

**A S I M**

**REINVENTING  
MANAGED  
CARE**

# **Assuring Appropriate Access to Laboratory Testing For Patients in Managed Health Care Plan**

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Recommendations of  
the American Society  
of Internal Medicine

September 1996

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## Executive Summary

**M**anaged care organizations (MCOs) are becoming the dominant health insurers in many areas throughout the country. Health plans increasingly are insisting that physicians send all of their laboratory specimens—and often their patients—to a reference laboratory for testing, even though the tests could be performed in the physician's office laboratory (POL). Many plans have either refused to reimburse physicians for work performed in their own laboratories or have reduced reimbursement far below the level necessary to operate a POL, so physicians must send their patients to outside laboratories. If this trend among MCOs continues, the American Society of Internal Medicine fears that patients could lose access to convenient in-office laboratory testing. This policy paper argues for maintaining the use of POLs, and offers recommendations to physicians negotiating with MCOs.

In response to concern from our membership, ASIM surveyed MCOs in early 1995 to determine how many plans were denying physicians full access to their in-office laboratories and why this was occurring. This paper includes the results of that survey and addresses the reasons MCOs gave on why they deny full access to POLs.

This paper is Part VI of ASIM's Reinventing Managed Care series, which includes: *Reinventing Medicare Managed Care*; *The Use of Board Certification to Credential Internists*; *Patient Access to Internist-Subspecialists in Gatekeeper Health Plans*; *Assessing Physician Performance in Managed Care*; and *Assuring Appropriate Patient Care Under Capitation*. Copies of these papers are available from ASIM upon request.

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# Assuring Appropriate Access to Laboratory Testing For Patients in Managed Health Care Plans

## Introduction

Some MCOs impose tight cost control mechanisms on physicians that can threaten the physician-patient relationship. The shift to managed care has affected physician-patient relationships by restricting a patient's choice of a laboratory testing location, decreasing the physician's time available for counseling, and imposing reimbursement incentives that reward physicians for ordering fewer tests.

Physicians are closing their laboratories because of managed care. A recent study indicated that reimbursement by third-party payers and being required to use reference labs were two of the top three reasons why physicians reduce or eliminate testing in their labs. The cost of complying with the Clinical Laboratories Improvement Act (CLIA) regulations was the third reason.<sup>1</sup> MCOs increasingly are offering large reference laboratories exclusive contracting on a capitated basis—paying the labs a set amount per enrollee per year to cover all of the laboratory testing done for its enrollees. As a result, MCOs typically exclude—or severely restrict—physicians from testing in their own offices.

If this trend continues, managed care could make physicians' office labs obsolete. POLs are successful today because they have a sufficient volume of work to remain open. If POLs had to reduce their testing to only Medicare and fee-for-service patients, it would no longer be cost-effective for them to continue operating. Patients would lose the advantages of being able to get lab tests done in their doctor's office.

Although few physicians have tried to negotiate an extended laboratory menu with MCOs, some of those who have are finding their efforts successful. Managed care plans traditionally have designated one large reference or hospital laboratory as their single, centralized laboratory services' provider. However, many plans are discovering that sole-source laboratories may have trouble adequately meeting the service needs of large or hard-to-access geographic areas. Additionally, many plans have realized that POLs can perform testing at the same or less cost, with the same or better quality and greater convenience to the patient than reference laboratories. Consequently, these plans are willing to offer contracting physicians the opportunity to continue their in-office testing.

A good example of an MCO that permits physicians to use their own facilities while containing costs and maintaining quality is The George Washington University Health Plan. It offers consultation services for physicians operating office laboratories, including working directly with the laboratory staff to offer advice on meeting both CLIA and Occupational Safety and Health Administration requirements. In exchange, all POLs are required to send copies of their CLIA certificates and quality assurance plans to the health plan. The plan provides continuing education seminars, newsletters for participating physicians, and physician relations phone lines, exemplifying the working relationship ASIM believes should exist between POLs and managed care plans.

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## The Current Picture

Nationwide, health maintenance organization (HMO) penetration was up to 21.1 percent in 1994.<sup>2</sup> Approximately, 60 percent of these plans required physicians to send their lab work out—even if they had in-office testing capability.<sup>3</sup> As HMOs and other managed care plans continue to increase their presence in the health care market, their influence over laboratory testing also will increase.

In 1995, ASIM surveyed managed care plans to determine how much they influence physician practices. The survey included 62 predominately network-model HMOs (but no preferred provider organizations). Survey respondents included most of the major national insurance companies that own HMOs, as well as many regionally focused HMOs. The following summary of results reveals managed care's current trend away from in-office laboratory testing.

**Does your organization require physicians to send all or some laboratory specimens to independent labs?**

Yes	60%
No	40%

**Why does your organization require physicians to send laboratory specimens to independent labs?**

Because the plan has negotiated an exclusive, discounted rate with one or more commercial labs .....	31.8%
Because independent labs are more cost-effective. ....	27.1%
Because of concerns about the quality of lab work performed in physician offices. ....	23.3%
To control utilization of lab work being performed. ....	15.0%
Because employers and patients prefer that independent labs perform lab work. ....	2.8%

**Does your organization allow the physician to decide which independent lab to use, or must the physician use the lab that your organization has chosen?**

Physician's choice	5.4%
Plan's choice	94.6%

**If your organization requires physicians to send some or all lab work to an independent lab, do you reimburse physicians for specimen handling?**

Yes	57.9%
No	42.1%

**Many patients clearly want to be able to have laboratory tests done in their doctor's office.**

## What Are the Benefits to Patients of Physician Office Laboratory Testing?

Many observers are concerned that patient care would suffer without POLs. Today, patients benefit from—and want to maintain access to—in-office testing. In-office testing offers patients greater convenience and more timely results—at less cost and at a level of quality that is equal to, or greater than that offered by commercial labs.

### 1. Patients Want Access to In-Office Testing.

Many patients clearly want to be able to have laboratory tests done in their doctor's office. Consumers are responding to the increased competition among managed care companies by showing less loyalty to any particular MCO and more interest in extra benefits. As competition among MCOs increases, patient satisfaction will become a more important factor in retaining members. A recent study surveyed consumer satisfaction with their health care plans.<sup>4</sup> When asked what they liked about their health plans, consumers indicated that they considered the availability of laboratory services in the office "moderately important." However, 90 percent of those surveyed indicated that they would prefer to have blood drawn by a nurse or a physician in their physician's office rather than going to a hospital or other reference lab for testing.<sup>5</sup> Many of today's health consumers know that in-office testing is possible and could express dissatisfaction with—i.e., leave—plans that do not offer this valued service.

### 2. In-Office Testing Is Convenient and Provides Timely Results.

Patients value their personal physician having the capability to provide a full range of services in one location. The opportunity to have their specimens drawn and analyzed, and the results reported during one visit, is a service many patients have come to rely on, particularly in urgent medical situations. This often allows physicians and patients the opportunity to discuss the test results while the patient is still in the office. Additionally, it allows the physician to prescribe medications to begin treatment sooner.

Offering patients quick and accurate test results is a component of in-office testing that patients have come to rely upon. One survey found that 79 percent of patients believed it was important to have their laboratory results before leaving the office, (57 percent of these patients were enrolled in an MCO).<sup>6</sup> Continuing to offer patients timely test results will increase patient satisfaction and the quality of health care significantly. Unfortunately, a patient sometimes must wait up to four days to receive test results from outside reference laboratories. This delay inconveniences and may potentially harm patients.

Sending patients to outside laboratories for specimen drawing can be cumbersome. For many patients, squeezing a doctor's appointment into their busy schedules is a challenge, and to get care during the typical physician's office hours, employees must take time off work. The amount of time they will miss from work will increase substantially if they have to go to a second site for specimen drawing. The increased travel time and expense of getting to a reference lab costs the patient, as well as the

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patient's employer, since the patient may miss more time from work.

Additionally, many elderly, disabled and underprivileged individuals are unable to get to a reference laboratory. Lack of transportation can stand in the way of a patient receiving necessary laboratory testing. Unfortunately, these people also are often the most seriously ill patients. As the trend to include more Medicare and Medicaid patients in managed care continues, this problem will be magnified. To deny the elderly and underprivileged convenient access to quality care is to impose unnecessary and costly hardships.

### **3. POLs Offer Quality Testing and Improved Efficiency.**

Physicians and their staff prefer to use in-office laboratories because they enhance the quality of patient care. Often, in-office test results can be incorporated into the patient record the same day the testing is ordered and performed, thereby avoiding multiple filing and retrieving of the patient's chart, as well as follow-up phone calls to the patient and pharmacy to report the results. In some circumstances, in-office testing saves time for the patient, physician and physician's office staff by eliminating the need to see a patient a second time to report test results and discuss follow-up therapeutic options. Some studies report the time personnel save with in-office testing is up to 14 minutes per patient.<sup>7</sup> Additionally, insurance carriers that now process two claims for a beneficiary when laboratory tests are performed by an outside reference laboratory could save time by having to process only one claim for the physician service and the in-office laboratory tests.

Although managing the cost of health care is a valid concern, the quality of care for

the patient is of greater importance than administrative convenience or cost cutting. Patients prefer to have their laboratory testing done in their physician's office lab because they are assured that the quality and accuracy of testing is under their doctor's control.

When an MCO forces a physician to refer to a reference laboratory, the physician no longer can ensure that the patient will follow through with the physician's orders and obtain the necessary testing after the patient leaves the office. Physicians cannot guarantee that their patients will receive the test results from the reference lab in a timely manner. Furthermore, all reference laboratories use different reporting forms, so it is more difficult for the referring physician to locate the appropriate information on the form.

Timeliness of the receipt and transmission of lab results goes beyond convenience; it is directly connected to the quality of care. All internists encounter patients with problems that require near-immediate ("stat") lab information for appropriate clinical decision-making. Examples may include patients with suspected bleeding and anemia who require immediate blood counts, patients with severe sore throat and fever for whom an appropriate antibiotic choice depends on rapid strep screening, and severely ill patients with diabetes, whose management depends on rapid determinations of blood sugar and other chemistry tests. In circumstances such as these, the ability of the physician to have lab testing immediately available in the office is critical to the quality of the care provided for the patient.

Some opponents of in-office testing will argue that quality traditionally has suffered in the POL environment. Although

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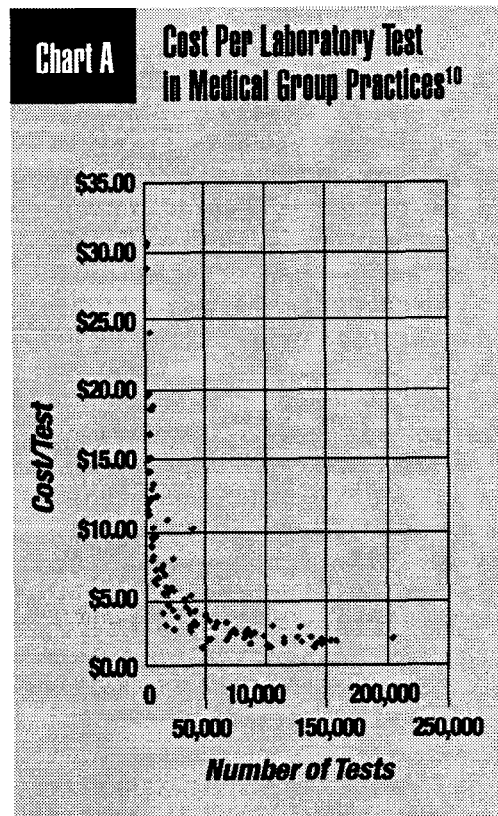


there are some old studies—all controversial—that suggest that the quality of testing is better in reference laboratories than in physician office laboratories, there are an equal number of studies that show this is not true.<sup>8</sup> Physician office laboratories ensure the utmost quality by regularly performing proficiency testing and participating in laboratory accreditation programs, such as the Commission on Laboratory Accreditation (COLA). Even though there is little evidence to suggest that stringent regulations are needed to assure the reliability of testing in POLs, physician-owned labs must meet CLIA and/or state laboratory quality standards like reference and hospital laboratories.

#### 4. POL Testing Can Cost Less Than Reference Laboratories.

A recent survey identifies many situations that demonstrate testing performed in a POL is less expensive than testing performed in a reference lab. A detailed study of 100 physician laboratories indicates that POL costs—especially in group practices—are much lower than might be expected, and often are less than in many hospital and reference laboratories.<sup>9</sup> This study compared the relative economics, test-ordering patterns, and patient per-

ceptions related to point-of-care testing in the physician office. The study compared total direct and indirect costs and operational characteristics of physician laboratories employing a wide range of



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**Table A** Comparison of Laboratory Testing Costs in Community Hospitals and Medical Group Practices<sup>11</sup>

	Total Tests (annual)	Cost per test
Community Hospital A	319,172	\$4.59
Community Hospital B	266,469	\$3.28
Community Hospital C	670,515	\$4.61
Medical Group #8 (10 physicians)	110,399	\$2.85
Medical Group #69 (23 physicians)	92,444	\$2.17
Medical Group #17 (59 physicians)	656,674	\$1.34

laboratory facilities to develop an indication of the true costs for facilities performing both minimal and comprehensive in-office testing. These results show that in many testing situations, POLs are more cost-effective for MCOs than outside reference laboratories.

The most persuasive statistics from this study involve physician practices performing more than 50,000 tests per year. As Chart A (page 9) demonstrates, the average cost per test in these higher volume laboratories is approximately \$2.50—some drop to \$1.25 per test. The study also shows that savings continue to increase as the volume of testing increases.

Furthermore, the study shows that a comparison of the cost of testing done in group-practice POLs and in outside reference laboratories is, at a minimum, competitive. Many group-practice laboratories actually operate at a lower cost than hospital laboratories. As Table A (page 9) demonstrates, when physician medical group practices are compared to community hospitals with similar test volumes, the average cost per test ranges from \$1.34 to \$2.85 for the POL, and \$3.28 to \$4.61 for hospitals. Recent improvements in laboratory equipment have en-

abled physicians to perform many tests cheaply with ease and accuracy. For example, the reduction in equipment prices for certain tests now means that a physician can justify the cost of the equipment without performing a high volume of tests on it. As technology continues to improve, it will become increasingly easier and cheaper for physicians to perform tests themselves.

Several physician laboratories in the study had lower costs than outside reference laboratories. Large regional and national reference laboratories are assumed to operate at a minimum cost of \$1.50 to \$1.75 per test based on the high fixed capital and operating costs attributed to their sophisticated courier, information and customer service networks.<sup>12</sup> Clearly, many group practices (as shown by the chart on page 9) can offer further reduced prices. Additionally, two practices in the study that are paid almost exclusively by MCOs have average costs per procedure that are significantly lower—about one-third the cost—than reference laboratories.

A detailed comparison of testing prices between POLs and outside reference labs in Broward County, Fla., found outside reference labs billing 50-200 percent

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**Table B Laboratory Fees for Tests Commonly Performed in POLs and Reference Labs—Broward County, Fla.**

	<u>Average POL Price</u>	<u>Average Reference Lab Price</u>
SMAC 25	\$35	\$60.50
CBC	\$15	\$29.50
Cholesterol	\$30	\$68.50
FSH	\$40	\$110
PSA	\$30	\$95

higher than POLs. In late 1992, the Florida Society of Internal Medicine, the Florida Medical Society, the Florida Academy of Family Physicians and the Florida Society of Pathologists compared the fees charged by outside reference labs to those charged by physicians with in-office laboratories. The price disparity between the two is alarming. Table B (page 10) shows price discrepancies among commonly performed tests in each setting.<sup>13</sup>

There are many hidden costs that are difficult to measure, but which obviously exist in laboratory testing. For example, when patients trust their physician, they are more likely to comply with the recommended treatment instead of letting the problem escalate. This prevents a dramatic increase in the cost of care. Patients have a greater trust in results from tests performed by their physician-office lab than in those performed by outside reference laboratories. Another cost-savings that is difficult to estimate is the amount spent on unneeded care. If in-office testing is not available and tests must be ordered through a reference lab, physicians may have to prescribe medications or send their patients to the emergency room for immediate testing. Eliminating this

waste will save patients and their insurers money. Finally, employers save money when employees spend more time at work and less time waiting in a laboratory for testing.

In addition, when testing is provided in a POL, the patient and the patient's insurer can be assured that the POL performed and billed only the tests the physician ordered. Commercial reference labs have been known to provide—and bill for—tests that were not ordered by the physician. The federal government has imposed several multimillion-dollar fines in recent years on commercial reference labs billing for tests that were not ordered.<sup>14</sup>

ASIM does not believe all testing should be shifted to reference laboratories to reduce the costs associated with laboratory testing. Cost-effectiveness is a balance between reducing delivery costs and improving the patient's health. To achieve this, ASIM encourages MCOs to work with physicians to implement cost-effective intervention strategies that take advantage of POL options while keeping patients' health in mind at all times.

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## Recommendations to Physicians

### Negotiating with Health Plans To Maintain Use of In-Office Laboratories

To remain competitive, MCOs must differentiate themselves in new ways. One way to do this is to negotiate comprehensive laboratory testing panels with their physicians.<sup>15</sup> Health care consultant, Sheila Dunn, DA, MT, says that the main reason physicians are not allowed to perform tests in their offices is because they don't ask if they can. Her experience shows that fewer than 10 percent of physicians bother negotiating any part of their managed care contracts. However, the good news is that 90 percent of those who negotiate to maintain a full menu of laboratory services receive some concessions.<sup>16</sup>

The following recommendations will be useful to physicians negotiating laboratory contracts with managed care plans:<sup>17</sup>

**1. Thoroughly prepare for the meeting.** It will be helpful for you to identify—and perhaps even rank—the tests that you think are most important to your patients and therefore need to continue to be performed in-office. Find out which of these tests—if any—the plan already intends to permit. Prepare reasons why each of the other tests on your list should be included in the contract. You may find it useful to compare this list with the list that other plans are offering you or your colleagues. Additionally, it is important to know which provisions you are prepared to argue heavily for and which you are willing to concede. If you do not feel confident negotiating on your own, hire a professional negotiator who can present your case to the MCO. There are many experienced law-

yers and practice consultants who understand managed care contracts and can negotiate for you successfully.

**2. All physicians in the meeting should agree.** If you are part of a group practice, it is important that the health plan recognizes that all members of your practice are in favor of the expanded list. When explaining the significance of each test, you want to make sure that each physician agrees.

**3. Explain the patient benefits.** Using the explanations provided in this paper, convince the health plan of the benefits of your in-office laboratory: the ability to provide timely, convenient, quality and cost-effective patient care. It may even be helpful to give examples of—or testimonials by—patients who would be inconvenienced and whose care could be compromised by reference laboratory testing.

**4. Put the agreement in writing.** Once you have negotiated an acceptable agreement with the managed care plan, immediately put it in writing and have the plan's representative sign it. This will ensure your right to test in your office should the plan decide later not to follow through on the arrangement.

**5. Prepare for later re-negotiations.** If you do not receive permission to do all the testing that you asked for during the negotiations but you still want to work with the plan, you should continue to develop your reasoning for providing the omitted tests. There will be opportunities to re-negotiate your contract with the plan. At that time, you should describe

the extent of patient inconvenience that resulted from omitting the tests, as well as any advanced developments in automation since the last meeting. During this time, it also is appropriate to encourage patients who complain about the inconvenience of outside laboratories to communicate their dissent to the health plan and their employer. Since automation in laboratory technology is changing

rapidly—offering faster, more accurate and cheaper testing—it is possible that a plan's reasons for denying the inclusion of a certain test two years ago are no longer applicable.<sup>18</sup> During your negotiations, clearly explain how a newer generation of compact, portable or transportable instruments have led to relative ease of operation and robust performance in the hands of experienced personnel.

## Recommendations to MCOs

### Patient Access to Physician Office Laboratories

- 1.** MCOs should reach agreement with their participating physicians on the types of laboratory tests that should be routinely made available in the physician's office—based on the specialty of the physician running the lab—so the appropriate tests that contribute to prompt diagnoses are available to the patient.
- 2.** MCOs should not require patients to travel to a reference lab to get their tests done. Physicians should be reimbursed an adequate fee for the in-office drawing and handling of tests that are sent to a reference lab for testing.
- 3.** MCOs should survey enrollees on their satisfaction with access to laboratory services and make changes in their laboratory arrangements—such as expanding access to POLs—if such surveys support a conclusion that patients prefer to have their tests done in their doctor's office.
- 4.** MCOs should be willing to negotiate with individual doctors and medical group practices to expand the menu of laboratory tests that may be provided in the physician's individual POL beyond the minimum testing set necessary.
- 5.** MCOs should compare the costs of tests sent to outside reference labs to POLs and allow POLs to provide laboratory tests at a competitive rate.
- 6.** MCOs should address concerns about potential over-utilization of laboratory tests in POLs by using severity-adjusted and specialty-specific profiling, or by negotiating arrangements that include placing physicians at financial risk for lab tests, rather than prohibiting physicians from providing in-office tests.
- 7.** To address quality concerns, MCOs should consider requiring all labs—POLs and reference labs—to participate in proficiency testing and to obtain accreditation from COLA or other accrediting organizations.

## Conclusion

**M**COs should permit patients to choose convenient, timely and quality testing in physician office laboratories, and should sufficiently reimburse physicians for the cost of providing these services. To compete in this changing health care environment and to retain consumer loyalty, MCOs must meet the demands of their consumers. Quality and convenience should be as important as analyzing physician patterns of test ordering and clinical outcomes.

When MCOs expect physicians' staff to draw and handle lab specimens—but do not adequately compensate physicians for the handling of these tests—they place

financial burdens on physicians. In the MCO survey ASIM conducted, the most common reimbursement rate for specimen handling was \$5. However, many MCOs did not reimburse for specimen handling at all, and others included the service in their capitation rate. Adequate compensation for this service is necessary, especially for specimens that require extra attention. It is critical to consider the physicians' costs for handling and transporting specimens, needles and syringes.

This paper has shown that patient satisfaction and health plan loyalty will increase if patients are allowed access to in-office testing and that such testing is high-quality, efficient and cost-effective.

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