Congress of the United States
Washington, DC 20515

MORE PRAISE FOR SPECIALTY HOSPITALS

January 28, 2005

Dear Colleague:

We'd like to bring to your attention a recent editorial from the *Wall Street Journal* regarding specialty hospitals. As the article notes, these facilities have provided much-needed competition, which "results in everything from better equipment to more flexible operating room schedules." Contrary to popular belief, they do not put other hospitals out of business, but rather raise the standard of care for everyone.

Please feel free to contact Nikki Miller with Congressman Johnson at 5-4201 or Kim Herb with Congressman Shadegg at 5-3361 if you would like more information about what specialty hospitals are doing for the industry.

Sincerely,

SAM JOHNSON
Member of Congress

JOHN SHADEGG
Member of Congress

REVIEW & OUTLOOK

In the (Specialty) Hospital

Count us among those who'd like to see Congress pass more market-oriented health-care reform. In the meantime, it wouldn't hurt if elected officials kept their hands off one of the more encouraging new areas of health competition, namely "specialty hospitals."

Competition in hernia repair and heart bypasses.

These private facilities are popping up everywhere, specializing in particular procedures or areas of care—cardiac, orthopedic, women's medicine, you name it. Their focused mission helps to drive down costs, drive up quality of care and give consumers greater choice over health decisions. For all these reasons, they've earned the ire of traditional hospitals and the government-run-medicine crowd, who've teamed up to try to outlaw or overregulate these new competitors.

That'd be a shame, not least since the freedom that allows for specialty hospitals has been a long time in the making. It once was the federal government that basically decided where and when hospitals were built, an inefficient bit of central planning the Reagan Administration abolished. States also began to loosen their own controls over health facilities, paving the way first for centers that specialize in elective, outpatient procedures (cataract removal, hernia repair), and now for newer hospitals that concentrate on full-blown in-patient treatments (heart bypasses, spine surgeries).

Now, according to 2003 GAO reports, the nation has at least 100 specialty hospitals, two-thirds in the seven states with the best regulatory environment (Arizona, California, Kansas, Louisiana, Oklahoma, South Dakota and Texas). While that's still small—representing only about 2% of short-term acute-care hospitals nationwide—growth has been rapid, with the number of facilities tripling since 1990 and another 20 now under development. Many are at least partly physician-owned and -operated, reflecting the growing discontent doctors have with the bureaucracy that often rules full-service hospitals.

Patients, for their part, love them. Full-service hospitals play vital community roles, but as generalists they aren't able to excel in every type of care. Hospitals that concentrate on targeted areas can provide superior services at the lower costs that come with efficiencies. A study of MedCath's cardio-hospitals, for instance, found that its patients had shorter lengths of stay, fewer complications and lower mortality rates than in comparable general hospitals. The new competition is also giving patients the sort of options in care (nicer rooms, made-to-order meals) that have rarely been possible in busy, publicly funded hospitals.

All this choice is giving heartburn to critics, who tend to make the same arguments against specialty hospitals as they do against school choice. They complain that specialty hospitals siphon off the most profitable patients, leaving community hospitals with the hard-to-treat cases. And since many full-service hospitals rely on private, paying patients to cover the costs of shortfalls in Medicare, Medicaid and bad-debt patients, they say the very existence of specialty facilities is only worsening the plight of financially strapped general hospitals. They've also leveled ethics charges, arguing for instance that it is a conflict of interest for physicians to refer patients to their own profit-making hospitals.

Terrible as these accusations sound, they're little more than that. It's true general hospitals can get the toughest cases, both medically and financially. But that's why many not-for-profit hospitals are granted enormous advantages over competitors, including freedom from federal and state income taxes, property tax exemptions, low interest-rate bond financing, and the freedom to collect tax-deductible donations.

Moreover, early findings from the federal Medicare Payment Advisory Commission, which is studying specialty hospitals, found that while full-service hospitals do take a hit from specialty hospitals, they usually find a way to recover. That's because the competition is a "wake-up call" that results in everything from better equipment to more flexible operating room schedules. Other studies suggest specialty hospitals take in a wide mix of patients. And as for physician ownership, we already have laws designed to protect against abuse.

What the critics really want is to take away consumer choice, forcing patients into treatment at less-optimal facilities for no reason other than to prop up the current system. The Republican Congress has taken some baby steps toward empowering consumers over their health care dollars with the creation of health savings accounts. But the other side of the equation is ensuring that consumers have a choice of places to spend those dollars, which means competition among hospitals.

Advocates of health care reform might remember this in coming months as the specialty hospital debate heats up. Democratic Senator John Breaux obtained an 18-month federal moratorium on specialty hospitals that ends in June, and some are already looking to make it permanent. State politicians are also working—at the prodding of protectionist groups like the American Hospital Association—to enact bans on physician ownership or load up specialty hospitals with costly new regulation. The last thing health reformers need are more laws standing in the way of choice.