



# PAMA IS HERE, AND MOST HOSPITAL LEADERS ARE UNAWARE OF ITS IMPACT

**The Protecting Access to Medicare Act**, or PAMA, has enacted dramatic changes to the Medicare Clinical Laboratory Fee Schedule (CLFS), and inflicted significant regulatory and reimbursement burdens on labs.

Signed into law on April 1st, 2014, PAMA has resulted in a significant reduction in payment for most lab tests. The new fee schedule includes a decrease in reimbursement for approximately 75% of lab tests that can be billed to CMS. CMS estimated the cuts to have an overall impact to the industry of nearly \$670 million in the first year, or a nearly 10% decrease from the previous fee schedule. Similar cuts will follow over the next two years, and additional cuts are possible beyond 2020. These changes have

the potential to create challenges for hospitals that are already dealing with rising costs and declining reimbursement in many other service lines.

Labs are often seen as a cost center for hospitals, but their operations are crucial to the practice of medicine and their operational stability is of paramount importance to hospitals' ability to deliver high-quality, efficient care. If providers are forced to scale down their lab operations to survive amid reimbursement pressure, quality-of-care could suffer. Beyond independent labs like Quest Diagnostics, PAMA will have a direct impact on physician office labs and outreach labs. Outreach labs generate revenue for hospitals by leveraging the capabilities of the hospital lab to provide diagnostic testing for patients visiting their doctors out in the community.

Unfortunately, it appears as though leaders responding to this survey are unaware of the law and its impact on labs. In a survey of healthcare executives conducted by Modern Healthcare Custom Media on behalf of Quest Diagnostics, nearly 80% of executives surveyed lacked significant knowledge of the law: 45% of executives told us that they're "not at all familiar" with PAMA, and 33% said they're only "somewhat familiar."

It's possible lab managers may be more familiar with PAMA than other administrators, but they're certainly not the only ones who could be impacted. Cuts due to pressure from PAMA could reverberate across a

hospital, so it's important that executives across the board understand its impact. Our survey sample includes leaders from a wide variety of roles, including senior management (29%), operations management (16%), financial management (15%) and clinical management (15%). Only 4% of respondents serve as lab administrators.



## NEARLY 80% OF EXECUTIVES ARE NOT AT ALL FAMILIAR OR ONLY SOMEWHAT FAMILIAR WITH PAMA



Respondents tell us they're facing lab test reimbursement challenges from both government and commercial payers: 62% of respondents said they're feeling the pressure of declining reimbursement from commercial insurers, and 59% reported pressure from government payers like Medicare.

Executives who said their organization has an outreach lab were 30 percentage points more likely to report lab test reimbursement challenges, which makes sense given the direct impact of PAMA on these facilities. Of this group, 79% said they're facing pressure from commercial payers, and 77%

said they're facing pressure from government payers. At organizations that don't have an outreach lab, 50% of executives told us they aren't facing any reimbursement pressure on lab tests.

Administrators seem largely unprepared for change that could cause significant disruption to operations, and very few leaders appear to be taking any action to adapt to the impacts of the law. Only 4% of respondents say their health system is actively making changes to their lab strategy as a result of the law, while 19% say PAMA is causing them to begin rethinking their organization's lab strategy. Twenty-four percent of respondents say the law isn't spurring any change to their overall lab strategy.

But for the majority, there is again a lack of awareness: 54% of respondents told us they are unsure of how the law is affecting their organization's lab strategy, if at all.

### PAMA DIRECTLY IMPACTS OUTREACH LABORATORIES

When operated efficiently, outreach labs can serve as a significant revenue source that can help support a hospital or health system's bottom line. Unfortunately, many providers lack the resources or expertise needed to optimally run outreach lab operations, and a decrease in lab reimbursement from Medicare could make this service offering less lucrative for American hospitals.

Roughly half of leaders surveyed for our study said their organization has

an outreach lab, and most of those leaders have a positive outlook on their labs' performance: 60% say their hospital or health system's outreach labs are currently profitable. Twenty percent of leaders report a lack of profitability, and 11% of leaders say their lab is a loss leader.

Twenty percent of leaders are unaware of their outreach lab performance—once again showing labs may not be as top-of-mind for executives as they should be, given their revenue potential and impact on care delivery.

Fifty-two percent of survey respondents said they are unsure about the law's impact on their health system's outreach lab revenues. At a time

51% OF RESPONDENTS SAY THEY HAVE NO INTENTION OF CHANGING LAB STRATEGY TO ADAPT TO PAMA

when providers are constantly looking for areas to increase revenue, it would seem as though leaders need to take notice of a potential threat to an existing revenue stream.

ADAPTING TO PAMA

As they look forward, few respondents plan to take immediate action to align lab strategy with the new realities of PAMA. Only 10% expect change within six months, 16% within one year and 20% expect to shift lab strategy within two to three years. Two percent say it will take over three years for them to take action, which is probably too late to avert the long-term financial impact of PAMA. Due in part to a lack of awareness of PAMA, over half of respondents (51%) told us they have no intention of changing their lab strategy to respond to PAMA.

“The data presented here supports what we've experienced in the health

ACTION STEPS FOR PROVIDERS WHO ARE UNAWARE OF PAMA:



LEARN ABOUT THE LAW

Resources are available from the CMS and the American Clinical Laboratory Association, among other national and local organizations.



START A CONVERSATION

Initiate high-level discussions with lab administrators within your organization to gauge leaders' awareness on the impacts of PAMA.



RUN THE NUMBERS

Work with your business team to gauge the financial impact of PAMA on your inpatient, outpatient and outreach lab operations. Communicate your findings to stakeholders across your organization who interact with your labs.



DEVELOP A PLAN

Bring your team together to craft a strategy that will mitigate the impact of PAMA on your health system's revenue and costs. Consider collaborating with an outside partner who can help with lab management.

care marketplace,” said Steve Rusckowski, chairman, president and CEO of Quest Diagnostics. “Many C-suite executives aren’t aware of the impact of PAMA on the profitability of their outreach laboratories, especially when PAMA was first enacted.”

Providers who aren’t familiar with PAMA need to consider educating themselves about the impact of the law’s effects and initiate high-level discussions with lab administrators within their organization. Communication and coordination amongst affected departments is crucial for hospitals seeking to mitigate the impact of the law.

Anecdotally, Rusckowski said that recent discussions with leaders of health systems that own outreach labs have shown “a growing awareness of PAMA and the impact it has on their outreach laboratory business.” For those hospitals that are rethinking their lab strategy, there are opportunities to avert the financial impact of PAMA or restructure a hospital’s lab operations to adapt to the law and remain profitable.

Twenty-six percent of respondents to our survey said they’d consider collaborating with a commercial laboratory like Quest in a joint venture to help with their lab strategy,

22% said they’d consider outsourcing aspects of their inpatient or outpatient laboratory operations and 8% said they’d consider selling their outreach lab operations to get out of the business entirely.

“CEOs are increasingly interested in talking more about how we can help them execute their lab strategy,” Rusckowski said. “This can involve improving their hospital lab operations, working with us on reference testing, and potentially selling their outreach lab business to us. The conversation begins with the simple questions of, ‘what is your lab strategy, and how can we help?’”

### ABOUT THIS SURVEY

Modern Healthcare Custom Media, on behalf of Quest Diagnostics, commissioned Signet Research, Inc., an independent company, to conduct a survey of healthcare professionals. The objective of this study was to gain insights into laboratory strategy at U.S. hospitals and awareness of healthcare leaders regarding the Protecting Access to Medicare Act (PAMA).

On July 30, 2018 Modern Healthcare Custom Media sent a broadcast email to a sample of 27,618 healthcare professionals who subscribe to Modern Healthcare, asking them to participate in a survey, followed by two subsequent reminder emails. By the closing date of August 7, 2018, 287 returns had been received. The base used is the total number of respondents answering each question. Survey findings may be considered accurate to a 95% confidence level, with a sampling tolerance of approximately +/- 5.8%.



### ABOUT QUEST DIAGNOSTICS

Quest Diagnostics empowers people to take action to improve health outcomes. Derived from a robust research and development program and the world's largest database of clinical lab results, our diagnostic insights reveal new avenues to identify and treat disease, inspire healthy behaviors and improve health care management. Quest annually serves one in three adult Americans and half the physicians and hospitals in the United States, and our 45,000 employees understand that, in the right hands and with the right context, our diagnostic insights can inspire actions that transform lives.



### ABOUT MODERN HEALTHCARE CUSTOM MEDIA

Modern Healthcare Custom Media’s dedicated team of writers and researchers develops custom content solutions designed to educate and engage readers. These custom content solutions provide in-depth information on specific trends, topics or solutions that are top-of-mind for healthcare executives.