



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Tuesday, March 8, 2005

Grassley Expresses Concern Over Physician-owned Specialty Hospitals

WASHINGTON – Physician-owned specialty hospitals raise troubling questions and deserve continued scrutiny from policymakers, Sen. Chuck Grassley, chairman of the Committee on Finance, said today. Grassley’s comments came after he convened a hearing to examine a new government report showing that specialty hospitals don’t save Medicare money and take patients who are more profitable under Medicare than average.

“Doctors who refer patients to these places have a financial conflict of interest,” Grassley said. “Not only do the physicians get a fee from Medicare for performing surgery on the patient, but they also get a fee for use of the hospital – which they own. And they get a share of the hospital profit, too, so the more profitable, the more money they get. This interest in profit, the bottom line, may lead physicians to ‘steer’ patients. Physicians may choose where to send a patient based on whether or not they think that patient will profit their hospital. That’s troubling.”

Grassley said Congress placed a moratorium on the development of physician-owned specialty hospitals for 18 months until June 8, 2005. There were concerns about the rapid growth of these facilities, physician self-referral, whether these specialized hospitals might be an unfair form of competition, and the impact these hospitals may be having on the health care system as a whole.

Grassley said these new facilities are mostly for-profit, mainly owned by physicians, and treat only very specific conditions – like cardiac, orthopedic or surgical care. These physician-owned specialty hospitals have more than tripled in number in the past five or six years. While there are still only a small number – about 100 – they are growing quickly. They are also mainly located in certain pockets of the country where hospitals don’t need to get state approval to build a new facility.

Specialty hospitals have certain advantages, Grassley said. Because they see one type of patient they may be able to increase their efficiency, or lower their costs, and improve quality of care. Also, patients like to go there because the facilities are often new, with great amenities such as easy parking and gourmet meals. Also, and perhaps more importantly, physicians like to work there because they have a greater say in the hospital’s operations. They have more control over patient scheduling and the purchasing of equipment.

However, the conflict of interest and profit-making aspects are problematic, Grassley said.

A congressionally mandated report from the Medicare Payment Advisory Commission

(MedPAC) released today found that physician-owned specialty hospitals:

- Do not have lower costs for Medicare patients than community hospitals, although their patients have shorter lengths of stay.
- Treat patients who are generally less severe, and hence relatively more profitable than average.
- Concentrate on particular types of cases, or diagnosis-related groups, which are relatively more profitable.
- Tend to have lower shares of Medicaid patients.

MedPAC recommended:

- Changes to the Medicare payment system so that certain types of patients and procedures are not relatively more profitable than others.
- Allowing certain gainsharing arrangements between physicians and hospitals.
- Extending the current moratorium until Jan. 1, 2007.

Grassley said he will rely on the MedPAC findings as he drafts bipartisan legislation setting Medicare policy on specialty hospitals. Also he said he is awaiting a report from the Centers for Medicare and Medicaid Services on the topic.

“My colleagues and I are learning much more about this very important issue,” Grassley said. “The more we learn, the less we like it. I look forward to producing balanced legislation that preserves quality of care and access for Medicare beneficiaries while ensuring that doctors who own specialty hospitals don’t take the most profitable patients, leaving community hospitals vulnerable.”

The MedPAC report is available at www.medpac.gov under “publications,” then “reports.” Hearing testimony is available at finance.senate.gov under “hearings.”