Learning Objectives

• Describe emerging payer trends in today’s healthcare environment
• Identify ways that health plan contracts impact the laboratory outreach program and influence patient choice
• Recognize alternative solutions to achieve payer contracting success and continued outreach program growth
Hospital Laboratory Outreach - Defined

- Outreach testing comes from “Discretionary Outpatients”
  - Provider-directed
  - Patient-directed
  - Facility-directed
- Outreach testing does not come from:
  - Traditional hospital outpatients for which a laboratory test is part of their episode of care (ED, SDS, Observation, imaging, infusion, etc)
- Simply stated: Someone made a choice to use your lab over a competing lab. That’s outreach.

Curing unhealthy health care costs

- “In the recent burst of activity, various cost control tactics have been tried. The most frequent has been to raise the deductible…. and to initiate regular employee contribution. Because hospitals are the most expensive part of the systems, [sic] payers are seeking ambulatory, out-of-the-hospital services.”

~ Regina E. Herzlinger
Pressure to Reduce Cost of Health Insurance

Laboratory Outreach Challenges

Consider these questions:

• Do you have 100% of the testing from each of your customers?
• If not, why not?
• What drives business to, or away from, the hospital laboratory?
• What is preventing your laboratory from realizing 100% of market potential?
• Have these trends intensified within the past two years?
**Financial Impact - One Patient Per Day**

The cumulative effect of losing the tests associated with the care of one patient, every day:¹

<table>
<thead>
<tr>
<th></th>
<th>Per Requisition</th>
<th>Per Week</th>
<th>Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80</td>
<td>$400</td>
<td>$20,000</td>
<td></td>
</tr>
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</table>

4 tests x $20 per test  
$80 x 5 days/week  
$400 x 50 weeks/year

$\textbf{7,000}$  Based on 30% contribution margin


**ARS Questions**

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What’s on a Payer’s Mind?

Reform

When compelling solutions are absent, what is the default payer position?

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June 30, 2014

Dear Health Care Provider:

Humana has evaluated its network access needs for laboratory services and is reconfiguring its network to include only those necessary to meet the needs of our members. Effective immediately, Humana’s network of participating outpatient clinical laboratories includes the parent companies of both Laboratory Corporation of America (LabCorp) and Quest Diagnostics (Quest) for all Humana plans and products nationwide. In select markets, other regional and local laboratories may be available. Please refer your patients to one of these participating laboratories so that they can obtain the most from their benefits.

Please note, this change does not alter the available member benefits, but using these participating providers will result in lower out-of-pocket costs for your Humana-covered patients. Please reference Humana’s provider directory for details on participating outpatient clinical laboratories by following these steps:

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Payer challenges - Steerage

• Provider message
  Your patients generally pay a lot more money out of pocket when they have testing done at out-of-network labs. To help them save money, refer them to in-network labs.

• Patient message
  Save on your lab work with in-network lab benefits…Your doctor might not know which lab saves you the most money on lab work. But, as long as you know which labs are in network before you go, you can share this information with your doctor.

  **Ask your doctor to use in-network labs. You’ll pay less.**
Consumerism and Out-of-Pocket Costs

The Employer View

• “There isn’t any employer coming to our exchange with the expectation that they are going to pay more.” ~Ken Sperling, national health exchange strategy leader at Aon Hewitt

• “[2015] will be the year the jumbo (10,000+ employee) employer market, driven by a desire to reduce compliance/administrative burden, moves beyond ‘tire-kicking’ and starts to actively migrate all, or as pilots portions of, their covered population to private exchanges.” ~Jay Savan, a partner at Mercer LLC, a unit of Marsh & McLennan Companies
### How do Payers Contract for Laboratory Services?

**Facility Contract**
- Hospital-based service
  - Includes blanket medical services
  - Charge-master or fee schedule-based
- Billing process/form
  - UB04 (CMS 1450)
  - CMS 1500
- Patient out-of-pocket responsibility is typically higher

**Ancillary Contract**
- Non-hospital based service
  - “Independent” laboratory
  - Fee schedule-based
- Billing process/form
  - CMS 1500
- Patient out-of-pocket responsibility is typically lower

### Other Payer Considerations

- In-Network versus Out-of-Network
- Benefit Design
- Limitations or exclusions
- Waivers
- Government payers are not excluded
  - Medicare Advantage
  - Managed Medicaid
### “In-Network” – vs – “Out of Network”

<table>
<thead>
<tr>
<th>Commercial Health Plan Example</th>
<th>In-network</th>
<th>In-network hospital lab</th>
<th>Out-of-network lab</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of lab test</td>
<td>$40</td>
<td>$80</td>
<td>$400</td>
</tr>
<tr>
<td>Co-insurance (percent)</td>
<td>20%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Out of pocket responsibility</td>
<td>$8</td>
<td>$16</td>
<td>$160</td>
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### “In-Network” – vs – “Out of Network”

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<th>Public Exchange Example</th>
<th>Narrow Network</th>
<th>Hospital Laboratory</th>
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<td>Co-insurance (percent)</td>
<td>30%</td>
<td>30%</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Out of pocket responsibility</td>
<td>$0</td>
<td>$120</td>
<td>Up to $400</td>
</tr>
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### Consumer Confusion

**“What is my…Charge? Price? Fee? Discount? Cost?”**

- Out-of-pocket responsibility
  - Deductible
  - Co-pay
  - Co-insurance
- Comparison Shopping
  - Online fee schedules
  - Calls to facility
    > The RIGHT Answer – versus – the EASY Answer
- Price transparency

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Bad News for High-Priced Clinical Laboratory and Imaging Test Providers: Castlight Study Finds Consumers Choose Lowest-cost Providers, Regardless of Out-of-Pocket Costs

Study was published in Journal of the American Medical Association (JAMA) and showed how high-deductible healthcare plans are motivating consumers to use online transparency tools to search for providers that offer greatest value.

Do consumers choose less expensive medical laboratories and imaging providers when they can see the prices in advance? The findings of a recently released study suggest that the answer is “yes”—that consumers will shop for the clinical laboratory with the cheapest test prices when they have access to price information!

This is one conclusion from a study of a half million consumers conducted by Castlight, Inc.

Key Trends and Drivers for Laboratory Reimbursement Pressure

- Increasing utilization of laboratory testing
  - One of largest trends in healthcare spending
- Increasing consumer responsibility for cost
  - Benefit, Co-Pay, Co-Insurance
- Rapid Expansion of Narrow Networks
  - 70% Narrow or Ultra-Narrow
- Traditional Medicare shifting to Medicare Advantage
- “Quality” incentives to drive provider behavior
- Other Predatory Practices
  - Beacon LBS
Consequences of Being Out-of-Network

- Increased Out-of-Pocket Expense for Patients
- Physicians Will Not Refer Patients
- Higher Unit Cost
- Decreased Volume
- Increased Turnaround Time (TAT)
- Decreased Reputation in Community
- Loss of Patients to In-Network Systems

The Care Continuum

Did you know? Laboratory has 4-5 times more patient interactions than any other service line in a healthcare system.
How can hospital-based laboratories compete?

- Cost conscious consumers
- Non-differentiated strategies
- Industry commoditization
- Hospital perspective
  - High fixed costs
  - “We have better quality testing.”
- Shifting payment models

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Transitioning from Fee-for-service to Value-based Reimbursements

FFS Testing

High Value Diagnostics
Benefits of the community-based laboratory

Integration of laboratory with clinical care process

Greater accountability to your physicians, patients, and communities

Patient driven vs. profit driven

Optimizes test utilization locally before sending tests to reference laboratory

Reduction in cost-per-test by maximizing existing capacity

How do Payers Recognize Laboratory Outreach Value?

• Data
  • Submit laboratory results in prescribed format
  • Demonstrate impact of laboratory on patient outcomes “High Value Diagnostics”

• Standardization

• Evidence-based care
  • Demonstrate clinical utility

• Decreased Variability

• Transparency
  • Coding
How do Payers Recognize Laboratory Outreach Value?

- Cost
  - Reduce laboratory cost
  - Reduce medical spend through improved outcomes
- Covered Lives
  - Patient access
  - Service lines
- Not all laboratories will have a seat at the table
- Alternative strategies
  - Consolidation
  - Collaboration

Establish Health Plan Contracts for Laboratory Services

- Hospital Contract for Laboratory Services
  - Fee schedule
  - CMS 1500
  - Possibly higher patient out-of-pocket
  - Local employer benefit design
    - Manage patient out-of-pocket costs
    - Retain testing in community
- Ancillary Contract
  - Fee schedule
  - CMS 1500
  - Lower patient out-of-pocket
  - Risk of default rates due to non-differentiated service
Value of Networks to Stakeholders

- Laboratory networks increase the value of the hospital laboratories to health plans, employer groups and patients
- Networks reduce fragmentation represented by individual hospitals
  - Changes view of laboratory from single laboratory outreach entity to regional footprint
  - Reduces health plan leverage
- Networks help reduce health plan steerage and remove hurdles to contract participation for hospitals; evens the competitive field

Integration, Alignment and Management

The Laboratory’s Role

**Retain Revenue, Transition to In-Reach**
Secure health care dollars today to fund future value-based strategies. Strengthen relationships for continued testing, beyond laboratory.

**Align for Value Reimbursement**
Optimize test ordering practices in advance of new reimbursement models. Manage test utilization.

**Population Health Management**
Align the care continuum for a patient-centric approach and quality performance. Secure adequate covered lives to spread risk.
Wisdom from the ancients

“An integrated strategy for controlling the entire system would hold more promise of achieving long-term stabilization of the costs of the health sector.”
~ Regina E. Herzlinger

Sharing the Vision

Community-based health systems and hospitals will become the laboratory providers of choice for physicians, patients and payers based on quality excellence, clinical expertise and cost-effective service delivery.
References

• TrendWatch—June 2014, American Hospital Association.

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