

# Testimony

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**The U.S. Senate Committee on Finance**

**"Taking the Pulse of Charitable Care and Community Benefits  
at Nonprofit Hospitals"**

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The Catholic Health Association has been actively involved in the issue of community benefit for nearly twenty years and is pleased to provide the following testimony. By community benefit, I mean those programs and activities that nonprofit hospitals provide continuing to demonstrate they deserve the privilege of tax-exemption. It includes free and discounted care to low-income uninsured individuals, improving access to health care services for all, and making communities healthier places to live, work and raise families.

Community benefit activities include outreach to low-income and other vulnerable persons; health education and illness prevention; special health care initiatives for at-risk school children; free or low-cost clinics; training for physicians and nurses, and efforts to improve and revitalize our communities. These activities are very often provided in collaboration with community members and other community organizations. In many cases, nonprofit hospitals are able to be catalysts in helping to organize community health resources to improve access to health care and improve community health.

Other types of community benefit include subsidizing services such as mental health and hospice programs, and trauma units that are truly needed but are high cost and provide low reimbursement. Our organizations routinely open or sustain these needed services, even if they result in a financial loss.

It is important for the committee to know, however, that we do not provide these community benefits in order to “prove” we deserve tax exemption. We do so because of who we are - organizations established (some as long as 200 years ago) and continuing to serve our communities. Our heritage based on Catholic social teaching calls us to continue the healing ministry of Jesus Christ by reaching out to persons in need, and healing not only persons who are ill but also to address those conditions in our communities that contribute to illness.

Our board took to heart the issues that the Committee and other leading policymakers have raised about the accountability of not-for-profit tax-exempt organizations. Namely, that governing bodies were not holding managers accountable and that there was not enough public information about hospitals’ charitable activities. The CHA board of trustees also realized we could not give you or anyone a coherent description of how we were fulfilling our tax-exempt charitable purpose. This was because our organizations have had multiple ways of keeping track of and reporting community benefit.

The CHA board appointed a community benefit task force comprised of our hospital, system and sponsor leaders. They concluded that to be more accountable, we must:

- Make sure our members' governing boards and senior managers understand the legal basis of the community benefit standard.
- Commit our organizations to reporting community benefit in a standardized way using state of the art accounting practices, and
- Ensure that all Catholic hospitals post very publicly the availability of their charity care and discounting policies.

Our first step was to significantly revise our guidelines on community benefit and publish in May 2006, with the cooperation of VHA, Inc. and the support of 8 national health and financing organizations, *A Guide for Planning and Reporting Community Benefit*. To date, we have distributed more than 5,700 copies. This guide included a detailed definition of community benefit that is based on the IRS hospital Revenue Ruling and audit instructions and the best thinking of community benefit and finance leaders. It also included comprehensive guidelines for accounting for community benefit developed in consultation with the Healthcare Financial Management Association and the American Institute of Certified Public Accountants. In the past, we have given this guide to our members as an aid. This year we asked much more, that they follow the guidelines consistently.

The task force also developed a packet of information to clearly explain throughout the Catholic health ministry – at each level having responsibility - the current IRS requirements about community benefit and tax-exemption. That packet was sent to sponsors and members system and hospital CEOs. As of today, the informational video included in the packets on the importance of accountability has been viewed by more than 4,000 ministry colleagues including board members, senior managers and sponsors. We distributed over a thousand packets to sponsors, system leaders and 625 hospital members. As of today, the DVD in the packet has been viewed by over 4,000 ministry colleagues including over 1,500 board members, over 2,000 senior managers, and approximately 400 sponsors.

In addition, CHA asked each governing board to pass a resolution committing their institution or institutions to using the guidelines consistently and to use the professional accounting methodology. The packet also included a pledge that management was asked to sign committing them to carry out the board resolution. The resolution and pledge also committed organizations to be more attentive to putting notices, in key areas of the facility, of the availability of charity care for low-income persons who are uninsured or whose insurance is not adequate.

I am pleased to report that this initiative was welcomed and affirmed by governing boards and system and hospital CEOs at CHA member organizations. As of today, the board resolution and management pledges committing to the community benefit guidelines have been received from 95 percent of CHA member health systems and 90 percent of the member hospitals, and additional commitments are being received daily as various governance boards meet.

In addition, as we complete fiscal year 2006 in all our institutions, CHA hopes to be able to give a report to you and to our communities of the magnitude of the contributions of Catholic healthcare across this nation.

While we are committed to community benefit and reaching out to persons who are low-income, we still face serious challenges. Our organizations are being overwhelmed by the growing number of low-income uninsured persons who, without our emergency rooms and free and low-cost clinics, might have no access to health care. At the local level, many of our members are working with physicians and other community partners to creatively address the health problems of the uninsured and underinsured. But this is a problem that demands national public attention.

Another challenge we face is identifying those patients and their families in need of financial assistance and distinguishing persons who *will not pay* their health care bills from those *unable to pay*.

All of our organizations have financial assistance standards and policies. We had previously provided to Chairman Grassley a fairly comprehensive list of the charity care and discount policies of many of our systems for low-income uninsured persons and those who experience catastrophic medical expenses. As we explained at that time, these differ among different hospital systems and regions of the country, as is appropriate to meet the needs of populations in areas that have vastly cost of living and median incomes.

Some of these compassionate and generous financial assistance policies include:

- Providing charity care for patients earning up to 200 percent of the federal poverty level (FPL). (Some organizations use HUD or other poverty guidelines that are more appropriate to their areas)
- Providing discounted care that does not exceed a certain percentage of the patient's adjusted gross income.
- Offering sliding scale discounts to patients earning anywhere from 300 to 500 percent of FPL.

But it is one thing to have policies in place, and quite another to implement them.

Our members face significant challenges in identifying all patients who meet financial eligibility criteria. Our members have committed to publicly posting financial assistance policies, but often patients do not tell us they are unable to afford their bills. For example, when patients come to us in emergency situations, they may be in no condition to discuss their financial situation. Other patients are reluctant to tell us they cannot afford to pay, perhaps erroneously worried that they will not get care or will get substandard care. Some simply refuse to fill out paperwork or cooperate in doing it. This could be because they are mentally ill, worried about their legal status, too embarrassed or a host of other reasons.

Identifying who is eligible for financial assistance is important for two reasons. Most importantly, while hospitals like all providers of services have a responsibility to collect fees owed, we do not want to pursue patients and families who clearly do not have the resources to pay. Patients should have the peace of mind of knowing that the cost of their care has been forgiven or that a reasonable payment plan has been set up.

In addition, our accounting guidelines require hospitals to separate charity care from bad debt, and report only charity care as community benefit. While in the past it may not have mattered to business offices whether uncompensated care was charity or bad debt, organizations now wanting to report community benefit according to our guidelines have a strong incentive to identify those who qualify for financial assistance.

Some of the steps our members take to identify those eligible for charity care and discounting include:

- Appointing “patient advocates” to work with patients in emergency room and with those who have been admitted or discharged. These patient advocates are responsible for helping patients enroll in programs for which they are eligible and to help complete paperwork for the hospital’s financial assistance program.
- Sending notices in all patient bills that financial assistance is available and providing guidance on how to apply.
- Taking out newspaper ads telling patients to contact the hospital if they have received a bill they cannot pay.
- Writing to all patients who have outstanding bills, informing them of the availability of financial assistance.
- Conducting in-service education programs for all billing and administrative workers on the hospital’s policies and expectations that all patients are to be treated with the utmost dignity, no matter what their financial status.
- Instructing outside collection agencies to let the hospital know if they discover a patient is unable to pay his or her hospital bill.

I want to point out, however, that community benefit is much more than providing charity care and discounted care to low-income uninsured persons. We also have a responsibility to the whole community. As I said earlier, we have put considerable effort into defining what to count as community benefit. We want hospital community benefit reports to accurately describe our contribution to the community and to be consistent, standardized and credible.

Accordingly, we define community benefit as programs or activities that provide treatment and/or promote health and healing as a response to community need and meet at least one of the following criteria:

- Generate a low or negative margin.
- Respond to the needs of special populations.
- Supply services or programs that would likely be discontinued (or would need to be provided by another nonprofit or government provider) if the decision were made on a purely financial basis.
- Respond to public health needs.
- Involve education or research that improves overall community health.

We have identified the following categories of community benefit:

- **Charity Care at cost.**
- **Shortfalls** from government indigent care programs, such as Medicaid and SCHIP (but not Medicare).
- **Community Health Services:** clinics, support groups, support services, and prevention and health promotion activities.
- **Health Professional Education:** training for physicians, nurses, and other health professionals to address unmet community needs.

- **Subsidized Services:** trauma services, hospice and palliative care programs, and behavioral health.
- **Health Research:** clinical research, and studies on community health and health care delivery.
- **Donations:** cash, grants, and in-kind services.
- **Community-Building Activities:** neighborhood improvements, housing programs, coalition building, and advocacy for community health improvement.

We realize that there are many other ways in which hospitals contribute to the well-being of our communities, but these are the categories we recommend reporting as community benefit.

Also, we do not count as community benefit:

- Bad debt.
- The shortfall from Medicare payments.
- Programs provided primarily for marketing purposes.

Catholic hospitals consider it a privilege to serve our communities and a privilege to be tax exempt in order to better serve our communities. We realize that both of these privileges require accountability. We also realize that as dollars invested in health care have grown, government authorities, such as this committee, are responsible for scrutinizing how these dollars are used. I hope that today I have helped to describe the steps we have taken to demonstrate accountability.

In summary, I believe we have:

- Sponsors and governing boards that are fully engaged in their organizations' community benefit responsibilities and programs.
- Executive leaders who are being held accountable for the community benefit programs of their organizations.
- Community benefit reports that are credible and understandable.
- Greater transparency regarding financial assistance policies.

We are pleased with the progress we have made. We believe that the combination of this concerted effort to secure commitment of our leaders, the availability of definitive guidelines for planning and reporting community benefit and a comprehensive education effort positions us not only to do community benefit but to be accountable for it.

In conclusion, the community benefit tradition in Catholic and other nonprofit health care organizations has been reinforced by efforts to achieve greater consistency and standardization in reporting and accountability. Our long-term commitment to the people in our communities is being demonstrated every day. We believe that the nonprofit health care sector continues to deserve tax exemption.

Over a decade ago, a former chairman of this committee, Senator Daniel Moynihan said, "A distinguishing feature of American Society is the singular degree to which we maintain an independent sector – private institutions in the public service. This is no longer true in most of the democratic world; it was never so in the rest. It is a treasure, a distinguishing feature of the American democracy."

It is important to us in Catholic health care that we continue that tradition of service and live up to the expectation that we are community benefit organizations. That is our mission and our commitment to you as well as to the communities we serve.

**Attachments:**

**Resolution of the Board**

**Pledge Letter**

**Letter to Senator Grassley**

**Community Benefit Guide Executive Summary**