Highlights of GAO-03-1056, a report to congressional committees

September 2003

MEDICARE

Modifying Payments for Certain Pathology Services Is Warranted

Why GAO Did This Study

In 1999, the Health Care Financing Administration, now called the Centers for Medicare & Medicaid Services (CMS), proposed terminating an exception to a payment rule that had permitted laboratories to receive direct payment from Medicare when providing technical pathology services that had been outsourced by certain hospitals. The Congress enacted provisions in the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) to delay the termination. The BIPA provisions directed GAO to report on the number of outsourcing hospitals and their service volumes and the effect of the termination of direct laboratory payments on hospitals and laboratories, as well as on access to technical pathology services by Medicare beneficiaries. GAO analyzed Medicare inpatient and outpatient hospital and laboratory claims data from 2001 to develop its estimates.

What GAO Recommends

GAO suggests that the Congress may wish to consider not reinstating the provision that allows laboratories to receive direct payment from Medicare for technical pathology services provided to hospital patients. GAO recommends that the Administrator of CMS terminate the policy of allowing laboratories to receive direct payment. CMS stated it would carefully consider our recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-03-1056.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7119.

What GAO Found

In 2001, approximately 95 percent of all Medicare prospective payment system (PPS) hospitals—hospitals that are paid predetermined fixed amounts for services—and critical access hospitals (CAH), which receive reimbursement from Medicare based on their reasonable costs, outsourced some technical pathology services to laboratories that received direct payment for those services. However, the median number of outsourced services per hospital was small—81.

If laboratories had not received direct payments for services for hospital patients, GAO estimates that Medicare spending would have been $42 million less in 2001, and beneficiary cost sharing obligations for inpatient and outpatient services would have been reduced by $2 million. Most hospitals are unlikely to experience a financial burden from paying laboratories to provide technical pathology services. If payment to the laboratory is made at the current rate, a PPS hospital outsourcing the median number of technical pathology services outsourced by PPS hospitals, 94, would incur an additional annual cost of approximately $2,900. There would be no financial impact for the 31 percent of rural hospitals that are CAHs, as they would receive Medicare reimbursement for their additional costs.

Medicare beneficiaries' access to pathology services would likely be unaffected if direct laboratory payments are terminated. Hospital officials stated they were unlikely to limit surgical services, including those requiring pathology services, because limiting these services would result in a loss of revenue and could restrict access to services for their communities.

Payments to Laboratories by Medicare and Medicare Beneficiaries for Technical Pathology Services Provided to Hospital Inpatient and Outpatients, 2001

	Dollars in millions		
	Services provided to inpatients	Services provided to outpatients	Total
Estimated Medicare payments	$18	$33	**$51**
Estimated beneficiary copayments	5	8	**$13**
Total	**$23**	**$41**	**$63**[a]

Source: CMS.

Note: GAO analysis of 2001 inpatient and outpatient claims and Medicare physician fee schedule payment and copayment rates.

[a]Total does not add due to rounding.