

Congress of the United States

Washington, DC 20515

July 25, 2003

ELIMINATE CONFLICTS OF INTEREST IN HEALTH CARE: THE TRUTH ABOUT BOUTIQUE HOSPITALS

Dear Colleague:

Despite what you may have heard, there has not been a campaign to eliminate boutique hospitals from operating in your communities. This is a scare tactic. The issue at hand is one of reducing conflicts of interest in the practice of medicine by prohibiting the referral of patients to boutique hospitals in which a physician has an ownership interest.

We firmly believe in competition in the marketplace as a catalyst for innovation in health care. Nothing that the Congress is considering with regard to boutique hospitals would limit fair competition in this industry. Rather, it would simply reduce conflicts of interest inherent when physicians own boutique hospitals. Efforts that the Congress may undertake would not prevent physicians from referring patients to a facility in which they have no ownership, and patients could still seek care at specialty hospitals in which their physician has no ownership stake. It would not impact patient care, close facilities or impact jobs. One of the leading proposals would be to simply close an unfortunate loophole in the law that some have exploited to the detriment of general community hospitals that strive to serve all of the health care needs in a community.

Action is needed now. In April 2003, the General Accounting Office unveiled a study on boutique hospitals that was highly critical of certain aspects of their investment model and referral behavior. GAO found that, "Concern exists with respect to specialty hospitals, that since they are usually much smaller in size and scope than general hospitals and closer in size to hospital departments, that their physician owners could influence their hospitals'—and therefore their own—financial gain through practice patterns and referrals." Below are just a few of their additional findings:

Boutique hospitals are not full service acute care hospitals; rather they focus on profitable surgical and cardiac care.

- According to GAO, "...we considered a hospital to be a specialty hospital if the diagnosis-related group (DRG) classification for two-thirds of its Medicare patients ... fell into no more than two major diagnosis categories, such as diseases of the circulatory system (cardiac), or if at least two-thirds of its patients were classified in surgical DRGs."

Boutique hospitals have found a profitable niche as they exploit the self-referral loophole and have been expanding rapidly.

- According to GAO, "Number of facilities has grown rapidly in recent years—as of March 2003, the number of specialty hospitals had tripled from the 29 that existed in 1990."

Boutique hospitals are currently based on an investment model that relies upon physicians referring patients to facilities in which they have ownership.

- According to GAO, "...70 percent of specialty hospitals had some physician owners. Of the specialty hospitals with any degree of physician ownership, physicians' combined ownership shares averaged slightly more than 50 percent of the hospital."

Boutiques "cherry pick" healthier patients for high reimbursement procedures, leaving sicker patients to go to community hospitals.

- According to GAO, "We found that patients at specialty hospitals tended to be less sick than patients with the same diagnoses at general hospitals."

The truth is that addressing the increasing number of boutique hospitals does not stifle competition or adversely affect patient choice. It would simply reduce conflicts of interest, prospectively, by closing the loophole in the whole hospital exception to prohibit referrals by physicians to boutique facilities in which they have an ownership interest.

Sincerely,


Zach Wamp
Member of Congress


Johnny Sakson
Member of Congress