

## Literature Review Debunks Claims Against Physician-Owned Hospitals

Approximately 250 hospitals across the U.S. are completely or partially physician owned.<sup>1</sup> These physician-owned hospitals (POHs) can offer a variety of services, from general care to specialty services, such as cardiovascular or orthopedic care, known as “focused factories.” Over the past several decades, healthcare providers and policymakers have claimed that POHs have a negative impact on the healthcare industry, suggesting that: (1) POHs “cherry-pick” the most profitable patients; (2) the quality of care provided at POHs is substandard; and, (3) conflicts of interest exist due to the financial incentive for physician owners to refer patients to their POHs.<sup>2</sup> Such concerns have led to policies restricting the purview of POHs in their communities, such as limiting the application of POH exceptions in the Stark Law and the Anti-Kickback Statute.<sup>3</sup> However, a recent literature review rebuts the assumptions that led to these policy restrictions.

A systemic review of 30 years of healthcare services research was released on September 7, 2021, through the Mercatus Center,<sup>4</sup> wherein the authors sought to answer the questions of comparative cost and quality in POHs, and found that “focused factory” POHs – particularly those focusing on cardiac and orthopedic care – offered higher quality and lower or equivalent cost services, with general surgical POHs demonstrating higher quality in limited studies.<sup>5</sup> Additionally, “physician-owned community hospitals (or general acute care POHs) had similar cost and quality to their non-profit and for-profit competitors, suggesting a lack of harms.”<sup>6</sup>

In their review of 21 studies between 1990 and January 2020, the authors classified those articles according to whether the POHs studied were:

- (1) Physician-owned cardiac specialty hospitals;
- (2) Physician-owned orthopedic specialty surgical hospitals;
- (3) Physician-owned general surgical hospitals; or,
- (4) Physician-owned general acute care hospitals.<sup>7</sup>

As regards quality of care data, the measures were divided into the following four domains to facilitate comparison:

- (1) Facility characteristics;
- (2) Pre-procedure capabilities;
- (3) Care episode characteristics; and
- (4) Care delivery outcomes or complications.<sup>8</sup>

In analyzing the studies related to physician-owned cardiac specialty hospitals, the literature review found that any difference in cost of care between cardiac specialty POHs and non-POHs was not statistically significant.<sup>9</sup> However, numerous studies examining various facets of quality related to certain cardiac conditions found POHs to be better on measures such as length of stay (LOS), inpatient mortality, inpatient plus 30-day mortality, and readmissions.<sup>10</sup>

More robust results were found in a review of the studies related to physician-owned orthopedic specialty surgical hospitals. Multiple studies demonstrated decreased costs for orthopedic procedures at POHs, although “low quality” studies from the Medicare Payment Advisory Committee (MedPAC) that were less recent than the aforementioned research found higher costs for care delivered in orthopedic specialty surgical POHs.<sup>11</sup> However, the authors noted that both the 2005 and the 2006 MedPAC studies reviewed only one year of claims data and did not analyze data by Medicare Severity-Diagnosis Related Group (MS-DRG).<sup>12</sup> As regards quality, the literature review found that orthopedic specialty surgical POHs achieved higher quality metrics “across a multitude of categories,” such as overall hospital ratings, doctor-nurse communication, and staff responsiveness, as well as on more specific clinical characteristics, such as lower rates of LOS, various complications, inpatient mortality, inpatient plus 30-day mortality, readmission, risk-adjusted complication scores, and surgical interventions on initial consultation (i.e., the PHOs are more willing to try other, nonsurgical interventions first).<sup>13</sup>

In reviewing the literature related to physician-owned general surgical hospitals, the researchers found that those POHs had slightly higher costs, but the difference was not statistically significant.<sup>14</sup> While there was a relative dearth of quality data specific to general surgical POHs, it was generally in favor of POHs – one study in particular found POHs to have statistically significant lower inpatient mortality rates and lower inpatient plus 30-day mortality rates.<sup>15</sup>

Literature examining physician-owned general acute care hospitals found that compared to patients at general acute care hospitals, “patients at POHs were younger...and more likely to be male..., but they were also more likely to be African American...or use Medicaid,” and had higher mean predicted morbidity, refuting long-held

beliefs that POHs “cherry pick” healthier and more profitable patients.<sup>16</sup> Nevertheless, risk-adjusted costs at general acute care POHs were found to be slightly lower than those at general acute care hospitals and the quality data for both types of hospitals were similar.<sup>17</sup>

In summarizing their literature review, the researchers noted that their “review did not identify a service market where the quality data disfavored POHs,” while the differences in cost of care was more mixed.<sup>18</sup> Specifically however, “[a]lthough some policy experts have expressed historical concerns of favorable patient selection (“cherry picking”) in POHs, our systemic review found no consistent evidence to support this assertion.”<sup>19</sup> In fact, the authors assert that “in the absence of evidence that POHs provide services of lower quality or higher cost, Medicare’s ban on new POH

participation and expansion of pre-existing POHs lacks justification.”<sup>20</sup> Instead, the researchers argue, repealing the ban would actually have potential positive effects on the healthcare delivery system, such as allowing for “new joint ventures and clinical operating models” and “promot[ing] flexibility and competition among hospital ownership models.”<sup>21</sup>

Considering the more recent research finding hospital consolidation results in higher costs and lower quality, and the subsequent push to increase competition in the U.S. healthcare industry,<sup>22</sup> this latest research as to the effectiveness of POHs may provide a strong argument to regulators that increasing competition through the addition of more POHs in the marketplace may provide a much-needed jolt to the U.S. healthcare delivery system.

- 1 “Lift the Ban on Physician-Owned Hospitals” By Grace-Marie Turner, Forbes, November 6, 2015, <http://www.forbes.com/sites/gracemarieturner/2015/11/06/lift-the-ban-on-physician-owned-hospitals/#3ec937764b00> (Accessed 9/17/21); “Facility Expansion options for a Physician-owned Hospital” Marcum LLP, <https://www.marcumllp.com/pdf/articles/blogs/MarcumLLP-FacilityExpansionOptions.pdf> (Accessed 9/17/21).
- 2 “Access, Quality, and Costs of Care at Physician Owned Hospitals in the United States: Observational Study” By Daniel M. Blumenthal, et al., British Medical Journal, Vol. 351 (September 2, 2015), <http://www.bmj.com/content/bmj/351/bmj.h4466.full.pdf> (Accessed 11/1/16), p. 1.
- 3 “Presenting the Truth: The Attack on Niche Providers” By Robert James Cimasi, ASA, CBA, AVA, FCBI, CM&A, CMP, American Surgical Hospital Association, (October 27, 2005), p. 2.
- 4 The Mercatus Center is a research center based out of George Washington University.
- 5 Email received 9/7/2021 from Brian Miller, MD, MBA, MPH, Re: Policy solutions to increase competition in hospital markets.
- 6 *Ibid.*
- 7 “Cost and Quality of Care in Physician-Owned Hospitals: A systemic Review” By Ted Cho et al., Special Study, Mercatus

- Center, George Washington University, available at: <https://www.mercatus.org/system/files/miller-cost-and-quality-of-care-in-poh-special-study-v1a.pdf> (Accessed 9/17/21), p. 7-12.
- 8 *Ibid.*, p. 7.
  - 9 *Ibid.*
  - 10 *Ibid.*, p. 7, 9.
  - 11 *Ibid.*, p. 9-10.
  - 12 *Ibid.*, p. 10.
  - 13 *Ibid.*, p. 10-11.
  - 14 *Ibid.*, p. 12.
  - 15 *Ibid.*
  - 16 *Ibid.*, p. 12-13.
  - 17 *Ibid.*, p. 13.
  - 18 *Ibid.*, p. 14.
  - 19 *Ibid.*, p. 12-13.
  - 20 *Ibid.*
  - 21 *Ibid.*, p. 15.
  - 22 “Reversing Hospital Consolidation: The Promise Of Physician-Owned Hospitals” By Brian J. Miller et al., Health Affairs Blog, April 12, 2021, <https://www.healthaffairs.org/doi/10.1377/hblog20210408.980640/full/> (Accessed 9/17/21).



**(800)FYI - VALU**

*Providing Solutions  
in the Era of  
Healthcare Reform*

Founded in 1993, HCC is a nationally recognized healthcare economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients & Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

## HCC Services

- [Valuation Consulting](#)
- [Commercial Reasonableness Opinions](#)
- [Commercial Payor Reimbursement Benchmarking](#)
- [Litigation Support & Expert Witness](#)
- [Financial Feasibility Analysis & Modeling](#)
- [Intermediary Services](#)
- [Certificate of Need](#)
- [ACO Value Metrics & Capital Formation](#)
- [Strategic Consulting](#)
- [Industry Research Services](#)



**[Todd A. Zigrang](#)**, MBA, MHA, CVA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "[The Adviser's Guide to Healthcare – 2nd Edition](#)" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies; Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).



**[Jessica L. Bailey-Wheaton](#)**, Esq., is Senior Vice President and General Counsel of HCC, where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions, and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services.

She serves on the editorial boards of NACVA's *The Value Examiner* and of the American Health Lawyers Association's (AHLA's) *Journal of Health & Life Sciences Law*. Additionally, she is the current Chair of the American Bar Association's (ABA) Young Lawyers Division (YLD) Health Law Committee and the YLD Liaison for the ABA Health Law Section's Membership Committee. She has previously presented before the ABA, NACVA, and the National Society of Certified Healthcare Business Consultants (NSCHBC).

Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the *Journal of Health Law & Policy*.



**[Daniel J. Chen](#)**, MSF, CVA, focuses on developing Fair Market Value and Commercial Reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams. Mr. Chen holds the Certified Valuation Analyst (CVA) designation from NACVA.



**[Janvi R. Shah](#)**, MSF, serves as Senior Financial Analyst of HCC. Mrs. Shah holds a M.S. in Finance from Washington University Saint Louis. She develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams.