



# Getting a Grip on Lab Outreach Financial Management

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Washington G-2 Reports

Audio Conference

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# Conference Objectives

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- Present overview of hospital-based laboratory outreach market industry
- Provide understanding of why it's important to treat lab outreach programs as a "small business unit" of the hospital
- Gain insights concerning key financial management strategies that should be incorporated into every outreach program
- Discover critical issues regarding billing, collection, and financial management for your outreach program
- Analyze advantages and disadvantages of legacy, stand alone, and outsourced billing/collection alternatives.
- Learn how to calculate outreach program "profitability"



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***Should Hospitals  
Market Clinical  
Laboratory Services?***

***An Overview of Critical Issues***

September 29, 1983  
Marriott Hotel—Downtown  
Atlanta, Georgia

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# Welcome

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Building Outreach  
Profitability:

Thriving in a Competitive  
Lab & Pathology Market

*Presented by Washington G-2 Reports and  
Park City Solutions Laboratory Services Group*



# State of Laboratory Outreach “Industry”

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- Hospital-based lab outreach programs were developed in mid-1980's largely as a result of post-TEFRA initiatives. Hospitals were faced with first wave of reduced reimbursement, and CFOs and COOs were unsure of legal and regulatory restrictions.
- HCDS sponsored seminars to educate hospital administrators, controllers, and laboratory directors about market, regulatory, operational, organizational, and legal aspects of developing laboratory outreach programs. Representatives from over 900 hospitals attended five seminars during 1983 and 1984.
- In 1985, hospital outpatient and outreach testing represented, on average, about 25% of total laboratory testing. Today, outpatient and outreach testing represents approximately 50% to 70% of hospital laboratory testing.\*

\* Source: LabTrends<sup>sm</sup> Hospital Laboratory Benchmarking Program



# Laboratory Outreach Programs Proliferate

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- Recent Park City Solutions survey indicated that 159 out of 215 hospitals (74%) have laboratory outreach program
- Park City survey indicated that lab outreach program median net revenue was approximately \$2.3 million and median lab outreach program test volume was 247,000/year



## How Hospital Executives View the Laboratory

**SURVEY  
RESULTS**

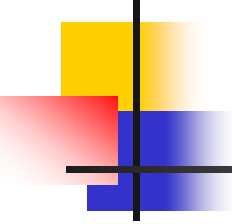


**Health Care Development Services, Inc.**

*Hospital Laboratory Strategic Planning Since 1981*

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# How Health Care System Executives View Laboratory Outreach Programs

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- HCDS survey found that hospital and health care system CEO's, COOs and VP's believe that laboratory outreach programs provide an important strategic component of enterprise mission
- CEO, COO, and VP view of laboratory outreach program profitability reflects significant variability

ESTIMATED OUTREACH PROGRAM OPERATING MARGINS  
BEFORE ALLOCATION OF INDIRECT EXPENSES

| <b>% Operating Margin</b> | <b>% Respondents</b> |
|---------------------------|----------------------|
| <b>0 - 10%</b>            | <b>39%</b>           |
| <b>11 - 20%</b>           | <b>43%</b>           |
| <b>21 - 30%</b>           | <b>15%</b>           |
| <b>&gt;31%</b>            | <b>3%</b>            |





## Major Financial Management Issues Facing Hospital Laboratory Outreach Programs

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- Lack of tools to measure business size and growth
- Limited information at the client and payor level
- If sales and revenues can be measured, rarely tied to costs or test volume



# Key Profitability Indicators Should Be Reviewed

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- Net revenues as percentage of gross charges by payor.  
Determine what % of gross charges you get paid on Medicare. Goal should be to have your overall percentage at equal or exceed what Medicare is paying as % of charges.
- Net revenue per patient encounter or CPT code.  
Goal should be to realize at least \$30 per accession and/or \$10.00 per CPT code, assuming your fully loaded costs are \$25 an accession and \$20 exclusive of overhead.
- Contribution margin from patient service centers and nursing homes should be four to five times the direct costs of sample procurement.  
Phlebotomy, travel, and lease expenses should be no more than 20 to 25% of net revenues.



# Measuring Financial Performance is Essential

- Ideally you want to be able to evaluate the quality of payor and client relationships in three ways:
  - Actual revenue as a percentage of gross charges
  - Actual revenue per CPT code
  - Actual revenue per accession

| Client   | Net Rev. | Gross Rev. | % Charges | CPT Codes | # Patients | Rev/ CPT | Rev/ Patient | CPT/ Patient |
|----------|----------|------------|-----------|-----------|------------|----------|--------------|--------------|
| Client A | \$15,325 | \$27,466   | 55.8%     | 1.007     | 321        | \$15.22  | \$47.74      | 3.14         |
| Client B | \$9,600  | \$18,765   | 51.2%     | 704       | 257        | \$13.64  | \$34.16      | 2.51         |
| Client C | \$5,378  | \$11,695   | 46.0%     | 600       | 116        | \$8.96   | \$46.36      | 5.17         |
| Client D | \$3,477  | \$11,456   | 30.4%     | 421       | 175        | \$8.26   | \$19.87      | 2.41         |

- Understand contribution margin from PSC's, in office phlebotomists, and courier routes

## Outreach patient tissue biopsy: How to help your hospital avoid losing Medicare dollars

September 2004  
Feature Story

Dennis L. Padget, MBA, CPA, FHFMA

**The savvy pathologist is always on the lookout** for opportunities to help his or her hospital make more money. (When you've helped the CEO "shine" in front of the hospital board, there's a better than even chance your next Part A compensation negotiation session will be more fruitful.) This article describes one such opportunity for you to check out. Your investigation will take only a few minutes, but you may be able to more than double your hospital's Medicare receipts for outreach histology and nongynecological cytology technical services.



### Opportunity

Many hospitals large and small have entered the outreach lab testing market to gain incremental, high-profit-margin income from otherwise idle capacity. But the "gold" in this business line can quickly change to "shiny rocks" when Medicare's precise claim filing rules are intentionally or inadvertently ignored.

Experience indicates outreach patient tissue and nongyn cytology specimens are particularly prone to incorrect billing by hospitals. And the penalty by Medicare for improper billing is severe—only about half the money legitimately due per specimen is actually paid to the erring hospital. Furthermore, the shortfall is not recouped via the year-end Medicare cost report.

Stemming the loss of legally due Medicare outreach dollars is straight forward and easy to achieve. The following tips do not attack a "loophole," nor are they an "income optimization" scheme that would be suspect under Medicare fraud and abuse standards. Instead, they reflect published Medicare policy that hospitals are expected to adopt and follow.



# Issues Concerning Billing Technical Component for Histology and Cytology

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- Proper billing to Medicare for the technical component of histology and cytology is very important to the profitability of laboratory outreach programs
- Not knowing how to bill Medicare for the technical component may cause hospitals to receive half of the payment due
- Failure to take into account market forces, economic principles, and compliance rules may lead to ineffective pricing of outreach tests



# Issues Concerning Billing Technical Component for Histology and Cytology

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- How does your hospital bill for the technical component of histology and cytology. What's wrong with doing it that way?
- The correct way to bill Medicare for outreach histology and non-Gyn cytology technical component services
- Steps to set up hospital systems to bill Medicare the right way for histology and non-Gyn cytology technical component services to outreach patients



# Profitability of Hospital-Based Laboratory Outreach Programs

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- HCDS survey of hospital and health care executives found that at least one-third believe there are no viable systems in place to effectively measure hospital laboratory outreach program profitability
- HCDS survey also found that most CEO's, COO's and VP's had only modest level of confidence that their lab outreach program's profitability was accurately calculated. They also desire *benchmarking* of lab outreach program profitability



# Profitability of Hospital-Based Laboratory Outreach Programs

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- The vast majority of hospitals with laboratory outreach programs are trying to manage their programs with blinders on
- A few hospitals have developed comprehensive and sophisticated methodologies to calculate laboratory outreach program profitability. These hospitals have made decisions concerning standardizing test counts and expense allocations. Billing and collection systems differentiate between outpatient and outreach revenue, and identify net cash receipts
- Hospital administrators and laboratory Administrative Directors must determine the most appropriate resources and systems to calculate hospital lab outreach program profitability





# Two Alternative Methodologies to Calculate Hospital Laboratory Program Profitability

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- Detailed Comprehensive Approach
  - Incorporate RVU's, not billed tests as basis
  - Include section level cost reporting
  - Apportion general and administrative expenses
  - Determine incremental staffing based upon model
  - Calculate net cash receipts for outreach market
  - Analyze profitability by section, by client, by carrier route, by product line



# Two Alternative Methodologies to Calculate Hospital Laboratory Program Profitability

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- Thorough Approach
  - Use performed tests, not billed tests as basis
  - Develop zero based budget to project laboratory costs as if there were no outreach program
  - Create assumptions for incremental costs/outreach specimen including staffing, supplies, R/PM, referred testing, and general/administrative expenses
  - Work with hospital Decision Support and Finance Departments to determine contractual allowance for all outpatient services
  - Use above contractual allowance to calculate net outreach revenue, to determine outreach program operating margins before allocation of indirect expenses



# When is it Time to Consider Professional Approach for Billing and Collection Processes?

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## Alternative Approaches to Professional Billing, Collection and Financial Management

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- Hospital legacy systems
- Stand alone hardware and software systems
- Outsourcing billing and collection processes



# Pros and Cons of Outsourcing Billing and Collection Processes

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## Possible Advantages

- Dedicated effort and expertise to chase missing information and smaller claims
- More flexible billing options to support multiple fee schedules and client billing
- More detailed financial information available on a client and payor basis
- Performance oriented contract helps insure accountability and attention to business
- Additional laboratory financial support and expertise

## Questions to be Asked

- Can registration function really be outsourced, if financial information needs to be available at time of registration?
- How will remittance information be shared with the vendor?
- What are the current lab outreach billing costs and can they be saved?
- What compliance concerns does the hospital need to worry about?
- Will the service be transparent to our clients and patients?



## Sources of Information for Billing, Collection and Financial Management \*

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### Turn-Key Systems:

CAP Today ([www.CAP.org](http://www.CAP.org)) – May, 2004 – pp. 28-35

\* Fifteen vendors with billing and accounts receivable systems

### ■ Outsourcing Organizations for Hospitals:

\* APS Medical Billing (800) 288-8325

\* Kellison & Company (216) 464-5160

\* Laboratory Billing Solutions (603) 766-8204

\* Lone Star Healthcare Solutions (817) 731-7771

More Outsourcing Vendors Listed on Next Page

\*This information was compiled by HCDS, and it does not necessarily represent all hardware/software vendors or all sources for outsourcing.



# SOURCES OF INFORMATION FOR BILLING, COLLECTION AND FINANCIAL MANAGEMENT\*

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- Outsourcing Organizations (continued):

- \* Medical Billing & Mgmt. Services (610) 459-3113

- \* Per-Se Technologies/Xyfin, Inc. (877) 737-3773

- \* PSA Pathology Service Assoc. (800) 832-5270

- \* Quadax, Inc. (440) 777-6300

- \* Quantum Medical Business Solutions (800) 777-5607

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# AUDIO CONFERENCE TAKE-AWAYS

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- If you can't measure it, it doesn't exist
- Review and implement one of several established methodologies to calculate outreach program operating margins before indirect expense
- It is worthwhile to investigate the recommended approach to billing Medicare Histo/Cyto technical component
- Consider developing performance benchmarks to evaluate outreach program viability
- If your hospital is serious about being a player in the laboratory outreach marketplace, you need to identify and implement an effective solution for billing, collection, and financial management. *Without* an effective solution, your competition will, sooner or later, conquer the markets the hospital covets





## SPEAKER CONTACT INFORMATION

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