



# FACT SHEET

## Nonprofit Hospitals' Profits Soaring

### ***NONPROFIT HOSPITALS ENJOY TAX BREAKS AND SOARING PROFITS***

The costs of hospital outpatient and inpatient care continue to increase a pace faster than any other health care cost driver and constitute the largest portion (40 percent) of the insurance premium price. Previous studies have indicated that some California hospitals charge “whatever the market will bear.”<sup>1</sup> Newer research indicates that some nonprofit hospitals, which overall account for about 60 percent of the 3,400 hospitals in the nation, are faring better financially than their for-profit counterparts.<sup>2</sup> While only 61 percent of for-profit hospitals are profitable, 77% percent of nonprofit hospitals are profitable. In fact, the combined income of the 50 largest nonprofit hospitals nationally jumped eight-fold to **\$4.27 billion** in 2006, from \$544 million in 2001.

### ***AREAS UNDER SCRUTINY***

As the profits continue to rise for a number of nonprofit hospitals, the following issues are gaining scrutiny:

#### ◆ ***TAX BREAKS AND CHARITY CARE***

The Congressional Budget Office estimated in 2006 that nonprofit hospitals received **\$12.6 BILLION IN ANNUAL TAX EXEMPTIONS** beyond the annual \$32 billion in state, federal and local subsidies. In return for not paying taxes, nonprofit hospitals are to provide a “community benefit” loosely defined in part as “charity care.” Some hospitals include employee payroll and the difference between list prices of treatment and what they are paid by Medicaid and Medicare in their “community benefit.” When these expenses are excluded, many hospitals spend less on charity care than they receive in tax breaks. In 2009, new standards will require nonprofits to itemize the specifics of their community benefit contributions. However, the standards do not set a minimum for charity care.

#### ◆ ***MONEY MAKING STRATEGIES***

The nonprofit hospital industry’s profit growth is the result of a number of pointed strategies, including: demanding upfront payments from patients; hiking list prices for procedures and services to several times the actual cost; selling patients’ debts to collections; focusing on the most expensive procedures; and, issuing tax-exempt bonds and investing those proceeds into higher-yielding securities. **IN 2005, HOSPITALS MARKED UP THEIR PRICES BY AN AVERAGE OF 175 PERCENT OF COST.** These strategies have left some nonprofit hospitals with nontaxable cash piles that rival large publicly traded companies.

#### ◆ ***SPENDING SPREES***

Hospitals claim the abundance of cash allows them to deliver “world class” health care. However, the nonprofits most flush with cash have also undergone \$1 billion expansions, installed marble floors in their lobbies and flat-screens in rooms, and purchased thousands of works of art. Overall, it is estimated that, nationally, nonprofit hospitals underwent a “building binge” to the tune of \$30 billion in 2006, up from \$12 billion in 2000. Further, the best paid nonprofit hospital CEO accrued \$16.4 million in compensation in 2006. Executives at nonprofit hospitals also enjoy other perks: car allowances, spousal travel expenses, low interest loans (that are sometimes forgiven), and country club memberships, to name a few.

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**REFERENCES:** <sup>1</sup> Pacific Business Group on Health, “Cost Efficiency at Hospital Facilities in California: A Report Based on Publicly Available Data,” (Oct. 2007)

<sup>2</sup> John Carreyrou & Barbara Martinez, “Nonprofit Hospitals, Once for the Poor, Strike it Rich,” *Wall Street Journal* (Apr. 4, 2008).