



## **For-Profit or Not-For-Profit**

### **PRESIDENT'S MESSAGE**



By Satya N. Chatterjee, MD

ALL ACROSS AMERICA there is a debate going on regarding the usefulness of not-for-profit (NFP) hospitals as against for-profit (FP) hospitals. (For the sake of space, I will exclude the debate on NFP versus FP health plans.)

### **History**

From the early 1600s to the early 1800s, health care in the New World was primitive compared to the Old World, where the Universities of Padua and Bologna and the University of Edinburgh were thriving centers of medical excellence. The first hospital and the first university in the colonies were established at Philadelphia as the University of Pennsylvania. Harvard followed, and then many others. All the hospitals, at that time, were maintained by the state and/or the city.

Only during the last century did community hospitals spring up all over the country as results of efforts spearheaded mostly by doctors. In fact, many community hospitals are still known as Doctors' Hospitals. Texas was the first state to provide fixed prepaid hospital care for a fixed premium. This is how Blue Cross got its start as a not-for-profit health insurance company.

NFP hospitals do not pay property taxes and income taxes. They receive tax exempt status under Chapter 501(c)3 of the IRS code, requiring the following: (1) No earning from the entity be distributed to any private individual; and (2) the facility be operated exclusively for religious, scientific, charitable, literary or educational purposes.

Defining and measuring community benefits is complex, difficult and problematic. Relatively small differences are found between FP and NFPs in the promotion of charity care in national data (ProPac 1995 and 1996). Charity care should ideally be measured not by charges but on a cost basis. Services to Medicare, Medi-Cal and medically indigent adult patients are often called charity care by these hospitals. If this is true, from 1973 to 2005, I must have given enough charity care to ask for a refund of all the income taxes I have paid and more.

### **Good or Bad**

Lawsuits are being filed against NFP hospitals in many states. Mississippi attorney Richard Scruggs filed a class action lawsuit against the Phoebe Putney Hospital and three other Georgia hospitals alleging overcharging their uninsured patients.

According to an AP news story, attorneys involved have sent letters to 31 hospital systems in 17 states accusing them of claiming more charity care than they are providing and charging uninsured patients more than the insured patients.

In all these cases, the lawyers will no doubt make more money than the class action plaintiff will, but it is a question of correcting a wrong. Recently, the CMA successfully sued many HMOs (Aetna, Cigna and HealthNet have already settled, paying out millions of dollars) for not adequately reimbursing doctors. No doubt the attorneys came out like bandits, but without them the HMOs would not be as tame as they are today, and doctors did receive a fair share. Locally, for some reason or other, Sutter Health has been singled

out. A lawsuit was filed in federal court in San Francisco alleging charity care violations, on the basis of a recent article in the Business Journal.

This practice is prevalent across America. Recently, Senator Charles Grassley of Iowa sent letters to 10 not-for-profit hospitals to "account for their charitable activities given the tax exempt status they received." To name just one: Advocate Health Care in Illinois made over \$100 million profit last year. Their president/CEO was paid \$1,391,246 and the senior vice president \$1,113,106 in total compensation. Not bad for a non-profit hospital. Advocate Health Care has an offshore account in the Cayman Islands.

Compare that with Indiana's Methodist hospital, also non-profit, which made \$173,316,346 but paid its CEO \$274,221 and CFO \$201,016 - a much more reasonable sum. This example should be followed by other non-profit hospitals. After all, 80 percent of MDs with their years of training make less than \$100,000 per year. Trinity Health, Michigan (created by Mercy Health joining Holy Cross, both Catholic organizations) made \$2,079,705 last year (according to 990 federal tax forms) but paid \$1,908,074 to its CEO. The organization has \$9 million in assets in the U.S. Virgin Islands. Wouldn't it be better to lower the prices to the uninsured and make health care affordable instead?

### **The Future**

Of all US hospitals, 52 percent are non-governmental non-profit. In the health industry and health policy community, there are divergent views on converting non-profit to for-profit. Hospital conversions alone, which are much smaller than health plans, can create foundations with assets of billions.

No doubt for-profit hospitals will run more efficiently and will fit with the American idea of a market-oriented delivery system, but I feel that health care is not an industry. It is a service, which should not be run for profit or greed but for a social purpose and professional altruism. The place for NFP hospitals will always be there, but the focus has to be on charity care. It should not only be done, but it needs to be perceived done by all in the community. We, the doctors, can help and should help.

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