EBRI FAST Facts
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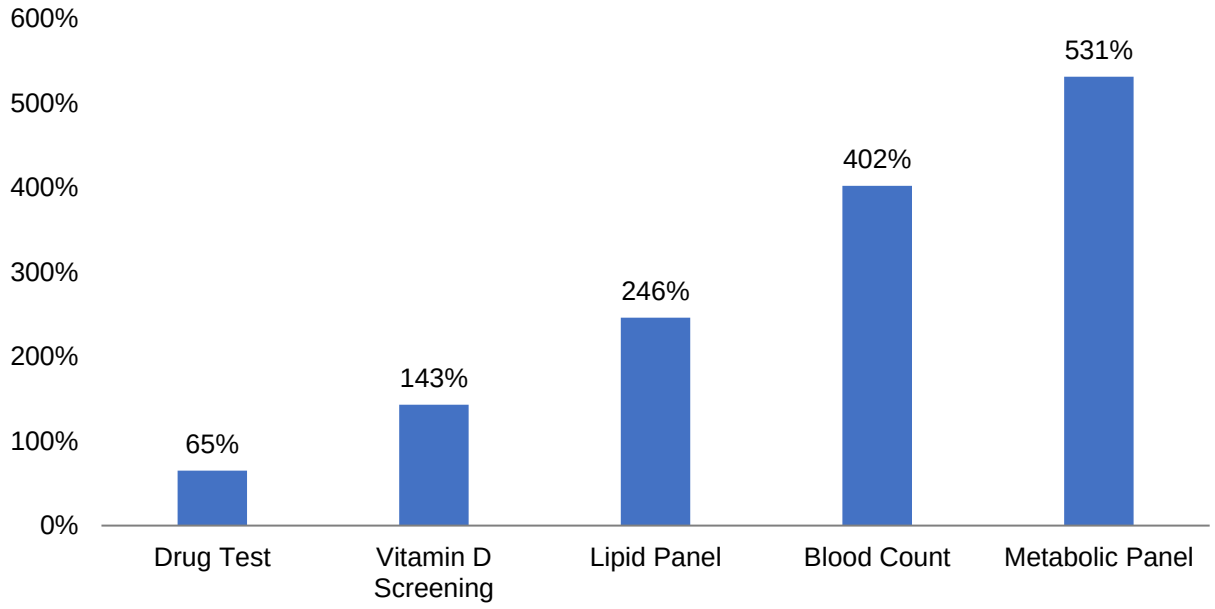
Higher Lab Costs, Equivalent Value: Evaluating the Cost of Lab Services in Hospital Outpatient Departments, Physician Offices, and Stand-Alone Lab Facilities

A new report from the Employee Benefit Research Institute (EBRI) finds that payments from third-party payers for lab work are higher when care is provided in hospital outpatient departments (HOPDs) compared with physician offices and stand-alone lab facilities. In evaluating prices for five commonly used lab services, EBRI finds they averaged 65 percent to 531 percent higher in HOPDs than in physician offices or stand-alone lab facilities.

In general, allowed charges are very similar for lab services provided in either physician offices or stand-alone labs. As an example, the allowed charge for a metabolic panel was $15 in the PO and $11 in the lab. Drug tests were the only service in which there was a significant difference in the allowed charge between POs and labs, with lab rates being significantly higher.

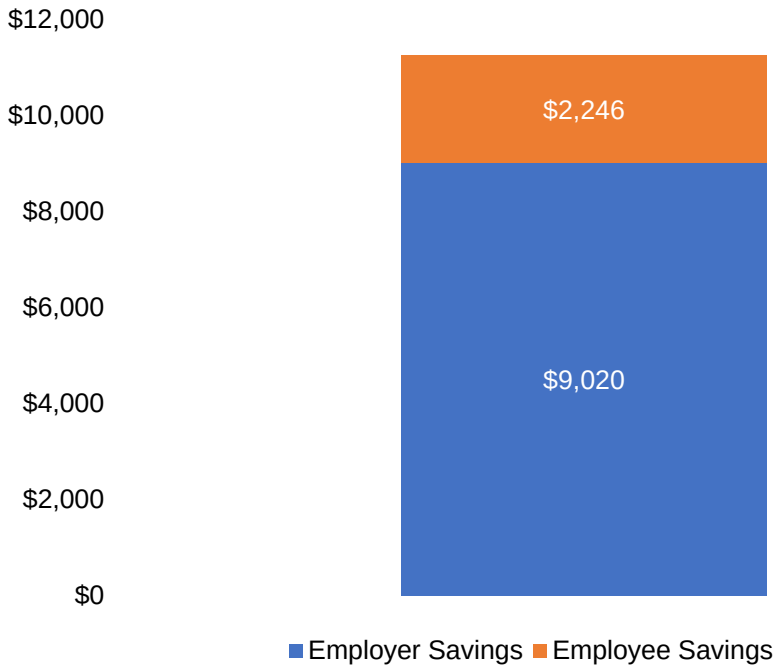
Figure 1
Price Differential Between Hospital Outpatient Departments vs. Physician Offices and Stand-Alone Lab Facilities



Source: Authors' analysis of IBM MarketScan administrative enrollment and claims data.

In contrast, price differentials between HOPDs and other sites of treatment ranged widely. Prices for drug tests were 65 percent higher at HOPDs than at physician offices or stand-alone lab facilities, for example — and this was the bottom of the range.[1] On the high end of the range, prices for metabolic panels were 531 percent more at HOPDs than at physican offices or stand-alone lab facilities.

Figure 2
Aggregate Savings (in millions)



Source: Authors' analysis of IBM MarketScan administrative enrollment and claims data.

In the aggregate, across 25 health care services examined in the report, EBRI estimates that employers and workers could collectively save $11.2 billion if price differentials between HOPDs and other sites of treatment were eliminated. Employers would save $9 billion or 80 percent of the total, whereas workers and their dependents would save $2.2 billion or 20 percent. Workers and their dependents would realize 33 percent of the savings in labs, 22 percent of the savings in imaging, and 3 percent of the savings in specialty medications.

Implications of the Analysis

Our findings have implications for both employers and insurers. There are a number of actions these third-party payers can take. First, they can exert pressure on hospitals to shift from discounted charge contracts based on a multiple of Medicare to some other prospective case rate. Employers could also exert such pressure on health plans to do the same with the hospitals in their networks.

In the absence of such market power, employers and insurers can attempt to engage patients through increased price transparency. However, price transparency by itself has been found to be insufficient in reducing hospital prices unless combined with plan design changes intended to steer patients to less costly sites of treatment.[2] For instance, employers and insurers can use a combination of value-based insurance design and reference pricing to vary patient cost sharing based on the choices that they make regarding choice of health care provider.

Finally, employers and insurers could move patients from HOPDs to other sites of treatment by removing the HOPDs from their network. Providers could respond by lowering their prices so that they may return into the network.

About the EBRI Center for Research on Health Benefits Innovation

Launched in 2010, EBRI's Center for Research on Health Benefits Innovation (CRHBI) focuses on helping employers assess the impact that various innovations, such as through plan design and other initiatives, have on cost, quality, and access to health care. It is a think tank focused on three broad areas of research: behavioral economics, incentives, and consumer-driven health benefits. This understanding, in turn, provides a framework for solutions and action items to address the cost and value of providing health benefits and informs policy discussions that can also best help improve outcomes.

This study was conducted through the EBRI CRHBI, with the funding support of the following organizations: Aon Hewitt, Blue Cross Blue Shield Association, ICUBA, JP Morgan Chase, Pfizer, and PhRMA.

See https://www.ebri.org/health/center-for-research-on-health-benefits-innovation for more information.

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on Twitter or LinkedIn.

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[1] To calculate the price differential, a blended price for non-HOPD settings was used. The blended price was weighted by the percentage of services provided in each setting. Had the allowed charge for drug tests in labs been equal to the allowed charge in physician offices, the price differential would have been closer to 200 percent.

[2] See White, C., and C. Whaley. 2019. "Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely: Findings from an Employer-Led Transparency Initiative." Santa Monica, CA: Rand Corporation. doi:10.7249/RR3033.