Reference Laboratory Partnerships

How hospitals can maximize the value
Introduction

The best hospitals and healthcare systems are focused on lowering overall laboratory costs while also providing the appropriate diagnostic services to patients, despite decreasing reimbursements. Over the last 10-plus years, the cost of testing purchased from reference laboratories has increased sharply due to novel genetic testing and the introduction of personalized medicine, which relies heavily on laboratory testing.

New tests on the market and the downsizing of hospital laboratory staff has created a trend toward moving testing away from hospital laboratories to independent and specialty reference laboratories. Because leading hospitals are moving away from manual testing platforms and consolidating testing on automated instruments, they may not have the ability to perform many of the tests that are now being directed to outside reference laboratories. For example, a protein electrophoresis and autoimmune testing panels, when not ordered in high volumes, are being moved to reference laboratories to allow hospital-based laboratories to run more efficiently. Hospital laboratory administrators who perform periodic business reviews will be in the best position to control growing reference laboratory costs and optimize their partnerships with the reference laboratories.

Opportunities to Lower Costs with Reference Laboratories

There are several scenarios that drive a review of current reference laboratories and the decision to go out for bid. Regardless of price, NMG recommends that hospital laboratory administrators bid every three years for reference laboratory testing. This keeps competitive pricing available to the hospital and allows for evaluation of service and quality levels. It is critical that hospitals do not rely on their GPO for best pricing. It is the hospitals responsibility to go after the best pricing possible. Other reasons to seek new bids:

- When service levels are not being met
- Breach of current contract
- Hospital merger has occurred
- Sale has occurred with the current hospital outreach laboratory program
- New outreach business model is implemented that will bring new volumes
Table 1 lists an example of savings achieved by NMG for their clients by negotiating better pricing and repatriation of testing back into the hospital laboratories.

- **Children's Hospital** had higher costs-per-tests because of its test mix, primarily esoteric complex testing including molecular, cytogenetics and flow cytometry.
- **Community Hospital** and the **Academic Medical Center** were utilizing academic-based reference laboratories associated with the hospital and when switching to an independent reference laboratory, their cost-per-test was reduced to half the previous rates.
- **Multi-system Hospital A** remained with its independent reference laboratory but consolidated its individual hospital contracts into a master agreement and repatriated testing back to their hospital core laboratory. This resulted in improved price tier because of aggregated volumes.
- **Multi-system Hospital B** had a cost-per-test increase due to repatriation of high-volume testing back to the hospital laboratory. Higher-cost tests that had lower volumes remained at the reference lab, yet savings were achieved by the organization.

### Table 1: Example of Savings Achieved

<table>
<thead>
<tr>
<th>Organization</th>
<th>Current Cost per test</th>
<th>Updated Cost per test</th>
<th>Total Billable Tests</th>
<th>Reference Lab Spend</th>
<th>Reference Lab Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children's Hospital</td>
<td>$78.00</td>
<td>$70.00</td>
<td>2.5 M</td>
<td>$4.7 M</td>
<td>$0.5 M</td>
</tr>
<tr>
<td>Community Hospital</td>
<td>$42.00</td>
<td>$26.00</td>
<td>1.5 M</td>
<td>$0.9 M</td>
<td>$0.4 M</td>
</tr>
<tr>
<td>Academic Medical Center</td>
<td>$41.00</td>
<td>$28.00</td>
<td>6.3 M</td>
<td>$6.0 M</td>
<td>$1.2 M</td>
</tr>
<tr>
<td>Multi-system Hospital A</td>
<td>$29.00</td>
<td>$17.00</td>
<td>2.1 M</td>
<td>$1.9 M</td>
<td>$0.4 M</td>
</tr>
<tr>
<td>Multi-system Hospital B</td>
<td>$21.00</td>
<td>$30.00</td>
<td>2.3 M</td>
<td>$2.8 M</td>
<td>$0.4 M</td>
</tr>
</tbody>
</table>

### Periodic Business Reviews

Per College of American Pathologists guidelines as part of CLIA and Joint Commission, hospitals are expected to manage the service expectations of all contract services. Reference laboratories fall into this bucket for annual review. NMG recommends quarterly business reviews at minimum. For the first six months of a new implementation, it is advisable to perform a business review monthly to make sure that you are receiving the pricing as contracted. NMG had a client that was losing over $3,000 per test, which resulted in millions of dollars of lost revenue. A good agenda for reviewing key areas are as follows:

1. Service levels as agreed upon during contract negotiations
2. Quality metrics as agreed upon during contract negotiations
3. Utilization of tests by provider
4. Invoice workflow including billing and collections
Even when third-party billing, the reference laboratory must share how much it is collecting from patients in case there are any problems with obtaining patient demographic information during the pre-analytical phase. The hospital will have to get involved if reference laboratories are not being paid by payors and support this process or this can result in late payments, denials and patient dissatisfiers, which will result in the hospital writing-off the unpaid invoices. Auditors may still hold the hospital liable if information was incorrectly provided to reference laboratories for third-party billing.

Understanding reference laboratory testing price in the market place can help organizations remain competitive and should be evaluated periodically by providing a reference point for contract fee negotiation. Table 2 represents the cost difference between multiple reference lab providers. NMG has assisted clients with ensuring they are provided the most competitive price in their marketplace.

### Table 2: Top 4 Laboratory Reference Testing Lab Test Price Comparison

<table>
<thead>
<tr>
<th>Popular Referral Lab Test</th>
<th>CPT Code</th>
<th>Lab A</th>
<th>Lab B</th>
<th>Lab C</th>
<th>Lab D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vitamin D 25-Hydroxy</td>
<td>82306</td>
<td>$24.79</td>
<td>$10.00</td>
<td>$5.00</td>
<td>$40.61</td>
</tr>
<tr>
<td>AFP, Serum</td>
<td>82105</td>
<td>$12.03</td>
<td>$7.55</td>
<td>$22.93</td>
<td>$23.01</td>
</tr>
<tr>
<td>CEA</td>
<td>82378</td>
<td>$20.98</td>
<td>$4.80</td>
<td>$4.00</td>
<td>$26.01</td>
</tr>
<tr>
<td>Electrophoresis</td>
<td>84165</td>
<td>$17.19</td>
<td>$5.75</td>
<td>$37.59</td>
<td>$16.48</td>
</tr>
<tr>
<td>Prolactin</td>
<td>84146</td>
<td>$21.42</td>
<td>$6.00</td>
<td>$50.91</td>
<td>$53.16</td>
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<tr>
<td>LH</td>
<td>83002</td>
<td>$12.34</td>
<td>$11.25</td>
<td>$10.00</td>
<td>$50.80</td>
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<tr>
<td>C-Peptide</td>
<td>86200</td>
<td>$21.64</td>
<td>$10.00</td>
<td>$9.00</td>
<td>$17.76</td>
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<tr>
<td>Hepatitis C Virus (RNA)</td>
<td>87522</td>
<td>$15.78</td>
<td>$65.00</td>
<td>$37.00</td>
<td>$58.76</td>
</tr>
<tr>
<td>Varicella Zoster</td>
<td>87798</td>
<td>$14.25</td>
<td>$88.00</td>
<td>$21.05</td>
<td>$48.14</td>
</tr>
<tr>
<td>Mumps AB, IgG</td>
<td>86375</td>
<td>$14.42</td>
<td>$4.25</td>
<td>$18.00</td>
<td>$17.90</td>
</tr>
<tr>
<td>ANA Screen</td>
<td>86038</td>
<td>$13.36</td>
<td>$4.00</td>
<td>$35.69</td>
<td>$14.48</td>
</tr>
</tbody>
</table>

### Going Out to Bid

Going to bid with a request for proposal (RFP) requires dedicated resources, i.e., an individual who can manage the full cycle from developing the criteria to managing the response process and negotiating the best deal for the organization. Having knowledge of what is out in the marketplace provides further leverage. In addition, accurate data will be required to provide to the bidders and strong analytical skills are required to evaluate the responses and compare tests appropriately for each reference laboratory against current test mix. The reference labs do not make it easy to compare pricing and benefits, so using a project manager who has the background in laboratory testing and methodology who can perform these reviews will help to ensure the test mix is an exact match. NMG has supported many organizations in the process of designing, implementing and negotiating an RFP on behalf of their clients, saving them millions of dollars.
Key items an organization may want to include in RFP for reference laboratory include:

- Test mix and volumes by CPT
- Service level expectations
- Interface testing and continued maintenance
- Quality metrics to be met and measured
- Directory of consolidated service
- Contacts and service representatives
- Unique features that set that bidder apart from their competitors
- Pathology and PhD level availability for consultations
- Specimen processing support
- Test utilization management support

Reference laboratories today offer more than traditional laboratory services. Reference laboratories are providing additional value-added services that a hospital may not be aware of. NMG has successfully negotiated additional support for their clients that go beyond the traditional model of testing services.

- Supply chain partnerships to lower the systems overall supply costs
- Pre-analytical support with specimen processing, phlebotomy, couriers and client services
- Training tools for outreach sales and marketing partnerships
- Shared information systems which integrate into the electronic health records
- Management tools to support the organization's value-based reimbursement models
- Management oversight as needed either on an interim or permanent basis
- Physician education and utilization management support
- Shared marketing materials
- Joint venture opportunities

Managing effective clinical utilization

Testing that is sent to reference laboratories is not always under the control of the laboratory. Although CLIA requires laboratories to maintain an approved list of reference laboratories, clinical staff has become accustomed to order testing that is used for treatment. Some of these tests are introduced to the physician by the patient themselves. Therefore, it is recommended that the laboratory have a policy and procedure for utilization of reference laboratory testing, which is frequently reviewed by the medical staff. At times, it is simply a lack of knowledge about the process for ordering testing at the right time during a patient visit to allow the hospital to recoup reimbursement for high-dollar testing. Often testing that is ordered on an inpatient does not provide adequate reimbursement and is better ordered in an outpatient setting. Providing ongoing education and utilization reports through appropriate committees can allow for a collegial approach to provide the required services while managing the overall hospital spend.
Summary

Reference laboratory spending in hospitals can exceed millions of dollars per year. NMG has proven this is frequently an area ripe for cost reduction. Several strategic initiatives including consolidation to a primary reference laboratory partner and renegotiating contracts can assist in lowering the costs and removing duplication of workflow for improved efficiencies. The partnership model has created additional areas of opportunities for lowering costs, including supply chain, labor, and outreach services. NMG has provided immediate benefits to organizations with their reference laboratory opportunities from evaluation, negotiation, implementation, and monitoring support. This approach requires understanding of laboratory reimbursement, regulatory limitations, tools and resources to implement a strategy for updating or converting to a new partner. Hospital organizations that chose to effectively manage their reference laboratory spend, have successfully lowered costs and supported appropriate utilization of advanced diagnostics, which brings greater value to their patients.

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