

Report: Financial Incentives Of PODs Leads To Increased Surgeries

The Associated Press

U.S. Senators Orrin Hatch (R-Utah), Max Baucus (D-Mont.), and Chuck Grassley (R-Iowa) said today that a new report from the U.S. Department of Health and Human Services Office of Inspector General (HHS-OIG) shows a direct correlation between doctors who have a financial relationship in spinal medical device companies, known as Physician Owned Distributorships (PODs), and an increase in spinal fusion surgeries - putting patients' health at risk and costing taxpayers through increased billings to the Medicare program caused by unnecessary surgeries.

The report, which was requested by Finance Committee Ranking Member Hatch, along with Committee Chairman Max Baucus (D-Mont.) and Judiciary Committee Ranking Member Chuck Grassley (R-Iowa), found PODs supplied devices that were used in roughly one in five spinal fusions surgeries and billed to Medicare in fiscal year (FY) 2011. According to the report, in FY 2012 surgeons performed more spinal surgeries at hospitals that purchased from PODs than those that did not purchase from PODs.

"My deep-seated skepticism that physician-owned distributors operate in the best interest of patients and save taxpayers money has been confirmed by this non-partisan report," said Hatch. "Seniors on Medicare deserve a surgeon who makes these life-changing health care decisions based on what is best for the patient, not what is best for the surgeon's bottom line. The HHS Inspector General's finding that hospitals conduct a greater number of high risk spinal surgeries when they purchase products from physician-owned distributors shows why vigorous oversight is necessary to protect the health and safety of patients."

"The findings from the HHS Inspector General show that physician-owned distributorships are driving up health costs and may even be encouraging unnecessary surgeries. Together with the Inspector General's special alert issued earlier this year, it's clear that PODs require closer monitoring," Baucus said. "We must ensure that physician-owners of these medical device distributorships play within the rules and are not allowed to profit at the expense of patients and taxpayers."

"The growth in surgeries connected to physician-owned distributorships raises a lot of questions," Grassley said. "Are patients undergoing surgeries based on medical need and quality of care or financial incentives for doctors? As a start, hospitals should take a closer look at whether their physicians are participating in and benefiting from these arrangements and what that means for patients. Also, the inclusion of physician-owned distributorships in the Physician Payments Sunshine Act will help shed light on these relationships."

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In June 2011, Hatch released a report which identified the rapid proliferation of PODs in at least 20 states, exposed the lack of specific legal guidance issued by the Office of Inspector General for HHS to govern the structure and establishment of PODs and brought into question the utilization and appropriateness of services provided by doctors participating in some of the PODs, particularly with respect to Medicare, which is funded by taxpayers. The HHS-OIG report confirmed that in recent years there has been a significant increase in the number of hospitals that do business with PODs, which allow physician investors to purchase ownership shares in an entity that, in turn, purchases or serves as a medical device distributor for the products the physician utilizes in surgery.

Today`s report was a direct result of the Senators` 2011 letter to HHS-OIG asking them to investigate whether the structure of PODs were a breeding ground for fraud within the Medicare program. The Senate Finance Committee has jurisdiction over Medicare and Medicaid.

Key findings from the HHS-IG Report follow:

- In FY 2011, PODs Supplied Devices Used In Nearly 1 In 5 Spinal Fusion Surgeries Billed To Medicare. The HHS-OIG report found that "PODs supplied spinal devices for 19 percent of the spinal fusion surgeries billed to Medicare in FY 2011."
- Spinal Fusion Surgeries That Used POD Devices Used Fewer Devices But Did Not Have Lower Device Costs. According to HHS- OIG, ". . . surgeries that used POD devices implanted an average of 12.3 spinal devices compared to an average of 14.2 spinal devices for surgeries that did not implant POD devices." Furthermore the HHS-OIG stated that "We did not find a statistically significant difference between the average total device cost for spinal surgeries that used POD devices and those that did not use POD devices."
- Purchasing From A POD Did Not Reduce Costs Per Unit For Spinal Devices Or For Spinal Surgeries Overall. HHS-OIG found that ". . . none of the six types of spinal devices examined was less costly per unit when provided by PODs, and one was more costly when provided by PODs." The HHS-OIG findings showed that "the average total device cost for surgeries that used POD devices was \$11,601 and the average total device costs for surgeries that did not use the POD devices was \$11,383."
- The Growth In The Rate of Spinal Surgery After Hospitals Began Purchasing From PODs Was Three Times That For All Hospitals. A high level finding from the HHS-OIG was that "hospitals' overall rate of spinal surgery grew more quickly for the group of hospitals in the HHS-OIG sample that purchased from PODs." Specifically, "before the hospitals started purchasing from PODs, they performed 95 spinal surgeries per 1,000 surgical discharges. This rate grew to 110 spinal surgeries per 1,000 surgical discharges after these hospitals began purchasing from PODs, an increase of 16 percent. During the same time period, the rate for hospitals overall grew by only 5 percent, from 57 to 60 spinal surgeries per 1,000 discharges."

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