RCM
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Looking for a Lab Strategy?

For years, hospital executives counted on stable margins from the laboratory department. Unlike today, healthcare executives are facing tough decisions that will impact the future direction of the hospital lab. The revenue initially gained from outreach services covered the monetary losses from inpatient /outpatient. With reductions in reimbursements, increasing the test volume for a lower cost per test may not be enough to minimize the revenue loss.

Outreach lab has always been a driving contributor to the hospital's bottom-line profits.

As labs continue to experience declining test reimbursements, the question remains how hospital labs will survive the diagnostic testing financial pitfalls? Executive management is making every effort to satisfy the laboratory's goals and objectives. For management to meet financial stability, they will need to consider all options without compromising quality patient care.

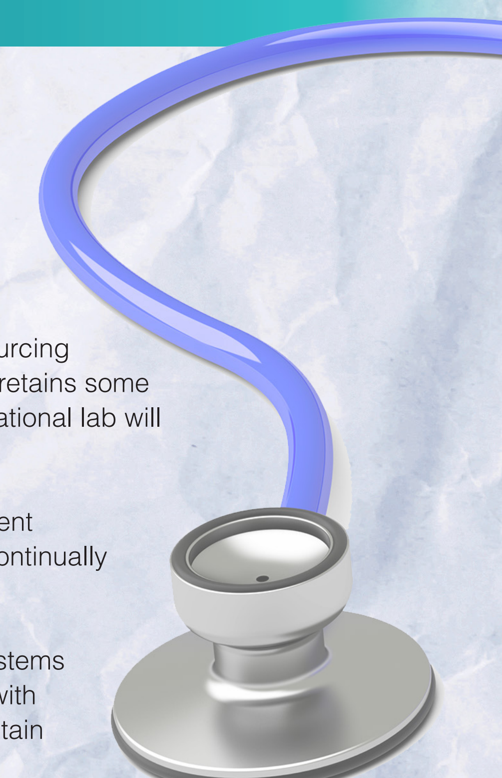
In a dramatically changing and competitive market, advisors and advocates who are proactive in hospitals should strategize and identify financial choices to maximize laboratory businesses.

What direction labs will face depends on top executives making the right economic decision. Hospitals can be at a disadvantage to large commercial labs. Large labs are particularly effective in processing huge volumes for a lower cost. Streamlining the hospital lab processes, lowering cost, and having access to reportable data can create efficiencies in operations and may be the fine line in the decision-making process.

The factors changing the future of hospital laboratories:

- Reduction in Medicare payments – As of January 2018, Medicare adjusted its lab test payments to reflect what commercial insurers pay for the test. This could have cascading effects for laboratory revenue.
- Competition from national labs –Large commercial labs can charge less per test than hospital labs because high volume testing continues to gain strength in the competative marketplace.
- Preferred lab arrangements with commercial payers- Insurers negotiate exclusive contracts with a preferred lab and encourage network physicians to refer patients.
- Higher cost-sharing for patients – Due to high deductibles, insurers encourage plan members to use preferred labs, most often larger commercial labs.
- Growth in bundled payment arrangements – More tests will likely be bundled as hospitals move to a value-based model.

Hospitals can look at these options to build a strategy for the hospital



- Partner with other area hospital systems to build lab business – Increase volume to gain scale and compete with commercial labs.
- Perform tests for large labs trying to enter new markets – Partnering with a large commercial lab for a per-test fee saves the commercial lab from building a local lab in less populated regions.
- Affiliate with a large lab that can manage the hospitals' lab business – Outsourcing inpatient/outpatient and outreach under an agreed arrangement. Laboratory retains some of the assets, and the national lab will purchase the remaining assets. The national lab will restructure lab operations to reduce costs.
- Sell outreach lab business to a national lab – Health system agrees to sell client outreach list for a negotiated fee to a commercial lab. Commercial labs will continually market and expand outreach services.
- Joint venture with a national lab to grow outreach business – Some health systems recognize the potential to continue to grow an outreach business. Hospitals with a joint venture arrangement can pull their resources to further develop and retain a stake in the lab services market.