ANALYSIS

Reference pricing lowers healthcare prices, could save CT millions

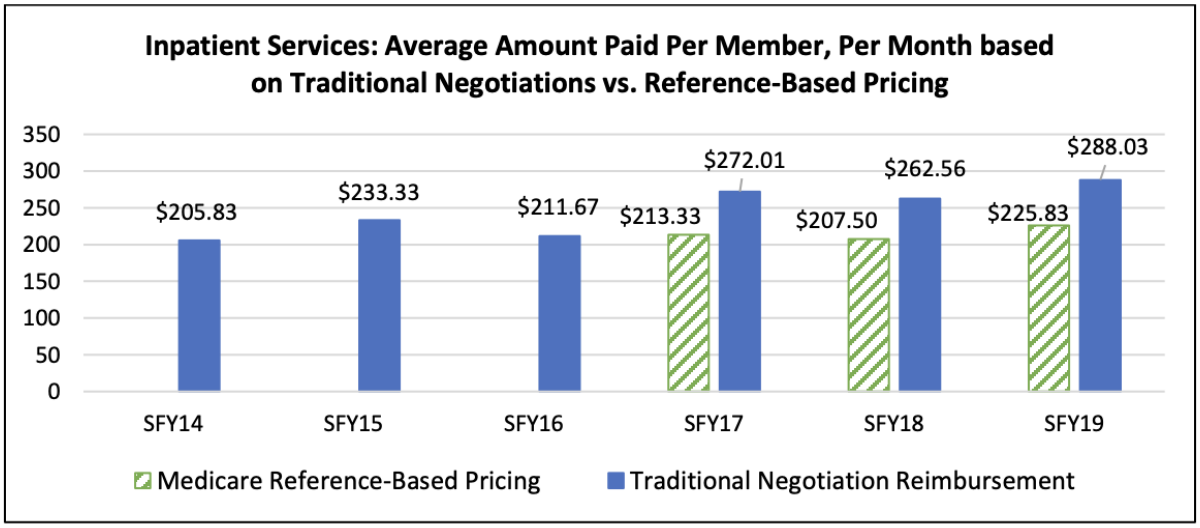
February 8, 2026

Hospital prices are driving up healthcare costs making coverage unaffordable, in Connecticut and across the US. It's hard to reduce hospital prices, especially in consolidated markets like Connecticut's, where huge health systems have monopoly power to demand steep prices. But Oregon and Montana have been saving millions annually on just their state employee plans using reference pricing. Other states are following suit and expanding the benefits to all their residents. ***Connecticut could save $141 million annually on just our state employee plan, and far more if expanded to the rest of the state.***

Under reference pricing, payers and employers set a maximum benchmark price for services. In contrast, most commercial insurance plans negotiate prices, allowing monopoly health systems to name their own price. Insurers don't have much choice and consumers pay the costs.

Reference prices are usually set as a multiple of Medicare prices. Under federal law, actuaries set traditional Medicare prices to cover "the reasonable cost of services" , adjusting for patient medical needs, geographical costs, and other modifiers. All Connecticut hospitals and 98% of doctors accept Medicare patients at those payment levels.

Oregon's reference pricing plan, passed into law in 2017, **has saved the state $50 annually and did not disrupt hospitals or other plans in the state.** After implementation, inpatient hospital prices per admission dropped by $2,774 and outpatient procedures fell by $130.50 per procedure. Oregon's state employee plan pays up to 200% of Medicare prices for hospital care and 185% of Medicare for outpatient services. Researchers found very small to no impact on hospital operations, care delivery, or patients' experience of care. Critics of the plan were concerned that hospitals would drop out, but all 24 hospitals stayed in the plan. There was no cost-shifting increase in hospital prices for other plans in the state. Plan members' out-of-pocket spending dropped by 9.5%.



Source: Estimating the Impact of Reference-Based Hospital Pricing in the Montana State Employee Plan, Optimus for NASHP, April 2021

Montana also implemented reference pricing for their state employee plan in 2017 with similar results to Oregon. An independent evaluation found that over the next two years, the state saved $48 million for a plan with 29,000 members. By 2019, average hospital costs per member had dropped by 22% and outpatient services were down 14%. There was no evidence of increased utilization or hospital service closures.

A Hospital Payment Cap Simulator from Brown University **estimates that setting hospital prices for just state employees at 200% of Medicare rates would have saved Connecticut $141 million in 2022.** The simulator predicts that Connecticut hospital margins would lower modestly from 35% to 33%. **Expanding reference pricing across all of Connecticut could share those savings with all commercial plan enrollees and employers.**

Other states are following Montana and Oregon's lead. Some are going further to share the savings with all privately insured state residents. This year, Washington passed legislation to implement reference pricing for their state employee plan. Also, this year, both Vermont and Indiana passed similar legislation for all private insurance hospital spending in the state. While the reference prices are maximums, Washington and Vermont's laws also set minimum price floors to **ensure that hospitals remain viable**. Vermont and Indiana included monitoring to ensure hospital financial health in their laws.

Several concerns have been raised about the impact of lowering commercial prices paid to hospitals. Contrary to the **myth that lower Medicare and Medicaid prices force hospitals to charge commercial plans higher prices, there is no evidence for this concern.** Healthcare prices are driven by market consolidation – systems with little competition can name their own prices. Prices are not related to the percent of patients covered by Medicare, Medicaid, or without any coverage. **Concerns that lowering prices will reduce the quality of care are also unfounded**. There is no correlation between healthcare prices and the quality of care.

Other concerns that struggling hospitals and their patients will be harmed by reference pricing are important, but there are several protections available to policymakers.

- Struggling hospitals are generally not charging the highest prices and will be minimally affected by a ceiling on healthcare prices. Many small, independent hospitals would be thrilled to get prices at 200% of Medicare.
- Policymakers can implement reference pricing incrementally. CalPERS, California's public employee benefits system, began with reference pricing for hip and knee replacements, two very costly services, for their system that covers 1.5 million members. Prices at high priced hospitals dropped 24%, but lower priced facilities saw only 3.2% reductions. There were no changes in patient outcomes, and they are now expanding to more procedures and services.
- Especially with new federal budget cuts, policymakers could exempt hospitals with low margins, high percentages of Medicaid or uninsured patients.
- Vermont and Washington's laws set a reference price floor, along with the ceiling, to ensure that prices do not drop to unsustainable levels in negotiations.
- Vermont and Indiana have implemented robust monitoring for access and quality of care as they implement reference pricing. Connecticut already has an All-Payer Claims Database to provide data for this monitoring.
- Policymakers could dedicate some of the savings from high priced hospitals, especially for the state employee plan, to support low-margin hospitals and services. Texas provides grants to rural hospitals for birthing and maternity care.
- States extending reference pricing to the entire commercial market avoided federal restrictions on states' ability to regulate self-insured plans by capping the prices hospitals can charge rather than what insurers can pay.

Reference pricing has the potential to lower healthcare prices for Connecticut commercial plans, lowering insurance premiums, and allowing wage growth.