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It's Time to Ensure That Nonprofit Hospitals Serve the Poor

Many of the nation's nonprofit hospitals earn huge profits, provide relatively little free care to the poor, charge insurance companies and patients up to 10 times the actual cost of drugs and services, and pay their top executives whopping salaries. Yet they receive enormous government subsidies and tax benefits and very little state or federal regulation.

And, sadly, no matter what the Supreme Court rules on the health-care law in the coming days, this is unlikely to change anytime soon. When lawmakers crafted the Affordable Care Act, they dodged the tough issues needed to ensure that nonprofit hospitals take the steps they should to serve the poor and earn their tax-exempt status. State lawmakers have shown no more backbone, in part because nonprofit hospitals are protected by powerful lobbies that represent the elites in every community. Money and power once again hurt the poorest people in our country who lack insurance and low-cost health care.

While such concerns about nonprofit hospitals and their supporters have long been bandied about, they were made abundantly clear recently in a remarkable [five-part investigative report](#) on North Carolina's nonprofit hospitals by *The Charlotte Observer* and *The News and Observer* of Raleigh.

The report's three authors, who deserve a Pulitzer Prize for this effort, found that:

- The largest provider, Carolinas HealthCare System with about 30 hospitals, earned about \$7-billion in revenue in 2010, made profits of \$428-million, and increased its reserves to nearly \$2-billion.
- Twenty-five nonprofit-hospital executives in the state each made more than \$1 million in total compensation in 2010 and 2011. Their retirement packages have been even more generous. For example, when the CEO of the Gaston Memorial Hospital retired in 2009, he received a payment of \$5.9-million.
- Despite their nonprofit status and financial health, the large majority of the state's hospitals are providing relatively little care to poor and uninsured patients. Most of them spent less than 3 percent of their operating budgets on charity care in 2010; about a third gave less than 2 percent.

One reason for the lackluster charity-care performance is that North Carolina, like most states, has no requirement that its nonprofit hospitals spend a minimum amount of their budgets taking care of the needy.

The North Carolina journalists skillfully explained that that is largely the result of the financial and legislative clout nonprofit hospitals wield among politicians, big business, and the state legislature. Their boards are composed large developers, legislators, and news-media officials. They are represented by the North Carolina Hospital Association, a wealthy trade group—with an annual budget of \$4.6-million and headed by a president who earns \$869,000—which lobbies and distributes large sums to key legislators. Few other state institutions can even begin to match the hospitals' muscle.

The perils of such political power became clear in Illinois, which recently faced a major controversy over health care for the poor.

Illinois hospitals, confronted with a threat by the governor to revoke their tax-exempt status because of their failure to provide sufficient free care to the needy, conducted a well-financed massive lobbying campaign to maintain their nonprofit tax benefits. The Illinois General Assembly bowed to the pressure and preserved the hospitals' tax status.

The Illinois and North Carolina examples should serve as a lesson to the rest of the country about what happens when hospitals financial interests are allowed to dictate decisions about health-care for the poor.

Because the states won't act, the need for federal action is abundantly clear. Sen. Charles Grassley, the senior Republican on the Senate Finance committee, has been raising concerns about nonprofit hospitals for years, and after the North Carolina series was released, he said that if the hospitals "don't show any signs of improvement, we'll set a very definite benchmark."

But in the face of numerous reports about nonprofit hospitals' failure to provide adequate charity care, Senator Grassley and his colleagues have done nothing, except to talk a good game, send letters to hospital groups, demand better performance, and hold press conferences.

Lawmakers should require nonprofit hospitals to provide a minimum amount of their budgets for charity care. Five percent would work, but 7 or 8 percent would be better. And Mr. Grassley and other colleagues in the House and Senate should fight hard to persuade their colleagues to pass the legislation.

So, too, should Sen. Max Baucus, the Democrat who chairs the Senate Finance Committee. The Finance Committee was the key drafting place for the Affordable Care Act, so it now has a chance to remedy its mistakes and set firm policies to require nonprofit hospitals to serve the needy. After all, isn't that the whole reason we want a system of nonprofit hospitals in this country—to serve the people left out by the for-profit institutions?

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