

Specialty Hospitals: Myths vs. Facts

MYTH: Specialty hospitals harm general hospitals.

FACT: There is no evidence that specialty hospitals harm general hospitals.

Government Accounting Office (GAO), Medicare Payment Advisory Commission (MedPAC), and Centers for Medicare and Medicaid Services (CMS) reports confirm that general hospitals are largely unaffected by competition from specialty hospitals, and specialty hospitals stimulate a competitive environment in many markets, which can have positive effects on quality of care. Specifically, the GAO report found that there was little evidence to suggest that general hospitals made substantially more or fewer operational or service changes, or different types of changes, if some of their competition came from a specialty hospital. Similarly, MedPAC's updated evaluation of specialty hospitals found that specialty hospitals do not have a statistically significant effect on the total revenue or total margins of community hospitals in their markets. Finally, a 2006 CMS-funded study published in Health Affairs found that specialty hospitals actually stimulate a competitive environment, which can have very positive effects on quality of care.

MYTH: Physician-owned specialty hospitals provide poor quality of care and are a drain on their communities.

FACT: Specialty hospitals provide clear quality and community advantages.

A 2006 CMS-funded study published in Health Affairs found that risk-adjusted 30-day mortality rates were significantly lower for specialty hospitals than for community hospitals. The study also found that Medicare patients' satisfaction with specialty hospitals was very high, and that specialty hospitals conferred a greater net community benefit than community hospitals when accounting for the value of uncompensated care provided by specialty hospitals and taxes paid by them. In addition, 33 specialty hospitals across the country received a five-star rating from HealthGrades, functioning in the top 15 percent of hospitals in the nation.

MYTH: Efforts by general hospitals to enact severe restrictions on physician-owned hospitals, such as provisions in H.R. 2, would not close these hospitals, or reduce access to care.

FACT: Legislation such as H.R. 2, which bans new physician-owned hospitals and imposes burdensome conditions on existing ones, will effectively dismantle the entire physician-owned hospital sector. This legislation would eliminate the "whole hospital exception" to the Stark self-referral regulations, which permits physicians to refer Medicare or Medicaid patients to hospitals in which they have an ownership interest provided they meets certain conditions. Absent this exception, physicians would be prohibited from referring Medicare and Medicaid patients to hospitals in which they have an ownership interest, making it virtually impossible for a new physician-owned hospital to survive. In addition, H.R. 2 would put onerous conditions on existing physician-owned hospitals. These conditions include significant restrictions on growth; which would make them unable to remain viable.

MYTH: Physicians who invest in specialty hospitals where they refer patients create a conflict with the best interests of their patients.

FACT: Physician investment in, and referral to, a specialty hospital does not conflict with the best interests of patients.

- MedPAC and CMS have found no evidence that physicians who have an ownership interest in a specialty hospital inappropriately refer patients to that hospital or have increased utilization.
- A GAO study found that there is no difference in referral patterns between physician-investors and non-investors, proving that ownership and profit are not the driving factors in referring to specialty hospitals
- MedPAC found no evidence that overall utilization rates in communities with specialty hospitals rose more rapidly than utilization rates in other communities.

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- According to a 2003 GAO study, the majority of physicians who admit patients to specialty hospitals have no ownership interest and thus receive no financial incentives to refer patients to them. In fact, approximately 73 percent of physicians with admitting privileges at specialty hospitals are not investors.
- A 2006 CMS-funded study published in Health Affairs found that most physicians refer patients to specialty hospitals for reasons totally unrelated to profits.

MYTH: Physicians who invest in specialty hospitals “channel” patients to these hospitals.

FACT: It is general hospitals, not specialty hospitals, which “channel” patients.

General hospitals frequently adopt policies that force members of their medical staff to refer patients only to their facilities. When hospitals dictate where physicians may refer patients, the hospital takes medical decision-making away from physicians and patients. This limits patient choice and can conflict with the health care needs of the patient.

MYTH: Physician-owned hospitals provide a limited number of specialty services whereas general hospitals offer a full range of services to their communities.

FACT: There is great diversity among physician-owned hospitals, including some that are general hospitals serving rural and/or low-income communities.

Although many physician-owned hospitals provide specialty care, there are also physician-owned general hospitals that provide services in rural areas or receive Disproportionate Share Hospital payments because they care for the neediest patients. Some hospitals are wholly owned by physicians and others are joint ventures between hospitals and physicians. Many physician-owned hospitals have emergency departments and, conversely, there are general hospitals that do not have emergency departments. Special services like trauma and burn care are offered at fewer than 10 percent of U.S. hospitals. Legislation that imposes severe restrictions on physician-owned hospitals will hurt patients’ access to some hospitals that are the sole or principal source of hospital care in the communities they serve, leaving patients with no convenient alternative source of care.

MYTH: CBO found that enactment of a ban on physician-owned hospitals would result in significant savings to the Medicare program and that improper physician self-referral increased utilization of health care services.

FACT: CBO’s cost estimates were not based upon physician over utilization. CBO’s cost estimates were, however, based upon an improper assumption—that a significant share of the service volume remaining after the destruction of the physician-owned hospital sector will migrate to ambulatory surgery centers (ASCs). CBO’s analysis assumes that services currently provided by physician-owned hospitals would migrate to ASCs, which are reimbursed at a lower rate than specialty and general hospitals. This assumption ignores the fact that 74 percent of the dollar-volume of ASC services is gastroenterology and ophthalmology services, which are not provided in great volume at hospitals. ASCs are fundamentally different facilities than hospitals and are simply not going to be able to absorb services that CBO claims would migrate to ASCs. Migration of services from physician-owned hospitals is much more likely to occur to other hospitals, which are paid the identical rates for treating patients as physician-owned hospitals.