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# Some nonprofit hospitals spend less on charity care than they receive in tax breaks, new analysis shows

*By* Brittany Trang March 26, 2024

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A new study of hospitals' charity care spending suggests nonprofit hospitals really aren't that different from their for-profit counterparts.

One major benefit of being a nonprofit hospital is receiving tax exemptions on property taxes, income taxes, and sales taxes. Experts told STAT that implies a "social contract" with taxpayers, where these hospitals will help take care of the most vulnerable. But according to a new study, 80% of 2,425 non-profit hospitals spent less on charity care and community investment than they got in estimated tax breaks.

The new study underscores the gap between the general public's perception of the "social largesse" of non-profit hospitals and those organizations' actual behavior, said Genevieve Kanter, an associate professor of public policy at the University of Southern California who was not involved in the study.

"It's not obvious that in all the ways that we might care about, that nonprofit hospitals are behaving in more pro-social ways than for profit hospital to 'deserve' this tax exemption," she said.

The new study from the Lown Institute think tank, which aims to hold hospitals accountable on social spending and quality of care, compared nonprofit hospitals' estimated tax breaks to their reported spending on financial assistance programs and community benefits in 2021.

Health systems like Kaiser Permanente, Providence, CommonSpirit, Trinity, and Ascension all spent far less on charity care than they received back in tax breaks. Kaiser and Providence's deficiencies topped $1 billion, according to the Lown Institute calculations.

At the individual hospital level, New York Presbyterian, UPMC Presbyterian, NYU Langone, Cleveland Clinic, and Massachusetts General Hospital all had the same kind of difference in their spending.

Bigger hospitals — the top 50% by total spending — actually spent a smaller percentage of their expenditures on community benefits (3.6%) than the bottom 50% of hospitals, which spent 4.1% of their expenditures on community benefits.

"One would actually think that because of economies of scale, that bigger hospitals actually would be able to give greater community benefits than smaller hospitals," said Kanter.

The study also reported which hospitals spent far more on charity care than they got in estimated tax breaks. But the size of those differences — the top 10 coming in between $194 million to $54 million — were much smaller than the amounts tallied for hospitals that spent less on charity care.

Hospitals argue the Lown Institute report is "biased" and "narrow and incomplete," in part because it relies on tax information from 2012, and in part because the study doesn't include categories that are legally counted as community investment.

"This report is an annual exercise in misinformation and a misrepresentation of the services that non-profit health systems provide to our communities. The methodology is flawed, the reasoning is faulty, and the cherry-picked data sets used by the Lown Institute are opaque," said an Ascension spokesperson in an email to STAT.

A group representing Catholic hospitals said that "the report's failure to include hospital costs for unreimbursed Medicaid, health professional training, and research, demonstrates an utter disregard for reporting on the actual community benefit impact, as set out by the IRS."

Researchers not associated with the study told STAT that the Lown Institute's decisions about what to include were reasonable. Hospitals can count expenses in those contested categories multiple times when taking into account government reimbursements or with discounts, the study researchers wrote.

"Just because the IRS allows hospitals to report things as a community benefit doesn't actually mean it is a community benefit, or it should be philosophically," said Joseph Bruch, an assistant professor of public health sciences at the University of Chicago who was not involved in the study. In his eyes, these are things both for-profit and nonprofit hospitals have to deal with and shouldn't be counted.

If a hospital told their patients, "We gave $100 million to our local community" and then the patients found out that the majority of those benefits were actually just Medicare shortfalls, those patients would say, "Wait, that's not a community benefit," and question why the hospital has tax-exempt status, said Bruch.

It's also unclear that money spent on research or training health professionals directly impacts community health needs. Ge Bai, a professor of accounting at Johns Hopkins, said that spending categories outside of charity care — financial assistance programs for people under a certain income level — are "very squishy."

"It's hard to say [yes, this is] actually helping the community … or is this a marketing expense?" she said, noting that larger health systems are better at "window dressing" their community contributions to make them look better than they actually are at investing in the community.

Besides excluding some community benefit categories, the American Hospital Association also took issue with how the study estimated hospitals' tax breaks. Lown estimated tax breaks as 5.9% of hospitals' overall expenditures, an average taken from a 2012 paper the AHA has criticized as outdated. Lown Institute President Vikas Saini told STAT that Lown is currently undertaking a much more granular hospital-by-hospital analysis that will calculate the precise tax exemption for each facility based on its actual property assessments and local taxes.

Saini argued that the findings overall underscored hospitals should be doing more.

“At the end of the day — and this is, I think, the most important point — communities are giving tax breaks. And the question is, what are they getting back?” he said.

Several experts told STAT that in the 19th century, hospitals were often run by faith-based organizations or civically-minded groups that provided care for people who had no family to take care of them, making them truly charitable organizations. That’s where nonprofit hospitals’ tax-exempt status — and the lack of legal ramifications for not giving charitable care — came from.

But as the healthcare field has corporatized, for-profit hospitals entered the scene, as did health insurance and Medicare, and nonprofit hospitals began to think like businesses and like their for-profit counterparts. That’s why today, there are very few things delineating for-profit from nonprofit hospitals.

Researchers told STAT that the historical role and regulation of nonprofit hospitals isn’t necessarily congruent with how hospitals currently act.

“Everybody has to recognize that medicine has become a big business, a really big business,” said Saini of the Lown Institute. “And in that setting, we need more than an honor system.”

## About the Author

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