Committee On Finance
Max Baucus, Ranking Member
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Statement of U.S. Senator Max Baucus (D-Mont.)
Physician-Owned Specialty Hospitals: Profits before Patients?
Senate Finance Committee Hearing

Today we examine the issue of specialty hospitals. These are physician-owned facilities primarily or exclusively engaged in cardiac, orthopedic, or surgical care. Specialty hospitals are typically small. They range in size from a few beds to a few dozen. There are more than specialty hospitals 100 nationwide.

One might wonder why these relatively few, and relatively small, facilities have led to such heated debate in Congress. Why is there a moratorium on their expansion? Why is this issue such cause for concern? There are at least three reasons.

Reason number one: As we will hear from Ms. Cindy Morrison, specialty hospitals can have a significant effect on the ability of full-service hospitals to sustain critical health care services in their communities. The GAO recently found that, in the aggregate, specialty hospitals had little effect on the survival of full-service community hospitals.

But as we'll hear from Ms. Morrison, that is hardly true of the examples that she'll cite in South Dakota, Kansas, and Louisiana. I look forward to hearing Ms. Morrison's examples of the profound effects specialty hospitals have had on these communities.

Reason number two: Specialty hospitals contribute to rising health costs. America spends $2 trillion a year on health care. That's 50 percent more than next-highest-spending country. We need to get more for our health-care spending. And it appears that specialty hospitals aren't helping.

The independent Medicare Payment Advisory Commission found that specialty hospitals are more expensive than full-service hospitals.

Specialty hospitals are not focused factories of efficiency. MedPAC found that orthopedic and surgical hospitals are actually 20 percent more expensive than their full-service counterparts.

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The nonpartisan Congressional Budget Office also believes that specialty hospitals drive up health costs.

Last year, Chairman Grassley and I wrote legislation to prevent the growth of further specialty hospitals. CBO told us that this bill, if enacted, would save Medicare money over the long term.

These findings are consistent with those of past independent analyses regarding self-referral.

In 1989, the HHS Inspector General looked at cases where referring physicians owned or invested in independent clinical labs. The IG found that patients in these cases received 45 percent more lab services than Medicare patients in general.

Other studies showed that patients of physician-owners received imaging at a rate of four to four and a half times more than patients referred to independent radiologists. And these patients received physical therapy at rates about 40 percent higher than patients referred to independent practitioners

As a result of these analyses, Congress passed legislation to prohibit self-referral in Medicare, with a few exceptions.

But 17 years after the first self-referral law was enacted, self-referral to specialty hospitals has not been permanently prohibited. Despite repeated, independent reports that specialty hospitals care for the healthiest and most profitable patients, specialty hospitals are allowed to carry on.

I understand that physicians are often frustrated with hospital management. I am not here to defend that management. I know that the physician-owned specialty hospital model is attractive in part because it allows doctors to have more control over their workplace.

But we cannot ignore the other side of this story. We can't ignore that several independent analyses have shown that specialty hospitals care for healthier, more profitable patients. The GAO said so in 2003. HHS said so in 2005. And MedPAC said so in 2005 and 2006.

In short, four government reports have shown that specialty hospitals care for healthier, more profitable patients.

Reason number three, my final concern with specialty hospitals, is the issue of patient safety.

Today's first witness is Reverend Michael Wilson, who will share the story of his mother, Helen Wilson.

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Helen Wilson had back surgery at a physician-owned specialty hospital in Portland, Oregon. The surgery went well. But she went into sudden cardiac arrest after receiving pain medication during recovery.

Ms. Wilson was in the specialty hospital when her heart stopped. We would all expect her doctors to come running to save her. But there were no doctors around.

Instead, nurses at the specialty hospital had to call 911 for help. The specialty hospital had to call 911, so that a full-service hospital could care for the specialty hospital patient.

For Ms. Wilson, the help from the paramedics came too late. She passed away as a result of the loss of oxygen to her brain during her cardiac arrest.

This was a preventable death. Had Ms. Wilson known then what this Committee knows now, I can't imagine that she would have chosen to undergo surgery at Physicians' specialty hospital.

Regrettably, preventable deaths — deaths from medical errors — do occur every day in this country, including at full-service hospitals. This Congress should be doing all it can to fix that, by rewarding quality in Medicare, and investing in health IT.

But one thing we should not be doing is promoting the development of more facilities — like Physicians' Hospital — that are hospitals in name only.

Reverend Wilson, I appreciate your coming here today to share your mother's story. My heart goes out to you. And I extend my sympathy to you for you loss.

Mr. Chairman, specialty hospitals have had significant, negative effects on many full-service hospitals. Specialty hospitals cost Medicare more. And in the case of Helen Wilson, specialty hospitals failed to care for her when she needed it most.

Let's do what we can to protect all of our hospitals. Let us do what we can to control medical costs. And let do what we can to see that there is not another case like Helen Wilson's.

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