

Health care: How much charity is enough?

Hospital officials fret tax exempt status rules may limit their service options

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BY CAROLE SCHROCK The Star

Uninsured Illinois residents had their medical fates debated by south suburban policy-makers Monday.

Members of health care organizations and hospital staffs met for an annual legislative briefing organized by the Southland Health Care Forum, a consortium of area hospitals.

Some disagreed on how best to regulate the tax-exempt status of nonprofit hospitals, an issue that has been brewing for a while.

"We have seen in recent years that the IRS looks into how hospitals define charity care," said moderator Mark Taylor, a legal affairs reporter with Modern Healthcare Magazine.

According to Danny Chun, spokesman for the Illinois Hospital Association, about 85 percent of the state's hospitals are nonprofit organizations, making them tax-exempt like other charitable ventures.

Instead of being doled out to shareholders, revenue from these hospitals' operations goes back into the facility for improvements, new equipment and staff.

They treat uninsured and underinsured patients, and absorb the costs.

When hospitals give care to patients receiving Medicaid, the state reimburses about 81 percent, Chun said.

Medicare treatments are reimbursed at 90 percent.

"At most hospitals, Medicare and Medicaid account for more than 50 percent of their revenues," he said.

According to one forum panelist, a threshold must be set to determine exactly how much free or reduced care a hospital must offer to maintain tax-exempt status.

Anne Murphy, senior counsel for Illinois Attorney General Lisa Madigan, said that office will work with hospital representatives to design a bill clarifying the issue.

"We seek to set a clear legal standard for the hospital tax exemption," Murphy said. "We want to ensure taxpayers receive the full benefit of Illinois' nonprofit hospitals."

Legislation may dictate a hospital spends a specific percentage of its operating budget on charity care.

Though other panelists said their institutions are open to discussion, they balk at creating a charity care yardstick.

"Exemption of property taxes is society's way of investing in its hospitals," said Peter Murphy, president of St. James Hospital and Health Centers in Chicago Heights and Olympia Fields. "Imposing a generic threshold is not the answer. We want to provide more services, not less."

Hospital representatives said they disagree with the attorney general's office on exactly what should be measured.

Madigan wants to consider services classified as charity care.

This would include only funds spent on uninsured patients, and the Medicaid payout shortfall.

Hospitals want the attorney general to include services that fall within a community benefit category.

"St. James provides several services not included in the attorney general's definition of charitable care," Murphy said. "Things like education and our Level 1 trauma program have not received funding from the state, yet we keep them going.

"We're not mandated to do so; we choose to do so."

Community benefit services also include burn units, neo-natal intensive care and drug and treatment research, Chun said.

According to Lawrence Haspel, senior vice president of Metropolitan Chicago Health Care Council, Cook County tax-exempt hospitals collectively reported \$2.1 billion in community benefits in 2004.

Also, the hospitals provided \$856 million in subsidized care to Medicare patients that year, he said.

"They provided them at a substantial loss, but reduced the burden of government," Haspel said.

He said training new health care workers also ought to count toward the charity measurement.

"We provide access to health care for the people of the South Suburbs," he said. "But you have no access if you have no workers."

Mark Deaton, senior vice president of the Illinois Hospital Association, said the attorney general wants to use a "free stuff test" to judge hospitals, which unfairly marginalizes the institutions.

"All charities should fall under the same test," Deaton said. "Do other charities have to give a certain amount of free stuff? The Illinois Supreme Court doesn't look at the percentage of free stuff charities give away."

Even if charity care is the only variable considered, Vince Pryor said it still does not provide an accurate picture of what hospitals contribute to the community.

Pryor is chief financial officer of Ingalls Memorial Hospital in Harvey.

"One of every three or four patients in our emergency department is uninsured or on Medicaid," Pryor said. "But many leave without filling out the charity care paperwork."

The patients were treated, but the hospital cannot provide documentation showing they accepted free or discounted care.

Setting a charity requirement puts an undue financial onus on hospitals, forcing them to curtail crucial services, Haspel said.

He and other panelists suggested the attorney general may be trying to place a bandage on a broken health care system, at the expense of local hospitals.

"We're arguing about definitions when we should be looking at the reality," Haspel said.

"This legislation would cause us to cut back on services. If that happens, I don't think a crisis is far off. And I don't think you want to wait for the day until that happens."

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