

# GAO Highlights

Highlights of [GAO-19-67](#), a report to congressional committees

## Why GAO Did This Study

Medicare paid \$7.1 billion for 433 million laboratory tests in 2017. These tests help health care providers prevent, diagnose, and treat diseases.

PAMA included a provision for GAO to review CMS's implementation of new payment rates for these tests. This report addresses, among other objectives, (1) how CMS developed the new payment rates; (2) challenges CMS faced in setting accurate payment rates and what factors may have mitigated these challenges; and (3) the potential effect of the new payment rates on Medicare expenditures. GAO analyzed 2016 Medicare claims data (the most recent data available when GAO started its work and the year on which new payment rates were based) and private-payer data CMS collected. GAO also interviewed CMS and industry officials.

## What GAO Recommends

GAO recommends that the Administrator of CMS (1) collect complete private-payer data from all laboratories required to report or address the estimated effects of incomplete data, (2) phase in payment-rate reductions that start from the actual payment rates rather than the maximum payment rates Medicare paid prior to 2018, and (3) use bundled rates for panel tests. HHS concurred with GAO's first recommendation, neither agreed nor disagreed with the other two, and has since issued guidance to help address the third. GAO believes CMS should fully address these recommendations to prevent Medicare from paying more than is necessary.

View [GAO-19-67](#). For more information, contact James Cosgrove at (202) 512-7114 or [cosgrovej@gao.gov](mailto:cosgrovej@gao.gov).

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## MEDICARE LABORATORY TESTS

### Implementation of New Rates May Lead to Billions in Excess Payments

## What GAO Found

The Centers for Medicare & Medicaid Services (CMS) within the Department of Health and Human Services (HHS) revised the Clinical Laboratory Fee Schedule (CLFS) for 2018, establishing new Medicare payment rates for laboratory services. Prior to 2018, these rates were based on historical laboratory fees and were typically higher than the rates paid by private payers. The Protecting Access to Medicare Act of 2014 (PAMA) required CMS to develop a national fee schedule for laboratory tests based on private-payer data. To revise the rates, CMS collected data on private-payer rates from approximately 2,000 laboratories and calculated median payment rates, weighted by volume. GAO found that the median private-payer rates were lower than Medicare's maximum payment rates in 2017 for 88 percent of tests. CMS is gradually phasing in reductions to Medicare payment rates, limited annually at 10 percent over a 3-year period (2018 through 2020), as outlined in PAMA.

CMS relied on laboratories to determine whether they met data reporting requirements, but agency officials told GAO that CMS did not receive data from all laboratories required to report. CMS did not estimate the amount of data it should have received from laboratories that were required to report but did not. CMS took steps to exclude inaccurate private-payer data and estimated how collecting certain types and amounts of additional private-payer data could affect Medicare expenditures. However, it is not known whether CMS's estimates reflect the actual risk of incomplete data resulting in inaccurate Medicare payment rates. GAO found that PAMA's phased in reductions to new Medicare payment rates likely mitigated this risk of inaccurate Medicare payment rates from 2018 through 2020. However, GAO found that collecting incomplete data could have a larger effect on the accuracy of Medicare payment rates in future years when PAMA allows for greater payment-rate reductions.

CMS's implementation of the new payment rates could lead Medicare to pay billions of dollars more than is necessary and result in CLFS expenditures increasing from what Medicare paid prior to 2018 for two reasons. First, CMS used the maximum Medicare payment rates in 2017 as a baseline to start the phase in of payment-rate reductions instead of using actual Medicare payment rates. This resulted in excess payments for some laboratory tests and, in some cases, higher payment rates than those Medicare previously paid, on average. GAO estimated that Medicare expenditures from 2018 through 2020 may be \$733 million more than if CMS had phased in payment-rate reductions based on the average payment rates in 2016. Second, CMS stopped paying a bundled payment rate for certain panel tests (groups of laboratory tests generally performed together), as was its practice prior to 2018, because CMS had not yet clarified its authority to do so under PAMA, according to officials. CMS is currently reviewing whether it has the authority to bundle payment rates for panel tests to reflect the efficiency of conducting a group of tests. GAO estimated that if the payment rate for each panel test were unbundled, Medicare expenditures could increase by as much as \$10.3 billion from 2018 through 2020 compared to estimated Medicare expenditures using lower bundled payment rates for panel tests.