

Case Study

Client

- Medicare Administrative Contractor (MAC) covering 10 million lives in the U.S. and two U.S. territories

Challenge

- Escalating molecular diagnostic test volume and reimbursement
- Inability to identify specific tests submitted on claims
- Difficulty applying Medicare coverage properly

Solutions

- McKesson Diagnostics Exchange™
- McKesson Z-Code™ Identifiers

Results

- Ability to properly apply Medicare payment policies so tests are paid for in a uniform, consistent and timely manner
- More precise claim information resulting in more accurate payment
- Spending on molecular diagnostic tests reduced by more than half as a result of inappropriate and non-covered tests no longer being submitted or reimbursed
- Cost avoidance of about \$13 million worth of molecular diagnostic spending per month due to improperly submitted claims or tests not covered by Medicare

Palmetto GBA Develops Innovative Program to Ensure Appropriate Molecular Diagnostic Test Coverage with the McKesson Diagnostics Exchange

Headquartered in Columbia, South Carolina, Palmetto GBA (Palmetto) is a Medicare Administrative Contractor (MAC) for the Centers for Medicare & Medicaid Services (CMS) in 45 states, 2 U.S. territories and the District of Columbia and covers 10 million lives.

In recent years, Palmetto had seen a dramatic rise in spending on molecular diagnostic (MDx) tests. For example, from 2008 to 2010, its payments for these tests rose by 20%. The traditional methodology-based approach to bill molecular tests — identifying the steps to perform, not the exact test — left Palmetto unable to discern which tests it was paying for and whether they met CMS’s coverage policies.

“We had perceived risk and vulnerability in this particular space,” said Palmetto’s Vice President of Operations, Mike Barlow. “Our first and foremost objective was to know what we were paying for and to ensure the legitimate and proper use of tests as prescribed by Medicare.”

Shedding Light on MDx Claims: The MolDX Program

The Palmetto MolDX program was developed to uniquely identify and improve coverage and reimbursement for molecular diagnostic tests. Palmetto launched the pilot of its MolDX program in Jurisdiction 1 (now Jurisdiction E, encompassing California, Nevada and Hawaii) to bring transparency to an increasingly important part of its business in terms of the reimbursement dollars molecular diagnostic claims represent and the clinical promise of the tests behind those claims.

Long-term, Palmetto’s MolDX program will help clinicians determine which molecular diagnostic tests are ultimately improving clinical care, according to Barlow. “The objective of accumulating this data and performing the analysis is that we want this information to benefit both beneficiaries and providers,” said Barlow. “We want providers to be able to determine exactly what test they should be ordering and

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— *Mike Barlow*
Vice President of Operations
Palmetto GBA

we want the most promising tests — the innovative ones that can improve clinical care — to be recognized.”

Palmetto turned to McKesson and the McKesson Diagnostics Exchange to be the technology engine for the test registration and technical assessment components as well as the workflow used to aid the coverage determination process as part of its MolDX program. The MolDX program has been successful in enabling new tests to be appropriately identified and billed. “The world of molecular diagnostics has been growing rapidly, and we needed visibility into what was going on,” said Barlow. “The MolDX program has provided us with the clarity we didn’t have before.”

The McKesson Diagnostics Exchange

The technology engine of the MolDX program — McKesson Diagnostics Exchange — is an open, online test registry and workflow solution for information and evidence about MDx tests. Labs register each MDx test with the McKesson Diagnostics Exchange, and then that test is assigned a unique, five-digit alphanumeric identifier, a McKesson Z-Code Identifier.

Through the McKesson Diagnostics Exchange, the lab agrees to share this data with its payers. At that point, the lab places the McKesson Z-Code Identifier on the claim as a non-payment tracking code along with the American Medical Association’s (AMA) Current Procedure Terminology (CPT®) code. The payer uses this information to analyze the code pairing and adjudicate the claim and can measure results at the claims level. Providers and payers can use the information submitted by labs to understand and evaluate each test. This process enables new test inventors to provide visibility and specificity about their tests. The shared test resource then helps inform clinical and coverage decisions made by payers and providers.

Palmetto’s MolDX program is robust and growing. Palmetto is now rolling the program out to a second jurisdiction, J11, which includes Virginia, West Virginia, North Carolina and South Carolina. As with the J1 MolDX implementation, Palmetto will require every lab in this jurisdiction to obtain and use unique identifiers to pinpoint the exact test they are billing for. To date, the program’s registrations include about 4,500 registered tests and approximately 1,000

participating laboratories. At its inception, Palmetto processed between 250,000 and 300,000 MDx claims per month in just a single jurisdiction. The program has not significantly reduced services but has resulted in an increase in more appropriately reported, identified and paid covered services on each claim.

Saving Money Immediately

The return on investment for the MolDX program was almost instantaneous, according to Barlow. “It paid back in the first month of operation,” he said. The program works in tandem to enable both labs and Palmetto to meet Medicare reimbursement policies. First, it enables new and current test inventors to have a way to uniquely identify their tests so that they can be billed properly. Secondly, it enables Palmetto to accurately process claims by identifying the specific MDx test and applying Medicare coverage accurately, ensuring appropriate reimbursements. This has resulted in significant savings by reducing extraneous payments. Because of the transparency into molecular diagnostic tests, Palmetto was no longer paying for some services that were not a Medicare benefit.

Palmetto has been able to appropriately apply Medicare policies to MDx tests — resulting in \$4 million per month in reimbursement this year compared to \$10 million per month the previous year. Reimbursed tests are now aligned to those that are covered by Medicare. To capture ROI in another way, Palmetto has “cost avoided” \$13 million worth of claims per month: \$8 million of those claims were rejected because they were billed incorrectly (coding or incorrect identifier code combinations), and the remainder were denied because the specific tests were not covered by Medicare.

The identifiers assigned to each test in the MolDX program allow the labs to report precise information on claims and avoid billing for tests that are not covered by Medicare, which saved time for the lab. It also affords the laboratories the opportunity to educate their providers about tests that are not covered, thus reducing the number of non-reimbursable tests performed. The unique identifiers also facilitate claims submission and reimbursement for new technology, an area that hindered payment due to the new science and lack of test specificity.

In the second jurisdiction, J11, which is now coming online with the MolDX program, Palmetto has already experienced similar cost savings due to increased rejections and denials of inappropriate or inaccurate claims.

Partnering with McKesson to Educate the Industry

As Palmetto anticipated for the MolDX startup, labs incorrectly perceived the program as a method to cut reimbursement, and, according to Barlow, they needed educational support to understand the program's goals and purpose. It was a tough paradigm shift for many in the industry. "The labs would say 'I'm following the coding system, billing you for four DNA extractions and amplification,'" said Barlow. "We had to explain to them that we weren't changing the coding system, but that we simply wanted to know what those four DNA extractions were for so we could use that information to properly adjudicate the claim based on Medicare policies for coverage."

Barlow said that McKesson played a critical role in advocating for test specificity to help improve personalized medicine. "They worked diligently and

collaboratively with us to communicate to the industry the impact and benefits of unique identification," said Barlow. "Their penetration of and integration into the lab industry was key. They were strong communication partners. They helped us clear a lot of the roadblocks."

Expanding the Program, Benefiting Medicare Patients Across the Country

Impressed with Palmetto's MolDX program, CMS is considering further expansion to new jurisdictions across the country. According to Barlow, Palmetto would facilitate the registration and technical assessment process on a national basis via the McKesson Diagnostics Exchange and publish a master edit program that other MACs would use to process their MDx claims.

Barlow continued: "With McKesson as a partner, we have launched an industry impactful program that brings transparency to this emerging technology and identifies the role of molecular diagnostics. Molecular diagnostics directly impacts overall healthcare, but we need clarity so these tests can do what they are supposed to do — improve the quality of care."

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