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New Academy Research Estimates Health Care Savings Potential and Obstacles to Savings from Broader Use of Reference Pricing

WASHINGTON—The American Academy of Actuaries released new public policy [research](#) today at its Annual Meeting and Public Policy Forum in Washington, D.C. that examines the potential savings in health care spending from an expansion of reference pricing to a broader range of outpatient and inpatient services, along with factors that could hinder savings.

“To date, reference pricing arrangements have shown some promise in reducing spending for a very limited number of health care services,” said Academy Senior Health Fellow Cori Uccello. “The American Academy of Actuaries’ new public policy research finds that reference pricing arrangements implemented on a much broader scale could produce savings in overall health care spending—but the amount of savings is highly dependent on several factors.”

Under reference pricing, an insurer or other payer selects a price that it is willing to pay for a particular health care service. Enrollees who receive care from a provider above the reference price are responsible for the balance of costs; enrollees who receive care from a provider with a price at or below the reference price pay only the normally required cost-sharing fees. The Academy research paper, [Estimating the Potential Health Care Savings of Reference Pricing](#), uses data from the Health Care Cost Institute to examine non-prescription drug claims for people younger than age 65 and covered by employer-sponsored health insurance. The research considers a broad range of “shoppable” services (71 inpatient and 191 outpatient procedures)—that is, those services for which consumers are in a position to choose their provider based on price, and therefore are amenable to reference pricing.

Under the illustrative scenarios examined, savings from reference pricing could reduce total non-Rx health care spending by 0 to 12 percent. The high end of the savings range would require large changes

in behavior, especially substantial price reductions among high-priced providers, but also consumers shifting to lower-priced providers. The low end of the savings range reflects little or no change in provider or consumer behavior. In this latter scenario, reference pricing could reduce costs to insurance plans but would shift those costs to consumers who receive care at higher-priced providers.

Aside from behavior changes among providers and consumers, higher levels of savings from broader implementation of reference pricing would require provider price and quality transparency, sufficient availability of quality providers at or below reference prices, and fewer contractual barriers that restrict insurers' ability to steer consumers to less expensive competitors.

Download the research paper and also learn more about all of the Academy's public policy work under the "Public Policy" tab at actuary.org.

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The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.