

Part B Insider (Multispecialty) Coding Alert

Politics and Policy: DRG Changes Could Slash Physician-Owned Hospital Payments

Moratorium likely to last until 2007

Do physician-owned hospitals that focus on one narrow specialty hurt local community hospitals? And do they improve patients' outcomes?

Two March 8 congressional hearings failed to resolve those tricky questions. The most likely outcome of the two hearings is that Congress will extend the current moratorium on new physician-owned facilities until January 2007, as the **Medicare Payment Advisory Commission** recommends.

MedPAC analysts haven't crunched enough data to know whether physician-owned hospitals improve quality and efficiency of care, or just increase utilization, MedPAC Chair **Glenn Hackbarth** told the **Senate Finance Committee**, which had a morning hearing, and the **House Ways and Means Health Subcommittee**, which had an afternoon hearing. MedPAC will have more data in 2006.

One rural South Dakota hospital executive told the Senate panel his facility is "struggling to keep [the] doors open" since a physician-owned surgical center opened down the street and siphoned off what he said were some of the hospital's main profit services that formerly subsidized other needed but low-paying services. Statistics show physician-owned facilities see healthier patients than regular hospitals.

To address that imbalance, MedPAC recommends rebalancing reimbursements for the diagnosis-related groups (DRG) in the inpatient prospective payment system. They would shift payment toward some medical services and away from some surgical services, while adjusting within categories for severity of illness.

Under a revised DRG system, physician-owned specialty hospitals would see their payments drop, said Hackbarth. But legislators said that outcome wouldn't address the problem completely. The Bush Administration is on record as supporting this idea, but the **Centers for Medicare and Medicaid Services** couldn't start on the change until Fall 2006, and it would require some legislative tweaks.

MedPAC also recommended approving some hospital-physician gainsharing arrangements, which might increase efficiency.

But MedPAC no longer supports changing physician self-referral rules to eliminate the "whole hospital" exception, which allows physicians to refer to hospitals if they invest in the whole hospital, rather than a department. The **Federation of American Hospitals** petitioned the **Department of Health and Human Services** on Feb. 28 to eliminate this exception, stating that it was designed to allow investments in large hospitals, not in small, specialized hospitals.