Threats to Hospital Lab Outreach Programs

2011 Executive War College

Learning Objectives

• Be aware of how the current economic and healthcare environment may affect your business.
• Become knowledgeable in regards to the strategies and tactics employed by health plans
• Utilize this information to create and communicate a business strategy to your hospital administration
Current Environment

- **US Economy**
  - Reduction in physician office visits

- **Health Insurance Costs**
  - Cost shifts to the subscriber
    - Increased premium costs (131% ↑ in a decade)
    - Ave Out-of-Pocket expense >$1000
  - Employers reducing benefits

- **Healthcare Reform**
  - New requirements for health plans, employers and individuals

National attention to the cost of Healthcare!

### Cumulative Changes in Health Insurance Premiums, Inflation, and Workers’ Earnings, 1999-2009

Note: Due to a change in methods, the cumulative changes in the average family premium are somewhat different from those reported in previous versions of the Kaiser/HRET Survey of Employer-Sponsored Health Benefits. See the Survey Design and Methods Section for more information, available at [http://www.kff.org/insurance/7936/index.cfm](http://www.kff.org/insurance/7936/index.cfm).

*Estimate is statistically different from estimate for the previous year shown (p<.05).

Note: These estimates include workers enrolled in HDHP/SO and other plan types. Because we do not collect information on the attributes of conventional plans, to be conservative, we assumed that workers in conventional plans do not have a deductible of $1,000 or more. Because of the low enrollment in conventional plans, the impact of this assumption is minimal. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.


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**Deductible, Copay and Coinsurance**

**Aggregate Family Deductibles**
- HMO: $1,321
- PPO: $1,518
- POS: $2,253
- HDHP: $3,780

**Copays and Coinsurance for Doctor Visits**
- Ave Copay: $22
- Ave Coinsurance: 18%

Kaiser/HRET 2010 Survey of Employer-Sponsored Health Benefits
Additional Trends

- Employer and consumer interest in the cost of healthcare, especially OOP expense
  - [http://aishealth.com/archive/nhpw021411-03](http://aishealth.com/archive/nhpw021411-03)
- Consumers are watching their healthcare dollars
  - WSJ 7/29/2010, “Americans Cut Back on Visits to Doctors”
- Doctors are selling their practices

Challenges for the Plans

- Higher cost for provision of care
- Greater competition for employer business:
  - Need for lower cost
  - Greater services (examples):
    - Specialized benefit design for the chronically ill
    - Member education and incentives
- Reduce internal admin cost (example):
  - Cost to market lab access
Current Health Plan Cost Controls

- Pricing
  - Greater discounting?
  - Capitation: more to come?
- Steerage (Control OON Leakage)
  - Push to low cost provider
  - Restriction in OON payment (MNRP)
  - Limit access to contracted providers
  - Panel size is decreasing
- Cost Shifting
  - Higher deductibles and co-insurance
  - Reduced OON cost share
- Enforcement of Medical Policies
  - Non-covered services
  - Increasing utilization of PreAuthorization and/or PreCertification

Effect on Lab Business

_Are you experiencing greater success by the plans in reducing costs in your market?_

- Letter campaigns to docs AND patients
  - Docs are reluctant to add cost to their patients
- Physicians closely monitored for in-net contract compliance
- Tiered benefits for _Preferred_ vs. _In-Network_
  - Greater patient financial responsibility for accessing outpatient care

_The current economy is lending leverage to the plans tactics_
What Do the Plans Want from Labs Today?

- Broad menu that incorporates AP and other esoteric testing (one stop care)
- Generous access to services (locations)
- Electronic reporting to physicians
- Submission of member lab results to the plan
- Participation in managed networks
- Electronic claims submission (clearinghouse)
- Strong marketing program that emphasizes use of in-network services (Competition!!)
- Consultation by in-network labs (SME)

What are the Expectations for Tomorrow?

- Participation in Utilization Management
- Synchronization of Test Menu to Medical Policy
- Notification of Test Identity (no code or generic stack codes)
- Expanded Credentialing: demonstrate proficiency of testing against standards
- Participation in Preauthorization
Lab Outreach Identity Crisis

- Lab Outreach is not a priority for hospital administration
- Marketing of the Outreach Lab to the community is limited
- Hospital ‘Outreach’ is seldom coordinated among the outpatient services
- Payors perceive hospital outreach as a higher cost and communicate issue to employer groups

Hospital Lab Case Study: Pricing

<table>
<thead>
<tr>
<th>CPT-4 and test Name</th>
<th>Nat’l Lab Charge</th>
<th>Hospital Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>80050 GENERAL HEALTH PANEL</td>
<td>63.27</td>
<td>45.77</td>
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<tr>
<td>80061 LP1DPANB.</td>
<td>23.69</td>
<td>44.97</td>
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<tr>
<td>82248 BIL/RUBIN DIRECT</td>
<td>6.5</td>
<td>14.3</td>
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<tr>
<td>82306 VITAMIN D,2-HYDROXY</td>
<td>244</td>
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<tr>
<td>82977 GGT</td>
<td>9.32</td>
<td>14.9</td>
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<tr>
<td>83036 HEMOGLOBIN A1C</td>
<td>28.27</td>
<td>40.99</td>
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<tr>
<td>83540 IRON.TOTAL</td>
<td>8.38</td>
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<tr>
<td>83615 LD</td>
<td>7.81</td>
<td>15.11</td>
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<tr>
<td>84100 PHOSPHORUS</td>
<td>8.14</td>
<td>14.3</td>
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<tr>
<td>84439 T4,FREE</td>
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<tr>
<td>84481 T3,FREE</td>
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<tr>
<td>84550 URIC ACID</td>
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<tr>
<td>85652 ESR.WESTERGREN</td>
<td>11.41</td>
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<tr>
<td>86038-ANA CASCADING REFLEX</td>
<td>26.41</td>
<td>43.13</td>
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<tr>
<td>86431 RHEUMATOID FACTOR</td>
<td>18.28</td>
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<tr>
<td>86618 LYME DISEASE AS W/RFX</td>
<td>53.22</td>
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</tbody>
</table>

National Fee: $838.64
Insurance: $212.31
Patient: $ 53.09 (20% copay)

Hospital Fee: $521.04
Insurance: $333.47 (80% charges-copay)
Patient: $ 83.37 (20% copay)

Hospital Lab cost the patient 36% more than the national lab!

The nationals and the insurers are using this info to move business away from the hospitals.
Costs to Remain Competitive

- Sales and Marketing
  - Need for marketing campaigns
  - Need for Sales personnel
- New PSC Locations
  - Convenience to Patients
- Health Information Technology
  - EMR/EHR
  - Data Sharing/ Data Exchange
  - Physician ‘Solutions’ to emerging requirements
    - Notification
    - Pre Authorization
    - Decision Support
- Pricing
  - Need to participate in Ancillary contracts

HOSPITAL OUTREACH: RE-DEFINING THE BUSINESS MODEL AND DETERMINING SOLUTIONS
Payor View of Hospital Ambulatory Business

• High Cost
  – Lower cost alternatives readily available
  – Model is “unsustainable”

• Less flexible
  – Fewer locations
  – Fewer ‘value add’ services
    • e.g., data integration to plan, e-ordering platforms

• Little understanding of volume dependency
  – Shrinking ambulatory service volume increases overall cost of operation

Hospital Outpatient Environment

• OP growth rate, 2009-2010:
  – 17% (Milliman)

• 40% of US healthcare spend ($163B!)
  (McKinsey)

• Competition with non-hospital business models is increasing
Leverage *Hospital* Outreach

- Relationship with the physician community
  - Purchase practices
  - Increase Urgent Care/Suburban sites
  - Offer ambulatory EHR service
- Consider the Consumer mindset
  - Convenience: create a healthcare ‘market’
  - Participation in Health Plans
  - Minimal OOP expense

Speedy Survey

- Is your Outreach Laboratory business a priority for your administration?
- Does your Lab work in concert with other hospital Outreach businesses (e.g., imaging, etc)?
- Does your hospital maintain a marketing program?
- Does the hospital market your Lab to the community?
Solutions for Success: #1

• Network with other labs to create a user-friendly healthcare marketplace
  – Employ test sharing mechanisms (electronic)
  – Join a health plan sponsored managed network *(Caution!*)

Advantages:
✓ Greater access for patients and ease of use for docs
✓ Access to current contracts

Solutions for Success: #2

• Join a RHIO, Regional Extension Center or other Health Information Exchange

Advantages:
✓ Fulfills data requirement of most current HP contracts
✓ Lower your cost of operation for data management
✓ Greater access to physician EMR solutions
Solutions for Success: #3

- Create Value for your lab’s Esoteric Testing
  - Submit data to a test registry
  - Participate in recognized scientific forums
  - Submit Notifications for testing described by generic coding
  - Offer Decision Support in conjunction with CPOE

Advantages:
- Assure your esoteric test is a covered benefit
- Demo greater value to physicians

Solutions for Success: #4

- Determine Utilization Management processes for your lab network

Advantages:
- Demo to docs and patients the value of your testing services; perform right test, right patient, right time
- Assure compensation for the testing that your lab performs (decreased denials)
Business Model Tune-Up

- Educate your administration re: the challenges
  - Find a ‘Champion’!

- Develop a collaboration with other outreach businesses that are associated with the hospital
  - Develop a marketing plan
    - Create a community healthcare marketplace
  - Create an educational program
    - Target doctors, patients, and employer groups
  - Determine a cohesive HIT strategy
    - EHR: the electronic umbilical cord
    - Technology = Value to Customers

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