



TOOLS &  
SUPPORT

# Reference Pricing The Home Depot, Inc.

The price of health care services and procedures can vary significantly in a given market and have no correlation to quality. Learn about the benefit design The Home Depot, Inc. explored to address price variation and the valuable lessons the company learned from its population's response.



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# Case Study

## Reference Pricing



The Home Depot, Inc. is the largest home improvement retailer in the world. Founded in 1978 and headquartered in Atlanta, Georgia, it operates 2,289 stores and has more than 400,000 associates in the U.S., Puerto Rico, Guam, and U.S. Virgin Islands. The Home Depot's U.S. medical benefits plans are available to all full-time (exempt and non-exempt) employees. Approximately 118,000 associates are enrolled in the medical plan. On average, associates are 46 years of age; 54% are men and 46% are women.

Catalyst for Payment Reform interviewed members of The Home Depot benefits team about the reference pricing program they explored as a means to reduce unnecessary health care spending and provide higher-value health care for their associates.

### Spotlight on Company Culture

The Home Depot has a strong culture, rooted in servant leadership and core values, including:

- Customer service
- Doing the right thing
- Entrepreneurial spirit
- Shareholder value

These values drive the company's commitment to providing **valuable health care for its associates**, who can in turn, provide top tier customer service.

## The Problem & Background

### A challenging market environment

The Home Depot strives to manage health care trend year-over-year at or below its expected sales growth by implementing cost-reducing strategies that preserve its company culture. In alignment with its goals, The Home Depot wanted a benefits initiative in 2012 that sought to reduce unnecessary spend without shifting that spend to their associates.

As part of The Home Depot's strategic planning process, its third-party administrator ("carrier") analyzed data to determine which strategies had the potential to help the company achieve this goal. The carrier revealed that the company could cut a significant amount of wasteful spending by reducing the unnecessary variation in the prices it was paying for certain health care services, as the higher prices had no correlation to higher quality. Many employers and other health care purchasers find they pay certain providers significantly more than others for non-emergent procedures, such as a knee replacement, even though the quality is the same or worse than a more affordable alternative provider within the same region.

To combat this wasteful spending, the carrier suggested its reference pricing program. Reference pricing is designed to address the significant variation in prices by establishing a standard price for a drug, service, or a bundle of services and requiring plan members to pay any allowable charges above this price.

How is a reference price set? Typically, the carrier or health care purchaser examines the range of prices for a certain service or procedure available in the market to determine a reasonable price, or a "reference price." One of the considerations in setting that price is whether there will be a sufficient number of high-quality providers at or below the reference price, ensuring adequate access to care. The carrier then arms its members with price and quality information to help them choose providers. If members select a provider charging at or below the reference price, the procedure will be covered under their regular cost-sharing arrangement. If members select providers who charge more than the reference price, they must also pay the difference out-of-pocket.

The program is designed to motivate members to visit providers that offer a high-quality service at a reasonable price, while preserving their ability to choose. It also creates competitive pressure for higher-priced providers to reduce prices to be more in line with the market.

The Home Depot was intrigued by the potential to reduce the variation in the amount it was paying for certain services as well as to reduce costs for the company and its associates while aligning with its core values. They agreed to forge ahead with a customized version of the carrier's reference pricing program.

## Designing the Strategy

### Selecting the right services

The Home Depot's carrier offered reference pricing for multiple services, including CT scans, MRIs, carpal tunnel release and cataract surgery. When selecting the service for the reference pricing program, The Home Depot had several considerations. The service needed to be non-emergent so that associates would have sufficient time to evaluate the price of providers, schedule an appointment, and then receive care. The service also needed to be a significant cost driver for the company. The Home Depot selected colonoscopies and endoscopies, which both met all of these criteria.

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### How does reference pricing work?

Reference pricing is generally used to root out waste for services that vary significantly in price from provider to provider.

The carrier sets the reference price at a level that allows plan members to continue to have adequate access to providers in the market.

Quality can be factored into providers' qualifications, although reference pricing is most commonly applied to certain high-cost commodity procedures, where quality may be more consistent among facilities and providers.

Furthermore, the benefits team selected colonoscopies because the procedure is considered a primary preventive service under the Affordable Care Act (ACA), which means it is not subject to cost-sharing. If an associate selected a provider charging above the reference price (i.e., there were overages for the colonoscopy) the associate was responsible for the difference in price, but had no co-payments or co-insurance for the office visit. The associate would not incur any out-of-pocket costs if the service was offered at or below the reference price. This was not the case for endoscopies. Members experienced a 20% co-insurance because The Home Depot wanted to test whether the additional cost-sharing would create a financial incentive for associates to choose the right provider. However, this program affected fewer members because they utilized endoscopies less frequently.

For all of these reasons the company felt hopeful that applying reference pricing to these two procedures would help reduce costs and allow it to remain true to its core values.

## Determining the reference price

In 2013, the company implemented the reference pricing program in every market with a broad provider network offered by the carrier—more than 30 markets, including Atlanta, Boston, Chicago, Dallas, New York, and Philadelphia.

The next step was setting the reference price, which varied for each region. The carrier identified the cost of colonoscopies and endoscopies through its secure portal and defined a maximum allowable amount for both procedures.

In each market, the carrier set the reference price to ensure that there were an adequate number of providers charging at or below the reference price and where it would not interfere with meeting access standards.

## A customized tool to get associates to the right providers

For this strategy to work, the company's associates needed to understand that their provider selection could significantly impact how much they paid out-of-pocket for a colonoscopy or endoscopy. Associates would only be able to make the right choices if they could easily access information on the prices and quality of available providers. Along with its reference pricing programs, the carrier offers a secure member portal to help members understand which procedures their employers' program includes, along with the reference price in their home zip code. The portal then directs members to a tool where they can find facilities that perform the service at or below the reference price.

However, The Home Depot knew its associates primarily had first-dollar preferred provider organization (PPO) coverage, meaning they historically did not need to shop for providers by price. Rather, they selected specialists based on where their doctors referred them. The Home Depot wanted to make it as easy as possible for its associates to select a provider who met the

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### The price is right

In Atlanta, the reference price for colonoscopies was set at **\$1,000**. **Seventy-five percent** of providers—a sizable portion—had prices at or below this amount.

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reference price, so the company posted the list of available providers directly on its website, *Live The Orange Life*. One challenge to this approach, however, was that the website could not reflect any real-time changes to provider prices.

## Rolling out the model

### Employee communications & engagement

Due to the learning curve required for associates to become more active consumers, The Home Depot developed a multi-pronged communications strategy. The Home Depot utilized the carrier's standard communication materials and focused on the frequency of communications as well as the medium. In addition to highlighting the program during annual open enrollment, the benefits team provided program information on associates' medical cards, which included a number to call when scheduling a colonoscopy or endoscopy.

The carrier provided email reminders for the benefits team to use quarterly to keep the program top of mind for associates. In addition, associates had access to the carrier's video that explained the program in detail.

### A team effort

As with any new initiative, the benefits team devoted substantial time and resources to implementing the program. They conducted thorough research to understand the program's potential impact on their associates. They developed a comprehensive communications and outreach plan to educate associates about the program both at launch and on an ongoing basis. Working together, the team felt successful, experiencing little noise, frustration or complaints about the program from associates.

## Results

Even with the comprehensive communications plan, outreach services, and the list of providers that met the reference price available on the website, some associates continued to receive colonoscopies or endoscopies from providers charging over the reference price, which prompted an additional out-of-pocket cost.

The Home Depot concluded that most associates continued to follow the referrals they received from their physicians. The enhanced member services and website tools were not enough to encourage associates to question their providers' referrals. It was with this result that the benefits team determined that strategies to remove waste will require physicians to get on board. In other words, engaging physicians to make informed, high-value referrals is an essential lever to ensure that associates receive higher-value care.

## What's Next?

Based on its experience with the reference price program, The Home Depot has determined that there are barriers to asking associates to be expert consumers of health care in an ecosystem where prescribing physicians have significant influence in directing care. Ultimately, a better strategy for The Home Depot population, primarily enrolled in PPO plans, is to focus on guiding associates to high-value physicians who ensure their patients receive appropriate care and keep an eye on quality and affordability.

In the last several years, The Home Depot has focused on building high-value provider networks. The goal is to create a comprehensive care ecosystem that provides associates with access to affordable, high-quality providers without requiring them to shop. The company continues to prioritize its core values in program design.

In 2017, The Home Depot began working with Imagine Health to offer a high-value network to their associates. The network is comprised of the highest quality providers in the market. In exchange for being included in the narrower network, these providers are willing to make unit price concessions, which leads to cost savings for the company and its associates.

For the Imagine Health plan options, The Home Depot developed a plan design that offers associates unlimited primary care visits and other generous benefits, such as a lower out-of-pocket maximum and lower co-payments, compared to their other health insurance choices. In addition, The Home Depot associates that select the high-value network plan do not have co-payments when they receive inpatient services, only co-insurance.

Thus far, The Home Depot has offered Imagine Health's high-value networks to associates in two markets and seventy-five percent of the covered population selected these plans during open enrollment. Although the program is in the nascent stage, the benefits team is finding that most associates are happy with it.