



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Sen. Chuck Grassley, Chairman
Hearing, Physician-Owned Specialty Hospitals: Profits before Patients?
Wednesday, May 17, 2006

Thank you all for joining us today as we re-examine the issue of physician ownership of specialty hospitals. This issue has been hotly contested over the past few years and has sparked various forms of legislation, reports, and surveys. All too often in Washington, we pass legislation, request reports, and take surveys, yet never follow up to make sure the policy is sound. We need to ensure that the policy we make is in the best interest of hospitals, physicians and most importantly, the patients and taxpayers who pay for health care. As chairman of the Finance Committee, it is my constitutional duty to conduct oversight of federal programs to determine if the policy the committee makes is sound and to ensure that the laws passed by Congress are implemented and enforced in a manner consistent with the spirit and intent of the legislation.

Today's hearing presents an opportunity to address the issue of specialty hospitals from the oversight perspective. This hearing will examine the impact these facilities have on patient safety and quality of care. Additionally, the hearing will explore the various financial arrangements used to finance these hospitals. These arrangements are often complex financial deals with little transparency about who the investors and owners are and whether these deals are appropriate. Further, these financial arrangements often offer "sweetheart" deals to physician investors, offering low to no interest loans, investment without risk, and in some instances agreements to purchase land prior to significant appreciation. Finally, the hearing will address implementation and enforcement of specialty hospital legislation by the Centers for Medicare and Medicaid Services (CMS).

Recent oversight work by the committee raises serious questions about specialty hospitals and whether they serve the best interest of the patients being treated at them, or if they are serving the best interests of the physicians who own and operate them. Further, the committee's oversight work found that in spite of a congressional moratorium on new specialty hospitals and an administrative extension of that ban, it appears more than 40 specialty hospitals have opened. Taken together, it is clear we've got a lot of serious questions that need to be answered, and I hope everyone here is ready to dig in and work with me to get answers.

Physician-owned specialty hospitals represent a growing trend in health care. The rapid growth of these facilities and concerns about patient demand from self-referrals led Congress to impose an 18-month moratorium on these facilities in the 2003 Medicare Modernization Act (MMA). In June of 2005 this moratorium expired, but was subsequently extended by CMS through administrative action. Congress legislated in this area again in the Deficit Reduction Act of 2005 (DRA), requiring CMS to continue to extend the moratorium and provide Congress a "strategic and implementing plan" on specialty hospitals by August of 2006.

Just last week, CMS issued an interim report on the progress of this plan. In that interim report CMS summarized past actions as well as announced a data collection project it would be sending to 130 specialty hospitals and 270 community hospitals. At first glance, the interim report lacks the meaningful disclosure requirements envisioned when Congress asked for a strategic and implementing plan in the DRA. However, CMS still has time before the August deadline to implement these reforms in line with the intent of the DRA.

In addition to CMS' interim report, this hearing comes on the heels of two other follow-up reports on specialty hospitals. The first was a follow-up review by the Medicare Payment Advisory Committee (MedPAC) that was released at the Commission meeting April 19th. MedPAC made a number of findings regarding specialty hospitals, including:

- (1) Physician-owned surgical hospital costs were significantly higher than general hospitals, despite having shorter stays,
- (2) Physician-owned hospitals see significantly fewer Medicaid or charitable patients,
- (3) Physician-owned heart hospitals increase the number of heart procedures in a community when opened, and
- (4) Physician-owned heart hospitals divert patients from community hospitals, decreasing revenue.

The second recent report on specialty hospitals was a survey conducted by the Government Accountability Office (GAO). In contrast to the MedPAC report, the GAO survey found that there was little effect on community hospitals when a specialty hospital enters the market, although testimony we will hear today will discuss the shortcomings of the design behind the GAO survey and how the results may not be fully accurate. Obviously, we have two very different accounts of the impact specialty hospitals have on community hospitals. I am interested in hearing from today's witnesses their take on both reports in hope of making sense of the conflicting findings.

Our first panel today provides a solemn reminder for all of us that the policy decisions we make here in Washington have real consequences and repercussions. From this panel, we will hear testimony regarding a physician-owned facility that had no physician on site, on-call doctors who didn't answer their phone, and a standing policy to call 911 in case of a patient emergency. Clearly this standard of care is questionable and raises immediate patient safety concerns.

On our second panel we will hear from Dr. Mark McClellan, the administrator of the Centers for Medicare and Medicaid Services. Dr. McClellan will discuss both the interim report on specialty hospitals and the strategic and implementing plan CMS is preparing. Finally, our third panel today will address the impact specialty hospitals have on community hospitals and suspect financial arrangements of some specialty hospitals, as well as continue to examine patient safety and quality of care. I welcome today's witnesses and thank them for their testimony today. Hopefully this hearing will continue to foster dialogue on this important topic and prevent further tragedies to patients who receive treatment at limited care facilities. Before I turn this over to Senator Baucus for his opening remarks, I would like to say a special thank you to Reverend Wilson for his testimony and express my condolences for the loss of his mother. Coming all the way to Washington, D.C., and testifying with all this fanfare is difficult enough. But to come here and relive the story of losing your mother is extremely difficult and we appreciate your sharing her story. It is my sincere belief that your testimony today can help prevent similar tragedies in the future.