

Health Issues Brief

Fifty-eight percent of US hospitals are not-for-profit institutions that provide a non-governmental “safety net” for the poor and uninsured. Not-for-profit hospitals provide high levels of charity care and offer services not found in the for-profit sector. Florida Hospital believes it is crucial for taxpayers and lawmakers to understand the distinctive structure and levels of service in not-for-profits.

The Not-for-Profit Difference

Do not-for-profit hospitals provide enough benefit to their communities to warrant their tax exemptions? The federal government has attempted to answer that question through congressional hearings, but Florida Hospital believes the methodology used was so flawed that the conclusions are invalid.

"Not-for-profit hospitals are incredible assets to their communities," said Rich Morrison, Regional Vice President for Government Affairs at Florida Hospital. "We are the safety net for the poor and uninsured. We provide quality care at lower prices. We offer medical services based on community need, not profitability. We reinvest our margins back into the community. And we do all of this without tax subsidies."

In 2004, the House Ways & Means Committee held a Congressional hearing on the nation's tax-exempt sector. Following that hearing, the US Government Accountability Office issued a report comparing uncompensated care and other community benefits in America's hospitals. The report suggested that "differences between the nonprofit and for-profit groups were often small" and questioned whether non-profit hospitals perform different-enough services and benefit to justify their tax exemptions.

The GAO report, entitled *Nonprofit, For-Profit and Government Hospitals: Uncompensated Care and Other Community Benefits*, focused on five states,¹ including Florida. Within each state, the GAO gathered 2002 data for the three types of hospitals:

- private not-for-profit (such as Florida Hospital),
- government not-for-profit (tax-supported), and
- for-profit (returning dividends to shareholders).

The terms “not-for-profit” and “nonprofit” refer to the same legal status. Such institutions are not meant to operate at a loss. “Not-for-profit” simply means that surplus funds go back into the organization rather than to stockholders or private interests.

"A serious misreading of the data"

Ultimately, the GAO concluded that private not-for-profits do not provide their "fair share" of charity care when compared to government hospitals.

"This is a serious misreading of the data," said Morrison. "Government hospitals were created expressly for the purpose of providing indigent care. They receive millions in tax dollars to do so. They should carry a higher uncompensated care burden than private not-for-profits."

¹ Florida, Georgia, California, Indiana and Texas.

Morrison also takes issue with the report's way of measuring hospital size. Traditionally, he noted, hospital size is measured by capacity, or number of beds. Instead, the GAO used operating revenues as the measure of hospital "size" and used those figures to determine the amount of charity care a hospital should be expected to provide.

"Operating revenue is not a usual measure of hospital size," Morrison said. "The more valid comparison is capacity, or share of beds. If a hospital owns 35% of the beds in a community, the general expectation is that they would see 35% of the charity care. Capacity tells you what you are capable of doing. Operating revenues simply tell you how well you are managing your finances."

The methods of calculating charity care also impact the numbers.

"Most for-profit hospitals calculate charity care by charges, rather than costs," Morrison pointed out. "If your charges are already higher, your charity care numbers will be inflated, meaning that the discrepancies in charity care may be even greater."

Carrying the charity care burden -- without tax dollars

In Florida, private not-for-profit and government hospitals operate 57.7% of the state's hospital beds, but provide 79.7% of the state's charity care costs at \$308 million. For-profits operate 42.3% of the state's beds, but provide just 21.3% of the charity care, or \$78 million.

Besides providing far less charity care, for-profit hospitals charge more than their not-for-profit counterparts. In 2002, the charge-to-cost ratio for for-profit hospitals in Florida was 4.27%. The ratio was 2.96% for private not-for-profits and 2.80% for government (tax-supported) hospitals.

Private not-for-profit hospitals in Florida provide self-pay and charity care in proportion to the size of their facilities; for-profits do not. Government hospitals have a higher proportion of charity care but also receive millions of dollars in tax revenues to offset their charity care costs.

Table 1: Charity Care & Charge Comparison of all Hospitals in Florida by Type

Hospital Type	Charge-to-Cost Ratio	% of Beds	% of Self-Pay Cost	% of Charity Cost
For-profit	4.27	36.2	24.1	12.0
Private not-for profit	2.96	49.4	49.4	46.9
Government (tax)	2.80	14.3	26.4	41.8

Medicaid & Medicare

Government payers like Medicaid and Medicare reimburse hospitals at less than the actual cost of care. Not-for-profit hospitals care for far more Medicare and Medicaid patients than for-profits, and absorb far greater losses.

Table 2: Medicaid & Medicare Comparison of all Hospitals in Florida by Type

Hospital Type	% of Medicare Cost	% of Medicaid Cost
For-profit	34.5	25.7
Private not-for profit	53.9	52.8
Government (tax)	11.6	21.5

Operating margins

The Congressional hearing also questioned the operating margins of not-for-profit hospitals, expressing concerns about how much not-for-profits "make" and whether they should have a margin at all.

"Clearly, any enterprise -- for-profit or not-for-profit -- must make more than it spends to keep pace with increased costs of salaries, equipment, supplies and long-term capital needs," said Morrison. "The question is: How much of a margin is enough and where do the margins go?"

Private not-for-profit and government hospitals reinvest their margins in their facilities and the communities they serve. For-profits return dividends to investors. Private not-for-profit hospitals in Florida have an average operating margin of 3.2%. The margins of for-profit hospitals in Florida average 9.8%; some have margins in the mid-20% range, and for-profit specialty hospitals are even higher.

"Private not-for-profits have to manage well to serve the community," noted Morrison. "We don't have tax dollars or stock sales to turn to."

Community-based Services

As the community safety net, private not-for-profit and government hospitals provide many services not found in the for-profits. Examples include teaching programs, organ transplants and community clinics.

"An example is our Community After-Hours Clinic for uninsured patients," said Morrison. "Our average charge to the patient is \$8, including medications. We cover the rest of the cost."

The Bottom Line

"There is an absolute and tangible difference between for-profit and not-for-profit health care," concluded Morrison. "We provide more charity care, more uncompensated care and more community services than the for-profit sector. And that is as it should be."

