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Highlights

Highlights of [GAO-04-167](#), a report to the Honorable Bill Thomas, Chairman, Committee on Ways and Means, House of Representatives, and the Honorable Jerry Kleczka, House of Representatives

Why GAO Did This Study

The recent growth in specialty hospitals that are largely for-profit and owned, in part, by physicians, has been controversial.

Advocates of these hospitals contend that the focused mission and dedicated resources of specialty hospitals both improve quality and reduce costs. Critics contend that specialty hospitals siphon off the most profitable procedures and patient cases, thus eroding the financial health of neighboring general hospitals and impairing their ability to provide emergency care and other essential community services. Critics also contend that physician ownership of specialty hospitals creates financial incentives that may inappropriately affect physicians' clinical and referral behavior. In April 2003, GAO reported on certain aspects of specialty hospitals, including the extent of physician ownership and the relative severity of patients treated (GAO-03-683R).

For this report, GAO was asked to examine (1) state policies and local conditions associated with the location of specialty hospitals, (2) how specialty hospitals differ from general hospitals in providing emergency care and serving a community's other medical needs, and (3) how specialty and general hospitals in the same communities compare in terms of market share and financial health.

www.gao.gov/cgi-bin/getrpt?GAO-04-167.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101.

SPECIALTY HOSPITALS

Geographic Location, Services Provided, and Financial Performance

What GAO Found

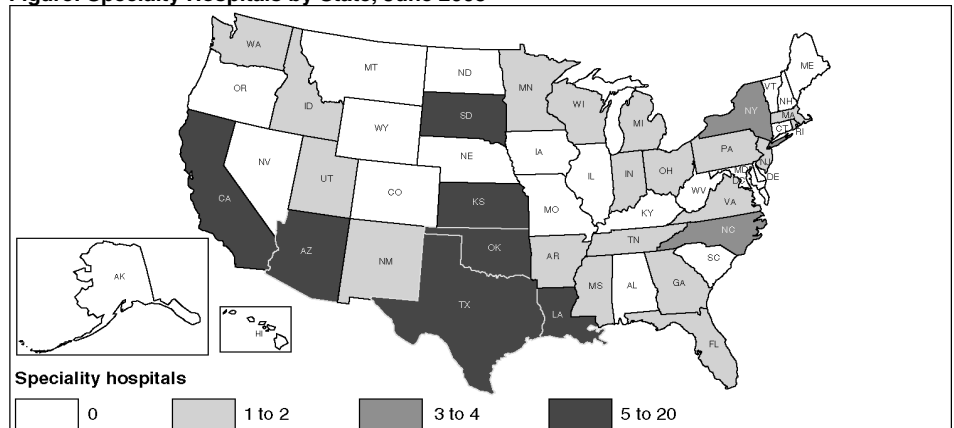
The 100 existing specialty hospitals identified by GAO—hospitals that focus on cardiac, orthopedic, or women's medicine or on surgical procedures—are geographically concentrated in areas where state policy facilitates hospital growth. Although 28 states have at least 1 specialty hospital, approximately two-thirds of the 100 specialty hospitals are located in 7 states. At least an additional 26 specialty hospitals were under development in 2003 and will tend to reinforce the existing pattern of geographic concentration. Specialty hospitals are much more likely to be found in states where hospitals are permitted to add beds or build new facilities without first obtaining state approval for such health care capacity increases.

Relative to general hospitals, specialty hospitals, as a group, were much less likely to have emergency departments, treated smaller percentages of Medicaid patients, and derived a smaller share of their revenues from inpatient services. For example, 45 percent of specialty hospitals, but 92 percent of general hospitals, had emergency departments. There were, however, important differences among the four specialty hospital types in these and other service indicators.

Although general hospitals typically have more beds than specialty hospitals, the focused mission of specialty hospitals often resulted in their treating more patients in their given fields of specialization. Financially, specialty hospitals tended to perform about as well as general hospitals did on their Medicare inpatient business. However, specialty hospitals tended to outperform general hospitals when the costs from all lines of business and the revenues from all payers were considered.

Officials from three specialty hospital organizations commented on a draft of this report. They generally agreed with the report's information and commented on key differences between specialty and general hospitals.

Figure: Specialty Hospitals by State, June 2003



Source: GAO.