American Hospital Association

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Dear Senator:

On June 13, the Republican Policy Committee (RPC) released "The Specialty Hospital Debate: One Year Later." Regrettably, this report does not address the single most troubling issue related to these facilities: physician self-referral and the associated conflict of interest.

Just as specialty hospitals have long been a part of the health care landscape, so have prohibitions on physicians referring patients to facilities in which they have a financial interest. The list of "designated health care services" that are part of this prohibition within the Ethics in Patient Referrals Act includes, among others: clinical laboratory, physical, occupational and speech therapy, radiology, radiation therapy, durable medical equipment, outpatient drugs, home health, and inpatient and outpatient hospital services.

These prohibitions clearly reflect congressional intent to protect patients from instances where the financial interests of the physician-owner might be in conflict with the needs of the patient. Additionally, a growing body of research clearly demonstrates that physician self-referral leads to higher utilization rates, a troubling trend at a time when policymakers are concerned about future growth in Medicare spending.

In fact, these facilities have been shown to add little value to the health care system:

- **A recent Government Accountability Office report says that these facilities add nothing to the competitive landscape,** despite being heralded as good for competition.

- **The Medicare Payment Advisory Commission's (MedPAC)** most recent findings indicate that orthopedic and surgical hospitals are substantially higher in cost, a finding attributed to low volume. These findings debunk the myth that these "focused factories" are more efficient.

- **Research indicates quality care of care is <u>not</u> uniformly better in physician-owned limited-service hospitals.** Any differences in quality between these facilities and full-service community hospitals tend to disappear as data is adjusted for the selection practices, or "cherry-picking," of healthier patients by physician-owned facilities.

There is indeed strong evidence that the financial incentives associated with physician self-referral are influencing physician behavior. These behaviors include:

- Increased utilization;
- The steering of patients to owned facilities;
- Cherry-picking of the most well-insured patients and best paid services; and
- Avoidance of low-income populations.

MedPAC recently reported troubling new findings: **Physician-owned specialty hospitals are associated with a significant increase in the utilization rate** for cardiac surgery – an increase of 6 percent in communities with a heart hospital of average market share. This increase cannot be attributed to the growing Medicare population, because it reflects the increase in the number of procedures per 1,000 beneficiaries. This raises concerns not only about patient welfare, but also about the future impact of this trend on health care costs.

So while the hope of "competition" in health care is increased quality, efficiency, and a better health care system, the continued proliferation of physician-owned limited-service hospitals is taking us in exactly the wrong direction.

And the bottom line is the ethics of self-referral. To protect patients and the hospitals that take care of all of their communities' needs, Congress should permanently ban physician self-referral to new limited service hospitals.

Thank you for your attention to this important matter.

Sincerely,

Rick Pollack
Executive Vice President