

# Pathology Groups Should Act Now to Define Value

► For AP and CP, value-based payment is coming, creating an opening for pathologists

►► **CEO SUMMARY:** *Payers and health system administrators generally agree that healthcare is moving away from fee-for-service toward value-based payment. Because adoption of value-based contracts is slower for pathologists than for other providers, pathologists have the opportunity to define how provider systems can pay for value contributed by pathologists. However, to take advantage of this opportunity, pathologists must act before hospitals define value for them, a reimbursement consultant warned.*

**H**EALTHCARE'S TRANSITION to value-based payments is moving forward in many sectors of healthcare. In anatomic pathology, however, the shift away from fee-for-service to value-based contracts has hardly taken hold, according to Robert Tessier, a senior reimbursement consultant with HBP Services in Woodbridge, Conn.

"This fact represents a significant opportunity for all pathologists and pathology group administrators," stated Tessier. "The reality is that most health insurers, hospitals, and larger physician groups are still learning how to craft value-based payment arrangements that align the incentives and goals for all parties in ways that improve patient care while lowering costs.

"Such slow movement toward value gives clinical labs and anatomic pathologists an opportunity to get ahead of the value-based reimbursement trend," he added. "Clinical lab directors and pathology group administrators must now begin to define the parameters that health systems use to measure and reward value-driven clinical and anatomic pathology services for their hospital and health system clients.

"As the health system moves away from fee-for-service payment, payers want to reimburse providers for value," Tessier said in an interview with THE DARK REPORT. "For that to happen, value must first be defined.

"However, defining how health systems pay for value delivered by anatomic pathology (AP) and clinical pathology (CP) services has proven to be difficult," he noted. "It's been a challenge to change payer contracts with hospitals and office-based physicians. It is proving to be an even more complex problem to define how to compensate pathologists for value."

## ► Seeking Sustained Quality

Currently, hospitals and health networks typically pay a monthly management fee to pathologists for administrative services. "Unless pathologists can define specific formulas to recognize value, hospitals cannot be expected to incentivize pathologists for that value," stated Tessier.

"Therefore, the smart business strategy going forward is for pathologists to help hospital administrators define value

that meets the clinical, operational, and financial goals of each institution," he explained. "Most hospitals use time studies to document Part A hours, meaning these hospitals are counting hours.

"Some health networks are willing to recognize a competitive \$150 hourly rate for pathologists handling non-patient care activities," he added. "We see the \$150-per-hour rate as becoming something of a standard.

## ► Counting Hours Is Easy

"For hospital and health system administrators, counting hours is easy, but it also detracts from improving value," commented Tessier, who has consulted to AP and clinical pathology practices for more than 36 years. "Hospitals and health systems define value as reducing overall healthcare costs while improving patient outcomes and patient experience.

"Similarly, when health insurers say they are contracting for value, these are the same parameters they want hospitals and health systems to deliver," he noted.

"Pathologists should prepare to rewrite their contracts with hospitals and health systems," he commented. "When they do so, they will have an important opportunity during these contract negotiations to define value."

Before negotiating a value-based contract with any hospital or health network, Tessier recommended taking one action internally. "After your pathology practice develops and defines the value it intends to deliver to its client hospitals, it is essential to rework your practice management plan to include financial incentives for those pathologists who bring increased value—both to the practice and to the hospitals or health systems the practice serves.

"For this effort, pathology administrators need to devise new mechanisms for payment," Tessier said. "Some practices are willing to consider 'rainmaking' skills as one way to reward value, which is reasonable.

"But rainmaking—the ability to bring in new business—is only one skillset," he con-

tinued. "For practices that want to reward all the value pathologists deliver, a more robust program of incentives is required.

"When defining value, most private groups believe that treating all pathologists in the group equally is the right approach, regardless of what they bring to the practice, how much productivity they deliver, or how much innovation they introduce," noted Tessier. "Doing so will work only if all members of the group share the clinical workload equitably and all Part A duties have been distributed equally.

"Be careful, however, because if some members regularly do more than others, this system will fail," he predicted. "It will be unsuccessful because the inherent inequity will penalize those who deliver the most value while unfairly rewarding those who deliver the least.

"Therefore, this model is not value-based," he continued. "Every pathology group needs language in its employment contracts to encourage pathologists to be innovative, to be forward-thinkers, and to be effective at finding new ways to deliver value.

## ► Hospitals Fixate on Dollars

"Currently, I'm working on hospital contracts for three pathology groups," offered Tessier. "At each of these sites, negotiations are centered on how much the hospitals will pay pathologists per hour.

"Another problem is that hospital administrators want to limit what they spend in a given year to a certain dollar figure or number of hours," stated Tessier.

"When contract negotiations center on a fixed payment arrangement, how to pay for value is left out of the discussion," he commented. "For this reason—before going into these negotiations—pathologists should be prepared to present a specific plan on what value they can deliver to the hospital's patients and how they should be rewarded for that value.

"It's distressing that pathologists aren't leading the discussion to define new value paradigms or to ask for value to be

incorporated in their hospital contracts,” observed Tessier. “This is the moment when the pathology profession can and should step forward to define value.

### ► Leveraging Pathology

“Health insurers, hospitals, and office-based physicians need to understand how to leverage the power of pathology services to contribute to improved patient outcomes while reducing healthcare costs,” he added.

“Pathologists seem hesitant to define value for two reasons,” noted Tessier. “First, they are unsure how to describe and measure the value of their clinical services. Second, pathologists worry that any discussion of paying for value will mean a reduction in what hospitals pay for services under Part A. Many are ineffective at explaining what they do across the full range of clinical and management activities.

“The ability to delineate their activities is critically important for pathologists,” continued Tessier. “One of the best ways to quantify value is in an annual report. Any comprehensive yearly accounting of services pathologists deliver also allows the group to align its goals and objectives to those of the hospital it serves.”

Tessier provided an example of a client in California. “In 2010, the group wrote an annual report on its Part A work,” he explained. “This report included a detailed time study we helped them prepare. It documented how many hours the pathologists spent on the various services they delivered.

“In each of the following years, not much changed, so the group saw no need to update its report,” he added. “The attitude of many pathologists is that hospital administrators automatically know what they’re doing.

“But during the past eight years, there was a complete turnover in the hospital administration,” Tessier recalled. “The new administrators didn’t understand the role of their pathologists. This became a problem during contract renewal negotiations.

“Every pathology group should prepare their annual report to each hospital,” he added. In these reports, he suggested groups include the following:

- The number of hours the group’s pathologists spent on Part A activities;
- How many tumor boards and committee meetings they attended;
- Information about the group’s improvements and accomplishments; and,
- Details on patient experience or patient satisfaction.

“This is not a complete list of what pathology groups should include in an annual report,” noted Tessier. “Going forward, the most important focus should be how the group contributes value.

“Omitting a discussion about value is a pitfall pathology groups must avoid in their annual reports,” he said. “There are other pitfalls as well. For example, when a group reports on its fees, it should ensure that its prices are in line with those of other pathology groups in the same area.” (See sidebar on page 13.)

### ► Attention to Social Media

Another recommendation is to recognize the importance of social media, including patient reviews of pathologists and laboratory services on such websites as **Yelp**, **WebMD**, and **HealthGrades**.

“When talking about patient experience, review the comments patients post on consumer websites where they express their opinions about service in your hospital or health system,” he advised. “Pay particular attention to patients’ comments about pathology and laboratory services.

“Healthcare today is at the point where there’s much talk about providing value,” noted Tessier. “It is now time for pathologists to identify the value they contribute, along with how they should be paid for that value. If the pathology profession doesn’t figure out how to get paid for value then pathologists will find themselves doing extra work and putting in extra time and effort that generates no return. In turn,

## Hospitals and the Pathology Groups Serving Them Will Need to Post Prices They Charge

**O**NE NEW REQUIREMENT COMING SOON to hospitals and the pathologists who serve them is the requirement that they report the prices they charge to patients for their services, said Robert Tessier, a senior reimbursement consultant with HBP Services in Woodbridge, Conn.

“In April, the federal **Centers for Medicare and Medicaid Services** proposed a rule calling on hospitals to publish their standard charges online,” explained Tessier. “The goal is to improve the transparency of hospital prices and to empower patients to choose where to go for treatment.

“When your pathology group must post its prices, it would be a smart strategy to ensure that its fees are usual and customary—meaning not excessive,” he advised. “To do so, it will be necessary to know what other anatomic pathology (AP) labs and pathology groups charge in your community and region.

“Today, there is an excellent resource for studying pathology prices in each area of the country,” he continued. “It is a well-kept secret, however, as most pathology groups are unaware of its existence. Moreover, in the past, fee data was confidential and never discussed. That meant hospitals were not able to determine what was usual and customary for services the pathologists and other providers delivered to patients.

“That changed in 2012 when the federal **Centers for Medicare and Medicaid Services** (CMS) released data on what it paid all providers—including pathologists,” noted Tessier. “CMS now releases this payment data annually. It is a resource that savvy pathology practice

administrators should use to understand what prices are being charged by other pathology groups in their state or region.

“When CMS first released its fee data in 2012, those data were difficult to extract,” he recalled. “But beginning in 2014, the data became more accessible. Now it’s possible to use that fee data to see what pathologists get paid for a wide variety of services.

“The data is based on payment codes and it’s easier to extract reports showing which providers charge 50% or more than other providers in the same area,” he observed.

“I know of a hospital system, for example, that compared hospital-based physician fees to others in the same state,” said Tessier. “It then suggested that the median would be its guideline for acceptable pricing. Today, patients with high-deductible health plans want to know what comparable institutions charge for the same services.

“There are other reasons for any local lab to access Medicare data to compare its rates with those of commercial labs and of hospital practices with aggressive outreach programs,” he advised. “As an example, data shows that one of the largest commercial lab providers of CPT 88305 billed Medicare for 273,000 such services and charged \$315 for each claim, a price well above average!

“For anatomic pathologists, these data provide an opportunity to show how your group’s fees compare with those of other pathology groups,” noted Tessier. “Of course, you want your group’s fees to be inline with those of other pathology groups in your area.”

there won’t be any net benefit for the pathology group itself, or for the hospitals the group serves.”

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