

Hospitals and the Evolving Meaning of “Charitable”

Conference on “Charity and Government”

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“As the proportion of paying patients rapidly increased, so did acceptance of payment in principle; **by 1900** payment was the ‘true scientific plan’ for hospital charity. America, proclaimed British hospital expert Henry C. Burdett, was the ‘home of the pay system.’ Patients who could afford to pay more were often charged at rates above cost to help subsidize the poor, while additional funds were sought through private donations and government subsidy.”

-- Rosemary Stevens, *In Sickness and in Wealth: American Hospitals in the Twentieth Century*. p. 25.

Contextual Factors

- Hospitals are commercial nonprofits
- Most hospital charity is funded from operating revenues, not donations
- Presence of for-profit competitors
- Hospital charity is both a tax policy and health policy topic

Hospital Charity in Federal Law

- Health care as charity – 1913
- Relief of poverty as charity – 1956
- Undefined community benefit as charity – 1969
- Quantified community benefit as charity – 2008

Community Benefit in Schedule H

7 Financial Assistance and Certain Other Community Benefits at Cost						
Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)						
b Medicaid (from Worksheet 3, column a)						
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs						
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)						
f Health professions education (from Worksheet 5)						
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)						
j Total. Other Benefits						
k Total. Add lines 7d and 7j						

For Paperwork Reduction Act Notice, see the Instructions for Form 990. Cat. No. 50192T Schedule H (Form 990) 2012



Advantages of the Quantified Community Benefit Approach

- Clarifies what counts as charity
- Facilitates public scrutiny
- Facilitates comparison across hospitals, over time, or against benchmarks.
- Pushes hospitals toward actually managing their charitable activities
 - Budgeting
 - Assigning responsibility
 - Including in strategic planning

Limitations and Disadvantages of Schedule H

- CB categories may be too narrow (e.g., not including “community building activities”)
- Not all benefits of nonprofits can be captured in dollar terms
 - The form of governance (e.g., not to stockholders)
 - Pricing behavior
 - Comparative trustworthiness
 - Stability over time
 - Community health improvement (may reduce charity care)

Issues for Future re Schedule H

- The reporting unit problem
- Variability could renew interest in threshold requirements.
- Policy makers may see CB expenditures as a source of revenue for their policy purposes
- Is H a model for other types of nonprofits?
- Increase public understanding of nonprofits?