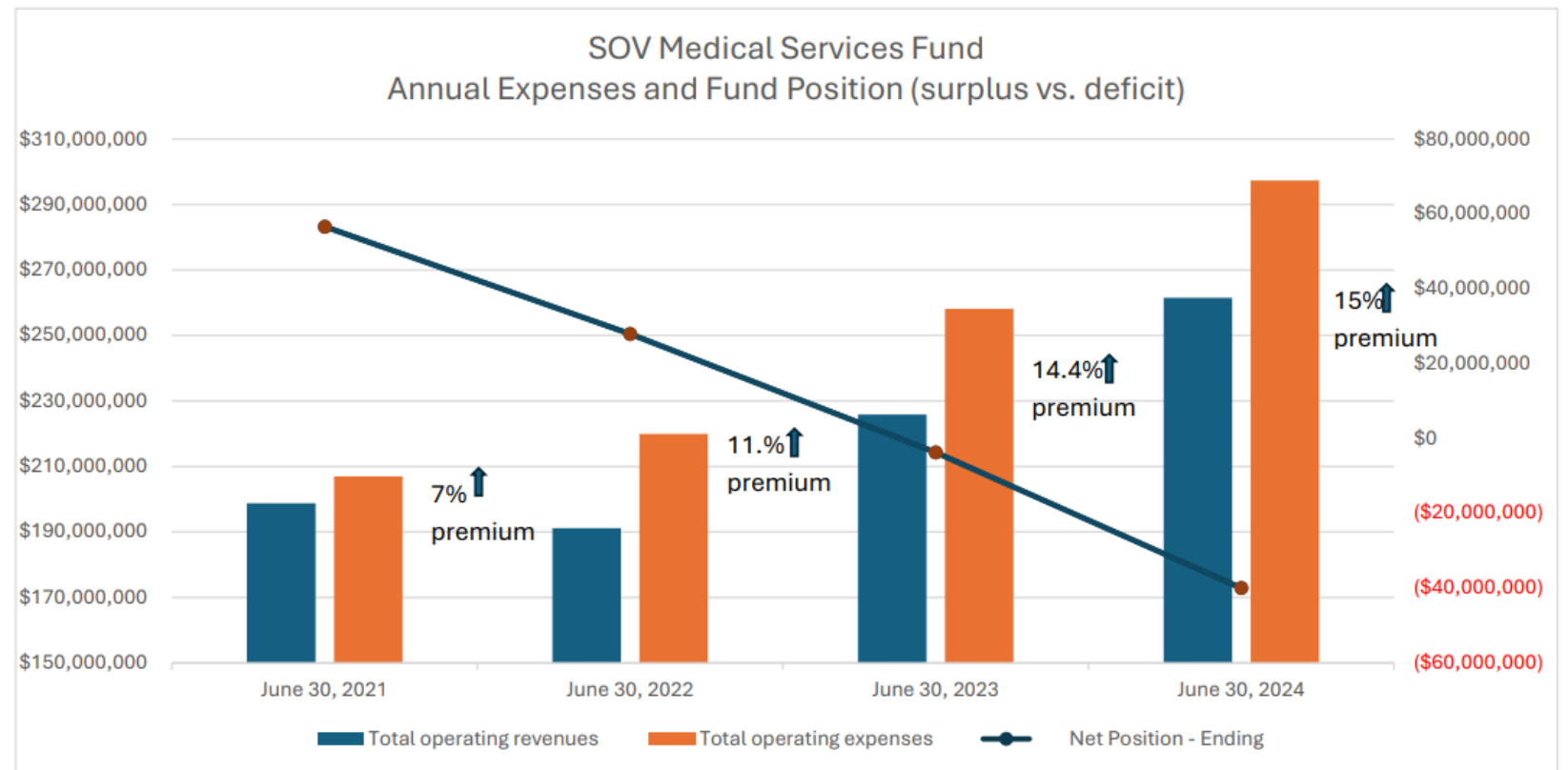


Source: VT Dept. of Human Resources, Annual Utilization Reports

From Commissioner Fastiggi’s and Greshin’s Presentation to House Appropriations

The State Employee health plan has essentially suffered a \$100 million reversal of fortune.

Department of Human Resources – January 29, 2025



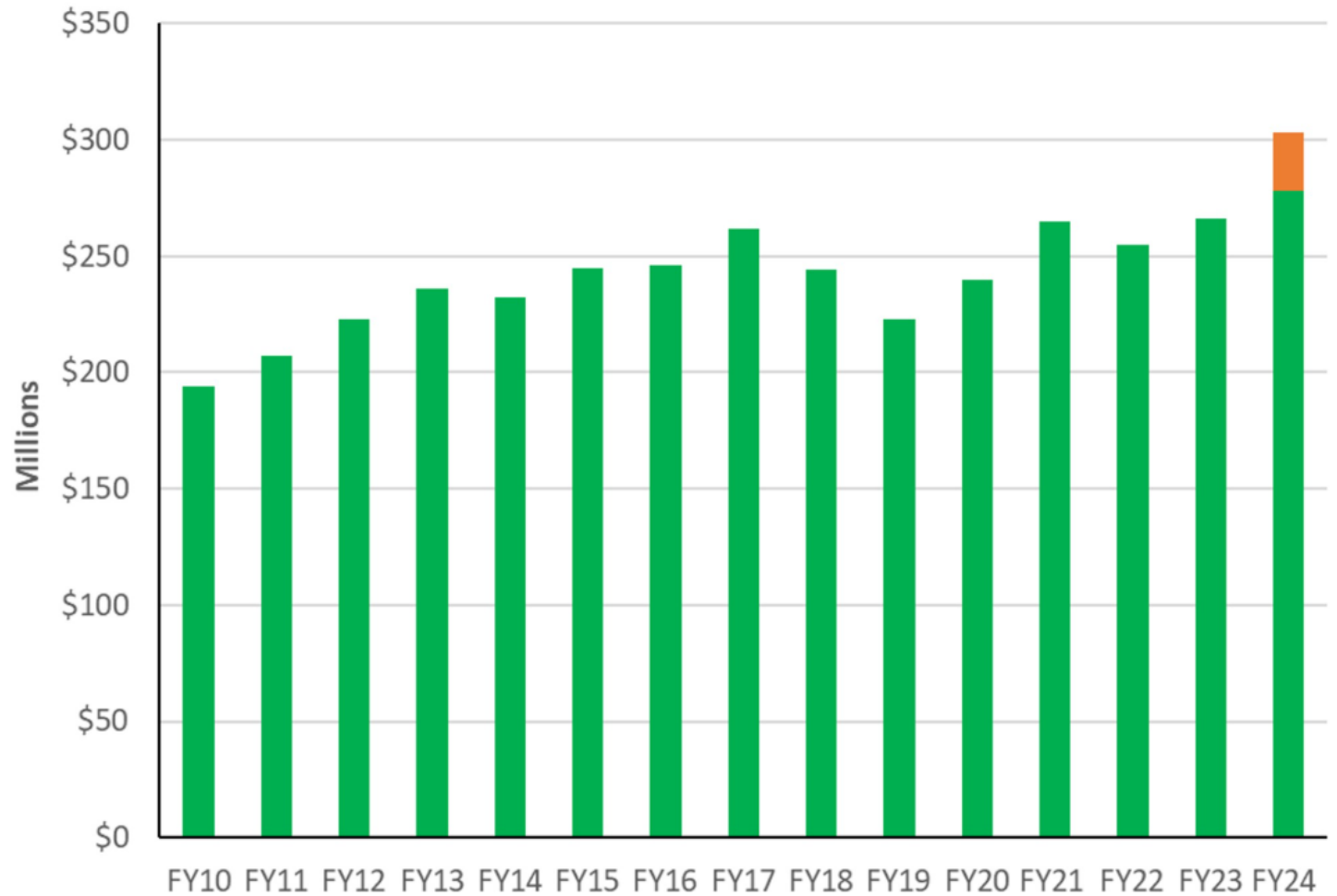
From Commissioner Fastiggi's and Greshin's Presentation to House Appropriations

Medical Internal Services Fund Financial Statements Summary FYE 21 through FYE24				
	June 30, 2021	June 30, 2022	June 30, 2023	June 30, 2024
Total operating revenues	\$198,742,918	\$191,196,603	\$225,819,325	\$261,549,258
Total operating expenses	\$206,945,371	\$219,966,387	\$258,154,051	\$297,316,260
Net Position - Beginning	\$64,667,943	\$56,601,975	\$27,897,280	(\$3,743,222)
Net Position - Ending	\$56,601,975	\$27,914,330	(\$3,743,222)	(\$39,998,432)

Teachers' health costs are on the same upward trajectory.

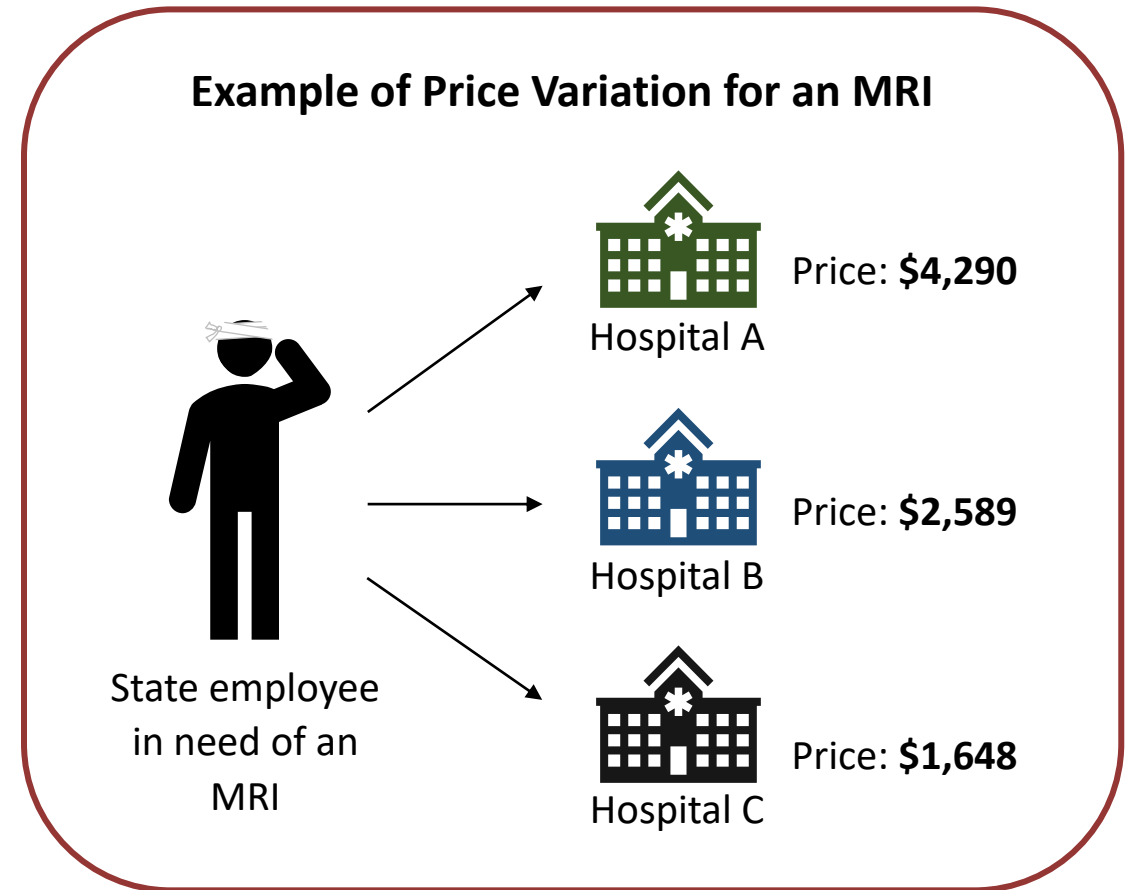
Note: On Dec. 31, 2021, approx. 7000 retired teachers moved out of VEHI and into the Vermont Blue Advantage plan whose costs are not included in the chart.

Health care expenses for active and some retired teachers



Price variation and potential for savings

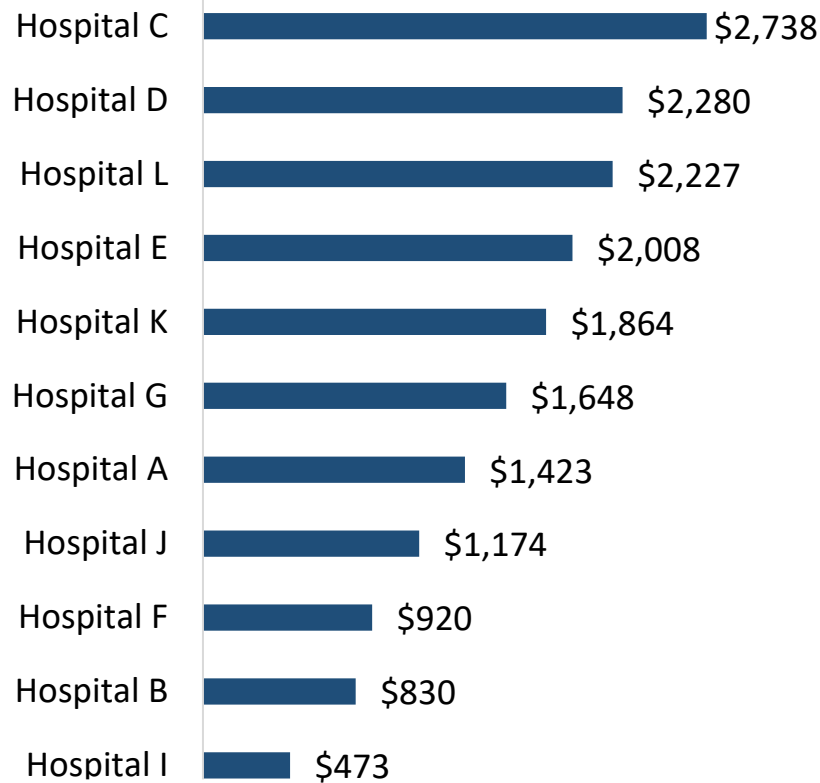
- Price variation occurs when health care providers are paid different amounts for the *exact* same service
- Higher prices \neq higher quality
- Unwarranted price variation increases costs without offering better value or societal benefits



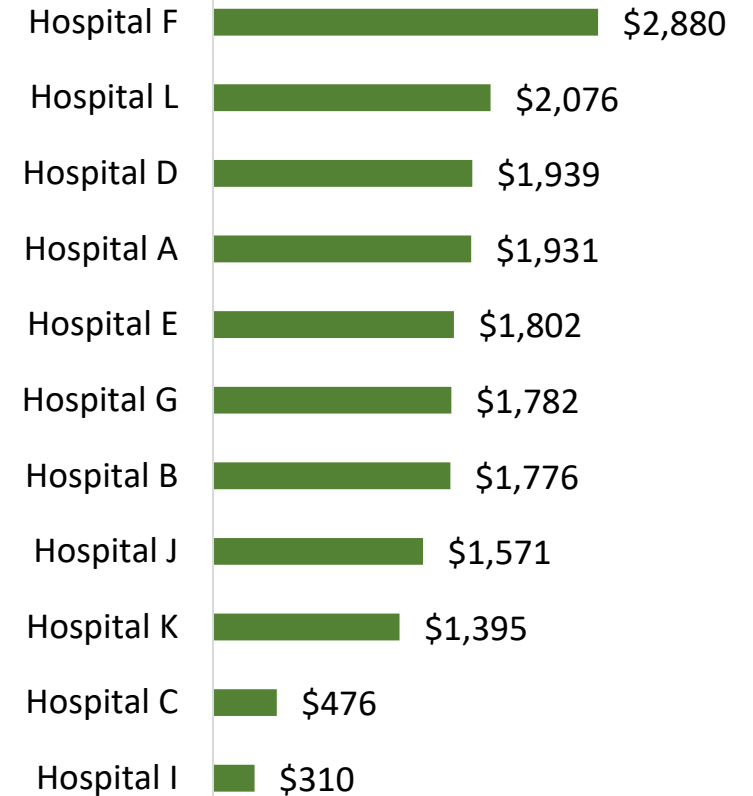
We found significant variation in prices paid to providers under the State employee plan

In our sample, the highest priced provider for a given service was paid an average of 3.5 times more than the lowest priced provider for the exact same service

Median Price,
CT scan of the chest



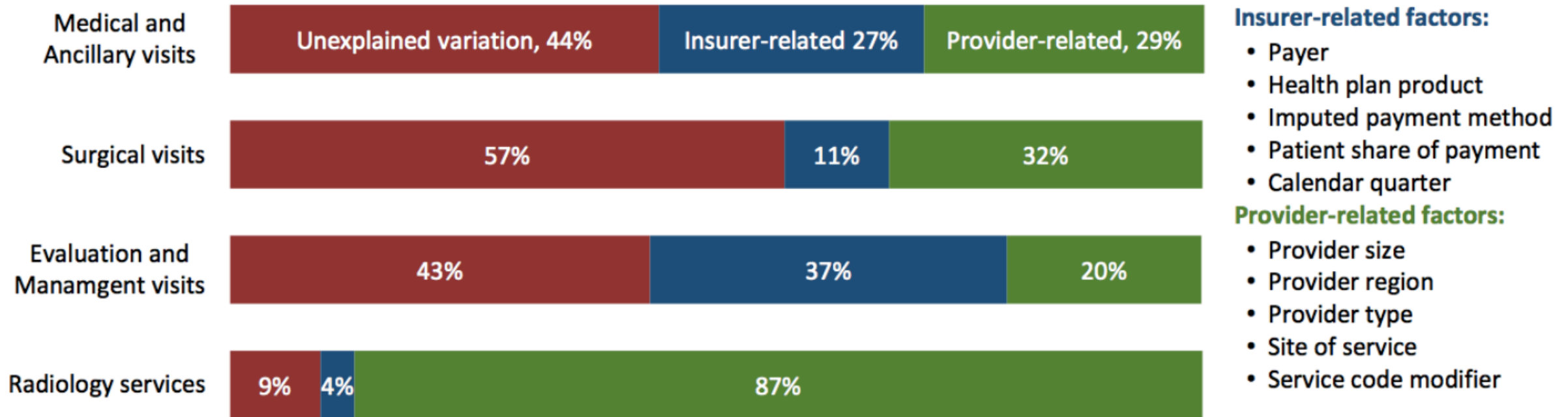
Median Price,
Echocardiograph



Source: BCBSVT, State of Vermont Employer Group: 2019 median price data

Figure 2. Average variation in professional prices explained by each factor

Recreated using data from the 2014 analysis prepared for the Green Mountain Care Board



Source: University of Vermont College of Medicine, University of Massachusetts Medical School, & Wakely Consulting Group. [Price Variation Analysis](#). August 2014.

Reference-based pricing: Montana state employee health plan

- Reference-based pricing occurs when a health care purchaser **assigns an appropriate price they are willing to pay** for a service

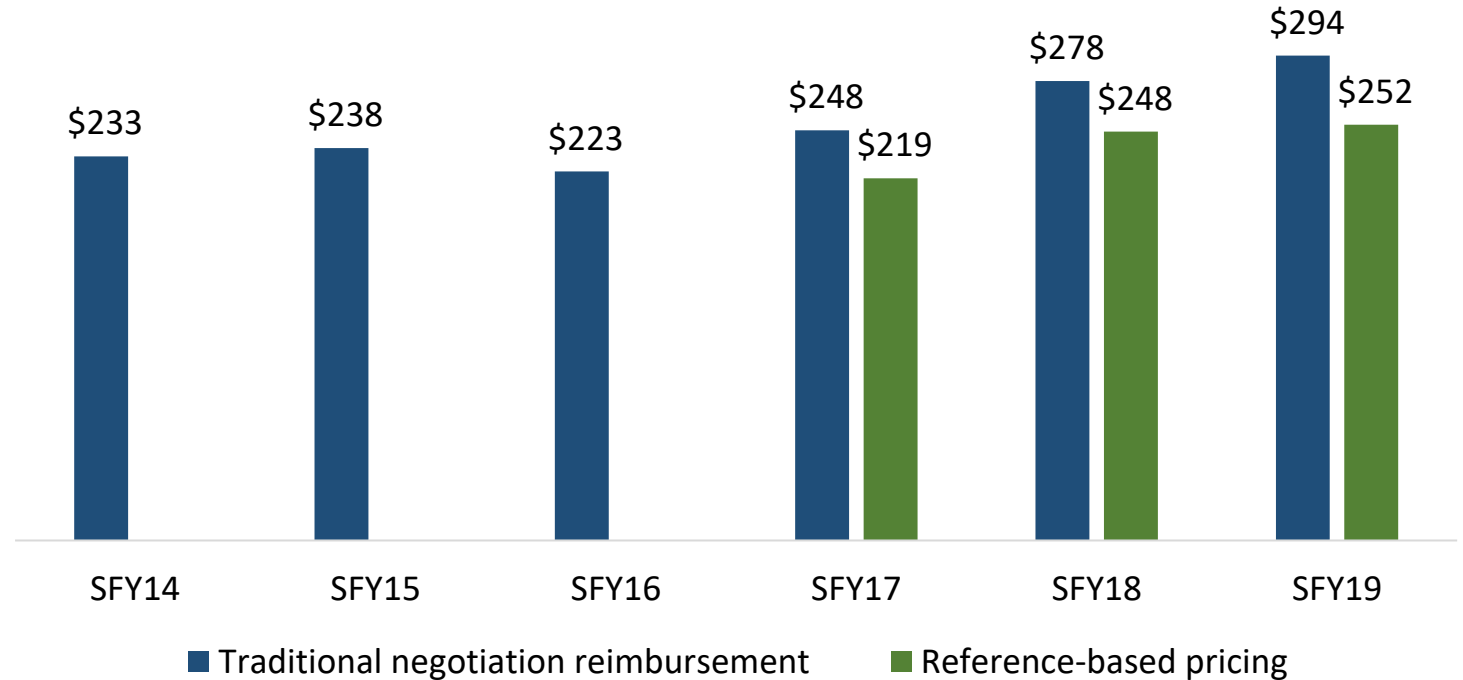


- Montana set reference price between 220% and 250% of the Medicare rate for inpatient and outpatient services
- Covered all acute care hospitals in the state

Reference-based pricing: Montana state employee health plan

- **\$47.8 million savings in first three years (17%)**
- No impact on employee choice
- No hospital closures

Average outpatient cost per member per month in Montana, traditional negotiations vs. reference-based pricing



Source: Schramm and Aters, (2021). Estimating the Impact of Reference-Based Hospital Pricing in the Montana State Employee Plan.

Using reference-based pricing in the Vermont state employee health plan

- 2019 BCBSVT price data from the State employee health plan
- Sample of 39 services across top 12 providers
- Used midpoint price as the reference price

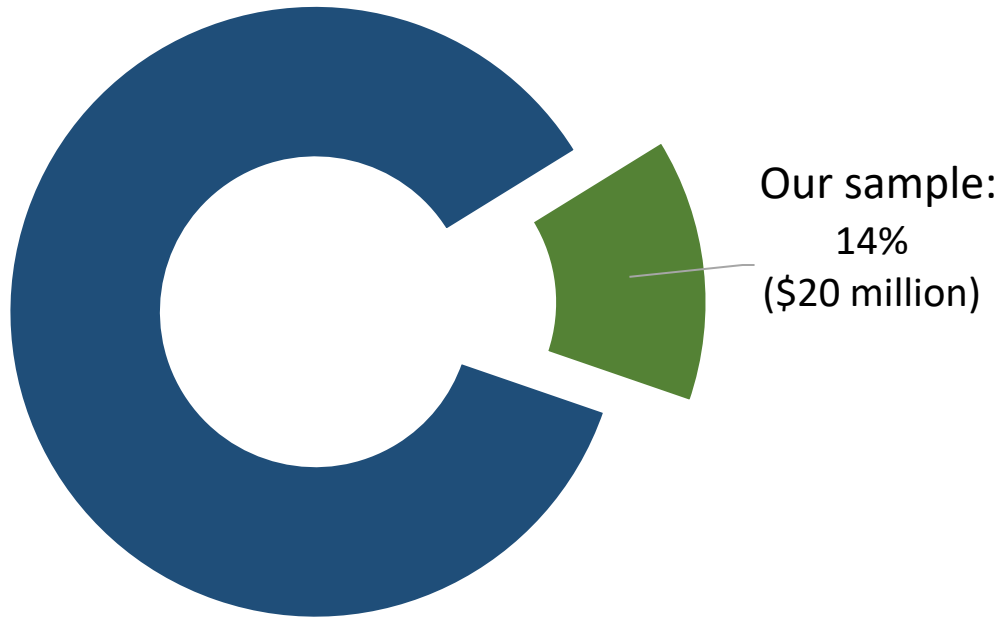
Midpoint →

Service description	CT of abdomen or pelvis	
Total visits	366	
Hospital	Median Price	Visits
Hospital A	\$2,615 -\$3,505	94
Hospital B	\$2,615 -\$3,449	94
Hospital F	\$2,615 -\$3,418	15
Hospital L	\$2,615 -\$3,270	12
Hospital E	\$2,615 -\$2,969	25
Hospital D	\$2,615	23
Hospital K	\$2,362	6
Hospital J	\$2,305	24
Hospital C	\$1,867	43
Hospital G	\$1,632	8
Hospital I	\$1,075	22

Estimated savings using the midpoint price: \$190,853

Using reference-based pricing in the Vermont state employee health plan

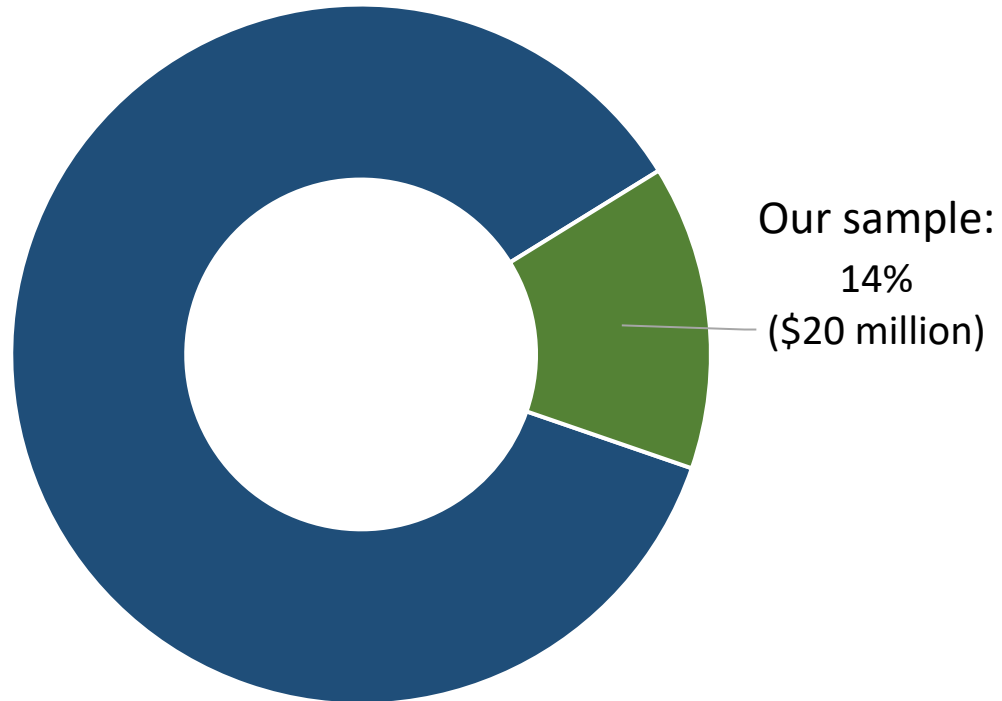
Total medical claims in 2019: \$142 million



For just the 39 services we sampled, the State could **save \$2.3 million annually, with an average of 13% savings per service**

Using reference-based pricing in the Vermont state employee health plan

Total medical claims in 2019: \$142 million



If this level of savings was achieved across all medical services, **total savings could reach \$16.3 million annually**

Using reference-based pricing in the Vermont state employee health plan (Final Slide from 2022)

No impact on employee
behavior or choice

Modestly scaled project to
address price variation

Can inform movement to
value based payment

Recommend AOA conduct
a more comprehensive
analysis

The Oregon Educators Benefit Board (OEBB) and Public Employees' Benefit Board (PEBB) are Oregon's public sector employee health benefit programs.



Provides benefits for 240+ school districts & community



Provides benefits for 200+ state agencies & universities

Together the programs cover 300,000 people – about 15% of Oregon's commercially insured.

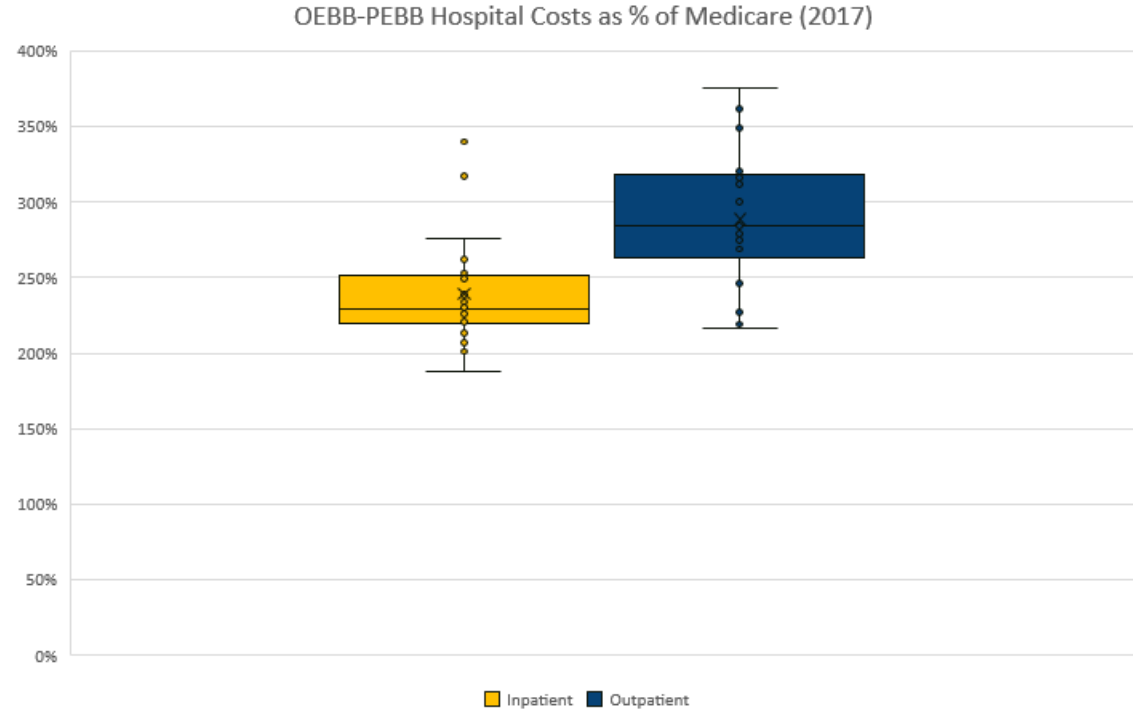
*** Slides 17-25 are drawn from an Oregon Health Authority presentation ***

OREGON FACES SAME PRICE VARIATION THAT EXISTS IN VERMONT

Problem: Payment Variation Across Providers

Like many commercial plans, OEGB and PEBB data showed payment levels relative to Medicare varied across hospitals.

Payment levels for large hospitals in Oregon ranged from 185% to 340% Medicare for inpatient services and from 215% to 375% Medicare for outpatient services.



OREGON TOOK LEGISLATIVE ACTION TO ADDRESS THESE ISSUES

In 2017, Senate Bill 1067 included several provisions aimed at containing costs within public employee health benefit programs

3.4% limit on OEGB & PEGB annual cost & premium growth

Limit on inpatient and outpatient hospital payment rates for insurers and third-party administrators contracting with OEGB and PEGB

Payment Limit Parameters

Certain parameters for the hospital payment limit were established in SB 1067

- Limit is 200% of the amount Medicare would pay on each claim for network hospitals, 185% Medicare for non-network
- Limit applies to hospital services only, not professional fees
- Does not apply to hospital services provided outside Oregon
- Hospitals paid in accordance with the limit may not balance bill
- Certain hospitals are exempt, generally small/rural hospitals
 - - 24 of the state's 62 hospitals are under the payment limit

Implementation

- Carriers and TPAs negotiate contracts with providers – OEBC and PEBC do not participate in these negotiations
- No contracted hospitals left the network due to payment cap implementation
- Hospitals expressed concerns about potential impact on their revenue
- Some indicators that hospitals sought increases up to the 200% Medicare limit on services that were previously paid below that level
- No evidence of inappropriate increases in service use

Savings

- Effective date 2019 for OEBC, 2020 for PEBC
- Almost 70% OEBC-PEBC hospital use occurs in capped facilities
- Savings during first two years estimated at over \$160M

Year	Savings	Total Medical + Rx Costs
2020	\$59 million, about 14% of claims subject to limit <ul style="list-style-type: none">• Inpatient: (\$5 million)• Outpatient: \$64 million	\$1.25 billion
2021	\$112 million, about 30% of claims subject to limit <ul style="list-style-type: none">• Inpatient: \$38 million• Outpatient: \$74 million	\$1.60 billion

Savings

- Savings concentrated in outpatient - higher relative to Medicare prior to limit
 - Outpatient services at capped hospitals averaged ~285% Medicare at baseline
 - Inpatient services at capped hospitals averaged ~235% Medicare at baseline, with some hospitals below 200% Medicare for inpatient rates
- First year savings were lower than initial projection of \$81M
 - Reduced utilization during Covid pandemic
 - Unintended higher payments on maternity/newborn services at launch cancelled out inpatient savings (addressed through updated rules)

Impact

- Carriers and TPAs contracted with OEGB and PEBB have maintained networks alongside reduced payment levels
- No concerns or disruption expressed by covered employees – majority of employees are likely unaware of this policy
- Inpatient payments at capped hospitals average roughly 165% Medicare
- Outpatient payments at capped hospitals average roughly 190% Medicare

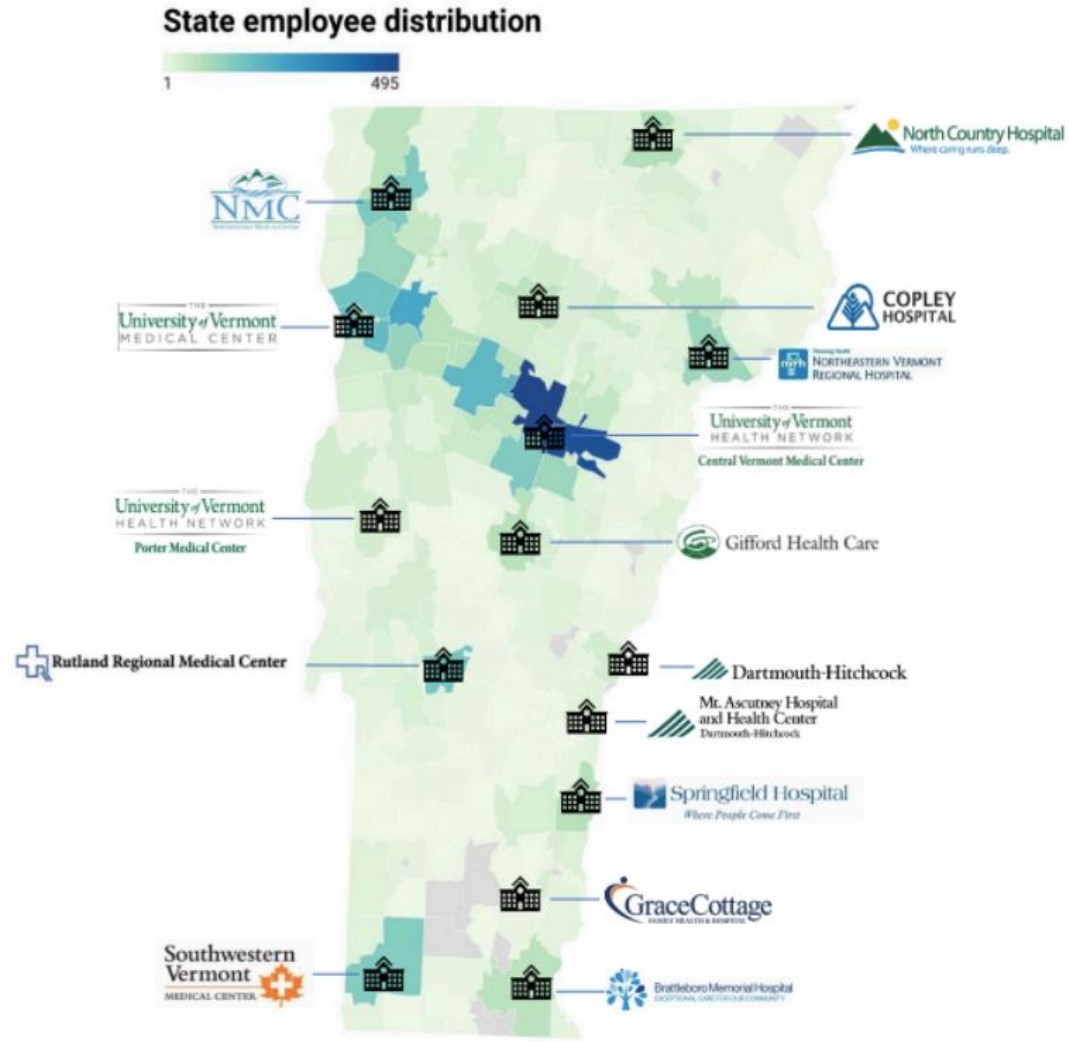
CONTACT AT OREGON HEALTH AUTHORITY

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Washington State Health Care Authority Contact

- Mich'l Needham
 - Chief Policy Officer
 - Mich'l.Needham@hca.wa.gov
- ▶ Washington's Cascade Select Program
 - ▶ Individual Market Public Option
 - ▶ Caps payment for all services, in aggregate, at 160% of Medicare
 - ▶ Primary Care must be at/above 135% of Medicare
 - ▶ CAH/SCH must be at/above 101% of cost
 - ▶ Statewide access by 2025 & lowest cost silver plan in 31 counties



Map data: © Esri, TomTom North America, Inc., United States Postal Service • Created with Datawrapper

Sources: Employee zip code data provided by VTHR.