Federal and State Trends in Hospital Oversight

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Health and Government Operations Committee
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Federal / National Trends in Tax-Exempt Hospital Oversight

Keith Hearle
President
Verité Healthcare Consulting, LLC
Keith.Hearle@veriteconsulting.com
Current federal exemption standards

- Requirements for Hospital 501(c)(3) status
  - Revenue Ruling 56-185: Charity Care up to the hospital’s financial ability
  - Revenue Ruling 69-545: Community Benefit Standard

- 501(c)(3) hospitals pay no income tax, receive charitable donations, issue exempt bonds

- 501(c)(3) hospitals generally exempt from state and local taxation as well
Federal concerns

- Research: few differences between taxable and tax-exempt hospitals
- Billing and collections practices/stories
- Executive compensation
- Adequacy of the community benefit standard
- Definition of “community benefit”
- Visibility of state/local tax challenges
- Accountability of non-profits generally
Federal responses

- Major redesign of IRS Form 990
  - More extensive disclosures regarding compensation, governance, policies, programs (all non-profits)
  - New “Schedule H” for 501(c)(3) organizations that operate one or more hospitals
- Proposed changes to exemption standards in federal health reform legislation
Schedule H: Organized into Six Parts

I: Charity Care and Certain Other Community Benefits at Cost

II: Community Building Activities

III: Bad Debt, Medicare, & Collection Practices

IV: Management Companies and Joint Ventures

V: Facility Information

VI: Supplemental Information
Go ahead and change into your gown... the IRS will be with you shortly.
Proposed Federal Health Reform Legislation

- Community Health Needs Assessment
- Financial Assistance Policy
- Limitation on Charges for patients qualifying for financial assistance
- Informing/qualifying patients for charity before extraordinary collections actions
- Regular IRS review of each hospital organization
Recent federal policy debate

- Require “bright line test” – 5 percent charity care or community benefit spending?
- Require more specific charity care policies and collections practices?
- Provide IRS with intermediate sanctions (rather than revoking exemption)?
- Role of exemptions if reform expands coverage?
Financial Protections for Hospital Customers:
State Policy Directions

Donna Folkemer
Group Director
National Conference of State Legislatures
donna.folkemer@ncsl.org
In recent years, a number of states have passed laws intended to provide additional financial protections for uninsured and underinsured hospital patients.

The laws set forth statewide standards on a wide range of issues affecting hospitals and their uninsured and underinsured patients.
A Few State Examples (other than Maryland)

- IL--2006 (Public Act 094-0885)
- NJ--2008 (New Jersey statutes Section 26 and NJ administrative code)
- NY--2007 (NY State Public Health Law, Section 2807)
- CA--2006 (Health and Safety Code, Division 107, Part 2, Article 3)
- CT--2003 (Public Act No. 03-266)
Policy Themes in State Laws

- Setting standards for free hospital care and discounted care for uninsured and underinsured persons.
- Regulating hospital billing and collection practices.
- Mandating consumer education and outreach practices by hospitals.
Free Care and Discounts

- Uninsured persons with incomes below threshold amount are entitled to free hospital care.

- Prices charged to uninsured persons above free care threshold are limited based on ability to pay or amounts billed other insurers.
Billing and Collection Practices

- Require hospitals to offer payment plans.
- Require hospitals to limit certain agency processes.
- Cap or eliminate interest rates charged on unpaid bills.
- Require hospitals to allow patients to dispute bills.
Consumer Education and Outreach

- Hospitals must notify consumers at several points during their stay about:
  - free care and discounts and their ability to apply for them
  - billing and collection practices
  - dispute resolution options.

- Hospitals also must notify the public about these policies in various ways
Negotiated standards with state AGs

- In some states, similar standards for prices, billing and debt collection have been set through negotiated settlement agreements between State AG offices and hospital systems.

- MN and WI are examples
Catalysts for State Policymaking: Insurance Coverage Rates, and Hospital Behavior

Charles Milligan, JD, MPH
Executive Director
The Hilltop Institute, UMBC
Catalyst for State and Federal Intervention No. 1: Rate of Uninsured

- As the number of uninsured increases, policymakers often intervene to impose charity care duties on tax-exempt hospitals, as a component of their community benefit linked to tax-exempt status.

- As the number of uninsured decreases, policymakers increasingly allow tax-exempt hospitals to fulfill their community benefit obligation in other ways.
  - For example, contrast 1956 IRS Rev. Ruling with 1969 IRS Rev. Ruling; consider the Provena Covenant lawsuit in Illinois.
Catalyst for Intervention No. 2: Anecdotal Info that some Nonprofits Are Acting like For-profits

- The clear trend since 2000 has been in the direction of regulation (not deregulation), and consumer protection
- Maryland has been among the states moving in this direction, with several legal acts:
  - Community benefit reporting laws
  - HB 1069 (2009 Session)
- The discussion in the recent HSCRC workgroup falls within the range of other states’ recent actions
Contacts

- Keith Hearle, President, Verité Healthcare Consulting
  - Phone: 703.549.9001
  - Email: keith.hearle@veriteconsulting.com

- Donna Folkemer, Health Group Director, NCSL
  - Phone: 202.624.8171
  - Email: donna.folkemer@ncsl.org

- Chuck Milligan, E.D., Hilltop Institute, UMBC
  - Phone: 410.455.6274
  - Email: cmilligan@hilltop.umbc.edu