

LABORATORY SERVICES AND LABORATORY REFORM COMMITTEE

ISSUE

Laboratory services are a significant component of fee-for-service Medical Services Plan (MSP) expenditures; over the past nine years, the Ministry of Health has undertaken a number of laboratory redesign initiatives aimed at containing growth in out-patient laboratory expenditures while maintaining and improving service quality.

KEY FACTS

- Demand for laboratory testing is growing faster than the rate of population growth, largely driven by an aging population, increased reliance on testing, rapidly advancing testing technology and a more informed patient population.
- The Ministry continues to focus on the development of an efficient provincial laboratory system that maintains or improves service quality and enhances fiscal sustainability. Key priorities for the Ministry include:

Laboratory Medicine Fee Agreement (LMFA)

The LMFA is an appendix to the current *Physician Master Agreement* and is in effect from April 1, 2012 to March 31, 2014. The LMFA established targets for the total annual outpatient laboratory expenditures of \$324.2 million in 2012/13 and \$328.3 million in 2013/14¹. The target expenditures cannot deviate beyond the margin of +/- 1%. The achievement of the expenditure targets are managed through volume discounting on an agreed upon schedule of laboratory fee items. The LMFA also establishes the Collaborative Utilization and System Improvement Committee (CUSIC), which is a collaboration between the Government and the BC Medical Association (BCMA) on the delivery of laboratory services. CUSIC meets four times a year and engages in the following activities: monitor and report on laboratory service utilization, monitor the terms of the LMFA, and provide advice on the delivery of outpatient laboratory services. CUSIC membership consists of five members appointed by the BCMA and five members appointed by the Government.

The Laboratory Reform Committee (LRC)

As part of the 2012 Physician Master Agreement negotiations, the Government and BCMA agreed to the formation of the LRC to develop a plan to achieve additional savings from outpatient laboratory services and integration of inpatient laboratory services. The LRC provided its report to Government and the BCMA on February 1, 2013; the report identified 40 consensus recommendations (in 7 areas) and 3 non-consensus recommendations (on governance). A number of the recommendations in the LRC could be pursued to achieve efficiencies, improve quality and support advances in technology. Based on the report, if the short term recommendations were implemented, government could expect, at the end of a three year period, \$10.2 million in cost avoidance annually on outpatient laboratory expenditures and \$6.4 million in cost avoidance annually on inpatient laboratory expenditures². S13, S17

S13, S17

FINANCIAL IMPLICATIONS

The Ministry has used laboratory agreements as the primary cost containment measure on laboratory expenditures since 2003. The estimated cumulative cost avoidance resulting from these laboratory

¹ Physician Master Agreement Appendix J - Laboratory Medicine Fee Agreement between the Government of BC and the BC Medical Association. April 2012.

² Laboratory Reform Committee Laboratory Services Plan. February 1, 2013. <http://www.health.gov.bc.ca/library/publications/year/2013/laboratory-services-plan.pdf>

agreements (2004/05 to 2011/12) is over \$775 million³. Pathology laboratory services remain a significant component of the MSP fee-for-service health care expenditures. In 2011/12, expenditures for MSP outpatient laboratory services totaled \$320.7 million, a 4.5% increase in laboratory expenditures over 2010/11⁴; at the same time, the total volume of laboratory tests increased by 3% or 41.6 million tests⁵.

BACKGROUND

- There are six public and two main private laboratory providers delivering the majority of laboratory services in the province. Services are provided through 130 public and private laboratories that are approved to submit claims to MSP. These numbers do not include all laboratories in the province such as public laboratories that are globally funded, or private laboratories that have not received approval through the Medical Services Commission. The approved laboratories are supported by a network of 175 specimen collection sites, of which 37 are publicly owned and 138 are privately owned⁶.
- On April 1, 2013, LifeLabs Medical Laboratory Services, BC's largest provider of outpatient laboratory services, completed the purchase of BC Biomedical Laboratories Ltd., BC's second largest provider of outpatient laboratory services, following approvals from the Federal Competition Bureau and the Medical Services Commission. On a combined basis, LifeLabs and BC Biomedical provided 27.4 million laboratory tests in BC in 2012/13⁷.
- The laboratory sector employs approximately 5,300 FTEs (3,700 public sector, and 1,600 private sector – excluding pathologists)⁸. In 2011, there were approximately 230 laboratory medicine physicians (pathologists) in BC⁹.
- Working with public and private laboratory providers and the BCMA, the Ministry has negotiated a number of successful laboratory agreements to address laboratory expenditures:
 - 2004/05 - *Laboratory Agreement* resulting in a 20% reduction in laboratory fees.
 - 2007 to 2010 - *Renewed Laboratory Agreement* resulting in a subsequent 3.5% reduction in laboratory fees and implementation of a lab volume discounting mechanism to further reduce fees for a menu of 55 high volume laboratory tests.
 - 2010 to 2012 – *Second Renewed Laboratory Agreement* which continued laboratory volume discounting for 56 laboratory tests.
 - 2012 to 2014 – *Laboratory Medicine Fee Agreement* (Appendix J – *Physician Master Agreement*) which provides expenditure targets and volume discounting for over 56 laboratory tests.

APPROVALS

Approved by: Nichola Manning, Medical Services & Health Human Resources; May 3, 2013

Approved by: Daryl Conner, for Manjit Sidhu, Financial & Corporate Services; May 28, 2013

Approved by: Glynis Soper, Planning and Innovation Division; June 11, 2013

³ Ministry of Health, Medical Services Economic Analysis Unit. Medical Services Plan Fee-for-Service Laboratory Expenditures Comparison of Potential Expenditure, Actual Expenditure, Budget, Cost Avoidance and Potential Expenditure at Ontario Prices. January 17, 2013.

⁴ Ministry of Health, Medical Services Economic Analysis Unit. Collaborative Utilization & System Improvement Committee. 2011/12 Annual Report of Outpatient Lab Test Volumes and Expenditures July 11, 2012.

⁵ Ministry of Health, Medical Services Economic Analysis Unit. Collaborative Utilization & System Improvement Committee. 2011/12 Annual Report of Outpatient Lab Test Volumes and Expenditures July 11, 2012.

⁶ Ministry of Health. Laboratory, Diagnostic and Blood Services Branch, Diagnostic Facilities Program. Medical Services Commission Approved Laboratories and Specimen Collection Sites. November 1, 2012.

⁷ Ministry of Health, Medical Services Economic Analysis Unit. MSP Claims Database LifeLabs and BC Biomedical 2012/13 Billings. June 12, 2013

⁸ Lillian Bain & Associates. BC Laboratory Services Review, July 2003. p.36. http://www.health.gov.bc.ca/library/publications/year/2003/lab_review.pdf

⁹ Canadian Institute for Health Information, Supply Distribution and Migration of Canadian Physicians, 2011.

Clinical Laboratory Services in British Columbia: Overview and Case for Change

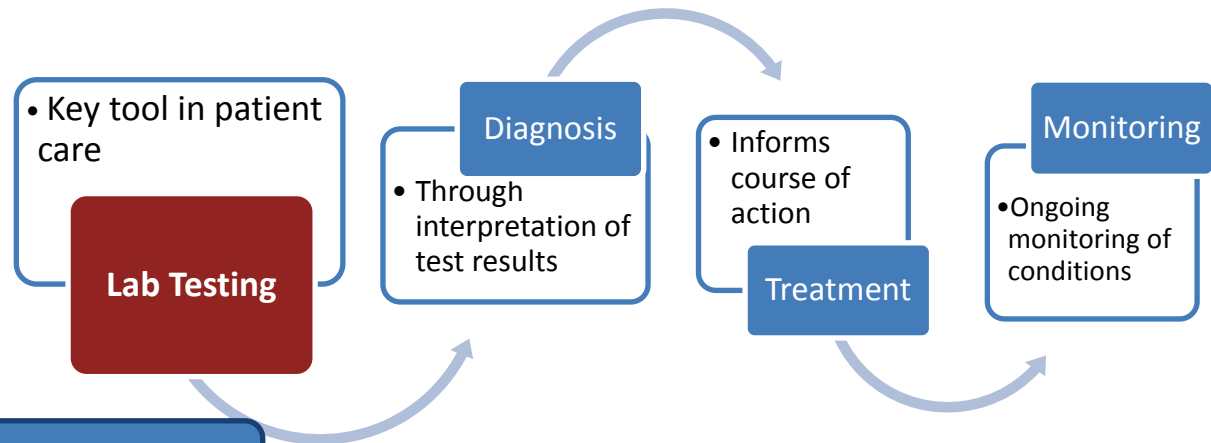
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Role of the Clinical Laboratory in Patient Care

Laboratory testing is a critical component of patient care

Affects 70 to 80% of all medical decisions



Five Major Areas of Sub-Specialization



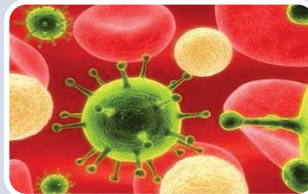
Chemistry

Blood sugar
Cholesterol
Thyroid function
Pregnancy testing



Hematology

Haemoglobin
Blood count
Blood typing for transfusion



Microbiology

Identification :
Bacterial/viral infections
STDs
Parasites in stool



Anatomic Pathology

PAP smear
Biopsy
Autopsy



Genetics

Prenatal diagnosis
Gene sequencing
Inherited disorders

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Status Quo Not Acceptable

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- **Exponential growth** – laboratory testing demand outpacing population growth.
- **Fee-for-service (FFS) model** – BC has the only uncapped outpatient FFS funding model. Over 40 Million tests billed annually, 49% of the FFS billings.
- **Compounding Pressures** – utilization increases related to aging population and shift to community care and prevention.
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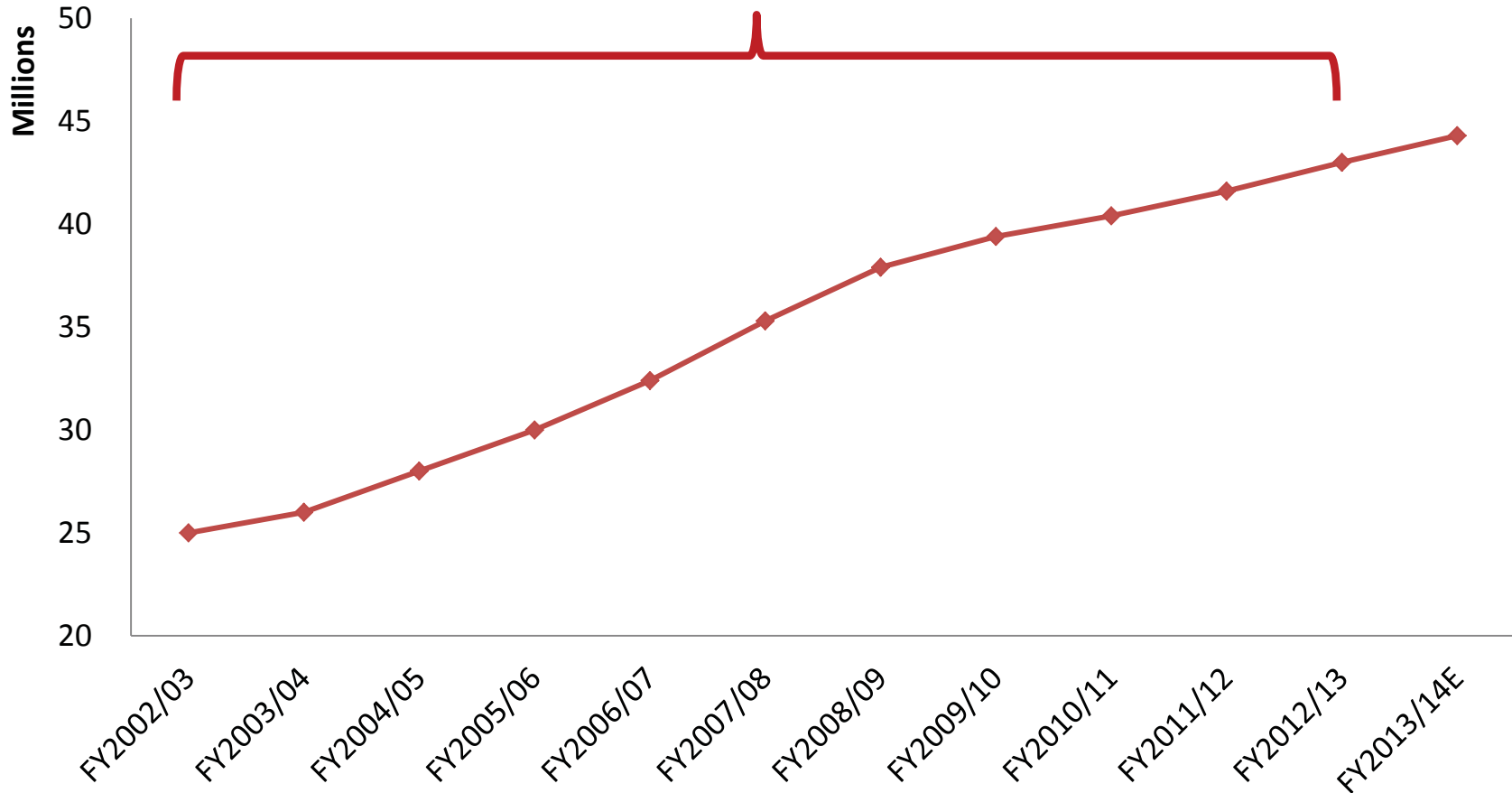
Structural Challenges that Impede Addressing Challenges

- Two statutory schemes for inpatient and outpatient benefits:
 - Lack of coordination amongst Health Authorities, the Medical Services Commission and private providers
 - Redundant infrastructure
- Compensation misaligned with mode of service delivery:
 - Outpatient fees negotiated with BCMA rather than lab operators
 - Approximately 85% of the fee is for the technical component
 - Public and private providers compete for volume only
 - Government cannot benefit from technical advances
 - Limited service delivery options
- Health Authority reliance on outpatient revenues to subsidize laboratory and other operations.

Growing Outpatient Test Volumes – MSP /FFS

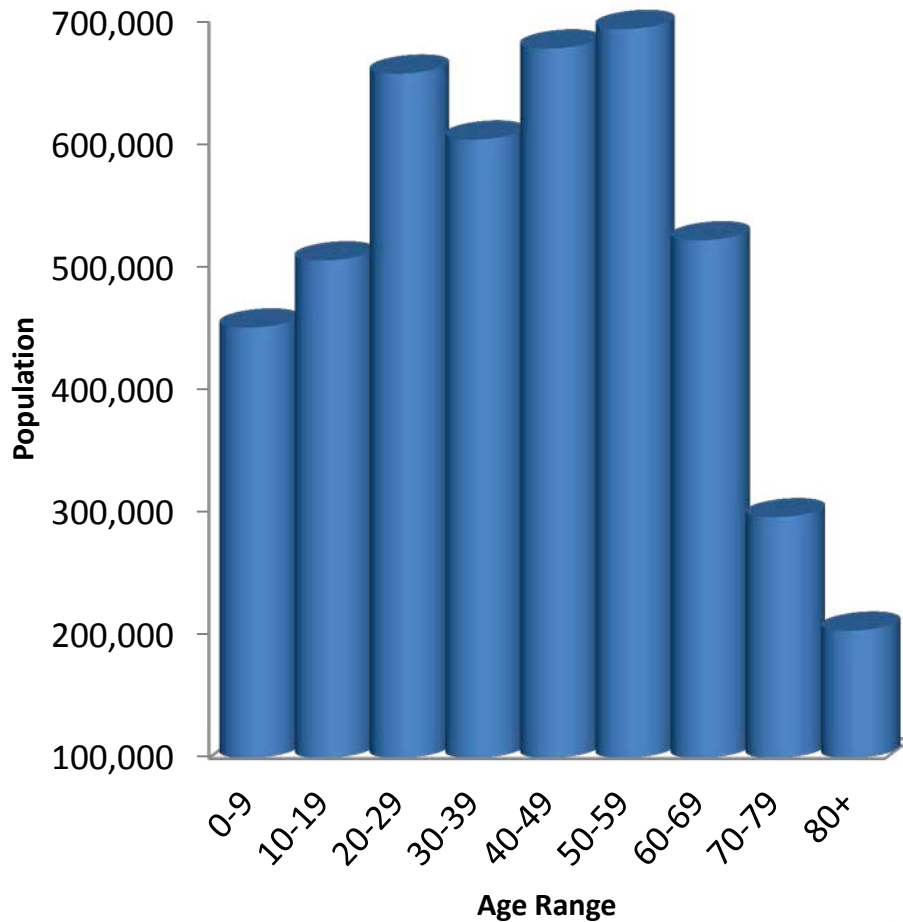
Outpatient Laboratory Test Volumes 2002/03 to 2013/14

72% increase in test volumes between 2002 and 2013

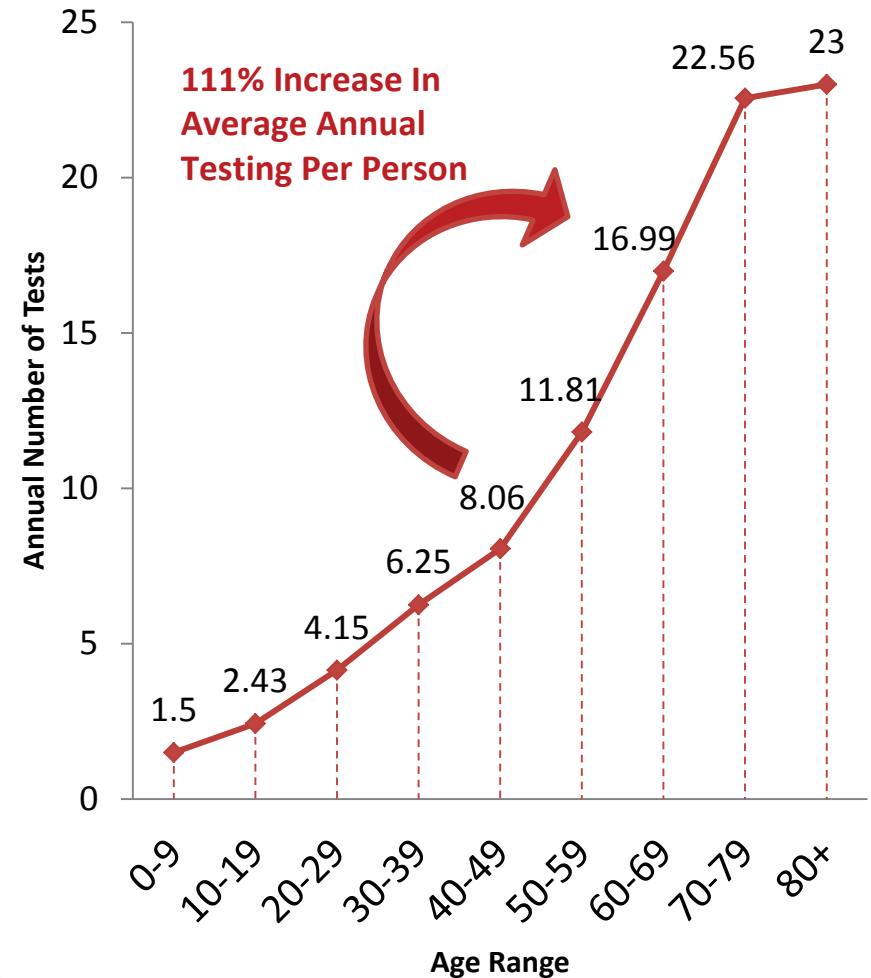


Long-term Demographic Pressures

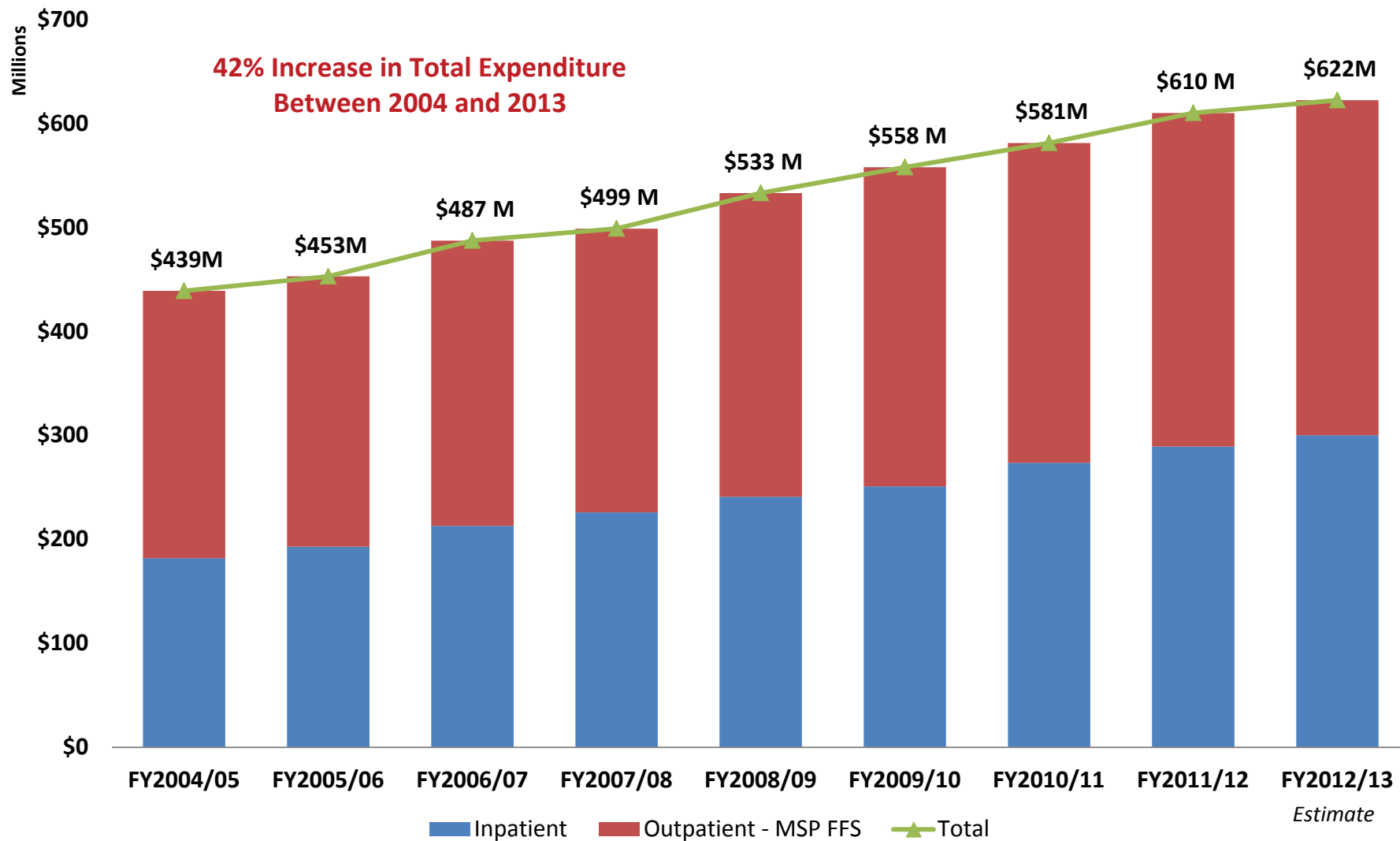
BC Population by Age Cohort



Average Annual Test Rate by Age Cohort



Growing Total Expenditure Growth (Inpatient and Outpatient)



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Three Components of Reform

Legislation

- Amalgamates in-patient and out-patient laboratory benefits under one statute
- Coordination, integration and rationalization of services

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Agreements

- Negotiate with service providers
- Control costs
- Service quality/levels established via agreements

Legislation

Features of Laboratory Services Act:

- Statute dedicated to provision of laboratory services
- Powers and duties vested in the minister.
- Includes protections for quality of service
- Seamless transition for beneficiaries
- Sets out a complete code for management of laboratory services including:
 - approval of laboratories
 - ability to enter into agreements with operators of laboratory facilities
 - audit and inspection powers
 - information management provisions

S12, S13

- Applications for new capacity will be solicited based on need
- Authority to enter into agreements
- Authority to amend or retire laboratory capacity to achieve system efficiency goals based on the public interest.

Transition Issues and Next Steps

Transition Issues

- Approval of existing laboratories to be rolled into new statute, with existing limits and conditions
- Where the public interest dictates limits and conditions on existing laboratories can be unilaterally changed or approvals cancelled without compensation
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S12, S13


Next Steps

- Complete drafting, introduction contingent on government approvals
- Consult with stakeholders


S12, S13

Mandate Letter Initiative	Current Status	Next Milestone	Status
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Not Responsive

7	Complete laboratory reform initiative and achieve required savings.	<ul style="list-style-type: none"> Work on laboratory reform is under way. No public announcement has been made to date. <p>S12, S13</p> <ul style="list-style-type: none"> Legislation was reviewed by the Legislative Review Committee. <u>Draft laboratory legislation is completed, and minor revisions being addressed as per direction of LRC.</u> <p>S12, S13</p> <ul style="list-style-type: none"> Consultations with the BC Medical Association required under the Physician Master Agreement are currently underway. <u>Other stakeholder groups, such as the professional colleges and Leadership Council have also received consultation presentations.</u> 	<ul style="list-style-type: none"> Early Spring 2014: Legislation to be introduced. <p>S12, S13</p>	
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Not Responsive

Status Indicators:  On track  Impediments  Off Track  Complete