

ISSUE BRIEF

Clinical Laboratory Fee Schedule

PAYMENT POLICY

Medicare provides health insurance to people 65 and over and those with permanent kidney failure and certain people with disabilities. Medicare is split into Part A, the hospital insurance program, and Part B, the supplementary medical insurance program. Among the services that Medicare pays for under Part B are diagnostic tests and clinical laboratory services.

Since 1984 Medicare Part B has reimbursed providers furnishing diagnostic tests and clinical laboratory services according to the Medicare clinical laboratory fee schedule. In adopting the fee schedule, Congress also required that most Part B tests be submitted directly to carriers or fiscal intermediaries by the entity performing the service and eliminated copayment for clinical laboratory services. The elimination of the requirement for a copayment was in exchange for a significant reduction in the reimbursement for clinical laboratory services. Similar to Medicare's physician fee schedule, updates are mandated annually. In general, the Secretary of Health and Human Services is required to adjust the payment amounts annually by the percentage change in the Consumer Price Index (CPI).¹

HISTORY

Over the past two decades, reimbursement for laboratory services has been cut significantly. Two of the major factors in determining Medicare payment for laboratory services have been cut or reduced during this time period: the National Limitation Amount (NLA) and the CPI update. The NLA serves as a ceiling on payments for each laboratory test and is based on the median of all local carrier fees for each test. In 1984 the NLA was set at 115 percent of the median fee; today, the NLA stands at 74 percent.

Similarly, the CPI update has all but been eliminated as a means to ensure laboratory reimbursement keeps pace with the economy. In fact, over the last 15 years, the full CPI update was applied only twice (**BOLD indicates those years the CPI was frozen or cut**).

Calendar Year	Scheduled* CPI Update (%)	Applied CPI Update
2004	2.6	0.0
2003	1.1	1.1
2002	2.8	0.0
2001	2.8	0.0
2000	2.7	0.0
1999	2.2	0.0
1998	1.7	0.0
1997	2.7	2.3
1996	3.0	2.9
1995	2.8	0.0

¹ Source: 2003 Green Book. Committee on Ways and Means, U.S. House of Representatives, February 11, 2004.

* 'Scheduled' indicates the update the Centers for Medicare and Medicaid Services had for the clinical laboratory fee schedule.

'Applied' indicates the actual adjustment made to the fee schedule, e.g. given congressional action.

1994	2.6	0.0
1993	3.0	2.0
1992	3.0	2.0
1991	4.2	2.0
1990	5.4	5.4

The Balanced Budget Act (BBA) of 1997 eliminated a CPI increase for clinical diagnostic laboratory tests from 1998 through 2002. More recently, with enactment of the Medicare Prescription Drug, Improvement, and Modernization Act in December, once again laboratories are bracing for another five-year freeze to the Medicare reimbursements, which began January 1st and last through December 31, 2008.

IMPACT ON PROVISION OF CARE

Clinical laboratory services play a critical role in the detection, diagnosis, and treatment of disease. As the first point of intervention, test results often serve as the foundation for the diagnosis and management of disease. While the cost of furnishing laboratory services has increased over the last 20 years, reimbursement has experienced chronic erosion in the form of repeated decreases to the NLAs and the systematic elimination or reduction to the annual inflationary updates. The growing costs laboratories continue to face come from a myriad of factors including new federal regulations (e.g. HIPAA), increasingly burdensome requirements by Medicare carriers, the shortage of laboratory personnel, and ongoing efforts to improve patient safety and keep pace with technology. In the Medicare Payment Advisory Commission's (MedPAC) March 2002 report, the Commission recognizes this gap:

Unlike other PPSs, the lab fee schedules are based only on 20-year old charges. The carriers did not adjust those charges to costs when originally creating their fee schedules, so it is unlikely that the fee schedules were ever consistent with the efficient costs of providing laboratory services. The passage of time has probably made this problem worse because factors other than inflation, such as technological innovation, have affected laboratory costs since 1983.²

Similarly, the Institute of Medicine (IOM), in its December 2000 report on laboratory payment policy came to the same conclusion:

Payments for some individual tests likely do not reflect the cost of providing services, and anticipated advances in laboratory technology will exacerbate the flaws in the current system. Problems with the outdated payment system threaten beneficiary access to care and the use of enhanced testing methods in the future...³

The issue of reinstating a 20 percent copayment for clinical laboratory services is periodically considered by Congress. Most recently, Congress rejected copayment in 2003 after an outpouring of concern raised by Medicare beneficiaries and the clinical laboratory industry. Copayment amounts to a tax on Medicare beneficiaries who will be billed \$2.30 copay per testage, and \$6.90 copay per bill. The cost to collect that amount is about \$5 per bill with bad debt and administrative costs to collect these small amounts costing \$16.2 billion. This would be a 19% reduction in reimbursement.

² Source: Medicare Payment Advisory Commission March 2002 Report to the Congress. Medicare Payment Policy, p. 21-22.

³ Source: Institute of Medicine, *Medicare Laboratory Payment Policy: Now and in the Future*. 2000. p. 160-161.

CONCLUSIONS & RECOMMENDATION

Given the unending cuts to laboratory reimbursement over the last two decades, the recently enacted five-year freeze to Medicare's clinical laboratory fee schedule is simply bad public policy.

Cumulatively, the Medicare laboratory fee schedule has increased 17.7 percent since 1990 while the actual CPI has increased by 42.6 percent over that same period. **The disparity between the actual CPI and the increases that have been provided make it difficult for our nation's laboratories to remain state of the art facilities. It also illustrates the need to prevent further reductions by removing the CPI freeze from current law.** If permitted to continue, the effects of this policy will further 'squeeze' the capabilities of laboratories across the country, and possibly endanger patients' ability to be diagnosed accurately and expeditiously. Further, we urge you to reject the reinstatement of copayments on the basis that it will increase beneficiary costs and substantially reduce reimbursement for clinical laboratory tests that have already faced consistent reductions since 1984.