

LABORATORY



ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

MEDICARE SLASHES CPT 88305-TC BY 52%

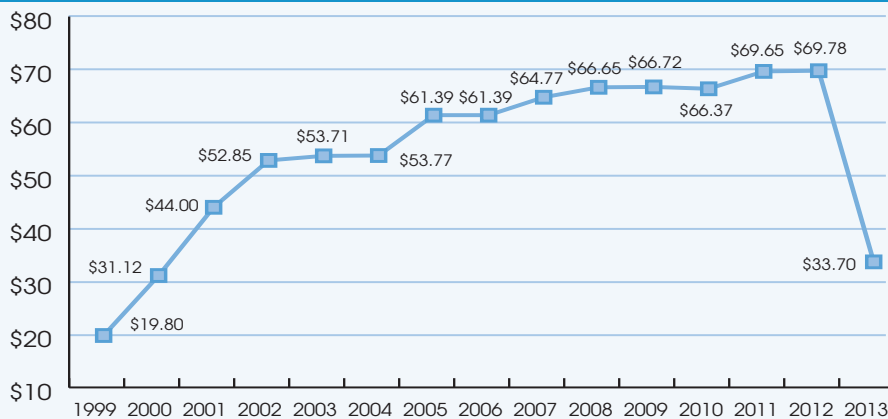
It's a nightmare scenario for pathology labs. Effective January 1st, Medicare reimbursement for the technical component of CPT 88305 will decrease by 52% to \$33.70 (unadjusted for geography). The reduction could be even worse if a scheduled 26.5% cut to the physician fee schedule conversion factor based on the Sustainable Growth Rate methodology takes effect, although the Obama Administration has pledged to prevent the SGR cut.

CPT 88305-TC is by far the single most important code for pathology labs. It is used to reimburse labs for preparing the biopsy tissue slides that pathologists review by microscope. The drastic cut to 88305-TC will reduce Medicare payments to pathology labs by more than \$400 million next year (see table on page 5). And pathology labs could lose hundreds of millions of dollars more if private health insurers make proportionate cuts.

Over the past decade, Medicare reimbursement for 88305-TC increased steadily (see chart below) leading to structural changes in the pathology market. The lucrative rates led to the formation of dozens of independent pathology labs by pathologists and entrepreneurs. For the same reason, Quest, LabCorp and private equity investors were willing to pay high prices to acquire pathology lab companies. And hundreds of large urology, gastroenterology and dermatology groups built in-office labs to capture slide prep revenue.

But Medicare's severe rate cut may force many small independent and in-office pathology labs to shut down. "Hospitals that were smart enough to keep their histology in-house and intact will be the beneficiaries as outpatient biopsies will flow back into those hospitals," notes Robert Babkowski, MD, Chair, Dept. of Pathology at The Stamford Hospital in Connecticut. *Continued on page 2.*

Medicare Reimbursement for CPT 88305-TC*



*National payment unadjusted for geographic practice cost differences.

Source: Medicare Physician Fee Schedules, 1999 to 2013

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