At best, it is a challenge to keep up with the hot buzzwords inside the Beltway, but diagnostic laboratories need to be aware of a current hot one: pay-for-performance, affectionately known as P4P. Clinical labs will be keenly affected as this concept evolves from buzzword to reality. It is a development to be embraced, not feared.

At this time, it is not the laboratory dollars that are at issue; but, rather, the physician dollars are the focus. Payers, in general, and the Centers for Medicare and Medicaid Services (CMS), in particular, are looking for methods to extract better value from the healthcare dollars that they spend. This is not by any means a new concept, but P4P appears to be one whose time has finally arrived since so many diverse forces within the Beltway have directed their attention to the issue.

P4P is a way to reward good medicine and punish bad medicine or — at the very least — publicize the outcomes and let the chips fall where they may. A similar project has already been instituted requiring that certain hospitals report result compliance with widely accepted standards of care that offered a very small reward to those who complied and resulted in a significant participation. It is no easy task to compile sufficient data so that the payer can properly evaluate provider services. Very few payer-based health systems have sufficient access to the data to include all of the relevant clinical elements that should be considered.

CMS is at a major disadvantage because it currently has nothing more than claims data. In order to work around this dearth of data, CMS will have to turn to the one place that it already gets data and where it can most easily obtain additional objective data: the clinical labs. Over time, there may be more data that will become available, but there will probably not be any better data than that provided by the clinical labs. Whether it is simply determining if a test was performed or whether it is evaluating the results of tests performed, diagnostic testing is usually involved in the clinical review and the validation of best standards of practice.

All too often, clinical laboratories are scapegoats for rising healthcare expenses — even though the labs are not the ones generating the demand. Any healthcare historian (or clinical lab owner) can certainly testify to the fact that laboratory reimbursement never seems to go up and, in fact, has declined in real-dollar terms by approximately 40% over the past 18 years. This is an opportunity for clinical laboratories to make the case for their value proposition, to turn around this perception about themselves.

Clinical laboratories need to understand P4P since laboratory data will be critical in determining outcomes and standards; laboratories need to promote themselves as the standard-bearer for evaluation; and they need to ensure that the public and Congress fully appreciate the key role that they need to play in this process.

Marc D. Grodman, MD, founded Bio-Reference Laboratories Inc. in 1981 and has been chairman of the board, president and CEO since its formation. Dr. Grodman is also an assistant professor of Clinical Medicine at Columbia University College of Physicians and Surgeons and assistant attending physician at Presbyterian Hospital in New York City.

What is P4P?

- Pay-for-performance (P4P) or merit pay is a generic term for any device that adjusts salaries or provides compensation to reward higher levels of performance. The higher the level of employee performance as evaluated on a performance appraisal, the larger the salary adjustment. P4P pay schemes cover various methods of linking pay to a measure of individual, group, or organizational performance.

- More specifically, P4P programs are designed to motivate employees, support the achievement of organizational goals, recognize individual merit, and consistently reward effective employee performance by providing individual employee salary adjustments appropriate to the level of performance and available funding.

- Because incentive programs, administered effectively, improve performance, PFP is now being implemented in the private sector of the American healthcare industry. Currently, payment incentives do not reward doctors, hospitals, managed-care organizations, or treatment innovators for superior quality and superior total cost efficiency over the longitudinal course of an acute or chronic illness.

- Payment incentives for doctors, hospitals, and managed-care organizations can be effective in improving health industry performance.

Adapted from 100 Ways to Reward Employees, by Bob Nelson, (Workman Publishing, 1994).