

FREQUENTLY ASKED QUESTIONS: Hospital Charity Care & Community Benefitsⁱ

CHARITY CARE

- 1. What is charity care?** Charity care is free or discounted, medically-necessary care for low-income uninsured or underinsured patients. Hospitals provide charity care to patients via their financial assistance policies. Charity care is rooted in the history of nonprofit hospitals- it was their primary mission prior to introduction of Medicare and Medicaid. In 2017, Oregon hospitals spent 0.2-4.0 percent of their operating expenses on charity care. The statewide average is 1.5 percent.
- 2. How has spending on charity care changed recently?** After the Affordable Care Act was implemented and more people became insured, hospitals reduced charity care spending dramatically. This can be measured in multiple ways. As a portion of hospital operating expenses, charity care declined by 62% across Oregon from 2013 to 2017.ⁱⁱ By straight dollars invested, charity care was cut nearly in half across nonprofit hospitals. For-profits actually dedicated more dollars in charity care in 2017 compared to 2013.
- 3. Do people still need charity care since almost everyone is insured under the ACA?** Yes. In 2017, 6 percent of Oregonians lacked health insurance.ⁱⁱⁱ But an increasing number of those who have insurance struggle to afford care. Nearly one in four US adults are considered “underinsured,” with out-of-pocket costs and high deductibles eating up large portions of their income.^{iv} More than 1 in 4 U.S. workers has a health plan deductible of more than \$2,000.^v

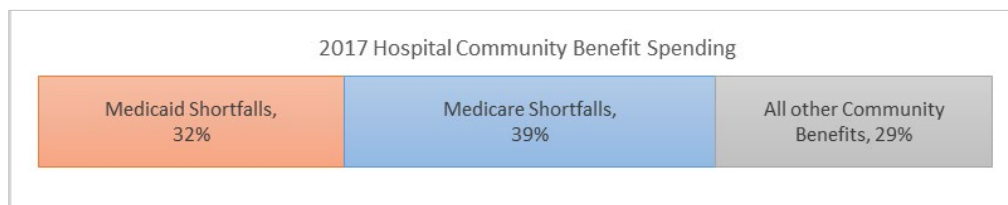


COMMUNITY BENEFITS

- 4. What are community benefits?** As charity care receded from the primary purpose of hospitals, nonprofits justified their continued tax exemptions by providing community benefits. Community benefits is a broad term, encompassing a range of activities and services provided by hospitals that are intended to improve the health of the communities they serve. Oregon currently tracks eleven types of expenditures in its annual hospital community benefit report.

The largest category in Oregon’s community benefit report is unreimbursed costs related to providing Medicare services. This is the difference between Medicare reimbursements and *estimated* costs to deliver care. When combined with Medicaid net costs, the two categories represent over 70% of hospital community benefit spending in Oregon.

Much smaller categories included in Oregon’s report are research, health professions education, cash and in-kind contributions, subsidized health services, community health and community building net costs.



- 5. How does Oregon differ from federal standards?** Oregon community benefit reporting differs from the IRS in multiple ways, which creates confusion and inconsistent reporting.^{vi} Notably, Oregon includes Medicare shortfall as a community benefit: without it, Oregon hospital community benefits spending drops significantly from \$2.32 billion to \$1.42 billion. Other differences include reporting shortfalls related to any publicly funded health care program, versus the federal standard of only “means-tested” government programs, and allowing the reporting of cash contributions that are consistent with the organization’s goals and mission, versus the more stringent federal requirement to be tied to a reported community benefit.
- 6. How has community benefit spending changed recently?** We removed Medicare shortfalls and compared community benefit expenditures, as a percent of operating expenditures, from 2013 to 2017. The result- over half of

Oregon’s nonprofit hospitals are investing less in community benefits now than they did prior to passage of the Affordable Care Act. One in three hospitals reduced their community benefit spending by more than 25 percent.^{vii}

7. **What are hospitals required to do?** All non-profit hospitals must follow IRS rules, which require free, medically necessary care for indigent persons; but otherwise set no minimum on spending. All Oregon hospitals are required to report community benefits: there is no minimum in spending, unlike some other states.^{viii} Local research recently found inaccurate Oregon and/or IRS reporting, with a range of problems that can lead to both over-reporting and under-reporting community benefit spending.^{ix}

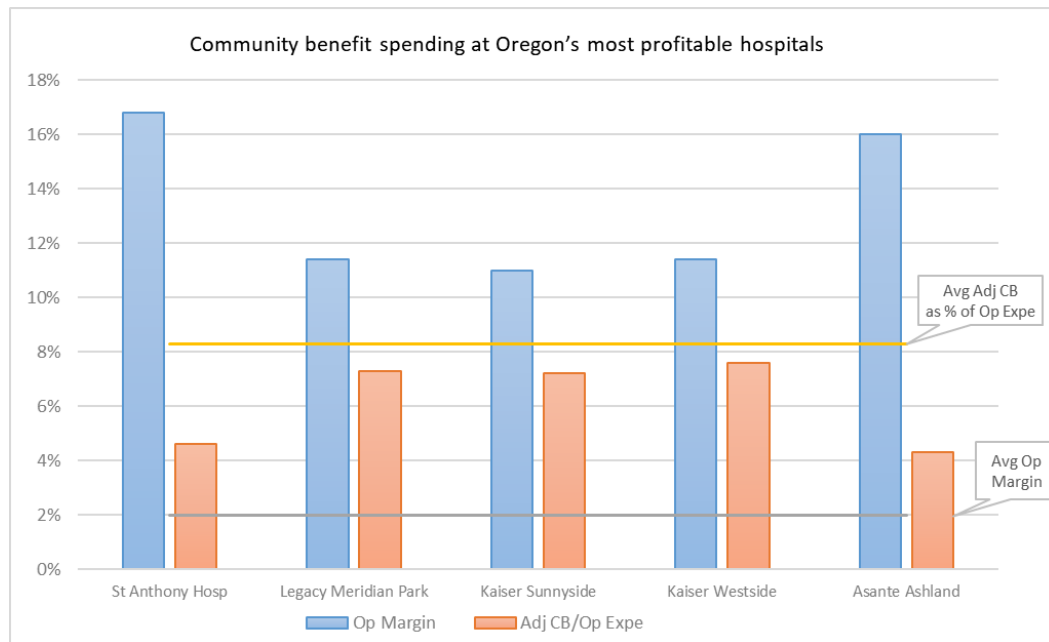
8. **Do all hospitals offer the same amount of community benefits?**

No. Oregon hospitals and health systems offer dramatically differing quantities of community benefit. While some systems spend upwards of 18 percent of their operating expenses, others spend 2 percent (after removing Medicare shortfalls from the total.)^x According to hospital-reported data sent to the state, there is little difference in the community benefit spending of Oregon’s nonprofit and for-profit health systems.

HOSPITAL INDUSTRY

9. **Are all hospitals in Oregon nonprofit?** Oregon has 60 acute care hospitals; all but two are nonprofit (McKenzie Willamette Medical Center and Willamette Valley Medical Center.)

10. **Are Oregon hospitals profitable?** Operating income generated by Oregon hospitals can vary greatly, with some hospitals earning negative margins and other nonprofits boasting double-digit profit margins. As a whole, operating profits increased from \$485 to \$538 million between 2013 and 2017.^{xi} As shown in the adjacent chart, generosity seems to have little correlation to profitability.



ⁱ Unless otherwise specified, all community benefit data is from the Oregon Health Authority’s, Hospital Community Benefit Data.

ⁱⁱ The decrease was only partially offset by an increase in Medicaid expenses.

ⁱⁱⁱ <https://www.oregon.gov/oha/ERD/Pages/NewReportManyOregoniansWhoLackHealthCoverageEligibleForSubsidiesOregonHealthPlan.aspx>

^{iv} <https://doi.org/10.26099/penv-q932>

^v Over half of all U.S. workers now have single-coverage with a deductible of at least \$1,000, and 26 percent face a deductible of \$2,000 or more.

<https://www.kff.org/report-section/2018-employer-health-benefits-survey-summary-of-findings>

^{vi} <https://www.ohsu.edu/xd/outreach/oregon-rural-health/hospitals/upload/A-Review-of-Community-Benefit-Reporting-Challenges-August-2017.pdf>

^{vii} Shriners not included because it did not report operating expenses in 2013.

^{viii} See the University of Maryland Hilltop Institute for a state-by-state review: <https://hilltopinstitute.org/our-work/hospital-community-benefit/hcbp-state-comparison/>

^{ix} <https://www.ohsu.edu/xd/outreach/oregon-rural-health/hospitals/upload/A-Review-of-Community-Benefit-Reporting-Challenges-August-2017.pdf>

^x Excluding Shriners’s because it is such an outlier at 43 percent. We excluded Medicare shortfalls per IRS standards.

^{xi} Excludes Shriners’s because of incomplete data. Data from OHA Hospital Financial Data 2006-2017.