360Dx

Quest Diagnostics Deals Suggest Value-Based Care Growing More Prominent, Profitable for Labs

May 11, 2022 | Adam Bonislawski

Premium   Save for later

NEW YORK – While value-based care contracts have long played a role in the lab industry, recent comments by Quest Diagnostics executives suggest that such arrangements are growing more prominent and more profitable.

But while large national laboratories like Quest may increasingly shift their business in this direction, it's not clear that smaller outfits will be able to follow suit, said Kyle Fetter, chief operating officer of San Diego-based lab consulting and revenue management firm Xifin.

Broadly speaking, under value-based arrangements, labs receive payments based on metrics like patient outcomes or satisfaction or improving test usage and efficiency within a health plan rather than strictly according to a negotiated per-test fee schedule.

During Quest's Q1 earnings call, Chairman and CEO Steve Rusckowski, said that the company had "deepened relationships with payors through value-based contracting," noting that these contracts "are achieving better alignment with health plans, which we believe will allow us to gain share."

He added that currently around 30 percent of Quest's health plan revenues "are tied to value-based elements," and that this figure could grow to "about 50 percent over the next few years."

"Historically, I think health plans have viewed labs as a provider of lab services where you negotiate the fee schedules," Al Bowles, VP of health plans at Quest, told *360Dx*, noting that these negotiations typically had "a hyper-focus on unit price."

He said that in recent years, Quest has worked to move to what he described as "more of a strategic interaction with health plans."

"Instead of just talking about the fees for each of the tests we do, we have been talking about how Quest as a partner can align with the plan strategically to help them achieve their objectives, which are reducing overall costs and improving member outcomes and enhancing the member experience," he said.

Bowles said these arrangements take a variety of forms. For instance, the company may work to drive a greater percentage of a health plan's testing to Quest labs, which may be lower priced than other labs in the plan's network, and share in the savings generated. In other instances, the company has launched pilot programs with health plans to use its lab data for population health applications like better managing patients with chronic conditions like diabetes.

Rusckowski noted during the Q1 call that while Quest, like the lab industry generally, is seeing downward pressure on pricing in its hospital and client-bill businesses, in its health plan business it has seen "modest increases" for some recent contract renewals.

"As we get into renegotiations with plans, we believe we have a stronger position to negotiate in some cases modest price increases because we are delivering more and more value," he said.

Bowles said the drive toward more value-based arrangements began with Quest's participation in UnitedHealthcare's Preferred Laboratory Network starting in 2019.

While the PLN is not the totality of the value-based relationship between the two companies, "it is a foundational piece" in that it lays out the criteria UHC is prioritizing in its lab network, Bowles said.

The UHC contract was followed by a deal with Anthem in 2020, under which the firms said they would collaborate on a variety of initiatives including improving costs and price transparency and demonstrating that Quest's lab data could improve Anthem member care and outcomes. The Anthem deal has been key to sparking broader interest among payors, Bowles said.

"Anthem is kind of the big dog in the Blue Cross Blue Shield group of state plans, and they are probably viewed as an innovator and creator and doing some unique things," he said. "So the Blues plans are very interested in what we are doing with Anthem and that has opened doors."

Bowles added that Quest has also "had some success" with value-based arrangements with Centene's managed Medicaid plans and Humana's Medicare Advantage plans, adding that this work has also drawn interest from other insurers.

"That has given us a platform and a catalyst to have discussions with other plans," he said.

This notion, that labs have more to offer than just test results, is increasingly widespread within the industry, seen perhaps most prominently in Clinical Laboratory 2.0, a term initially coined by members of Project Santa Fe, a group formed in 2016 by five health system-based labs with the goal of demonstrating how labs can carve out new roles within the healthcare system and use lab data to proactively impact patient outcomes.

Downward pressure on test reimbursement from insurers and legislation like the Protecting Access to Medicare Act (PAMA) have raised the profile of ideas like Lab 2.0 as laboratories look for ways to more fully capture what they believe to be the value of their testing.

"People have long wanted to see more value-based pricing in diagnostics," Xifin's Fetter said. However, he added, "it has been challenging, because institutional processes haven't historically been super supportive of those models."

"You're the lab downstream, so some of the information that typically drives a value-based pricing model isn't available to you, or you're not the one making the decision," he said. "Because of that it hasn't been historically easy to implement those types of models."

Bowles alluded to these historical impediments in noting that one key to Quest's value-based care discussions has been its ability to move beyond the contracting teams with which labs typically hammer out health plan deals to other parts of the organization, like the medical policy side and participating physicians.

"Through those discussions we've been able to really focus on what we can provide that is beyond just the lab services," he said.

Fetter said that in recent years Xifin has seen more value-based arrangements in the industry than previously. He questioned, however, how feasible Quest's approach is for smaller labs without the same resources or negotiating leverage.

"Most of the time when [labs] are negotiating with payors, they are dealing with somebody in the provider relations team that is more specific to the laboratory, and they are looking at a fee schedule and saying, 'OK, how can I decrease my potential payments in a way that will net out as positive in terms of decreasing our rates,'" he said.

A lab, Fetter said, has "to have a certain amount of leverage and be big enough to say, 'OK, but this isn't just a lab deal.' This impacts your therapy payouts, your treatment payouts, your drugs, things like that. You have to get all of the stakeholders involved and those formularies to the table, because I don't think you can have that negotiation with the provider relations lab person."

"If you're a smaller laboratory doing routine clinical testing and things like that, you should certainly approach your existing payors to talk about potentially working into that type of a program," he said. "But is it realistic? I don't know."

Filed Under Clinical Lab Management Quest UnitedHealthCare Humana North America