



# Lookout Memorial Hospital

**Testimony  
of  
Larry Veitz, CEO  
Lookout Memorial Hospital, Spearfish, SD  
before the  
U.S. Senate  
Committee on Finance  
“Physician-owned, Limited-service Hospitals”**

**March 8, 2005**

Good morning, Mr. Chairman. I'm Larry Veitz, chief executive officer of Lookout Memorial Hospital in Spearfish, South Dakota. I appreciate the opportunity to testify today on the issue of physician-owned, limited-service hospitals.

In many communities, certain physicians are exploiting a loophole in federal law, and own limited-service hospitals to which they refer their own patients. This activity raises serious concerns about conflict of interest, fair competition, and whether the best interests of both patients and communities are being served.

To protect patients and the health care safety net, Congress should close the loophole in federal law by permanently banning physician self-referral to limited-service hospitals.

Here's what has happened in our community. Lookout Memorial Hospital is a 40-bed community hospital located in rural Spearfish, South Dakota, a town of 9,300 people. Although Spearfish itself is a relatively small town, our hospital serves 35,000 people across three states: Wyoming, Montana, and South Dakota. Because of our very rural location, patients, who live 120 miles away or more, rely on our hospital for the care they need.

During the 1990s, Lookout Memorial was a thriving rural hospital and, in 1996, was recognized by *U.S. News and World Report* as one of the top 100 hospitals in the United States. Today, however, we are struggling to exist and to continue to provide care to those 35,000 people who rely on our health care services across a three-state region. The primary reason why we have fallen from being a thriving rural hospital to one struggling just to keep its doors open to the community can be directly attributed to a physician-owned, four-bed surgical hospital that opened in 2000 just blocks away from our hospital.

Unlike our hospital and other community hospitals across the country that provide a wide range of medical services, the four-bed surgical hospital in Spearfish primarily focuses on general and orthopedic surgery. It does not take on the responsibility of daily, round-the-clock emergency services like we do. The Spearfish Surgery Center merely duplicated programs and equipment already available in our area and took nurses, technologists and technicians away. It did not add a single new program of benefit to the community. This physician-owned surgery center has created a profitable business in two ways — by targeting healthier patients and those with good health insurance coverage and by targeting well-reimbursed services. Meanwhile, Lookout

Memorial continues to care for everyone in need of care — the poor, the elderly, the uninsured and sicker patients. We turn no one away.

### **The Impact of Physician Self-referral in Spearfish, SD**

Yet, by steering well-insured patients away from Lookout Memorial and focusing on surgical procedures that are well-reimbursed by Medicare and private insurers, the surgical hospital has successfully siphoned off resources critical to our hospital's continued ability to provide important medical services to our service area. The negative effects resulting from the surgical hospital's practices have already been experienced in several ways.

First, by selectively referring and treating only healthier, well-insured patients and providing only elective and highly reimbursed procedures, the surgical hospital also has left our communities with significant challenges that jeopardize the health care safety net in our area. Lookout Memorial now treats a greater share of poor and uninsured patients with less financial support for essential services that are seldom self-supporting, such as emergency care, cardiac rehab, home health, diabetic education, and obstetrical services.

For our Wyoming patients, the financial impact of the physician-owned surgical hospital has been particularly harsh, forcing us to make very difficult decisions. For example, we had to eliminate our hospice program for our Wyoming patients because we no longer had the financial means to support it. This means that some of those Wyoming residents with terminal illnesses, who are not expected to live beyond six months, will likely spend their final days as a hospital inpatient rather than being able to die with dignity at home surrounded by family and friends. It

Based on these findings, it is not surprising that MedPAC questioned whether financial gain — not clinical considerations — may be driving some physicians to refer patients to those limited-service hospitals where they have an ownership interest. The issue of whether doctors' personal financial gain is driving patient care decisions deserves serious examination and congressional action.

Congress was so concerned about the rapid proliferation of physician-owned limited-service hospitals and the potential conflicts of interest posed by physician-ownership that in 2003 it implemented a moratorium prohibiting physicians from referring Medicare patients to new, physician-owned limited-service hospitals as part of the Medicare Modernization Act. That moratorium, however, is set to expire in June.

### **This Is Not About Competition**

Advocates for physician-owned limited service hospitals argue that full-service community hospitals simply do not want to compete based on services and quality. This could not be further from the truth. Full-service community hospitals around the country compete every day in our market-driven health care system. They compete by introducing innovations in medicine, technology and care delivery to offer the best services to their patients. But the power of physician-owners to direct where patients get their care and refer only well-insured patients to their own facilities is not competition — it is conflict of interest. It is illegal for full-service community hospitals to offer any financial inducements to physicians in exchange for patient referrals. Yet, these physician-owned limited-service hospitals are masking inducements to refer patients under the guise of ownership.

Full-service community hospitals are more than willing to compete based on cost, quality and efficiency. But, currently, there is an unlevel playing field that is unfairly rewarding certain physicians for selectively referring healthier, well-reimbursed patients to limited-service hospitals they own. Full-service community hospitals are, therefore, placed at an unfair competitive disadvantage.

### **This Is Not About Quality**

Although physician-owned limited service hospitals claim that patients receive higher quality care in their facilities, there is no credible, independent evidence to date to suggest any quality differences between physician-owned limited service hospitals and full-service community hospitals.

Limited-service hospitals use the same medical technology as the full-service community hospitals. Often, these facilities have the same doctors and nurses that practiced at the full-service community hospital — they just opened their own facility a few miles away. Given all this, it is hard to see why there would be differences in quality. What is clear is the duplication of services already available at the full-service community hospitals.

### **Self-referral Creates Conflict of Interest**

When physicians own facilities to which they refer patients, their decisions about when to provide care and which facility to send any particular patient to are subject to competing interests. Studies have shown that physician self-referral can lead to increased use of services and add cost to the system. Also, the ability to direct patients to one facility or another causes a

competitive distortion that generally cannot be overcome as long as referring physicians own competing entities.

**Conclusion**

The growing body of evidence suggests that physician-owned limited-service hospitals represent a serious conflict of interest that could threaten patient access to emergency and other medical services. That is why MedPAC has recommended that Congress extend the current moratorium on physician self-referral of Medicare patients to new, limited-service hospitals until January 2007.

I respectfully urge Congress to close the loophole in federal law by permanently banning physician self-referral to limited-service hospitals. Community hospitals are created and sustained by the community to serve all patients regardless of their health status or ability to pay. The conflict of interest created when physicians refer patients to limited-service hospitals they own is robbing our community hospitals of their ability to serve everyone and is risking patient access to essential medical services.