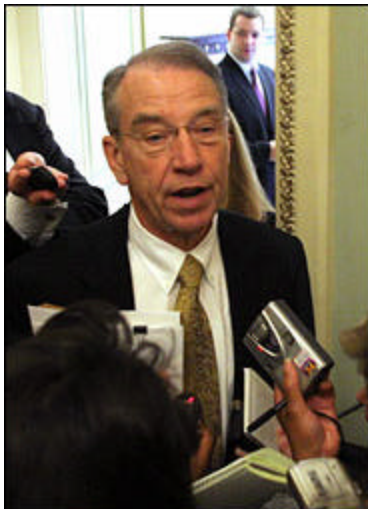


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Nonprofit Hospitals Face Scrutiny Over Practices

By ROBERT PEAR

WASHINGTON, March 18 — Congressional leaders, concerned that many nonprofit hospitals are not providing enough charity care to justify their tax-exempt status, say they will set standards for the industry if it does not do so itself.



Jamie Rose for The New York Times
Senator Charles E. Grassley has examined nonprofit hospitals.

The chairman of the Senate Finance Committee, Charles E. Grassley, Republican of Iowa, who had already been examining nonprofit groups like United Way and the American Red Cross, is broadening his focus to include nonprofit hospitals, with an eye to legislation that would clarify standards for their tax exemptions. Representative Bill Thomas, Republican of California, the chairman of the House Ways and Means Committee, began investigating the financial practices of nonprofit hospitals last year.

The commissioner of internal revenue, Mark W. Everson, said tax officials often found little difference between nonprofit and for-profit hospitals “in their operations, their attention to the benefit of the community or their levels of charity care.”

Huge changes have reshaped the health care industry in recent years, Mr. Everson said, but the basic standard for granting tax exemptions to hospitals has changed little since 1969.

Since 1969, Mr. Thomas said, “less and less has been required for hospitals to maintain tax-exempt status.”

Before 1969, the Internal Revenue Service required hospitals to provide charity care to qualify for tax-exempt status. Since then, the agency has not specifically required such care, as long as hospitals provide benefits to the community in other ways — for example, by offering health fairs, screening for cancer and cholesterol, providing emergency care, training doctors and conducting medical research.

Health insurance companies typically negotiate with hospitals to secure large discounts off hospitals’ posted prices. Uninsured people, with no one to negotiate on their behalf, are often charged much more than the insured, and some hospitals have been aggressive in trying to collect payment from the uninsured.

In a letter to the American Hospital Association this week, Mr. Grassley said he had “serious concern” about their billing and debt collection practices. He also expressed concern about the high salaries of

some hospital executives, their joint ventures with commercial profit-making organizations and their use of profit-making subsidiaries.

While Congress is taking the initiative, administration officials have expressed similar concerns. President Bush has strongly encouraged hospitals to disclose detailed information about their prices, and tax officials say they intend to do more audits of nonprofit hospitals.

In the last few years, low-income people around the country have filed dozens of lawsuits arguing that private nonprofit hospitals are required to provide free or reduced-price services to the uninsured. Judges have generally rejected these arguments.

In a typical ruling last year, Judge Loretta A. Preska of the Federal District Court in Manhattan wrote: "Plaintiffs here have lost their way. They need to consult a map or a compass or a Constitution because plaintiffs have come to the judicial branch for relief that may only be granted by the legislative branch."

Federal tax law does not give patients an enforceable right to affordable medical care, Judge Preska said.

Sister Carol Keehan, president of the Catholic Health Association of the United States, said that nonprofit hospitals, like for-profit institutions, tried to earn a surplus, but used more of it to "take care of unmet health needs in the community."

In the last few years, Sister Carol said, a small number of Catholic hospitals have been accused of overly aggressive collection practices. These practices, she said, "resulted more from inattention than from a deliberate decision to hound poor people."

State officials have shown a keen interest in the issue. The attorney general of Kansas, Phill Kline, said he had opened an investigation of the billing and collection practices of nonprofit hospitals after receiving complaints from consumers. Some nonprofit hospitals have hired debt collection agencies that "harass the poor," Mr. Kline said.

In Illinois, Attorney General Lisa Madigan recently proposed legislation that would require hospitals to provide a minimum amount of charity care, equivalent to 8 percent of hospital operating costs. The Illinois Hospital Association opposes the legislation, saying it would "threaten the survival of many hospitals" by imposing new financial burdens.

In Minnesota, the state attorney general, Mike Hatch, said that stronger government regulation was needed because self-regulation was not enough.

Some nonprofit hospitals and health systems in Minnesota have provided "lavish gifts" and "grossly excessive" compensation to top executives while providing "paltry levels" of charity care, Mr. Hatch said.

When members of Congress raise questions about executive pay, they sometimes point to the compensation paid by teaching hospitals in New York. Tax-exempt organizations generally have to file annual returns with the Internal Revenue Service.

These forms, which are open to public inspection, show that the president of New York-Presbyterian Hospital, Dr. Herbert Pardes, received more than \$4.3 million in compensation in 2004, plus \$1.2 million in contributions to his employee benefit plan. About half of his pay was a reward for performance in prior years, the hospital said.

Dr. Spencer Foreman, president of Montefiore Medical Center in the Bronx, received \$1.1 million in compensation and \$712,000 in benefits.

In an interview, Dr. Foreman said, “Congressional interest in this area is quite appropriate, and we as an industry have to come forward with a comprehensive response.” But in defining the proper level of charity care, he said, it is “totally unrealistic” to apply the same mathematical formula to nonprofit hospitals in destitute urban neighborhoods and affluent suburbs.

“If a hospital provides a benefit proportional to the community’s needs and the institution’s resources, it meets the community benefit test,” Dr. Foreman said.