



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Opening Statement of the Sen. Grassley, Chairman
Senate Finance Committee Hearing, "Physician-Owned Specialty Hospitals:
In the Interest of Patients or a Conflict of Interest?"
Hearing on Physician Owned Specialty Hospitals
Tuesday, March 8, 2005

As you all know, Congress placed a moratorium on the development of physician-owned specialty hospitals for 18 months until June 8, 2005. This was due to a number of reasons. First, there were concerns about the rapid growth of these facilities. Second, there were concerns about physician self-referral. Third, there were thoughts that these specialized hospitals might be an unfair form of competition. And, in all of this, was a concern about the impact these hospitals may be having on the health care system as a whole.

Now, specialty hospitals have existed for quite some time. There are children's hospitals and psychiatric facilities. But these are not really what we are talking about. We are talking about the emergence of a new type of hospital. These new facilities are mostly for-profit. They are mainly owned by physicians. And, they only treat 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. Basically, they are located in those states without certificate of need. Or where hospitals don't need to get state approval to build a new facility.

Now these specialty hospitals have certain advantages. Because they see one type of patient they might 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. These can be everything from easy parking to 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, others have said that these new hospitals are problematic. This is because doctors who refer patients to these places have a financial conflict of interest. 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.

There is concern that this interest in profit, the bottom line, may lead physicians to actually "steer" patients. That physicians choose where to send a patient based on his condition, or based on

his insurance -- or based on whether or not they think that patient will profit their hospital.

The Government Accountability Office has found that specialty hospitals are less likely to have emergency rooms. And, it has found that they treat fewer Medicaid patients, and few, if any, uninsured patients. And you know that now there are 45 million uninsured, and I'm concerned about this.

Now Congress, with very few exceptions, does not allow physicians to refer Medicare and Medicaid patients to facilities in which they are owners. One of these exceptions is this "whole-hospital exception" which I think we will hear about.

Obviously, we are interested in what MedPAC has found, and in what those testifying here today have to say. I want to take a moment and thank MedPAC personnel for all their hard work on this report. I know Congress threw a lot of work at them, and they have done a great job.

Now, my colleague Senator Baucus and I are in the process of drafting bipartisan legislation on specialty hospitals. This hearing will provide us with an opportunity to learn more about this very important issue.

I know a number of my colleagues are also engaged in this topic, and I anticipate there will be a number of questions. I look forward to hearing our panel's thoughtful responses.