

Insurers Are Cutting Costs with Benefit Management Firms

Recently, Blue Cross and Blue Shield of North Carolina has seen cuts in lab testing to the tune of \$112 million. These cuts are largely attributed to working with Avalon Healthcare Solutions' benefit management firm who focuses specifically on routine lab testing. Traditionally, routine lab tests receive relatively little management, despite accounting for around 90% of lab spending, because these tests tend to be high-volume, low-priced transactions. Recognizing an opportunity to enhance cost-efficiency, Avalon has developed a test management system that allows for greater automation in determining which tests are appropriate and which are not. This has been a larger trend in the industry with other providers also using benefit management firms to enhance their lab test management.

Although health systems like the Cleveland Clinic have been implementing test utilization management systems for a number of years, Rahul Singal, Avalon's chief medical officer, claims that Avalon is one of only a few firms who focus on offering such services to insurers. Naturally, both parties (providers and insurers) stand to gain something by having more effective management of testing and claims processing. Indeed, one meta-analysis in 2013 showed that approximately 21% of lab tests represented overutilization (i.e., they were not medically necessary). A 2019 study looked at over 374,000 test claims from a reference lab and found that only 48% were classified as appropriate, whereas 44% were inappropriate. Firms like Avalon employ software to examine this kind of large data to minimize payment for unnecessary testing, thereby achieving significant savings for their clients. One common example is ordering a full test panel. Avalon has found that a large amount of improper test utilization results from doctors ordering a full test panel when one or two tests in the panel would provide the necessary information. In the past, a health plan would just pay for these tests, but with Avalon's big-data processing abilities, they now have the means to evaluate all these tests and deny the ones they deem inappropriate. This means a denial of the panel as a whole, when a less expensive subset of tests could have been ordered to provide necessary diagnostic information.

In the case of Avalon, each test is evaluated and given a score from 1-10. A score of 5 or above means the test is medically necessary, but anything below that threshold is deemed inappropriate and the claim is denied. There have been some who claim much of the savings for Blue Cross and Blue Shield in North Carolina was due more to insurers renegotiating rates with labs than the test management systems, but Singal insists that is not the case. Regardless, it is imperative that labs take the initiative to keep up with these developments.

Appeal rates for labs are extremely low according to the data reported by Avalon and the success rate of those appeals is even lower. In order to combat this, labs need more information related to diagnosis/ordering reason to determine appropriate tests *before* they are administered. This proactive approach will minimize unnecessary tests, but also diminish the paperwork and labor necessary to appeal claims that have been denied, often legitimately. Labs can improve their efficiency by employing methods like the benefit management system used by Avalon, evaluating the tests ordered on an individual basis against a pre-set standard for appropriateness and educating their referring providers on what tests are appropriate to order vs. ordering a panel. Employing such systems, in combination with Advance Beneficiary Notice (ABN) forms, should increase efficiency and maximize the payment for testing services provided. As clinical lab prices continue to be reduced by Medicare, it will become increasingly important that labs continue to be proactive in only providing tests that are medically necessary and that will be reimbursed.

If you have any questions about this topic or how to implement these management systems, please reach out to your Practice Manager at APS. As always, we are here to assist in any way we can.