



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard *Cliff*
Executive Director

DATE: 26 January 2023

SUBJECT: Senate Bill 2330 and House Bill 2456 (Reference-Based Pricing)—Final Report for Approval

The attached Commission report is submitted for your approval. It was prepared in response to Senate Bill 2330 by Senator Hensley and House Bill 2456 by Representative Sparks, introduced in 2022, which directed the Commission to study the effects of reference-based pricing on health insurance prices. Following the last meeting in December, no substantive changes have been made to the report. The final report is to be presented to the General Assembly no later than January 31, 2023.

Reference-based pricing is one method that has been proposed to help try to control rising healthcare costs by indexing those costs to a reference point like Medicare's payment rates for given procedures. The study has found that California, Montana, North Carolina, and Oregon each use reference-based pricing in their state employee health plans, while the state of Washington has applied it to what it calls public option plans, or standardized plans designed by the state but offered by commercial insurers through the individual insurance marketplace. Colorado may use reference-based pricing in its public option plans if certain premium reduction targets are not met.

Based on the examples of these states and other data, reference-based pricing is likely to deliver cost savings for insurers, including employers and state health plans. Reference-based pricing may produce savings for patients, though this depends on how it is structured and whether balance billing is permitted. Lastly, reference-based pricing could spur healthcare providers to lower their prices and operate more efficiently, but this is not guaranteed.

It may be noted, however, that hospitals in other states have strongly opposed reference-based pricing and, in the case of North Carolina, have refused to participate in reference-based pricing health plans. The State of Tennessee's Benefits Administration has raised concerns that were reference-based pricing to be implemented, hospitals or other providers could leave the state health plan's networks.