

Specialty Hospitals Face Congressional Scrutiny

Preliminary results of CMS study on quality are positive, but physician self-referral is still a concern.

BY MARY ELLEN SCHNEIDER
Senior Writer

The Medicare Payment Advisory Commission has recommended that Congress extend the moratorium on the development of new physician-owned specialty hospitals, but its chairman urged members of Congress not to close the door on these hospitals before the potential benefits can be fully investigated.

"Frankly, the status quo in our health care system is not great," MedPAC chairman Glenn Hackbarth testified at a hearing of the Senate Finance Committee on specialty hospitals last month. "We've got real quality and cost issues."

MedPAC members are concerned about the potential conflict of interest in physician-owned specialty hospitals, Mr. Hackbarth said, but they are not prepared to recommend outlawing them until they see evidence on whether specialty hospitals offer increased quality of care and efficiency.

And policymakers do not yet have the answers to those questions, he said.

Sen. Chuck Grassley (R-Iowa), chairman of the Senate Finance Committee, and Sen. Max Baucus (D-Mont.), the committee's ranking Democrat, are drafting legislation that will set Medicare policy on specialty hospitals.

Sen. Grassley said that he will rely on

the MedPAC findings as he drafts the legislation. He is also awaiting the final results of a study on quality of care at specialty hospitals from the Centers for Medicare and Medicaid Services.

Officials at CMS presented preliminary findings from that study at the hearing. CMS was charged under the Medicare Modernization Act of 2003 with examining referral patterns of specialty-hospital physician owners, assessing quality of care and patient satisfaction, and examining differences in the uncompensated care and tax payments between specialty hospitals and community hospitals.

Based on claims analysis, the preliminary results show that quality of care at cardiac hospitals was generally at least as good and in some cases better than the quality of care at community hospitals. Complication and mortality rates were also lower at cardiac specialty hospitals even when adjusted for severity of illness.

However, because of the small number of discharges, a statistically significant assessment could not be made for surgical and orthopedic hospitals, explained Thomas A. Gustafson, Ph.D., deputy director of the Center for Medicare Management at CMS.

Patient satisfaction was high at cardiac, surgical, and orthopedic hospitals, Dr. Gustafson said, due to amenities like larger rooms and easy parking, adding that patients had a favorable perception of the

clinical quality of care they received at the specialty hospitals.

But Sen. Baucus expressed skepticism about the findings and how the study was conducted. He urged caution in using the results of the CMS study as a basis for policymaking.

In its report to Congress, MedPAC recommended that the moratorium on construction of new specialty hospitals be extended another 18 months—until Jan. 1, 2007.

While MedPAC stopped short of recommending that Congress ban new specialty hospitals, the panel did recommend payment changes that would remove incentives for hospitals to treat healthier but more profitable patients.

First, the panel recommended that the secretary of Health and Human Services refine the current diagnosis-related groups (DRGs) to better capture differences in severity of illness among Medicare patients. The panel also advised the HHS secretary to base the DRG relative weights on the estimated cost of providing care, rather than on charges. And MedPAC recommended that Congress amend the law to allow the HHS secretary to adjust DRG relative weights to account for differences in the prevalence of high-cost outlier cases.

These changes would affect all hospitals that see Medicare patients and increase the accuracy and fairness of payments, Mr. Hackbarth said.

In addition, MedPAC tried to address physicians' concerns that they do not have a say in the management of community hospitals, by recommending that Con-

gress allow the HHS secretary to permit "gainsharing" arrangements between physicians and hospitals. Gainsharing aligns financial incentives for physicians and hospitals by allowing physicians to share in the cost savings realized from delivering efficient care in the hospital.

But even with these changes, Mr. Hackbarth said MedPAC members still have concerns about the impact of physician ownership on clinical decision making.

And members of the Senate Finance Committee also raised questions about the appropriateness of physician self-referral.

"When it comes to physician ownership of specialty hospitals, I'm not sure the playing field is level," Sen. Baucus said.

Physicians are the ones who choose where patients will receive care, he said. He compared the physician owners of specialty hospitals to coaches who choose the starting lineup for both teams.

Advocates for specialty hospitals, including the American Medical Association and the American Surgical Hospital Association, are lobbying Congress to end the moratorium, saying it will allow competition and won't hurt community hospitals.

But opponents are asking Congress to close the the federal self-referral-law exemption that allows physicians to invest in the "whole hospital" rather than a single department.

Sen. Baucus said that surgical specialty hospitals, which on average have only 14 beds, look more like hospital departments than full-service hospitals. "This loophole may well need closing," he said. ■

Consumer-Driven Health Care Should Improve Quality

BY JOYCE FRIEDEN
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WASHINGTON — The trend toward consumer-driven health care will ultimately improve overall health care quality, Regina Herzlinger, Ph.D., said at a consensus conference sponsored by the American Association of Clinical Endocrinologists.

Dr. Herzlinger, professor and chair of business administration at Harvard Business School, in Boston, contrasted the health care industry with the automotive industry. The automotive industry, which is already consumer driven, is deflationary and features increasing product quality, lots of available product information, and widespread ownership. The health care industry, on the other hand, is not consumer-driven and is characterized by inflation, unknown quality of care, and 46 million people without health insurance.

She noted that what helped the automotive industry along was the presence of entrepreneurs, who ended up being richly rewarded for their efforts. For

instance, Henry Ford, founder of the Ford Motor Co., created a new, less expensive form of steel from which to make cars. "Within a decade, car ownership went from 10,000 to 1 million," she noted.

Although Mr. Ford and other automotive industry pioneers were rewarded, innovation in health care is not well rewarded, Dr. Herzlinger continued. As an example, she cited the case of Ralph Snyderman, M.D., who came up with the idea of integrating the care of patients with heart failure by organizing care teams. "In 1 year, he lowered the costs by 40%," she said.

And what was his reward for doing so? "He lost the entire savings, because the health care system does not pay for making sick people better. It pays for days in the hospital, for doctor visits, for components of care. So the healthier he made people, the fewer people went to the hospital, the fewer doctor visits there were, and the more money he

lost. Right now, if you're a Henry Ford, you're punished, and we have very poor quality," she said.

With consumer-driven health care, different products will be developed to respond to the needs of different consumers, she continued. And insurers will realize they can be rewarded for considering consumers' longer-

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term needs, Dr. Herzlinger said.

"I want a 5-year insurance policy. I want my insurer to really care about my long-term health," she said. Switzerland has 5-year insurance policies, she noted, "and if, at the end of the 5 years, you're healthier than would have been predicted at the beginning, you get 45% of your money back. How's that for a good deal for the insurer, the provider, and the customer?"

Dr. Herzlinger predicted that

it will become commonplace for insurers to offer integrated team care for chronic diseases. The teams "will be wired, they'll be focused, and they're going to be paid for the fact that they're dealing with sicker people," she said.

Offering such teams will be a matter of "simple economics," she continued. "You're the insurer; 80% [of your money] goes for sick people. If you want to make it cheaper and better, how better to make it cheaper and better than to go to these organizations?"

Under a consumer-driven health care system, physicians will be paid based on outcomes, "and there will be long-term contracts so you don't look at your patients in a 1-year kind of window," she said. "Investments in self-care early on will be rewarded."

One big driver behind consumer-driven health care will be aging baby boomers, a group that Dr. Herzlinger called "the most narcissistic, self-centered,

empowered, and effective cohort we've ever had in the United States. The idea that this group isn't going to get what it wants, that's fantasy. They want [doctors] to integrate themselves, seize control of the system, and help patients care for their chronic diseases."

She took issue with the notion that consumer-driven health care plans will be disadvantageous to sick people. "Quite the contrary. It will finally focus attention on sick people. Right now it's in the incentive of the insurers to get rid of sick people and not to pay people who treat sick people well. But if you go to a consumer-driven system with risk-adjusted prices, the sick will be very attractive kinds of entities."

She also disputed the notion that only those who can afford high-cost plans will get the highest-quality health care. "In the car market, what is the best car in the U.S.? Toyota," she said. "Is that the highest-cost car? Not by a long shot." Instead, it's the best-quality care "because that's where all the money is. That's the mass market." ■