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NONPROFIT HOSPITALS

Variation in Standards and Guidance Limits Comparison of How Hospitals Meet Community Benefit Requirements

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Highlights

Highlights of GAO-08-880, a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Nonprofit hospitals qualify for federal tax exemption from the Internal Revenue Service (IRS) if they meet certain requirements. Since 1969, IRS has not specified that these hospitals have to provide charity care to meet these requirements, so long as they engage in activities that benefit the community. Many of these activities are intended to benefit the approximately 47 million uninsured individuals in the United States who need financial and other help to obtain medical care. Previous studies indicated that nonprofit hospitals may not be defining community benefit in a consistent and transparent manner that would enable policymakers to hold them accountable for providing benefits commensurate with their tax-exempt status. GAO was asked to examine (1) IRS's community benefit standard and the states' requirements, (2) guidelines nonprofit hospitals use to define the components of community benefit, and (3) guidelines nonprofit hospitals use to measure and report the components of community benefit. To address these objectives, GAO analyzed federal and state laws; the standards and guidance from federal agencies and industry groups; and 2006 data from California, Indiana, Massachusetts, and Texas. GAO also interviewed federal and state officials, and industry group representatives.

IRS stated that the report in general was accurate, but noted several concerns regarding the description of the community benefit standard. CMS did not have any comments.

To view the full product, including the scope and methodology, click on GAO-08-880. For more information, contact A. Bruce Steinwald at (202) 512-7114 or steinwalda@gao.gov.

What GAO Found

IRS's community benefit standard allows nonprofit hospitals broad latitude to determine the services and activities that constitute community benefit. Furthermore, state community benefit requirements that hospitals must meet in order to qualify for state tax-exempt or nonprofit status vary substantially in scope and detail. For example, 15 states have community benefit requirements in statutes or regulations, and 10 of these states have detailed requirements.

GAO found that among the standards and guidance used by nonprofit hospitals, consensus exists to define charity care, the unreimbursed cost of means-tested government health care programs (programs for which eligibility is based on financial need, such as Medicaid), and many other activities that benefit the community as community benefit. However, consensus does not exist to define bad debt (the amount that the patient is expected to, but does not, pay) and the unreimbursed cost of Medicare (the difference between a hospital's costs and its payment from Medicare) as community benefit. Variations in the activities nonprofit hospitals define as community benefit lead to substantial differences in the amount of community benefits they report.

Even if nonprofit hospitals define the same activities as community benefit, they may measure the costs of these activities differently, which can lead to inconsistencies in reported community benefits. For example, standards and guidance vary on the level at which hospitals may report their community benefit (e.g., at an individual hospital level or a health care system level) and the method hospitals may use to estimate costs of community benefit activities. State data demonstrate that differences in how nonprofit hospitals measure charity care costs and the unreimbursed costs of government health care programs can affect the amount of community benefit they report.

With the added attention to community benefit has come a growing realization of the extent of variability among stakeholders in what should count and how to measure it. At present, determination and measurement of activities as community benefit for federal purposes are still largely a matter of individual hospital discretion. Given the large number of uninsured individuals, and the critical role of hospitals in caring for them, it is important that federal and state policymakers and industry groups continue their discussion addressing the variability in defining and measuring community benefit activities.