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NORTH CAROLINA NONPROFIT HOSPITALS AND COMMUNITY BENEFIT



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Introduction

On May 11, 2022, Charlotte-based Atrium Health and Advocate Aurora Health, headquartered in Milwaukee, announced plans to merge their health systems. On Dec. 2, 2022, they announced the merger had been successfully completed after a brief delay in September by the Illinois Health Facilities and Services Review Board. The resulting system, now known as Advocate Health, will have 67 hospitals and employ approximately 150,000 individuals, including 40,000 nurses and 7,500 physicians. Revenue of the combined system is estimated to exceed \$27 billion. This merger creates a health system that provides care in six states: Illinois, Wisconsin, North Carolina, South Carolina, Georgia and Alabama. Based on the number of hospitals alone, the new Advocate Health will be the eighth-largest health system in the United States.

As major health systems continue to merge, one of the main questions for commentators and researchers concerns the somewhat vague idea of community benefit. The Atrium Health–Advocate merger is set to provide approximately \$5 billion in annual community benefit, targeted to aid vulnerable communities and individuals. Community benefit can be understood as any action, investment or program provided by a tax-exempt hospital or health system that promotes the health and wellness of the community they serve.^{1 2} In addition to community benefit, Advocate Health described a \$2 billion pledge to disrupt the root causes of health inequities across the rural and urban communities it serves.³

It is hard to argue that this type of investment would not be a major boon to North Carolina communities; however, the challenges arise in how community benefit is defined and measured. On Oct. 25, 2022, the North Carolina state treasurer’s office and the State Health Plan released a report highlighting major discrepancies in how nonprofit

1 National Council of Nonprofits. (n.d.) Nonprofit Impact in Communities. <https://www.councilofnonprofits.org/nonprofit-impact-communities>

2 Herring, B., Gaskin, D., Zare, H., & Anderson, G. (2018). Comparing the Value of Nonprofit Hospitals’ Tax Exemption to Their Community Benefits. *Inquiry : a journal of medical care organization, provision and financing*, 55, 46958017751970. <https://doi.org/10.1177/0046958017751970>

3 Atrium Health News. (2022, May 11.) Advocate Aurora Health and Atrium Health to Combine. Atrium Health. Advocate Aurora Health and Atrium Health to Combine

hospitals are reporting community benefit. The report contended that Atrium reported a \$640 million loss to Medicare in 2019 when, in actuality, it claimed \$82 million in profits from Medicare and \$37.2 million in profits from Medicare Advantage.⁴

These discrepancies are hard to ignore. To help ensure that all stakeholders are aligned, it is important that the healthcare community and policymakers develop a better shared definition of community benefit; agree upon robust reporting standards, including how examples of community benefits are reported by NC health systems; and make clear what changes might be in store.

Figure 1 ⁵



What Is a Community Benefit and Why Is It Hard to Measure?

Most hospitals are classified as tax-exempt, nonprofit organizations based on the community benefit they provide to their respective communities. By virtue of this community benefit, hospitals are able to receive tax-deductible donations as well as access tax-exempt bond financing.

⁴ North Carolina Department of State Treasurer. (2022, October 8). Report: North Carolina Hospitals Make Millions in Profit on Medicare. <https://www.nctreasurer.com/news/press-releases/2022/10/25/report-north-carolina-hospitals-make-millions-profit-medicare>

⁵ Atrium Health News. (2022, May 11.) Advocate Aurora Health and Atrium Health to Combine. Atrium Health. Advocate Aurora Health and Atrium Health to Combine

Various definitions of community benefit exist and have changed over the decades. In 1969, the IRS established via Revenue Ruling 69-425 more clearly defined standards for what is considered a community benefit – primarily so that nonprofit hospitals had a workable definition for tax exemption purposes. The most recent update to this standard was in 2009, when the IRS mandated that the Schedule H section within Form 990 be completed by tax-exempt hospitals to outline their community benefit expenditures more clearly.

However, community benefit is difficult to track from both an accounting and outcomes perspective. Just as the definition of community benefit varies depending on who is using the concept (policymakers, watchdog organizations, hospitals, researchers, etc.), the measures used to report community benefit are highly amorphous.⁶ Community benefit will be viewed very differently by a resident of a town where a nonprofit hospital operates as opposed to the accountant of that hospital reporting expenses to the IRS. A resident may expect community benefit to come in a more tangible form such as a vaccine clinic in town sponsored by the hospital, whereas the accountancy of the hospital may report out an intangible research expense the resident is completely unaware of. In addition, no minimums are outlined at the federal level on how much community benefit a hospital must deliver, thus leading to wide differences in the amount of community benefit being provided.

In 2022, a research letter in JAMA evaluated nonprofit hospital community benefits that were used to justify a hospital's tax-related subsidies. The majority of community benefit reported by hospitals was unreimbursed Medicaid costs, which constituted about 44% of the value of all community benefit.⁷ These costs, also known as Medicaid shortfall, are the difference in dollars Medicaid will pay a hospital versus what the hospital states is the cost of the care. The research suggested that “the largest component of community benefit supposedly provided by nonprofit hospitals (i.e., unreimbursed Medicaid costs, net of supplemental payments) is poorly aligned with the (effectively automatic) tax subsidy that these institutions receive.”

The value of tax exemptions that nonprofit hospitals receive is hard to quantify. The IRS asks for data on eight different categories for nonprofits to report their community benefits, but there is debate among policymakers and health service researchers on which categories should actually count and how tax exemption value is calculated. There is longstanding criticism of how 990 tax filings track community benefit spending. The NC State Health Plan recently reported on community benefit methodology issues by stating, “Some hospitals claim large Medicare shortfalls on community benefit reports or on their annual reports. These reports do not cite any standards or published methodology behind their numbers, rendering them unreliable and inconsistent across the industry.”⁸

6 Zare H, Eisenberg M, Anderson G. (2021). Charity Care and Community Benefit in Non-Profit Hospitals: Definition and Requirements. *INQUIRY: The Journal of Health Care Organization, Provision, and Financing*, Vol. 58. doi:10.1177/00469580211028180

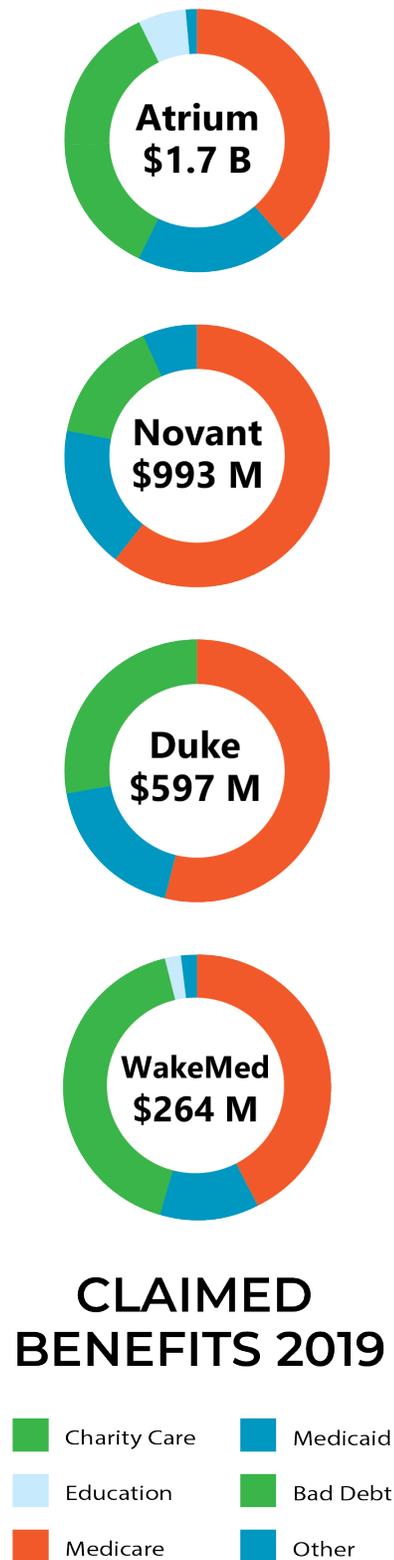
7 Bai G, Zare H, Hyman DA. (2022). Evaluation of Unreimbursed Medicaid Costs Among Nonprofit and For-Profit US Hospitals. *JAMA Network Open*, Vol. 5, No. 2. doi:10.1001/jamanetworkopen.2021.48232

8 North Carolina State Health Plan. (2022). Overcharged: North Carolina Hospitals Profit on Medicare. NC State Health Plan. <https://www.shpnc.org/what-the-health/overcharged-nc-hospitals-profit-on-medicare>

Institutes that track community benefit, such as the Lown Institute, argue against including categories such as Medicaid shortfall, research and continued professional education for staff in community benefit analysis because they do not constitute direct benefits for community health and thus should not be considered community benefit.⁹ Tangibility of benefits is an often-used argument when analyzing this concept; if community benefit from a nonprofit hospital cannot be directly observed to impact the target population, then some argue the community has not benefited. For example, a direct benefit could be when a nonprofit hospital sets up a free wellness clinic or a vaccine clinic at no cost to the community it serves. By contrast, continuing professional education and development of the hospital’s staff, although positive for the hospital’s workforce, are far more difficult to observe in how they benefit the community.

Figure 2 shows a breakdown of how various NC hospitals have reported their community benefit costs. The orange segments in Figure 2, which detail Medicare shortfall, represent current community benefits that Lown and others argue should not be included in community benefit reporting. This remains a controversial topic concerning the reporting methodology.

Figure 2¹⁰



9 Garber, J. (2022, July 7). What should count as a community benefit for nonprofit hospitals? Lown Institute. <https://lowninstitute.org/what-should-count-as-a-community-benefit-for-nonprofit-hospitals/>

10 North Carolina State Health Plan. (2022). Overcharged: North Carolina Hospitals Profit on Medicare. NC State Health Plan. <https://www.shpnc.org/what-the-health/overcharged-nc-hospitals-profit-on-medicare>

A few states like Utah and Texas have specified minimum monetary contributions for community benefit. For example, Utah's law asks if the amount of benefit exceeds the value of what the hospital's estimated annual property tax would be, if one were collected. Several researchers track what is known as "fair share spending," or the amount spent on community benefit versus an estimate of what a nonprofit hospital is receiving in tax breaks.¹¹ These estimates vary, but many researchers at the Lown Institute assume roughly 6% of overall expenditures spent on community benefit would be fair share spending. Additional research examining charity care and community benefits found that, on average, 8.1% of nonprofit hospital expenses were for community benefit.¹²

North Carolina Community Benefit: Discrepancies and Obscure Methodologies

The October 2022 report – jointly conducted by state Treasurer Dale Folwell, the State Health Plan and Rice University's Baker Institute for Public Policy and peer-reviewed by the University of Southern California's Sol Price School of Public Policy – casts into question just how much hospitals are investing in their communities. Titled "Overcharged: North Carolina Hospitals Profit on Medicare," the report documents vastly different trends than the losses that hospitals claim to be occurring.

Broadly speaking, their findings report that North Carolina nonprofit hospitals are not losing money on Medicare as they claim; rather, they are profiting. Only 15 of North Carolina's hospitals consistently lost money on Medicare, while 35 hospitals posted profits for all six years that were

reviewed. Hospital lobbyists claimed a \$3.1 billion loss from Medicare in 2020 alone, but the treasurer's report shows an example of the reporting discrepancies related to community benefit – specifically, the reporting of Medicare shortfalls.

A primary recommendation of the report is that these hospitals can and should provide price relief to public health insurance plans, such as the North Carolina State Health Plan for Teachers and State Employees (managed and negotiated by the state treasurer's office). Given that sky-high inflation is increasing the already high cost of healthcare in the United States, the report argues that hospitals should not be passing these costs on to individuals – especially not when they're in a time of need.

Referring back to Figure 2, the standout hospital in the report is Atrium Health, which reported \$640 million in losses on Medicare through their community benefit report but reported an \$82 million profit on their Medicare Cost Report. This brings into question the \$5 billion benefit that the recently announced merger suggests it will bring to the state.

11 Garber, J. (2022, July 7). What should count as a community benefit for nonprofit hospitals? Lown Institute. <https://lowninstitute.org/what-should-count-as-a-community-benefit-for-nonprofit-hospitals/>

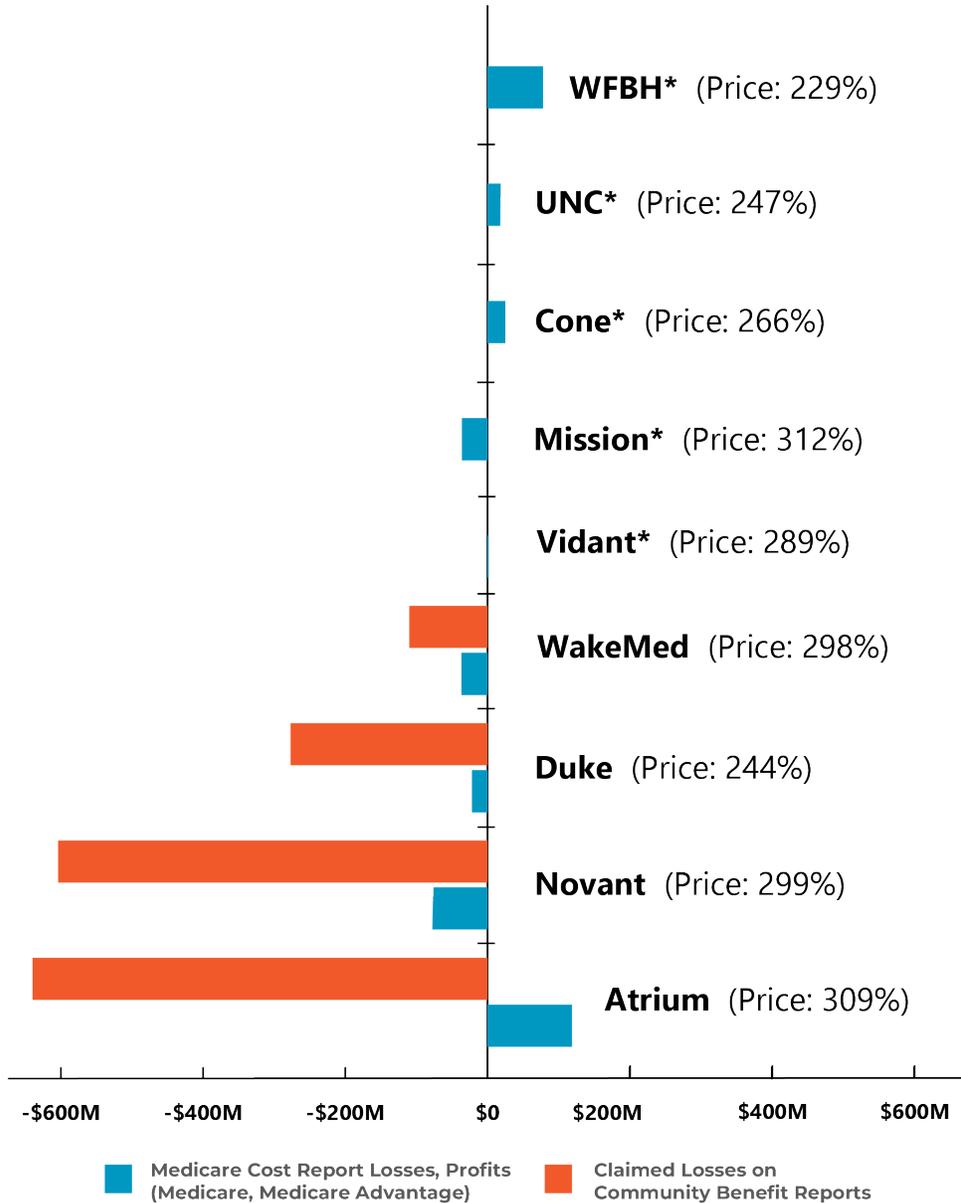
12 Zare H., Eisenberg M., Anderson G. (2021). Charity Care and Community Benefit in Non-Profit Hospitals: Definition and Requirements. *INQUIRY: The Journal of Health Care Organization, Provision, and Financing*, Vol. 58. doi:10.1177/00469580211028180

Figure 3¹³

HOSPITAL MEDICARE SHORTFALLS

Community Benefit Reports 2019 v Medicare Cost Reports 2019

Prices Charged to Private Employers Compared to Medicare Rates (RAND 4.0)



The Medicare shortfalls on these hospitals' community benefit or annual reports are much larger than their actual losses as reported on the Medicare Cost Reports. It remains unclear why the differences are so stark, though our dataset of Medicare Cost Reports do not include certain expenses and revenues, as well as children's hospitals and rehabilitation centers. Hospitals' community benefit reports lack the transparency and standards of Medicare Cost Reports. See Appendix and Definitions.¹²

* Not all systems publish these community benefit reports, including Wake Forest Baptist Health.

13 North Carolina State Health Plan. (2022). Overcharged: North Carolina Hospitals Profit on Medicare. NC State Health Plan. <https://www.shpnc.org/what-the-health/overcharged-nc-hospitals-profit-on-medicare>

North Carolina Healthcare Association Response

In response to the treasurer's report, the North Carolina Healthcare Association issued a response following the report's publication. The statement issued by NCHA contends that the report "fails to account for the incredible complexity of our healthcare system," as well as the fact that "both Medicaid and Medicare reimburse hospitals for caring for patients below the actual costs of providing that care."¹⁴ NCHA emphasizes the commitment of North Carolina hospitals and their charitable missions and specifically refers to \$5.9 billion in community benefits, including approximately \$1.2 billion in charity care.

When asked about further discrepancies between the report's findings and the hospitals' claims, NCHA contended that regulators fail to take into account the benefits provided outside the hospital and at other care delivery locations, such as primary care physician offices, ambulatory surgery centers, nursing facilities and community health clinics. While they did not provide concrete examples or breakdowns for how community benefit is provided for their member hospitals, they offered numerous examples of activities that might count toward community benefit, ranging from charity care to unreimbursed health care education costs and community-building activities. In addition, NCHA stressed that differences between the Medicare Cost Report and the community benefit report emanate from the two reports' divergent outlooks and purview.

¹⁴ American Hospital Association. (2022, February). Fact Sheet: Underpayment by Medicare and Medicaid. <https://www.aha.org/fact-sheets/2020-01-07-fact-sheet-underpayment-medicare-and-medicaid>

Looking Forward

Nonprofit community benefit reporting has ample room for improvement. Improvements could address cost report discrepancies, guidelines that help hospitals clearly communicate direct benefit on community health outcomes, and regulatory considerations that clarify ambiguity around the definition of community benefit. None of these changes are simple. Policy advocates and researchers in this space have suggested two major improvements^{15 16} for transparency of community benefit reporting:

- Considering the exemption status of nonprofit hospital systems, **an estimation of tax benefit should be available for review**. This would create the ability to examine the ratio between community benefit to tax benefit, essentially dividing a hospital's community benefit or charity care by their estimated tax benefits. This would provide an avenue for objective discussions on what could be done to improve ratios when they are out of balance, and could help hospital systems justify their nonprofit status with the public.
- **Improve the measurement to show how community benefit interventions directly influence health outcomes in the community served**. Tracking and quantifying how a nonprofit hospital's community benefit impacts its local community over time could garner community support and would aid researchers in public health and other disciplines who want to better understand the true value of community benefit interventions. Public health research would benefit from transparent, publicly available and annually updated datasets that articulate the impact on community-level health outcomes.

While there are other possible improvements that could be made to the current reporting mechanisms around community benefit, the most important goal moving forward is for policymakers and healthcare entities to foster a more collaborative environment. Community benefit is a positive practice nonprofit hospitals provide; however, clear definitions and more transparent standards can minimize confusion among all stakeholders and create an environment that truly highlights the positive health impacts made in communities being served.

15 Letchuman, S., Berry, L., Hole, M., Bai, G. (2022, April 15). Revise The IRS's Nonprofit Hospital Community Benefit Reporting Standard. Health Affairs Forefront. DOI: 10.1377/forefront.20220413.829370

16 Bai, G., Plummer, E., Anderson, G. (2021, September 10). Use The Hospital Compare Website To Make Hospital Community Benefit More Transparent. Health Affairs Blog. DOI: 10.1377/hblog20210903.507376

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