

# ***ACOs, Medical Homes, ObamaCare Is the Glass Half-Full or Half-Empty for Lab Testing?***

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3 May 2011*

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## ***Preparing for Major Reforms***

- Healthcare in the United States is about to undergo major reforms.
- How lab tests are ordered and reimbursed is likely to undergo radical change.
- Time of change creates new opportunities for labs, along with different threats.

## ***Let's Look at 3 Dimensions***

- **First**, macroeconomics that affect healthcare spending.
- **Second**, broad scope of ObamaCare's most sweeping mandates.
- **Third**, likely sources of financial and clinical pressure of clinical labs and anatomic pathology groups.

## ***Inflation as an Issue/Trend***

- How does *Wikipedia* define inflation?
- “Economists generally agree that high rates of inflation and hyperinflation are caused by an excessive growth of the money supply.”
- “...the consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth.”

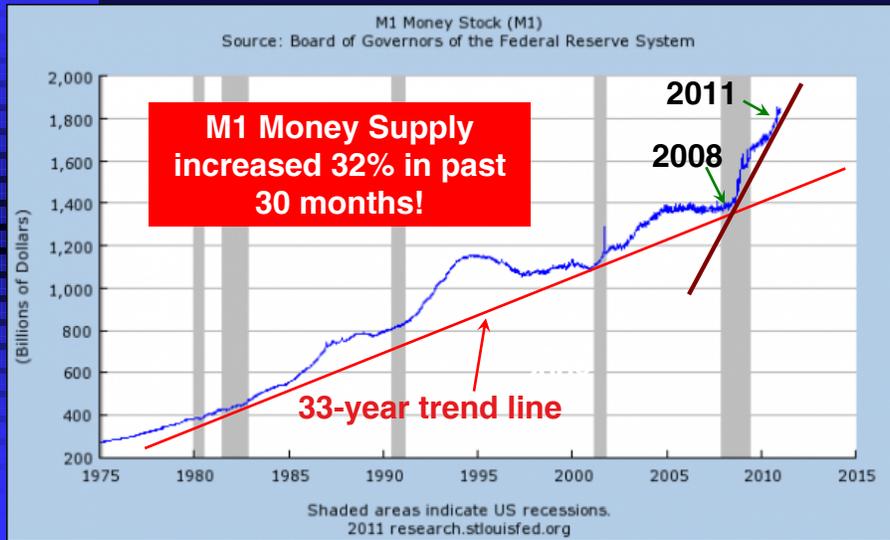
## ***Money Creation in U.S.***

- Federal government to spend an estimated \$3.82 trillion (estimated) in FY 2011.
- Federal government will collect only \$2.17 trillion (estimated) in revenue in FY 2011.
- Where do the feds get the \$1.65 trillion needed to finance the deficit?
- Two sources...

## ***Funding Deficits***

- 1. Sell federal bonds to investors.
    - ◆ *Chinese hold \$1.5 trillion of U.S. debt.*
  - 2. Sell bonds to the Federal Reserve Bank
- Federal Reserve bank “creates” the dollars needed to buy those bonds.
  - That can increase the supply of money at a faster rate than the supply of goods and services.

# Look at Money Creation



# Same with M3 Increase



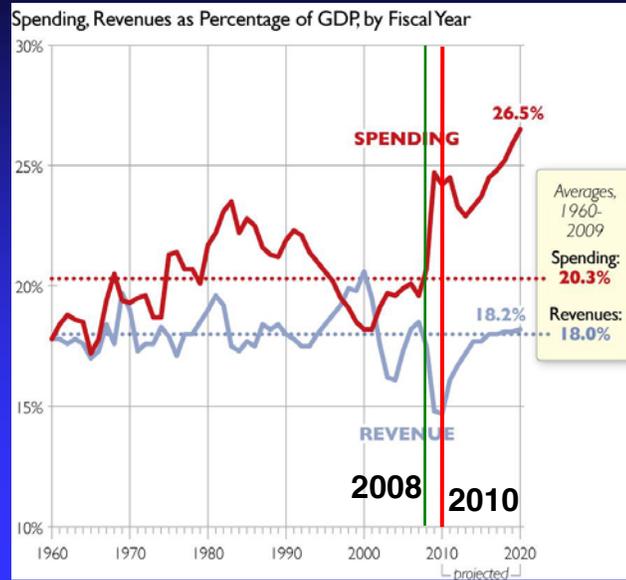
## ***Look at Price Increases***

- CBS News, March 16, 2011
- **“Food prices increase most in 36 years”**
- “Food prices soared 3.9% last month, the biggest gain since November 1974. Most of that increase was due to a sharp rise in vegetable costs, which increased nearly 50%. That was the most in almost a year. Meat and dairy products also rose.”

## ***More Dollars that Buys Less***

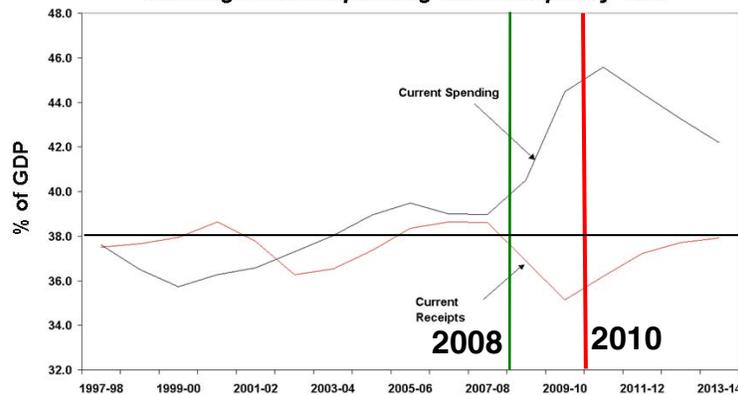
- Gold and silver prices at all-time highs.
- Oil prices skyrocketing.
- All are classic signs of inflation.
- Purchasing power of the U.S. dollar is declining.
- Consequence: increased federal spending on healthcare will buy fewer services.

# Federal Spending Issues



# U.K Has Same Problem

**United Kingdom's Budget Woes**  
 Showing Current Spending and Receipts by Year



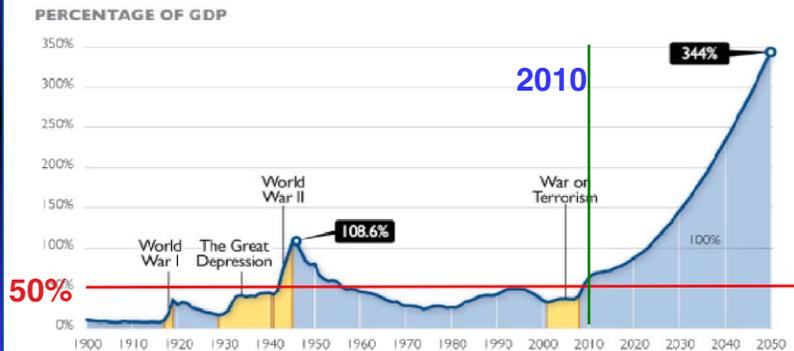
## U.K. To Cut Spending 20%

- BBC, October 20, 2010
- “Spending Review 2010: George Osborne wields the axe”
- Mr Osborne vowed to restore "sanity to our public finances and stability to our economy".
- He told MPs: "Today is the day when Britain steps back from the brink, when we confront the bills from a decade of debt. It is a hard road, but it leads to a better future."

## Here's Federal Debt Curve

### National Debt Set to Skyrocket

In the past, wars and the Great Depression contributed to rapid but temporary increases in the national debt. Over the next few decades, runaway spending on Medicare, Medicaid, and Social Security will drive the debt to unsustainable levels.



Source: Heritage Foundation calculations based on data from the U.S. Department of the Treasury, Institute for the Measurement of Worth, Congressional Budget Office, and White House Office of Management and Budget.

## ***State Spending Issues***

- State governments are strapped for funds.
- Why all the national attention on state reforms to employee pensions and union work rules?
- Because, as bank robber Willie Sutton said, “That’s where the money is!”

## ***State Pension Funds Lack \$s***

- Joshua D. Rauh, Associate Professor of Finance at the Kellogg School of Management, Univ. of Illinois.
- According to Rauh, under the current scenario, Illinois would be the first state to face pension-fund insolvency, going belly up in 2018.
- Connecticut, Indiana and New Jersey would follow one year later, followed by Hawaii, Louisiana and Oklahoma in 2020.



## ***States & Federal Government Don't Have Enough Money***

- You now understand the reality of why inadequate funds will be available to fund healthcare.
- Don't forget, multiple spending priorities compete for limited funds:
  - ◆ Healthcare programs
  - ◆ Education
  - ◆ Government employees' pension funds
  - ◆ Roads, bridges, public works

## ***Some Taxpayers Have Figured It Out!***



## ***Sorry Labs, We Have No \$s!***

- That's the bad news.
- State and federal governments will be cash-strapped in coming years.
- Predict vested interests will fight for funding.
- Education vs. healthcare vs. roads, for example.
- Who determines priorities?
- Expect less money for lab test fees.

## ***Now For Good News***

- ObamaCare opens the door for labs to deliver more value to physicians, patients, and payers.
- Inability of federal and state health programs to fund necessary levels of spending may force legislators to become creative.
- Medicare vouchers, for example?
- Consumer-directed health plans?

## ***ObamaCare's "Holy Trinity"***

- Of 2,700 pages of legislation, three things attract majority of attention.
- Accountable Care Organizations (ACO).
- Medical Homes.
- Value-based contracting.

## ***Will ObamaCare Happen?***

- Not likely to see a repeal of ObamaCare bill in its entirety.
- Important pieces of the law will be implemented.
- No one can predict how activities mandated by the ObamaCare law will alter the existing healthcare system.
- That said, three major mandates likely to trigger major change.

## ***ACOs Are Coming in 2012***

- Accountable Care Organizations (ACO).
- Medicare can begin contracting with ACOs on January 1, 2012.
- That's 8 months from today.
- Hospitals buying doctors' practices.
- Doctors in hospital-owned practice use lab testing differently than doctors who own their group practice.

## ***Kaiser Health News***

- March 31, 2011
- "ACOs wouldn't do away with fee-for-service, but would create savings incentives by offering bonuses when providers keep costs down and meet specific quality benchmarks, focusing on prevention and carefully managing patients with chronic diseases.
- "In other words, providers would get paid more for keeping their patients healthy and out of the hospital."

## ***Medical Homes***

- This model is intended to advance integrated care of the patient.
- Requires EHR and ability for electronic lab test data to move seamlessly among care team in all settings.
- Expected that medical homes physicians will utilize lab tests more effectively.
- Labs must step up their consultative role.

## ***Oncology as Medical Home***

- Consultants in Medical Oncology and Hematology (CMOH) in Philadelphia.
- 2005: 12% of chemo patients referred to emergency rooms.
- By 2009, only 5% were referred.
- Hospital admissions dropped:
  - ◆ Down by 16% in 2009
  - ◆ Another 10% in 2010.
- Outcomes showed how fee-for-service payment doesn't reward doctors for "prevention."

## ***Integrated Oncology Care***

- Oncologists have incentives to establish in-clinic medical testing labs to support on-site patient care.
- Two Blood Brothers are supporting this strategy.
- This can change lab test utilization and referral patterns of office-based oncologists.
- Labs must demonstrate value that directly improves patient outcomes to win oncologists' business.

## ***Value-Based Purchasing***

- Here's one more big game-changer!
- October 1, 2012: Medicare begins value-based purchasing demonstrations with hospitals.
- Value-based purchasing starts Medicare's shift away from pure fee-for-service payment.
- Potential exists that providers will want to buy lab tests at deep discounted price, or even on a capitated basis.

## ***Kaiser Health Reform Says:***

- **Medicare Value-Based Purchasing**
- Establishes a hospital value-based purchasing program in Medicare to pay hospitals based on performance on quality measures and requires plans to be developed to implement value-based purchasing programs for skilled nursing facilities, home health agencies, and ambulatory surgical centers.
- **Implementation:** October 1, 2012.

## ***...And, There's More!***

- **Medicare Bundled Payment Pilot Program**
- Establishes a national Medicare pilot program to develop and evaluate making bundled payments for acute, inpatient hospital services, physician services, outpatient hospital services, and post-acute care services for an episode of care.
- **Implementation:** January 1, 2013.

## ***Bundled Payments***

- January 1, 2013: Medicare initiates bundled payments pilot programs.
- Single bundled reimbursement for an episode of care that begins three days before admission to the hospital and ends thirty days after the Medicare patient is discharged.
- The hospital and physicians involved in the patient's care will share in the bundled reimbursement.
- Lab tests outside bundle—but for how long?

## ***Don't Forget: 5010s & ICD-10***

- January 1, 2012: electronic health care transactions will use Version 5010.
- October 1, 2013: ICD-10 takes effect.
- Clinical labs and pathology groups should have implementation timetable in place for their organization.
- Labs rely on referring physicians for ICD-10 codes, so that complicates this management objective.
- The Dark Report: Audio Conference on May 24 on 5010/ICD-10.

## ***Basic Trends Continue***

- Aging lab workforce has three consequences on lab staffing.
- First, retirements of Baby Boomers starts in earnest in 2011.
- This exacerbates short-staffing that already exists in many regional markets.
- Second, it means the lab will lose its most experienced talent.
- Third, few labs have replacement managers fully trained and ready to step into retiring managers' jobs.

## ***Utilization Will Skyrocket***

- Demand for healthcare services is about to skyrocket.
- Number of senior citizens, combined with the incidence of disease and ailments for their age groups.
- Note: because of new technologies, volume growth will be spectacular in outpatient and outreach services!
- Inpatient growth will be significant, but modest relative to outpatient services.

## **Integration of Informatics**

- Clinical labs must support physician EMR adoption and use between now and 2015.
- This is a one-time phenomenon in the market.
- Opportunity to pick up market share for clinical labs that are nimble, proactive.
- Hospitals' *effective* use of EMRs is increasing due to federal incentives.
- Don't forget HIEs... these are active in more regions of the country.

## **Molecular/Genetic Pathology**

- Oncology is the driving area for advanced molecular and genetic testing.
- Assays and testing systems are becoming more automated, allowing smaller pathology groups to acquire and offer these tests.
- But that requires capital—which many smaller pathology groups don't have.
- Whole human genome sequencing is disruptive to community hospital-based pathology groups.

## *Digital Pathology*

- This is the most disruptive technology in AP today.
- All pathology groups will need the capability to scan selected slides, then work with, archive, and transmit those digital images.
- Digital pathology makes it possible for the specimen to be processed at one location, and the slides (digital images) to be read at another location.

## *Digital Pathology's Disruption*

- This “disintermediates” today’s business model of pathology.
- That model has specimens brought to where the pathologists work.
- That won’t be true for AP in the future, because digital images will be transmitted to where the pathologist is located.

## ***End to Private Practice Pathology?***

- Several reasons why the 50-year practice model for anatomic pathology may be entering final stage.
- This will change the relationships pathologists have with clinical labs and with hospitals/health systems.
- Clinical labs should have strategies to capitalize on these deep changes to the current practice model of pathology.

## ***Plus the “Pharma Factor”***

- We are now in the earliest stages of:
  - ◆ Personalized medicine
  - ◆ Companion Diagnostics
  - ◆ Pharmacogenomics
  - ◆ Whole Human Genome Sequencing
- Big pharma is poised to invest big dollars into anatomic pathology first, then clinical laboratories.

## ***What's the Message?***

- Next five years will see radical and deep changes in healthcare.
- The laboratory testing industry will look much different in 2016 than it does today.
- Change always creates new winners and new losers.
- In the lab testing business, the winners are lab organizations that recognize the new needs of customers, then nimbly organize to meet those needs!

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