

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 01/29/10

SPONSOR Gutierrez LAST UPDATED \_\_\_\_\_ HM 14

SHORT TITLE Study Reducing Unnecessary Hospital Testing SB \_\_\_\_\_

ANALYST Hanika-Ortiz

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

General Services Department (GSD)

Department of Health (DOH)

Health Policy Commission (HPC)

### SUMMARY

#### Synopsis of Bill

House Memorial 14 (HM 14) requests DOH study the feasibility of conducting a pilot project to reduce the utilization of unnecessary laboratory testing in hospitals.

HM 14 provides for the following:

- according to a study conducted in a major clinical laboratory in NM, much unnecessary, duplicate and obsolete laboratory testing is routinely performed on patients who are hospitalized;
- data mining to identify inpatient tests that were repeated within one hour, or outpatient tests that were repeated within one day revealed that an estimated one hundred fifty-six thousand duplicate tests were performed in NM at an annual cost of one million eight hundred seventy-two thousand dollars (\$1,872,000);
- this same study found that substantial savings could be achieved in NM by replacing obsolete laboratory tests with newer, more appropriate tests;
- a study published in the *Journal of the American Medical Association* reports that the percent of inappropriate laboratory testing has been steadily rising since 1965;

## **House Memorial 14 – Page 2**

- the combined impact of duplicate, obsolete and inappropriate testing in NM, based on the average cost derived from two separate methods of calculation, suggests that more than 18 percent of laboratory tests performed in NM may be unnecessary;
- the potential savings from eliminating all unnecessary testing is close to \$60 million to NM;
- an estimated 70 percent of medical decisions are driven or monitored by laboratory test results;
- better use of laboratory tests would likely lead to better use of medical and surgical therapies and result in indirect savings to the health care delivery system;
- approaches to reduce the number of unnecessary laboratory tests include direct consultation with experts, more rigorous parameters for ordering laboratory tests, enhanced and immediate feedback to ordering physicians regarding charges for laboratory tests, results of using particular laboratory tests, predictions of test results using mathematical models and reminders regarding previously ordered, redundant tests;
- structured performance improvement activities with use of best laboratory prescribing practices tied to required continuing medical education are available through the Accreditation Council for Continuing Medical Education and the American Medical Association (AMA);
- two hospitals and a major clinical laboratory in NM are already in partnership to implement criteria designed to change physician prescribing practices and reduce or eliminate unnecessary laboratory testing as part of a quality improvement initiative;
- a project to pursue more widespread implementation of such activities could be at least partially funded through a variety of sources, including private and federal government sources; and
- NM is garnering attention from regional clinical laboratories, other states and nongovernmental health care payers for its preliminary work in addressing this problem.

### **FISCAL IMPLICATIONS**

The Memorial further provides and DOH reports that obsolete, duplicate and unnecessary laboratory testing of hospitalized and ambulatory patients in NM every year results in an estimated \$60 million of excess expenditures.

The Memorial further provides and HSD reports that more than 18 percent of laboratory tests performed in NM may be unnecessary.

### **SIGNIFICANT ISSUES**

DOH notes that unnecessary laboratory tests increase the cost of health care; cause unneeded discomfort for the patient and may not improve health care.

DOH reports that there is a great variation in laboratory test ordering patterns between providers and across providers delivering care to similar patients.

### **PERFORMANCE IMPLICATIONS**

DOH will report to the interim Legislative Health and Human Services Committee by September 2010 on the feasibility of implementing such a pilot project.

**ADMINISTRATIVE IMPLICATIONS**

HM14 would impact on DOH staff time and resources to study the feasibility of conducting a pilot project and for consulting with a statewide clinical laboratory in developing the project.

The Medical Board and other provider groups have not been invited to participate in the initial feasibility study. Providers order laboratory testing in hospitals.

**OTHER SUBSTANTIVE ISSUES**

HPC notes that two hospitals and a large clinical laboratory in NM are partnering to implement criteria designed to change provider prescribing practices and reduce or eliminate unnecessary laboratory testing as part of a quality improvement initiative.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

DOH would not be required to study the feasibility of conducting a pilot project to reduce the utilization of unnecessary laboratory testing in hospitals.

AHO/mt