

Specialty Hospitals Freed From CMS Moratorium

BY ALICIA AULT

Associate Editor, Practice Trends

The Centers for Medicare and Medicaid Services has allowed the moratorium on physician-owned specialty hospitals to expire, which means that those facilities—whether old or new—again can receive federal reimbursement.

But in its report to Congress that ended the moratorium, CMS said ownership arrangements at the facilities—which offer

specialized cardiac, surgical, and orthopedic care—warrant more federal scrutiny.

The moratorium began in 2003; from late that year until June 2005, specialty hospitals could receive a Medicare provider number, but physician-owners could not bill for services for Medicare beneficiaries they referred to the facilities. Hospitals were prohibited from increasing the number of physician investors or the number of beds, or changing the kind of services provided.

The moratorium was essentially extend-

ed in mid-2005, when no new hospitals were allowed to enroll in Medicare. Congress directed CMS to study the hospitals' financial arrangements and provision of charity care and report back by last Aug. 8.

The final report "provides a comprehensive path forward to address the concerns that have been raised," CMS Administrator Dr. Mark McClellan said at a press briefing sponsored by CMS to announce the moratorium's end.

Now, specialty hospitals may receive

Medicare payments provided they meet certain criteria outlined in the CMS report.

The report, along with proposals on inpatient, outpatient, and ambulatory surgery center payments, "should put an end to the debate over specialty hospitals," said Randy Fenninger, Washington representative for the American Surgical Hospital Association, an organization of specialty hospitals.

But the American Hospital Association and the Federation of American Hospitals said the report shows that specialty-oriented facilities are skirting the law. Both groups said CMS found evidence that specialty hospitals are soliciting physician-investors who can refer a high volume of patients.

For instance, CMS reported that cardiac hospitals always offered the same payment terms to noninvestor and investor-physicians, but orthopedic and surgical hospitals offered noninvestors a lower rate. According to a CMS statement, "Although not explicitly given by the hospitals as a criterion for selecting investors, it appears that the volume of referrals and revenue generated may have been a critical factor for some hospitals in determining which physicians were permitted to invest."

Mary Beth Savary Taylor, AHA vice president for executive branch relations, said "more action is needed to really take a look at conflict of interest when physicians own and refer patients" to a facility. AHA believes that "physician referrals to limited-service hospitals should be banned," she added.

"The CMS plan includes some potentially promising initiatives, such as increasing enforcement scrutiny, but it falls short by not addressing the core issue of conflict of interest," the Federation of American Hospitals said in a statement.

The CMS report is based on a survey of 130 specialty hospitals and 270 general acute care competitor hospitals. The response rate was good, but there was a lack of full participation in many areas. Sen. Chuck Grassley (R-Iowa) and Sen. Max Baucus (D-Mont.) wrote to CMS just before the report was issued to complain about the paucity of responses. After the report's release, they said they would seek more data. "I'm concerned that a survey of just 140 facilities was used to develop policy for the roughly 4,000 hospitals reimbursed by Medicare," Sen. Baucus said in a statement.

The senators are cosponsors of the Hospital Fair Competition Act of 2005 (S. 1002), which they said will "rein in the growth of physician-owned specialty hospitals."

In the survey, specialty hospitals were asked, for instance, about returns on physician investment. CMS found that among the hospitals that responded, the returns overall were proportionate to investment. But only 47% of the hospitals surveyed responded to this question, CMS said. The agency said that it considers nonproportional returns to be violations of physician self-referral and antikickback laws, and that it would go after suspect arrangements.

Some hospitals are already being disciplined for violations under the moratorium. CMS said that four hospitals improperly sought Medicare reimbursement for patients referred by physicians who had an ownership interest in the hospital, leading

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1. McCullough P et al. *Circulation*. 2002; 106:416-422.

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to a \$12.1 million overpayment. The agency is seeking repayment of those funds.

In the report, CMS also said it would require all hospitals to disclose compensation arrangements and the fact that physicians are investors. Hospitals that did not fully respond to the survey will be the first to receive forms seeking such disclosures. If they don't respond in a timely manner, they will be fined up to \$10,000 a day.

Also, CMS clarified that all hospitals, including specialty hospitals—even if they don't have an emergency department—must comply with the transfer provisions of the Emergency Medical Treatment and Labor Act. That means they must accept transfers and provide emergency services for patients, regardless of their ability to pay.

Mr. Fenninger said specialty hospitals were in agreement with this provision.

As expected, CMS found that specialty hospitals provide less charity care than acute care hospitals do—an average 4% for cardiac hospitals, 1% for orthopedic hospitals, and 0.2% for surgical hospitals in fiscal 2004 and 2005, vs. 8% for general facilities.

Again, Mr. Fenninger said this was not surprising, claiming that most specialty hospitals were in geographic areas that did not serve many charity care cases.

CMS said there might be extenuating circumstances, and noted that “the profile of services offered by specialty hospitals may contribute to the differences in patient mix.” The agency said Congress should consider whether further reforms are needed to promote delivery of charity care.

Dr. McClellan said the report should not be seen as a signal that the federal government would stop monitoring physician-owned facilities. “When it comes to enforcing the requirements of the law when it comes to specialty hospitals, we mean it and we’re going to do it,” he said. ■

UPCOMING MEETINGS

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Reference: 1. Data on file, Novartis Pharmaceuticals Corp.

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