Managed Care and the Lab Industry: New Developments for 2012
Factors Affecting Reimbursement

• The Economy...
  – Employers struggling to reduce health benefit costs:
    • Cost shift to the employee
    • Reduction in benefits and provider networks

• Healthcare Reform
  – Medical Loss Ratio (MLR)
  – Reduced profits for health plans

• The ‘Race to the Bottom’
  – Medicare reductions
  – Competitive ‘bidding’
  – Renewed interest in ‘risk-based contracting’ (capitation)
  – Controls on MDx testing
Health Insurance Myths

• Everyone ‘hates’ their health plan
  – 60% of consumers satisfied or very satisfied with their plan

• Lab is only 3-5% of a health plan’s total benefit spend therefore, does lab have a real impact on cost?
  – The issue is ‘trend’; that is, the total cost keeps rising

• The plans are very ‘profitable’; therefore, they don’t need our money
  – Yahoo Finance reports industry profits at 4.54%

• The plans ‘need’ me!
  – ...until they don’t!
Major Trends for Health Plans

• Plans are downsizing their provider networks
  – Employer groups are demanding lower cost of benefits
  – National labs are leveraging their contracts to gain new volume
  – Plans are keying on ‘adequate’ access
  – Termination letters in the market place

• States are pushing Medicaid participants to managed care plans
  – Increased capitation
  – Further exclusions

• Medicare Advantage plans continue to grow
  – Privatization of Medicare
  – Commercial insurance *DOES* influence Medicare referrals
Major Trends for Health Plans

• Increase in ‘Self Funded’ benefit plans
  – Greater need to control admin costs
• Change in the BCBS ‘Blue Card’ administration
  – Greater denials
• Network Management models
  – Exclusive networks
  – Utilization management
• ACO Model formation (non-Medicare)
  – New requirements?
  – Participation?
  – Reimbursement??
Payors: Contracting ‘Constants’

• Trend and Leakage
  – Trend rises due to new technology and utilization increases
  – Out of Network or non-contracted providers

• Lowest costs
  – Competitive bidding:
    • Price
    • Services

• Preferred agreements (perception of value)

• New services, same price
  – HIE participation
Threats to Independent Labs and ...

• Disintermediation from contracts/ health plan membership
  – Network Management models
    • Generation Health, DNADirect, Beacon LBS
• “Steerage” of well-reimbursed testing to national labs
  – Communication to physicians and patients
  – Network reductions by employer groups
• Hospital Lab Outreach rendered ‘irrelevant’
  – Use of ‘facility’ pricing
  – Anemic sales efforts
  – Focused on the wrong competitors
### SWOT Analysis for the Lab Industry

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>OPPORTUNITIES</th>
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</table>
| • Healthcare is ‘Local’:  
  • Regional employer  
  • Encourage loyalty  
• Access for patients and physicians  
• Physician practice acquisitions | • Form regional networks  
• Create new service models  
  • Focus on local employer needs  
  • Relate testing and outcomes  
• Collaborate with ‘Centers of Excellence’ |
<table>
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<tr>
<th>WEAKNESSES</th>
<th>THREATS</th>
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</table>
| • Pricing  
  • Above market  
  • Co-insurance  
• Lack of capital investment  
  • E-connectivity  
  • New services  
• Responsive vs. Proactive Biz Model | • Network management models by national labs (disintermediation)  
• Coop of the ACO model by national labs  
• Reduction in network participation by plans  
‘Staying the course…’ |
Lab Market Share by Test Volume

- Hospitals: 53.60%
- Independent Labs (excl LCA/QD): 24.50%
- Quest: 4.80%
- LabCorp: 3.80%
- POLs: 9.40%
- Other: 3.90%

G2 Lab Industry Strategic Outlook 2011
2009 volume data
Lab Market Share by Revenue

- Hospitals: 62.50%
- Independent Labs (excl LCA/QD): 13.00%
- Quest: 11.10%
- LabCorp: 8.30%
- POLs: 3.60%
- Other: 1.50%

G2 Lab Industry Strategic Outlook 2011
2010 P data
## Current Reimbursement Trends

<table>
<thead>
<tr>
<th>PLAN</th>
<th>EST. REIMBUSEMENT</th>
<th>TREND</th>
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<tbody>
<tr>
<td>Aetna</td>
<td>~70%</td>
<td>↓</td>
</tr>
<tr>
<td>CIGNA</td>
<td>~60%</td>
<td>→</td>
</tr>
<tr>
<td>UHC</td>
<td>~50%</td>
<td>→</td>
</tr>
<tr>
<td>Wellpoint-Anthem</td>
<td>~65%</td>
<td>↓</td>
</tr>
<tr>
<td>Humana</td>
<td>~60%</td>
<td>→</td>
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Hard Questions for the Industry!

• Why do the nationals control the majority of plan contracts yet a lesser portion of revenue and utilization?
• If service levels by the national labs are reportedly poor, why can they convince the plans to give them preferred contracts and steer business to their labs?
• Do you feel that your business will survive under the current conditions and business model?
• What is the greatest threat to your business today?
• What are the alternative models that will continue to allow your business to operate independently?
Alternatives for Labs

• Continue ‘business as usual’
  – Reduce pricing to gain contracts
  – Remain ‘Out of Network’
• Affiliate with other labs
• Sell
• Affiliate with a management entity
• Join an ‘association’ as a means to participate in plan contracts and to leverage services
Model for Lab Association

• Labs form Association for purchase of services required for network participation
  – Membership fees

• Association appoints 3rd party to manage
  – Satisfies anti-trust issues
  – Negotiates services for association under a GPO-type model
  – Manages the requirements of the plans for network management (plan by plan basis)
Requirements for Network Management

• Credentialing/ Quality Management
• Data Integration (vs. ‘system’ integration)
• Decision Support and Physician Education
• Claims Management
  – Capitation management
  – Pre-processing (edits)
• Genetic Counseling
• Consulting
  – Contracts
  – Policies
## Benefits of an Association Model

### BENEFITS FOR LABS AND INSURERS

<table>
<thead>
<tr>
<th>LABS</th>
<th>INSURERS</th>
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<tbody>
<tr>
<td>Creates standard requirements for participation in health plan contracts</td>
<td>Offers a 'managed' network of independent labs</td>
</tr>
<tr>
<td>Emphasizes valuation of requirements beyond testing services</td>
<td>Assures the fulfillment of requirements necessary to manage the benefits of the plan membership</td>
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<tr>
<td>Leverages the purchasing power of membership</td>
<td>Allows the plans an alternative to increasing admin cost; instead, addresses a positive impact to MLR calculation</td>
</tr>
<tr>
<td>Assures the ability of the membership to compete for lab contracts</td>
<td>Reduces ‘lab leakage’ by fielding a broad network of qualified labs</td>
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Characteristics of an Association

• Not For Profit
• Staff Model Management:
  – No employment relationship to any member
  – Manager responsible for recruitment of new members and engagement of health plans
• Board of Directors leadership
• Guide for Participation
  – Member fees
  – Participation in lab credentialing process
  – Must follow requirements for participation in select plans
  – Receive education re: Messenger Model
The Messenger Model

• Defined by the FTC

• Exemptions:
  – Joint ventures (*limited; must share risk*)
  – Capitation and withhold contracts

• ‘Messenger’:
  – 3rd-party agent to communicate to/from *individual* members
  – Cannot act as an agent for *collective* negotiation
The Messenger Model

• Network may not ‘jointly’ determine:
  – Pricing or Fees
  – Market definition (non-competes)
  – Boycotts

• However, the ‘Messenger’ may:
  – Convey info obtained independently from members to payors
  – Communicate offers from payor to members; participants must determine independently whether to accept or reject offers
Strengths/Weaknesses

Strengths

• Protection against antitrust issues
• Allows multiple, unrelated entities to compete for contracts that may be otherwise, out of reach
• Instills business discipline to hospital outreach

Weaknesses

• *Messenger* may not negotiate on behalf of the network for fee-for-service business
• Network participants must clearly understand the antitrust guidelines
Finding the Solutions

• Health Plans?
  – Healthcare Reform: shift to provider

• National Labs??
  – Plan participation
  – Funding for tools

• Trusted Vendors
  – Software
  – Consulting
The Game is Changing

• Plans have the leverage:
  – Employers and consumers demand lower costs
  – Enrollment is increasing (‘Caid, ‘Care, and Self Funded)
  – Competition between labs

• Technology
  – Demand for integration (EMR, eligibility, transparency, etc)
  – New applications (evidenced-based, coding, etc)
  – Collaboration: Diagnostics and Therapeutics

• Collaboration/Networks
  – Managed network (National lab, For Profit entity)
  – Lab affiliation
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