

# LABORATORY ECONOMICS

*Competitive Market Analysis For Laboratory Management Decision Makers*

## Judge's Decision On ACLA Lawsuit May Come As Soon As Mid-February

The outcome of the American Clinical Laboratory Association's lawsuit challenging the process by which CMS calculated Medicare's new private-payer-based lab test rates could be decided as soon as mid-February. The final briefing schedule for the case calls for ACLA to file a motion for summary judgment by no later than February 14. Presiding U.S. District Court Judge Emmet G. Sullivan could then either grant summary judgment in favor of ACLA, or wait for HHS to file its opposition to ACLA's motion (due by no later than March 16). In the meantime, the Medicare 2018 Clinical Lab Fee Schedule, which slashed most lab test rates by 10%, went into effect on January 1. *Continued on page 2.*

## Special New Year's Report: Lab Execs Share Outlook For 2018

For an inside look at what may be in store for the clinical lab and pathology business this year, *Laboratory Economics* interviewed the top executives at a diverse group of 9 lab companies. Among the anecdotal trends detected are 1) independent labs serving nursing homes will be devastated by the PAMA rate cuts; 2) the combination of increased medical necessity scrutiny and rate cuts is shaking out the toxicology lab market; 3) Some C-suite hospital execs may not comprehend the full impact of the PAMA rate cuts to their lab operations until later this year; 4) health systems continue to aggressively acquire physician groups to capture referrals, including lab test orders; 5) Quest Diagnostics, LabCorp and larger independent labs are moving PSCs into drug stores to lower their rental costs and improve convenience for patients. *Continued on pages 5-9.*

## At JPM Conference: Trump Tax Cut Softens Blow of PAMA Rate Cuts For Big Public Lab Companies

The largest publicly traded lab companies presented their goals and strategies for the New Year at the 36th Annual J.P. Morgan Healthcare Conference in San Francisco, January 8-11. Specialized reference labs like Genomic Health and Myriad Genetics are thrilled with the price increases their proprietary tests have received under PAMA. Meanwhile, Quest Diagnostics and LabCorp will lose hundreds of millions of dollars of Medicare revenue from the PAMA cuts over the next few years. However, the timing of the new Trump tax cut, which lowers the federal tax on corporate profits from 35% to 21% starting this year, couldn't be more auspicious. For CEO presentation summaries, *see pages 3-4.*

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**Decision On ACLA Lawsuit May Come Soon** (*cont'd from p. 1*)*Judge Emmet  
G. Sullivan*

The lawsuit argues that CMS wrongly excluded the vast majority of labs, including nearly all hospital labs, from reporting private-payer data used to calculate new Medicare lab test reimbursement.

ACLA's complaint seeks injunctive relief and alleges that the new rates are causing substantial harm to laboratories and Medicare beneficiaries.

To expedite the case, ACLA and HHS reached agreement on the following briefing schedule, which has been finalized by Judge Sullivan.

**Final Briefing Schedule for ACLA Lawsuit**

February 14, 2018: ACLA to file motion for summary judgment.

March 16, 2018: HHS to file its opposition to ACLA's motion for summary judgment, along with any dispositive motion seeking court order entirely disposing all or part of ACLA's claims.

March 30, 2018: ACLA to file its reply in support of its motion for summary judgment, and a cross-opposition to any dispositive motion filed by HHS.

April 13, 2018: HHS to file its reply in support of any dispositive motion.

If ACLA is successful, the new 2018 CLFS rates will be invalidated and HHS will be forced to reissue regulations that require CMS to collect private-payer data from all segments of the lab industry, including hospital outreach labs.

"We believe our arguments are strong and we think we've got a fair and reasonable Judge. We're hopeful we'll know where this stands in the first quarter [by end of March]," Steve Rusckowski, Chief Executive of Quest Diagnostics, told investors at the recent J.P. Morgan Healthcare Conference in San Francisco (see page 3).

But asking the government to throw out the existing rule and start the PAMA process all over again from scratch seems like a tall order. *Laboratory Economics* thinks a more likely resolution to the lawsuit might involve a compromise settlement between ACLA and HHS. A compromise solution would involve rewriting the law so that the next data collection period includes pricing information from hospital outreach labs.

The next data collection period is less than one year away. Applicable labs will need to collect their private-payer data from January 1, 2019 to June 30, 2019, and report it to CMS by March 31, 2020. CMS will use this information to set CLFS rates for 2021-2023.

**Future PAMA Private-Payer Data Collection and Report Schedule**

<i>Data Collection Period</i>	<i>Data Reporting Period</i>	<i>Used for CLFS Rate Years</i>
1/1/2019 – 6/30/2019	1/1/2020 – 3/31/2020	2021 - 2023
Continues every 3rd subsequent calendar year	Continues every 3rd subsequent calendar year	New CLFS rates every 3rd year

Source: CMS

**AT JPM CONFERENCE: TRUMP TAX CUT SOFTENS BLOW** (*cont'd from page 1*)

“Not everyone in the industry was thrilled with the outcome of PAMA, but we certainly were,” said **Genomic Health** CEO **Kim Popovits**. Medicare reimbursement for Genomic Health’s proprietary Oncotype Dx Breast Cancer Test was raised by 12% to \$3,873 effective January 1. “Medicare has chosen this path for reimbursement. We highly support it. And it gives us more transparency and predictability as we launch new products in the future.”

**LabCorp’s** contract to provide genotyping services to the 23andMe, which sells ethnicity testing services to consumers, accounted for approximately half of LabCorp’s 2% organic growth rate in 2017, according to CEO **Dave King**.

King said it will take a few months before the PAMA rate cuts hit home with hospital outreach labs. He expects to see more opportunities for outreach acquisitions and lab management partnerships after midyear.

LabCorp’s 12-year contract with United Healthcare expires at the end of this year. “It had been our hope that we’d get some clarity [on contract renewal] by the end of 2017. We didn’t....If the contract is opened and they let our national competitor [Quest] in, I don’t expect to give any price reduction.”

Meanwhile, King said that he has been personally involved in LabCorp’s negotiations to become an in-network provider with Aetna. Quest has been Aetna’s sole national lab provider since July 2007. “I have every hope and expectation that we’d be part of their network the next time their contract comes up,” said King.

Finally, King noted that about 80% of LabCorp’s revenue is derived from the United States, and that the Trump tax cut is a “meaningful positive.” *Laboratory Economics* estimates that the tax cut could result in nearly a \$150 million annual tax savings for LabCorp.

**Quest Diagnostics’** CEO **Steve Rusckowski** said that publication of the final PAMA CLFS rates has highlighted the wide price variation between the national labs, independent labs, POLs and hospital labs. He said this should motivate private insurers to direct more volume toward the lower-cost national labs.

Quest’s CFO **Mark Guinan** explained, “We’re starting our conversations with health plans by saying ‘You’ve already got a great price from us. We’re part of the solution. You’ve got many providers that you’re paying higher prices to, whether it is physician office labs, hospitals or even some of the regional independent labs. So work with us to drive more volume through us, as opposed to beating us up on price.’”

“We can absorb the PAMA cuts and it could be a catalyst for consolidation,” said Rusckowski.

“When we look at M&A, we don’t care about the P&L [profit and loss] in the selling lab’s hands... We look at the data and decide what the volume will be in our hands, priced at our rates depending on our payer mix, then we build our own pro forma valuation of the lab in our hands... Even though typically in these acquisitions we get less revenue because the lab we are buying, especially if it’s a hospital lab, is getting higher prices from commercial payers. But because of our economies of scale in everything from logistics to our draw centers to efficiencies in our laboratories and purchasing power for reagents, we have a huge cost structure advantage. And that cost advantage is so large that we can actually make more money, even with less revenue, when that lab is in our hands,” according to Guinan.

Meanwhile, Rusckowski said that 90% of Quest's revenue comes from its U.S. operations and will get the benefit of the Trump tax cut. *Laboratory Economics* estimates that this will result in a windfall to Quest of more than \$100 million in annual tax savings. Rusckowski said that Quest is evaluating how the tax savings will be shared between increased earnings per share, investments in growth and possibly higher employee compensation.

**Myriad Genetics'** average selling price for its BRCA testing services has declined by 15% since a U.S. Supreme Court decision ruling against some of its patents introduced competition to the market in mid-2013, according to CEO **Mark Capone**. Other labs are now offering BRCA testing for less than \$1,000 versus Myriad's average selling price of approximately \$2,500.

In the fiscal year ending June 30, 2018, Myriad expects its average selling price for BRCA testing to decline by 12%, partially offset by volume growth of 3%. As a result, revenue from BRCA testing is expected to decline by 9% to approximately \$515 million, accounting for about 68% of Myriad's overall expected revenue of \$750 million to \$770 million for fiscal 2018.

Capone said that 86% of Myriad's BRCA testing revenue is now secured with fixed-price contracts through fiscal 2020. "We do see some laboratories that are pricing significantly below their cost structure. One in particular has lost \$400 million pursuing that strategy. Ultimately we don't think that's going to be a viable business model....Sooner or later you run out of other people's money," said Capone.

Capone expects the BRCA testing market to reach a rational pricing floor of roughly \$1,800 by 2021, including roughly \$1,500 for the cost to produce a quality test result plus an operating profit margin of 20%, or roughly \$300, for a commoditized test. He believes Myriad's quality will allow it to continue to command premium pricing.

### **Academic Medical Center Lab Directors Discuss New Proprietary Laboratory Analyses**

A panel comprised of academic medical center lab directors at the conference discussed PAMA's new PLA (Proprietary Laboratory Analyses) designation which allows labs the opportunity to make a case that their LDTs are distinct enough from other tests that a discreet CPT code for billing payers is warranted.

**Victoria Pratt, PhD**, Director, Pharmacogenomics Lab, **Indiana University School of Medicine**, noted the huge rate increases that lab companies offering proprietary tests received. Pratt said that under PAMA's new PLA coding program, any laboratory can get their own unique CPT code for LDTs they perform. "So anybody can get a CPT code for their own assay run in their own laboratory....then you have more control over the pricing and the information, so you're not competing against the pricing of Quest or LabCorp.

Pratt said the process for getting your own CPT code for a PLA is fairly easy to do. "It has to be a test currently offered in the United States. Then you answer four to six questions on the AMA [American Medical Association] website.... We've already seen a university hospital submit their BCR/ABL1 laboratory developed test for chronic myeloid leukemia, CML, and now they have their own CPT code test."

*Laboratory Economics* notes that initial Medicare rates for PLAs are determined by crosswalking or gapfilling, and are then subject to PAMA private-payer surveys every three years. However, since PLA tests are only performed by a single laboratory, the sole performing lab has significant control over pricing. As of December 31, 2017, the AMA has issued 32 PLA codes, including 12 PLA codes granted to Mayo Clinic.

**2018 OUTLOOK FOR LABS: 10 EXECUTIVE PERSPECTIVES** (cont'd from page 1)

Lab outreach test volume at Stamford Hospital in Connecticut is growing by approximately 3% per year and totaled nearly two million tests in 2017, according to **Robert Babkowski, MD**,



Robert  
Babkowski, MD

Chair, Department of Pathology at **Stamford Health**. Medicare comprises about 30% of the payer mix for Stamford's outreach lab business. "Thank God we're not based in Florida," says Babkowski.

He expects lower Medicare rates to have little spill-over into Stamford's commercial lab contracts. Hospital labs have the negotiating power of the entire hospital system behind them. When they [private payers] try to squeeze down rates in one area, most hospitals manage to raise rates someplace else so overall margins remain intact."

Babkowski estimates that most hospital lab contracts with private payers are set at between 150% and 200% of the Medicare CLFS. Obviously, including their pricing data would help raise Medicare lab test rates under PAMA. However, Babkowski says, "Collecting the PAMA data would be painful. Most, if not all, hospital labs don't have a way to do this."

Stamford's outreach lab business was started in 2006. It got a boost when Stamford formed its own multispecialty group, Stamford Health Medical Group (SHMG), in 2012. SHMG has grown to more than 150 physicians at 30+ offices in southwest Connecticut. "That lab work is all sent to the mothership [Stamford outreach lab]," notes Babkowski.

"There is nothing more profitable than a hospital-based outreach lab that leverages existing equipment and employees. The key is getting your hospital's CEO and CFO to understand and accept incremental cost accounting," explains Babkowski.

He says that the Stamford outreach lab has differentiated itself and created goodwill with physicians by offering home blood draws and a 24/7 client service phone line for test results.

Babkowski says the Stamford outreach lab uses the main hospital billing, which does not pursue small lab test claims as aggressively as it should. "My pleas to outsource billing are falling on deaf ears."

Over the next few years, Babkowski thinks that smaller hospital outreach labs with a high percentage of Medicare could get downsized or pushed into partnerships with other hospital labs.



Barbara Bigler

**ACL Laboratories** (West Allis, WI, and Rosemont, IL) is planning to leverage efficiencies gained through standardization along with growth to help offset PAMA Medicare cuts this year and beyond, says **Barbara Bigler**, president of the laboratory, which saw about 3.5% growth in volumes in 2017.

"ACL's long-term strategy puts us in a strong position to manage this change," Bigler tells *Laboratory Economics*. "We've been working hard to drive a lower cost structure, to increase volumes and to have a highly standardized operating model. We feel we can continue to leverage the structure and strategy we have in place."

ACL Laboratories is jointly operated by Wisconsin-based Aurora Health Care and Chicago-based Advocate Health Care. Aurora and Advocate recently announced they would merge, creating the 10th largest not-for-profit healthcare system in the country. ACL is the sole laboratory serving Aurora and Advocate's 27 hospital-labs and more than 5,000 outreach clients. The merger of Advocate and Aurora will provide additional growth opportunity for ACL, says Bigler.

According to Bigler, the PAMA data collection and reporting process was extensive and difficult, but having put a system in place now will make reporting easier the second time around. “We were successful in reporting the data that was requested, but we would have preferred that more hospitals would have been included,” she says. “I think CMS missed a significant part of data that would have contributed to the whole picture of what’s really happening in the laboratory.”

Bigler believes the PAMA Medicare cuts and the resulting shift in the market are likely to lead to more creative collaborations, such as health systems forming partnerships and creating their own laboratories. “There is no reason to send testing out of the system if you don’t need to,” she says.



*James  
Crawford, MD,*

**Northwell Health Laboratories** (Great Neck, NY) plans to combat Medicare cuts to clinical lab testing in the coming years through both growth and diversification, says **James Crawford, MD, PhD**, Senior Vice President. Northwell Health, formerly North Shore-Long Island Jewish Health System, consists of 22 hospitals and more than 600 physician practice locations with 3,800 employed physicians.

Part of this growth will come from pursuing joint-venture opportunities, says Crawford. Northwell recently inked a 50-50 joint-venture agreement with Ireland-based Technopath, which manufactures laboratory quality control products, to serve as its North American distributor. This is in addition to a joint venture with New York City Health and Hospitals, which began in 2014.

“Some of the trends we’re seeing is monetization of laboratories through the sale of commercial labs and partnerships and collaborations between health-system based labs and small independent labs,” says Crawford. “Northwell Labs is entering into this space by pursuing additional collaborations. We feel there is a real opportunity to strengthen the position of in-system laboratories through partnerships.”

Crawford notes that even before the PAMA cuts went into effect, health systems were already looking at outsourcing their laboratory services. “I think that’s a question in front of every health system in the country,” he says. “Northwell Labs is trying to demonstrate that there is tremendous value to retaining an in-system laboratory.”



*Peter Fisher,  
MD*

**Peter Fisher, MD**, President and CEO of **Health Network Laboratories** (Allentown, PA), says HNL’s test volume grew by 10% last year to approximately 7 million billable tests. Approximately 60% of volume comes from non-patient outreach testing, while 40% is from non-STAT testing provided to the 10 hospital labs managed by HNL.

HNL is an independent lab with about 1,000 employees that is owned by two hospitals in the Lehigh Valley Health Network (LVHN), Good Shepherd Rehabilitation and Phoebe Ministries.

The growth of LVHN’s physician practice, which currently has 700 physicians at 140 practices in the Allentown and Bethlehem areas, has contributed to HNL’s growth, as has increased toxicology testing. Fisher says HNL has also expanded its services to hospitals, physician practices and patients well outside of LVHN’s regional footprint.

Effective July 1, HNL will assume management of inpatient labs at four hospitals in northeast Pennsylvania. The four hospitals—Hazleton General Hospital, Pocono Medical Center, Schuylkill

Medical Center (E. Norwegian Street) and Schuylkill Medical Center (S. Jackson Street)—were acquired by Lehigh Valley Health Network in 2016. Non-STAT clinical lab tests and pathology slide preparation will be sent to HNL central lab in Allentown.

Roughly 20% to 25% of HNL's outreach testing revenue comes from the Medicare CLFS. And Fisher estimates that if the structure of PAMA rate cuts remains as currently scheduled, then HNL's Medicare rates will decline by a cumulative 25% over the next three years before reaching equilibrium.

"Many hospitals have been slow to realize the impact that the PAMA rate cuts will have on their labs. The consequences will become clearer over the next 12 months," notes Fisher. He believes the cuts will ultimately lead to more hospital lab consolidation and partnerships.

To cope with the rate cuts, HNL will increase automation, including a recent installation of the world's largest ELISA automation system (EUROLabWorkstation) at its central lab. Fisher says that HNL will also need to make changes in the way it services nursing home and assisted living facility clients.

HNL opened PSCs at four independent pharmacy stores last year. Through an exclusive agreement with Value Drug Company, which operates as a wholesale distributor of pharmaceutical products for independent pharmacies, HNL is planning to open PSCs at 15-20 additional drug stores this year, according to Fisher.



*Karim  
Maghareh, PhD*

"It's a disaster for nursing home labs," is how **Karim Maghareh, PhD**, Chief Executive of **BestCare Laboratory Services** (Webster, TX), describes the new Medicare CLFS rates. BestCare has a central lab in Webster (just south of Houston) that serves 200 nursing home clients throughout Texas. Maghareh says that Medicare accounts for about 35% of its revenue, but that nearly all other payers base their rates on the Medicare CLFS. As a result, he is anticipating across-the-board 10% pricing reductions this year, as well as in 2019 and 2020.

BestCare has a total of 180 employees, including 80 phlebotomists, who make trips to nursing homes each morning to draw patient samples. Labor and benefits make up about 50% of BestCare's overall expenses, but Maghareh says there is little room there to make cuts. So he says BestCare may need to switch from brand name reagents to lower-cost generics. However, he is dragging his feet because using generic reagents may affect the quality of test results.

Maghareh notes that most of BestCare's nursing home clients have 100-125 beds, are located in rural areas, and average 10 patient blood draw collections each morning. In addition, he says BestCare provides STAT tests whenever necessary 24/7.

Its clients don't have enough volume to operate their own onsite laboratory, nor the staff to draw patient samples on site, according to Maghareh.

Without labs like BestCare, he says some nursing homes may be forced to hire an ambulance service to drive their patients to the nearest hospital for blood draws and lab testing every day. The typical round trip for an ambulance van costs about \$80 per patient. However if a STAT test is needed, an emergency ambulance trip would cost between \$400 and \$800 roundtrip per patient. The increased stress placed on nursing home patients because of travel is another important

factor. “Saving 10% on a \$15 lab test could lead to a \$30,000 hospital stay. It doesn’t make any sense,” notes Maghareh.

**Aeon Global Health** (Gainesville, GA) is aiming to offset the PAMA rate cuts through expansion into new markets, according to Chief Operating Officer **David Goldberg**. Aeon operates a 30,000-square-foot toxicology laboratory in the Atlanta area with 83 employees. About 40% of the company’s ~\$20 million of annual revenue is reimbursed through the Medicare CLFS.

Goldberg, who joined Aeon last September, and was formerly President of Enzo Clinical Labs (Farmingdale, NY), says that Aeon is expanding into several new markets. For example, Aeon recently introduced a new clinical lab testing service for physician offices under the brand name BDx Advantage Blood Diagnostic Testing.

In addition, Aeon recently hired Armando Moncado, MD, as its Chief Medical Officer, and acquired certain molecular testing technologies from his lab company PCG Molecular LLC. Moncado will lead Aeon’s expansion into molecular infectious disease testing.

Finally, Goldberg notes Aeon’s new contract to provide pharmacogenomics and cancer genomics services to clients of Circle Care Management (Miami, FL). Circle Care helps coordinate medical care for corporate and wealthy individual clients in Central and South America with U.S.-based hospitals and doctors when needed.



Martha Casassa

Because they do not operate laboratory outreach programs, Medicare cuts under PAMA are expected to have limited impact on the bottom line of **South Shore Hospital** and **South Shore Medical Center** (each a part of South Shore Health System), says **Martha Casassa**, Director of Laboratory Services for the hospital, located just south of Boston.

“We’ve run the models and we’re looking at tens of thousands of dollars in reductions, not hundreds of thousands,” she says. “We are a not-for-profit charitable hospital, so we will continue to take care of our patients regardless of cuts.”

South Shore Hospital, which performs about 3.3 million tests per year, has been experiencing volume growth of about 7% a year and expects that growth to continue in 2018. Casassa credits the growth to relationship-building in the community, along with South Shore’s participation in an accountable care organization (ACO). “Through the ACO, we have partnered with some hospitals that are geographically a little further away,” she says. “We are also looking at population health – doing more health and wellness programs – which should help with growth.”

Also adding to South Shore’s test volumes are home draws performed in collaboration with the hospital’s Visiting Nurses Association, which draws about 60 people per day. “We believe in providing the right services at the right time – if we can take care of you at home, we will do that,” says Casassa.



Anna Dzeva

**Anna Dzeva** is opening a new laboratory slated for March named **Ocean Diagnostics** in Deerfield Beach, Florida. A COLA inspection is scheduled for early February. Dzeva, who is CEO of the new lab company, also owns Spector Scientific Lab (also in Deerfield Beach).



Dzeva says that reimbursement cuts combined with increased scrutiny for medical necessity are weeding out the undesirables in the toxicology market. She notes that the bundled test codes for toxicology introduced by Medicare in January 2016 resulted in severe rate cuts and have been followed by this year's PAMA cuts of 10% for the average toxicology sample.

Initially, Dzeva says Ocean Diagnostics will focus on the Medicare fee-for-service market. She is projecting that the lab will process 900 patient samples in its first month of business.

Dzeva says all of Ocean's employees will be W2 direct employees, including sales staff. The company plans to differentiate itself from other tox labs by providing test results within 30 hours versus 5 to 7 days for the national labs. Her staff will also contact new clients daily for the first 30 days.

Most of the sketchy business practices that Dzeva has seen less-reputable tox labs use revolve around marketing. These have included employing contracted 1099 sales reps who market directly to patients, and doctors that direct tox labs to pay commissions to marketing companies owned by their wife, son or girlfriend in exchange for patient referrals.

"We are hoping that the State Attorney Dave Aronberg and the Palm Beach Sober Task Force along with the new updates to patient brokering laws in Florida will now force these bad business practices to be exposed."



Ritu Ward

**Mercy Oklahoma** (Oklahoma City) operates a laboratory outreach program and expects to see a 10% decrease in Medicare revenue from the PAMA cuts going forward, according to **Ritu Ward**, Vice President of Mercy's Laboratory Services in Oklahoma, which includes 11 hospitals and 25 nursing homes.

Mercy's Oklahoma laboratories performed 3.4 million tests in 2017 and Ward is estimating 3% growth in 2018.

"The growth model has three prongs," she tells *Laboratory Economics*. "One is to bring on more physician practices. Two is growth from the large employers in the region (Boeing and energy providers). Third is improving overall access to healthcare and keeping patients healthy (population health)."

Mercy expects to achieve cost-savings of about \$500,000 this year through process improvement and better negotiations with suppliers and reference labs. The laboratories already adjust staffing on an hourly basis based on expected test volumes. In addition, employees are being cross-trained to do multiple jobs, which Ward says has resulted in a savings of 2.5 full-time equivalents.

"We also plan to apply our successful blood management model in other areas," she says—for example, implementing utilization management protocols to prevent unnecessary and duplicate testing. Further, Ward intends to work with the hospital billing departments to reduce laboratory billing write-offs. Currently, any lab bill below \$10 is written off.

The biggest challenges Ward sees going forward are modernizing the laboratories and finding qualified personnel. "Staffing shortages are my biggest nightmare," she says, noting that the shortage is particularly acute in blood bank, microbiology and anatomic pathology.

## Strategies For Increasing Patient Collections In The Era of High Deductibles

The number of Americans age 18 to 64 with a high-deductible health plan (HDHP) increased from 26.3% in 2011 to 39.3% in 2016, according to the latest figures from the CDC's National Center for Health Statistics. A HDHP is defined as a health plan with an annual deductible of at least \$1,300 for individual coverage or \$2,600 for family coverage.

The increase in HDHPs means that patients are paying a greater percentage of what labs and pathology groups get paid, and they are expected to comprise an ever higher percentage in the years to come.

However, patients default on an average of 30% of their payments owed to healthcare providers and it can cost twice as much to collect from a patient as it does from a third-party payer, according to the *Black Book 2017 Revenue Cycle Management Survey*.

Improving patient collection rates was the focus of discussion during a December 14 teleconference sponsored by *Laboratory Economics*. Highlights from speaker presentations and Q&A follow:

**Sonora Quest Laboratories** (Tempe, AZ), a joint venture between Banner Health and Quest Diagnostics, is asking its phlebotomists take on registrar responsibilities when encountering patients at PSCs, according to **Christina Noble**, Vice President of Business Development. For example, SQL phlebotomists now have tablet computers that let them see if patients owe past due amounts. "If there is an amount due at registration, the phlebotomist can have a conversation with the patients about that... We implemented that program quite a while ago and it has allowed us to realize millions in past due balances that we weren't able to collect before."

Noble said that SQL also recently began offering installment plan payment options (at zero percent interest) through the healthcare finance company CarePayment (Nashville, TN). So, for example, a patient with a bill of \$1,200 can spread payments out over 12 monthly payments of \$100.

**Al Sirmon**, President of **Pathology Practice Advisors LLC** (Columbia, SC), noted that most pathology practices don't have PSCs that give them direct contact with patients. "That's why it's critical to have a good patient statement and a good call center." He noted that most insurers do a poor job of explaining payment responsibilities to patients. "When you look at the wording on the EOBs, the explanation of benefits, many times they'll use words like 'guarantor,' 'subscriber,' 'the insurer' or sometimes just even 'PR' [patient responsibility] so the insurance companies are not doing a great job with their EOBs in communicating with the patient." He advises pathology practices to write their billing statements to patients on a six grade education level. "Use clear language that leaves no doubt that their insurance company has paid their portion and the balance is the patient's responsibility due to their co-insurance or deductible."

Sirmon added that call centers, whether operated by an outside billing company or the pathology practice, need to have extended business hours. "If a patient with a billing question calls in and gets a voice message or has to wait five minutes to get through, then you've missed your chance to have that communication with the patient." *Continued on next page.*

**Jerry Garner**, Vice-President of **Managed Care for Bio-Reference Laboratories**, noted the continued need for physician education on proper lab billing practices. “We often hear in the independent lab space, and I’m sure other labs encounter this as well, we hear referring physicians say, ‘You’re billing my patients, if you don’t stop, I’m going to switch to another lab.’ Which is unfortunate, because maybe there are some other laboratories who say that they don’t balance bill and, as we all know, it’s a legal requirement that you bill in accordance with the payer policies.”

## ACM Global Laboratories Buys Eureka’s ToxCo

The private investment firm Eureka Growth Capital (Philadelphia, PA) has sold Toxicology Holdings Corp. (Horsham, PA) and its subsidiaries to ACM Global Laboratories (Rochester, NY) effective December 31, 2017.

Toxicology Holdings Corp. (ToxCo) was formed by Eureka in partnership with a team of lab industry veterans, led by former American Medical Laboratories’ executives Tony Costantino, PhD, and Jack Bergstrom, in late 2008. Shortly thereafter, ToxCo acquired the toxicology lab DrugScan Inc. as well as DSI Medical Services, a third-party administrator that manages drug and alcohol testing services for company substance abuse testing programs. Since the acquisitions, Eureka says ToxCo’s revenue has grown by fivefold while its staff increased from 40 employees to 180 today.

ACM says it will retain DrugScan and DSI’s management, locations and brand names. “This acquisition provides the comprehensive platform that ACM needs to accelerate its growth in the toxicology drug testing market,” according to John Foley, President, ACM Global Laboratories. “In the last decade, we’ve seen the toxicology market nearly double in size as health systems seek to partner with innovative laboratory providers that can help safely manage patients with complex medication needs.”

ACM is a for-profit independent laboratory owned by Rochester Regional Health System. ACM has more than 550 employees, performs more than 20 million lab tests per year and generates \$100+ million of annual revenue. ACM provides full-service clinical and anatomic pathology services throughout western New York and also provides clinical trial testing services to pharmaceutical companies and contracted research organizations worldwide.

Previous acquisitions made by ACM have included Phoenix Pharma Central Services, which provides clinical trials testing services in Asia, and Pivotal Laboratories, which provides clinical trials testing services in Europe, Israel and South Africa.

### Acquisitions made by ACM Global Laboratories

ToxCo (DrugScan and DSI Medical Services)	Horsham, PA	December 2017
Phoenix Pharma Central Services	Singapore and Shanghai, China	January 2014
Pivotal Laboratories	York, United Kingdom	March 2009

Source: ACM Global Laboratories

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## Lab Stocks Start New Year Flat

Prices for 16 publicly-traded lab stocks were flat on an unweighted average basis through January 16. In comparison, the S&P 500 Index is up 4% year to date. The top-performing lab stocks so far this year are Genomic Health, up 18%, and Cancer Genetics, up 11%. At the two largest public labs, LabCorp is up 7% and Quest Diagnostics is up 3%.

Company (ticker)	Stock Price 1/16/18	Stock Price 12/29/17	2018 Price Change	Market Capitalization (\$ millions)	P/E Ratio	Price/Sales	Price/Book
Cancer Genetics Inc. (CGIX)	\$2.05	\$1.85	11%	\$49	NA	1.7	1.6
CareDx (CDNA)	5.96	7.34	-19%	170	NA	3.7	NA
Enzo Biochem (ENZ)	7.74	8.15	-5%	363	NA	3.3	4.1
Exact Sciences (EXAS)	52.95	52.54	1%	6,340	NA	30.0	12.0
Foundation Medicine (FMI)	64.40	68.20	-6%	2,350	NA	17.7	36.7
Genomic Health (GHDX)	34.61	29.39	18%	1,200	NA	3.6	6.9
Interpace Diagnostics (IDXG)	1.10	1.02	8%	30	NA	2.0	0.7
Invitae (NVTA)	7.26	9.08	-20%	384	NA	7.4	2.9
LabCorp (LH)	171.00	159.51	7%	17,410	23.9	1.8	2.9
Myriad Genetics (MYGN)	35.79	34.35	4%	2,480	23.7	3.2	2.8
NeoGenomics (NEO)	7.97	8.57	-7%	641	NA	2.6	3.8
Opko Health (OPK)	4.60	4.90	-6%	2,570	NA	2.2	1.2
Psychemedics (PMD)	21.43	20.56	4%	118	19.3	2.9	6.8
Quest Diagnostics (DGX)	101.22	98.49	3%	13,800	21.2	1.8	2.9
Sonic Healthcare (SHL.AX)	22.86	21.40	7%	9,940	23.0	1.9	2.6
Veracyte (VCYT)	6.26	6.53	-4%	213	NA	3.0	5.0
Unweighted Averages			0%	\$58,058	22.2	5.5	6.2

Source: Capital IQ

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