

# What is Reference-Based Pricing and Why it Matters?

## *Solving the problem of self-pay discounts*

One of the core tenants of Anabaptist theology is the concept of “bearing one another’s burdens.” This is not a metaphor; it is our spiritual DNA. We covet the opportunity to bear a brother’s overwhelming burden. To turn the responsibility of medical payments over to the government would rightly offend our forefathers who laid the foundational doctrinal stone of mutual aid. It is a sacred privilege to negotiate fair medical payments between providers and patients and bridge the complex gap with mutually agreed upon payment solutions.

As the American healthcare system has evolved into a billing industrial complex, the simple act of paying a medical bill has become a frustrating navigation through a minefield of obscure, inflated prices and deceptive “discounts.” To protect the integrity of the church’s role in medical aid, Anabaptist Brotherhood has taken a humble stand. Thanks to the Amish sharing plans that have pioneered the way, a much-needed alternative to the traditional “self-pay discount off the chargemaster” model is possible. Instead of using a discount approach, we utilize **Reference-Based Pricing (RBP)**.

### The Myth of the “Self-Pay Discount”

For decades, the currency of the self-pay arrangement has been the “negotiated discount.” In some regions, it is even marketed as the “Plain Community Discount.” For example, a hospital produces a bill for \$100,000 with a self-pay discount of 50%. The patient feels they have “saved” \$50,000.

Various Amish medical sharing plans have already rejected this logic as a violation of “just weights and measures.” Brotherhood is following suit. The self-pay discount is too unreliable and misleading because the starting point—the Hospital Chargemaster—is an exorbitantly elevated price. The chargemaster is a list of prices that “do not tie to the cost of delivering care, and which vary wildly among providers, even within the same market.”<sup>1</sup>

Research reveals that over the last five years, increased chargemaster prices (not increased use of care) accounted for 75% of healthcare inflation. Hospitals often set chargemaster rates at 400% to 1,000% of their actual costs.<sup>2</sup> By rejecting the chargemaster as a reference point, Brotherhood stands with Scripture: “*A false balance is an abomination to the Lord*” (Proverbs 11:1). We recognize that the current billing system is not an accident; rather, as researchers have observed, “Today, we have a disorganized overlapping multisystem approach to medical billing, representing the unsurprising result of decades of siloed approaches to the task of billing for medical services.”<sup>2</sup>

Recently, in a large Anabaptist community in northern Missouri, Brotherhood helped members discover the exorbitant medical prices that they have been paying. The elevated price was around 150% about the hospital’s cost but felt like a good price because of a 30% self-pay discount. With the data of true cost

on the table, the hospital realized the 30% discount deception was revealed and agreed to an average price of 50% above cost instead of 150%. This is not an isolated pocket of deception; it is a nationwide reality.

### What is Reference-Based Pricing (RBP)?

- **It’s an Alternative:** RBP is a departure from accepting the Hospital’s Chargemaster as the source of truth. While bills may still arrive with discount language, we do not use that as our anchor or reference point. We avoid discount terminology because it is typically associated with the deception of an inflated starting price.
- **It Requires Organizational Capability:** While any individual can accept a self-pay discount and pay the medical bill, RBP is nearly impossible to execute alone. It is an advanced approach that requires deep organizational knowledge, customized technology, and access to national medical pricing data.
- **It’s a High-Stakes Responsibility:** RBP takes on the responsibility of naming a fair and reasonable price. We cannot simply guess at a payment; instead, we use a Triangle of Reference Points to calculate a price that honors the provider’s profit margin without wasting the church’s resources.

### The Triangle of Reference Points: A Threefold Weight

#### 1. Medicare: The Gold Standard

Medicare is the only medical pricing system in the U.S. that is transparent, publicly audited, and rooted in the actual cost of care. It provides a rational, external benchmark worthy of trust.

The credibility of the Medicare rate is based on a calculation using national average costs plus 8%, then adjusted by five specific factors to align with each facility’s unique costs. One of the five specific adjusted factors in the Medicare rate is quality care outcomes. If a hospital is a “5-star” facility versus a “1-star” facility based on clinical outcomes, the Medicare rate calculates additional payment for that added value. We have seen reimbursement rates vary by as much as 70% for the same procedure based on these value-adjustments, making it a highly sophisticated “just weight.”

When Brotherhood pays 150% of Medicare for facility bills, we are not being cheap. We are anchoring our payment in a benchmark that is “designed to cover hospitals’ variable cost at a rate of 108 percent, plus a generous margin for overhead and other fixed expenses.” To the point: Brotherhood’s payments to providers translates into a **58% profit margin** on facility services and a **28% profit margin** on physician services. This ensures the provider is honored with a high profit while ensuring church resources do not fund unsubstantiated price points.

## 2. The Truth-Teller: Cost-to-Charge Ratio (CCR)

Every hospital must report its costs to the government. With advanced software, the Brotherhood has electronic access to this financial data for every hospital in America. The CCR allows us to see through “obscure pricing” and base our payments on actual costs plus a fair profit. Knowing the real cost of a service provides a critical second window of truth. The Scriptures echoes this principle in Romans 12:17: “Provide things honest in the sight of all men.”

## 3. Competitive Pricing

Every businessman knows the fairness of competitive pricing. Unless unique value is added, similar products should have similar prices. The Brotherhood tracks paid prices on medical services and compares one hospital to the next within the same region. Additionally, we plan to publish these paid rates in an annual publication so members can see actual pricing paid across hospital systems and clinics. This is the ultimate pricing transparency solution—members knowing the price differences between hospital. Stewardship requires that we pay the price that reflects the competitive market.

## Navigating Balance Billing

The most common concern with RBP is the risk of **Balance Billing**—when a hospital demands the remaining “balance” after Brotherhood has paid a fair, Medicare-based rate, plus a generous multiplier.

Industry research shows balance billing is often a “paper tiger.” Vendors using RBP report that approximately 2% of total bills result in a balance bill<sup>1</sup>.

**The Advocacy Shield:** Brotherhood protects its members through respectful balance bill and debt collection resolution. Members should never pay a balance bill, but instead send it to the Brotherhood office. Additionally, if you receive a collections notice, forward it to the office. This allows the community to stand together, using data and a humble commitment to the truth in paying a fair price.


## Why It Matters: Stewardship and the Future

Reference-Based Pricing is a credible and transparent way to restore pricing honesty to the medical marketplace. By embracing fair prices instead of “deceptive discounts,” we achieve four critical goals:

- 1. Preservation of Resources:** RBP typically saves 10% to 20% compared to traditional self-pay discount pricing, ensuring medical aid remains affordable for future generations.
- 2. Truth in Business:** It bases the price on the truth of costs and invites an honest conversation about the economic value of care, resulting in mutually agreed upon payments.
- 3. Conscientious Stewardship:** It bears the burden of complex medical billing, allowing members and church leaders to feel relief from the weight of false balances and the peace of stewarding resources with a clear conscience.
- 4. Satisfied Providers:** The Amish sharing plans that have used RBP for nearly a decade have demonstrated that in the end, providers are very satisfied. In Vernon Beachy’s words: “They love us because we pay promptly with fair pricing.”

## Conclusion: A Faithful Response to a Complex System

The modern healthcare system is designed to maximize revenue through complexity. The Anabaptist response is to simplify with the age-old practice of cost accounting. By using Medicare as a gold pricing standard, alongside of Cost-to-Charge ratios and competitive pricing, Anabaptist Brotherhood is living out the Biblical mandate to be “**wise as serpents and harmless as doves.**”

Solving the problem of “self-pay discounts” isn’t just about saving money—it’s about ensuring that we “bear one another’s burdens” with integrity, transparency, and a commitment to the truth. 

### References

- 1 Catalyst for Payment Reform (CPR): “Reference-Based Pricing: Risks and Rewards of Playing Health Care Hardball.”
- 2 Health Affairs Forefront: “Transparency Reveals Health Care Prices” (Jusko, Mehta, Whaley, 2025).

