



UNITED
STATES of
CARE

BENDING THE HEALTH CARE COST CURVE

A Look at Washington's State Employee Health Plan Approach

During Washington's 2025 legislative session, United State of Care (USofCare) provided support for [Senate Bill 5083](#), successful legislation which restructures the way the Public Employees Benefits Board (PEBB) and School Employees Benefits Board (SEBB) plans pay providers for primary care, behavioral health, and hospital services. This legislation rebalances health care spending to lower health care premiums and out-of-pocket costs for public employees and teachers and increase investments in preventative health services.

BACKGROUND

Health care costs continue to rise faster than wages and inflation, forcing Washingtonians to skip or delay getting the care they need due to the cost. These increased costs are due in large part to increased spending on hospital care – in Washington, hospital services make up nearly 40% of total healthcare spending in Washington's commercial insurance market, with hospital prices only continuing to rise. In 2022, Washington hospital's commercial reimbursement rates were as high as seven times what Medicare pays for the same service. These higher prices paid by health insurers result in increased costs for patients through higher premiums and out-of-pocket costs. At the same time, chronic underinvestment in primary and behavioral health care services has contributed to a shortage in providers and limited access for Washingtonians.

More than half of Washingtonians avoided seeking medical treatments due to the cost in 2024.

State policymakers recognized the clear need for a solution to address the high hospital prices placing a larger-than-ever financial burden on Washingtonians

In addition to addressing the affordability challenges faced by state residents, Washington entered the 2025 legislative session with an estimated \$10 to \$12 billion budget shortfall over the next four years. In response, state agencies, including the state employee health plan (SEHP), were directed by the Governor to reduce their spending by 6% in their 2025-27 budget requests. With reductions in federal health care spending on the horizon, state policymakers recognized the clear need for a solution to address the high hospital prices placing a larger-than-ever financial burden on Washington residents, employers, and the state budget.

THE SOLUTION:

Using the State Employee Health Plan to Shore Up the State Budget

[Senate bill 5083](#), passed during the 2025 legislative session, provides Washington an opportunity to directly limit soaring hospital prices and save millions of dollars in the state budget by implementing a solution known as reference-based pricing in their state PEBB and SEBB plans, which cover approximately 700,000 Washingtonians. **Starting January 2027, PEBB/SEBB plans will reimburse hospitals for in network services at 200% of Medicare rates and out-of-network services at 185% of Medicare rates.** Certain adjustments and exemptions were included, recognizing the unique patient populations and challenges some providers and health systems face. This solution brings the prices charged for hospital services more in line with the actual cost to

provide services, rather than relying on negotiated rates set by hospitals, tying reimbursement to Medicare rates that are regularly reviewed and updated to reflect local market conditions.

This modest limit on spending on hospital services in PEBB/SEBB is expected to save Washington up to \$400 million total between 2025-2029. In addition to decreasing out-of-pocket costs for state employees, this policy provides Washington the opportunity to direct the savings in the state general fund to other critical health care priorities, like preventive care. To address primary and behavioral health care shortages, the bill directed a portion of these savings to these services, setting minimum payment levels by PEBB/SEBB for primary care and behavioral health services at 150% of Medicare rates. This rebalancing of health care spending is expected to direct an investment of more than \$20 million into these critical preventive services which keep people healthy and out of the hospital.

This solution was championed by the Washington Health Care Authority, recognizing that without direct action to address hospital prices the state would be unable to curb rapidly increasing costs for the state and state employees. This strong agency support was key, resulting in the policy being included in the Governor's budget proposal, enabling modeling to show the impact of the policy by utilizing data reported to the state, and increasing legislative momentum. Pairing this initiative with strong advocacy from a coalition of consumer advocates – in which USofCare participated – along with state employee unions and patient groups, amongst others, helped to take this legislation over the finish line.

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THE OPPORTUNITY FOR OTHER STATES

Implementing reference-based pricing in the commercial market or within the state employee health plan provides states a meaningful solution to curb soaring health care spending and lower costs for patients, the state, and employers. As illustrated in Washington, specifically limiting hospital rates paid through the SEHP has the potential to generate significant budget savings for states, which can be reinvested into other areas of the state budget, including Medicaid or other affordability programs. As states grapple with the impacts of sweeping federal cuts, reference-based pricing is one of many solutions policymakers should consider to achieve budget savings.

STATE REFERENCE-BASED PRICING PROGRAMS

Washington joins several other states that have leveraged hospital price limits in their state employee health plans, including:

- **Oregon**, which passed legislation in 2017 to implement hospital price caps in their SEHP, resulting in more than \$100 million in budgetary savings in the first 2 years. 
- **Montana**, which previously leveraged the administrative power of the SEHP to negotiate caps for each individual hospital in the state, saving Montana nearly \$48 million between 2017-2019. 
- **South Carolina** and **Oklahoma**, which both implemented reference-based pricing through provider contract negotiations. Both states report this strategy generating significant savings for SEHP members and their state budget. 