

**How Health Care Reform Regulations
and Market Forces May Impact Hospital
Laboratory and Pathology Services**

**SURVEY
RESULTS**



Health Care Development Services, Inc.

Health Care System Laboratory and Pathology Strategic Planning Since 1981

2916 Idlewood Ln., Highland Park, IL 60035 • Phone: (847) 498-1122 • Fax: (847) 498-3264



©2010, All Rights Reserved. Reproduction in Any Form Prohibited Without Express Permission. Health Care Development Service, Inc.

SURVEY REPORT DEVELOPMENT AND ANALYSIS

This survey and analysis was prepared by Health Care Development Services, Inc. and Washington G-2 Reports. Health Care Development Services, Inc. is a Highland Park, IL based management consulting firm. HCDS represents hospitals, health care systems, and large pathology groups concerning laboratory and pathology strategic, operational, organizational, financial, market, contract, and regulatory issues. HCDS provided counsel to the American Hospital Association regarding the development of federal Clinical Laboratory Improvement Amendments (CLIA), and represented AHA at FDA meetings concerning the creation of a possible competitive bidding model for Medicare outpatient laboratory services.

Washington G-2 Reports is a leading healthcare industry publication that provides timely, accurate reporting and analysis of market trends, regulatory, legal, and business affairs that directly affect the operations and financial performance of diagnostic testing laboratories and related medical service providers.



EXECUTIVE SUMMARY

We polled hospital and health care system Chief Executive Officers, Chief Operating and Administrative Officers, Chief Financial Officers, and Vice-Presidents with Professional Services responsibilities to learn how they believe health care reform regulations will impact laboratory and pathology services within their organizations. We received one hundred and twenty-five validated responses from C suite executives representing hospitals and healthcare systems throughout the United States. Survey responses reflect information from not-for profit hospitals and health care systems where hospitals in the health care system have more than 200 staffed beds.

We learned that about one quarter of the respondents have already completed planning to accommodate additional testing volume that will emanate from formerly uninsured patients. About one-third of respondents indicated their laboratories have sufficient capacity to handle additional testing. The remaining respondents plan to perform an analysis of laboratory capacity within the next twelve months to evaluate testing equipment, space, and staffing needs to accommodate higher test volume.

When survey respondents were asked how they plan to combat anticipated fee schedule reductions in reimbursement, as well as from potential productivity adjustments, almost three out of four indicated they have already instituted actions to improve laboratory efficiency. About 30% of respondents also noted they are considering non-operational strategies that include joint ventures and outsourcing. Almost half of respondents from large hospitals (> 500 staffed beds) indicated they are considering such strategies, while only 21% of respondents from smaller hospitals (200-299 staffed beds) are considering such approaches.

A little more than one-third of respondents believe that health care reform regulation mandated wellness and preventative programs will contribute somewhat to increased test volume. Most respondents have not begun to consider the potential impact of these programs, and commented that they are not yet clear whether wellness and preventative program testing will be performed in hospital outpatient departments, in physician offices, or by independent and commercial laboratories.



Since laboratory and pathology information is the basis of more than 70% of patient care decisions, we wanted to learn the extent of EHR system implementation and interfaces with physician office systems. Responses indicated that 51% of the institutions represented in the survey had already implemented an EHR that is linked to physician offices. Most of the remaining respondents indicated their institution planned to complete installation of an EHR within the next twelve months.

The survey also focused on the migration of outpatient surgical pathology specimen processing from hospital laboratory histology departments to physician office settings. Industry sources estimate that hospitals lose net revenue of about \$50,000 to \$75,000 per year for each Urologist or Gastroenterologist in practices that create in-office histology laboratories. We wanted to learn how C suite executives are reacting or plan to react to the loss of that hospital revenue. Survey responses indicated that almost half (48%) of hospitals require employed physicians to use hospital-based laboratory outreach programs. While independent practice physicians are encouraged to use the hospital's lab outreach program, no respondent indicated their hospital requires those physicians to use those outreach programs. Interestingly, about 30% of survey respondents indicated they are considering various alternative strategies to mitigate these revenue losses. Several respondents commented they plan to confirm hospital policies that state that only their hospital-based pathologists may provide diagnoses for all inpatient and outpatient medical records.

While plans to handle bundled payments was the focus of one survey question, the preponderance of responses centered on plans to develop Accountable Care Organizations (ACO's). Only a small portion (4%) of respondents have developed plans to bundle payments; the majority of respondents (61%) noted they expect to begin consideration of an ACO within the next twelve months. About one-third of respondents indicated they plan to wait to develop plans until they learn more about how health care reform regulations will impact the formation of an ACO.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

**SURVEY ISSUES -
PART 1**

- **What plans have hospital and healthcare system executives developed to respond to anticipated increases in laboratory test volume and pathology procedure volume due to greater number of insured patients?**
- **Given anticipated reductions in Medicare outpatient laboratory reimbursement, what do healthcare executives plan to mitigate these revenue losses?**
- **Will “productivity adjustments” create significant drags on laboratory and pathology revenues?**
- **How will hospital laboratories evaluate the need for a greater number of clinical analyzers and/or analytic instrument platforms?**
- **Will the advent of the 2.3% excise tax on big ticket equipment such as clinical analyzers impose restructuring of current equipment acquisition policies?**



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

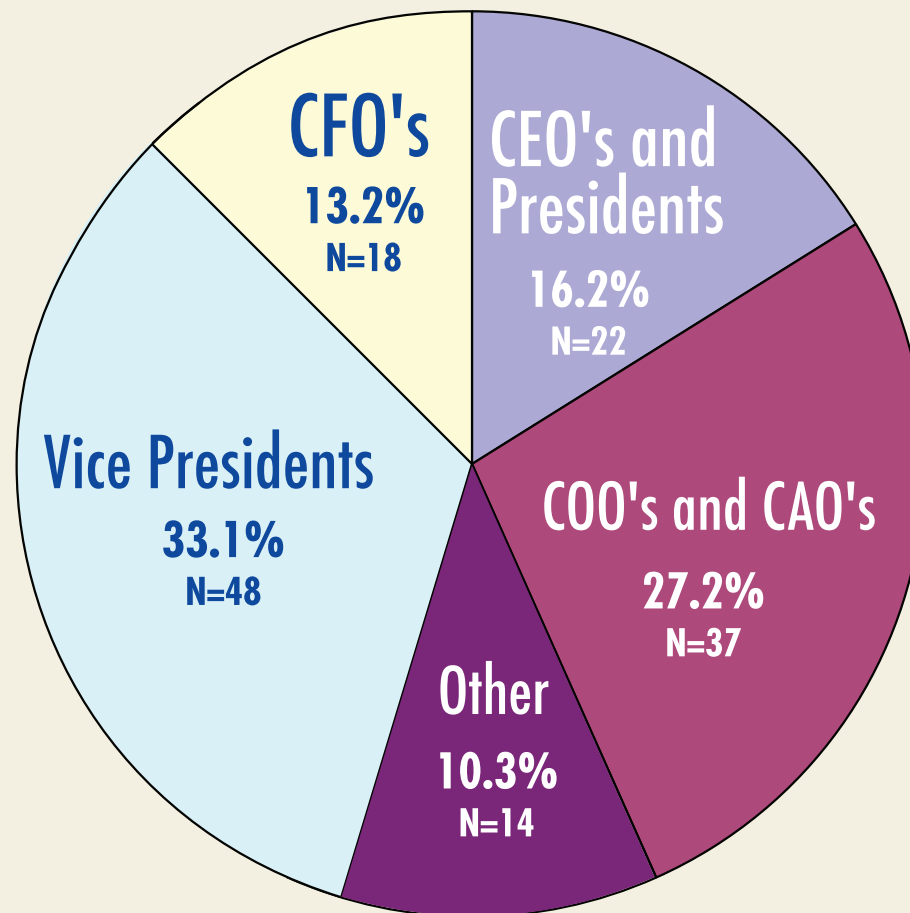
**SURVEY ISSUES -
PART 2**

- **What is the schedule for interfacing implementation of hospital electronic health record systems with physician office systems?**
- **How will mandated wellness and prevention programs influence laboratory and pathology services?**
- **Do hospital and healthcare system executives plan to stem the tide of lost laboratory revenue as a result of the migration of outpatient surgical pathology specimen processing to physician office settings?**
- **How will the prospective bundled payment system impact hospital laboratory and pathology service reimbursement?**

Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Survey respondents included health care system and hospital CEO's, Presidents, COO's, CFO's, and Vice Presidents with Laboratory and Pathology responsibility. Senior Laboratory Administrative Directors and Medical Directors were represented in the "Other" title category.

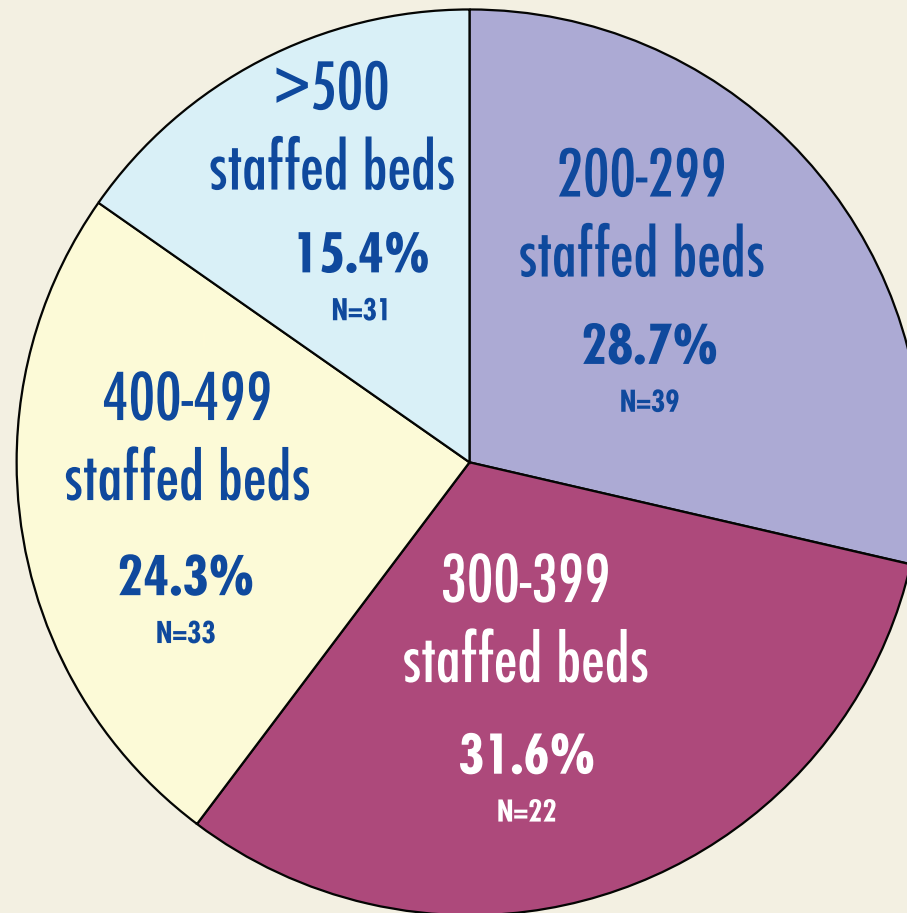
Table 1



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

The majority of survey respondents work in mid and large acute care hospitals. Only non-government, not-for-profit hospitals were polled for this survey.

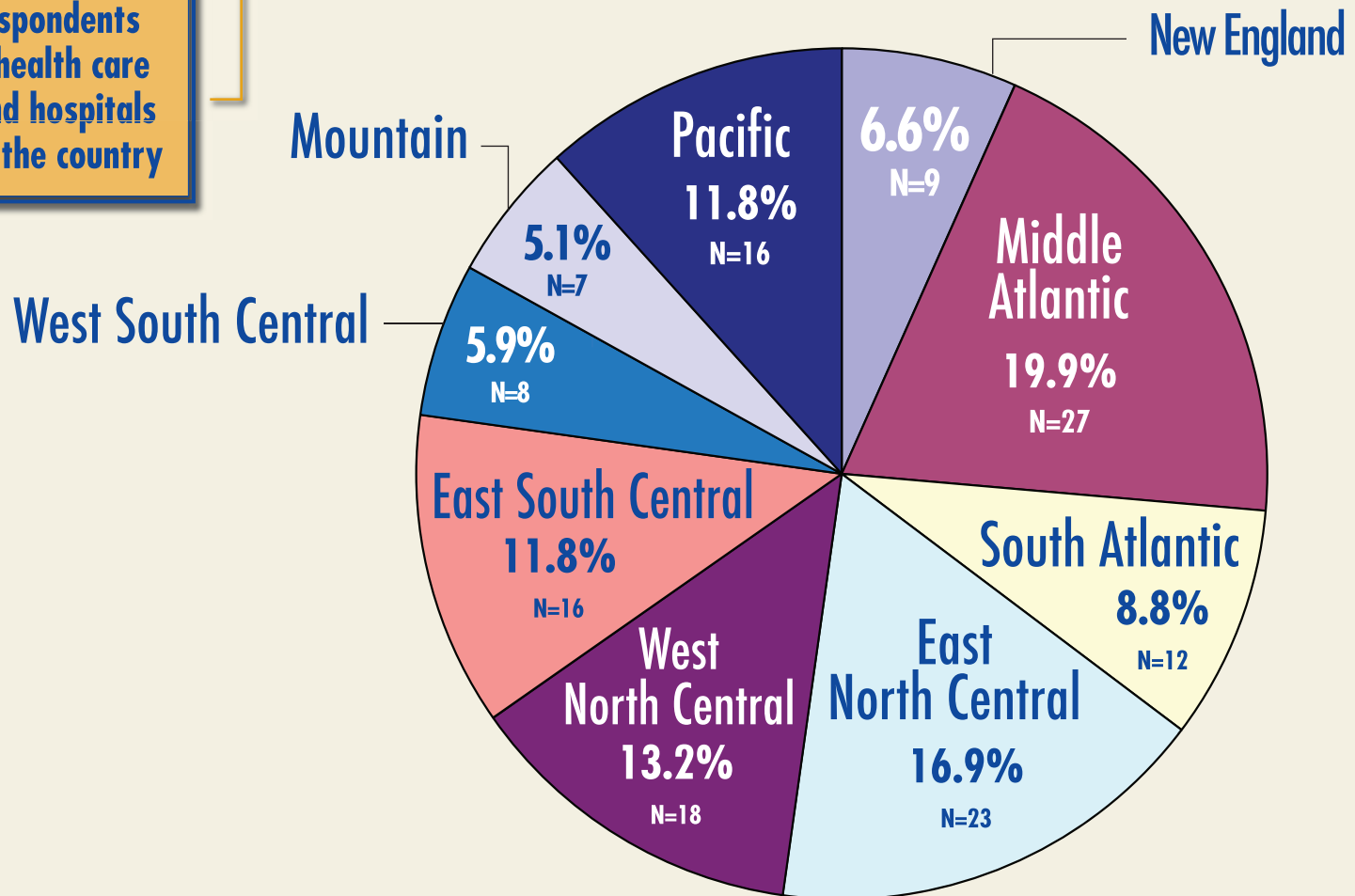
Table 2



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Survey respondents represent health care systems and hospitals throughout the country

Table 3 Staffed Beds



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Has your institution begun planning for substantial increases in laboratory test volume as a result of a greater number of insured patients

Table 4

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
Yes	27.2%	36.4%	16.2%	38.9%	28.9%	21.4%
Not yet, but plans expected to be developed within:						
3-6 months	3.7%	4.5%	5.4%	0%	4.4%	0%
6-12 months	25.7%	22.7%	29.7%	38.9%	17.8%	28.6%
> 12 months	5.2%	9.1%	2.7%	5.6%	4.4%	7.1%
No planning yet scheduled	33.8%	27.3%	37.8%	11.1%	40.0%	42.9%
Other	4.4%	0%	8.1%	5.6%	4.4%	0%

COMMENTS

Survey respondents who have begun implementing plans to accommodate greater test and procedure volume (27% of total) indicated they have acquired automation to accession and process specimens. Automation acquired includes “production lines” of linked clinical analyzers, coupled in many cases with automated specimen accessioning devices.

About 1/3 of respondents indicated they were in the process of developing plans for increased specimen volume, and most expected to complete those plans in the next 6-12 months.

Interestingly, a portion of COO’s and CAO’s (37.8%) and Vice Presidents (40%) have not scheduled planning to evaluate impacts of increased specimen volume. Many believe their hospital’s laboratory currently has adequate technology and space to accommodate increases in test volume from formerly uninsured patients.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Does your institution have adequate clinical instrumentation and space to accommodate significant increases in test volume

Table 5

Response	Overall	President/CEO	COO/CAO	CFO	VP	Other
Yes	77.2%	77.3%	75.7%	77.8%	71.1%	100.0%
No	2.2%	0%	10.8%	5.6%	6.7%	0%
Not sure, but plan to evaluate space and facility issues within next:						
3-6 months	5.9%	18.2%	10.8%	16.7%	17.8%	0%
6-12 months	14.0%	0%	0%	0%	2.2%	0%
> 12 months	0.7%	4.5%	2.7%	0%	2.2%	0%

COMMENTS

As mirrored in the earlier question, respondents who have not yet developed plans to evaluate capacity, most (77%) indicated they believe their current technology and analytic capabilities have ample capacity to handle increases in test and procedure volume. Some of the respondents voiced concern that current space and facilities may not be adequate to accommodate a substantial increase in the laboratory footprint, but have not yet considered alternative space plans.

Approximately 20% of respondents plan to evaluate capacity and space issues over the next 12 months. While the Administrative Laboratory Directors that responded to the survey (5% of total respondents) indicated their labs are capable of performing additional testing, 10% of the COO's and CAO's do not believe their institution's laboratories are properly set up to handle additional specimens. It would seem that future planning will help merge laboratory and administrative perspectives.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

As a result of the 1.75% per year reduction in Medicare reimbursement for outpatient laboratory testing and possible further reductions due to productivity adjustments, what plans has your institution prepared to combat reductions in revenue?

Table 6

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
Identify opportunities to improve laboratory efficiency	74.3%	77.3%	81.1%	83.3%	68.9%	57.1%
Consider alternative strategies including joint venture with commercial laboratory, outsourcing laboratory services, etc.	30.9%	31.8%	40.5%	33.3%	28.9%	7.1%
No plans yet developed; expect to renew in the next: 3-6 months	3.7%	0%	2.7%	5.6%	4.4%	7.1%
6-12 months	0.7%	0%	0%	0%	2.2%	0%
> 12 months	8.1%	9.1%	8.1%	5.6%	6.7%	14.3%
Other	20.6%	22.7%	13.5%	16.7%	28.9%	14.3%

* Percentages total greater than 100% because respondents could choose more than one response.

COMMENTS

Survey results revealed that most hospital executives acknowledge prospective reductions in Medicare outpatient laboratory reimbursement, and have already begun to identify opportunities to improve laboratory efficiencies. They gave examples that include increased utilization of laboratory automation, outsourcing selected testing, consolidation of testing sites, and contracting laboratory services to outside independent and commercial laboratories.

About one-third of survey respondents are considering strategies to generate additional revenue by expanding their lab's outreach programs or developing joint ventures with commercial laboratories. Almost half of the respondents from large hospitals (500 beds) indicated they may consider joint ventures or outsourcing strategies, while only 21% of respondents representing smaller hospitals (200-299 beds) are considering such approaches.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

How do you anticipate responding to expected higher clinical instrumentation costs due to the 2.3% excise tax?

Table 7

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
Move from leasing equipment to "reagent rental" arrangements	30.9%	27.3%	48.6%	38.9%	17.8%	21.4%
Acquire technology that performs greater number of test on a single platform	51.5%	68.2%	48.6%	66.7%	44.4%	35.7%
In integrated healthcare systems, consolidate testing sites to reduce the number of clinical instruments	41.2%	36.4%	40.5%	50.0%	42.2%	35.7%
Develop more aggressive negotiation strategies with instrument vendors	58.1%	54.5%	64.9%	66.7%	53.3%	50.0%
Other	25.0%	31.8%	27.0%	16.7%	24.4%	21.4%

* Percentages total greater than 100% because respondents could choose more than one response.

COMMENTS

Survey respondents indicated their top strategies to combat increased capital expenses resulting from the 2.3% excise tax will be to develop more aggressive vendor negotiations. They also indicated their Laboratory Medical Directors and Administrative Laboratory Directors had already installed or requested budgets to acquire clinical analyzers capable of performing a great array of tests on the same patient specimen. They believe that this strategy will result in the need for fewer clinical analyzers in the laboratory.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Has your institution implemented an electronic health record system that is interfaced to systems in physicians' offices?

Table 8

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
Yes	51.5%	40.9%	51.4%	44.4%	57.8%	57.1%
Not yet, but will be implemented in the next:						
3-6 months	15.4%	27.3%	2.7%	22.2%	15.6%	21.4%
6-12 months	16.1%	13.6%	24.3%	16.7%	13.3%	7.1%
> 12 months	11.1%	18.2%	10.8%	11.1%	8.9%	7.1%
No plans have been finalized	5.9%	0%	10.8%	5.6%	4.4%	7.1%

COMMENTS

Other industry surveys have confirmed that the acquisition and installation of electronic health record (EHR) systems is widespread. This survey indicated that approximately half of the survey respondents have already implemented EHR systems interfaced to physicians' offices.

Most of the remaining respondents have begun evaluations of EHR systems, and expect to implement those systems sometime in the next twelve months. Large hospitals with greater than 500 beds were further along (62%) than smaller hospitals (41%) with 200-299 beds in implementing EHR systems. All of the survey respondents who have implemented an EHR indicated that it had been fully interfaced to the hospital's laboratory information system.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Do you anticipate that the mandated wellness and prevention programs will contribute to increased test volume and expanded mix of testing

Table 9

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
Yes	37.5%	31.8%	29.7%	44.4%	42.2%	42.9%
Not sure, but we plan to review issue in the next:						
3-6 months	26.5%	27.3%	37.8%	27.8%	17.8%	21.4%
6-12 months	29.4%	36.4%	27.0%	27.8%	31.1%	21.4%
> 12 months	6.6%	4.5%	5.4%	0%	8.9%	14.3%

COMMENTS

The majority of survey respondents (62%) have not yet begun to consider how wellness and preventative programs may impact future hospital laboratory volume. Many of these respondents indicated that they were not clear yet whether wellness and preventative program testing would be performed in hospital outpatient settings, in physician offices, or by independent and commercial laboratories.

A smaller portion of respondents (38%) believe that wellness and preventative programs mandated in the health care reform regulations will produce increased test volume for their hospital outpatient departments. Most respondents in this group believe that their hospital laboratory's current testing capabilities are adequate to handle the increased volume.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Some gastroenterology and urology practices are developing in-office histology laboratories to process outpatient surgical pathology specimens formerly performed by hospital laboratories. Industry sources estimate lost hospital net revenue at approximately \$50,000 to \$75,000 for each physician in those practices.

Does your hospital have plans to either limit this specimen processing migration or to reverse the revenue loss if/when it occurs?

Table 10

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
We require all employed physicians to utilize the services of the hospital laboratory	48.5%	40.9%	45.9%	61.1%	51.1%	42.9%
We encourage non-employee physicians on the medical staff to use the hospital's laboratories for their office-base patient testing needs	58.1%	50.0%	56.8%	44.4%	64.4%	71.4%
We are evaluating alternative arrangements that may include facility management agreements, joint ventures, etc. that may mitigate current/prospective revenue losses	30.9%	40.9%	35.1%	27.8%	31.1%	7.1%
Other	28.7%	40.9%	32.4%	22.2%	24.4%	21.4%

* Percentages total greater than 100% because respondents could choose more than one response.

COMMENTS

While some survey respondents acknowledged that their hospital has lost revenue from the migration of histology specimen processing to Gastroenterologist and Urologist offices, most indicated their hospitals had not yet experienced substantial losses. Many respondents noted that Stark regulation exemptions allow physicians to test their patient's specimens in their offices.

Interestingly, only about half of survey respondents indicated they require physicians employed by their health system to utilize the hospital's outpatient and outreach laboratory and pathology services. A large portion of respondents (60%) indicated they encourage non-employed physicians on the medical staff to use the hospital laboratory's outreach program.

A small number of C suite leaders indicated they are considering alternative strategies to reverse losses due to migration of specimen processing from the hospital to physician offices. Strategies listed include possible development of joint venture free standing histology laboratories, and increased support for only hospital-based pathologist diagnoses in all hospital outpatient records.



Survey of How Health Care Reform Regulations Will Impact Hospital and Health Care System Laboratory and Pathology Services

Medicare expects to rollout a bundled payment program as a pilot in 2013.

Has your institution begun to consider how a bundled payment system might affect the coordination of laboratory and pathology services during an episode of care?

Table 11

Response	Overall	President/ CEO	COO/CAO	CFO	VP	Other
Yes, we have developed several possible strategies to provide services in a bundles payment pilot.	4.4%	0%	8.1%	5.6%	4.4%	0%
We have not yet considered how to provide services in a bundles payment system, but plan to do so in the next:						
3-6 months						
6-12 months	36.8%	40.9%	37.8%	38.9%	35.6%	28.6%
> 12 months	8.1%	4.5%	5.4%	5.6%	13.3%	7.1%
We plan to wait to develop strategies until we review the final regulations	33.8%	36.4%	24.3%	33.3%	35.6%	50.0%

COMMENTS

This survey question generated the greatest number of comments. The comments concerned Accountable Care Organizations (ACO's) and clinical integration within the framework of bundled payments. Many respondents listed clinical integration as their number one priority, but only a small number (4%) indicated they had begun planning.

While the majority of respondents (61%) indicated that they plan to review the form and structure of an ACO over the next twelve months, another third of survey respondents have decided to wait to develop plans for an ACO until more is known about final regulations governing ACO's.



**FOR MORE SURVEY REPORT
INFORMATION, PLEASE CONTACT:**

Mr. Barry Portugal
President

Health Care Development Services, Inc.
847-498-1122
consult@hcdsinc.com

Ms. Kimberly Scott
Managing Editor
Washington G-2 Reports
302-645-2640
kscott@ioma.com

