

“Charitable Hospitals” providing very little Charity

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If President Obama wants to “squeeze billions of dollars from (healthcare) spending,” as *Associated Press* reports (July 1), he could begin by administering a dose of fiscal reality to for-profit hospitals masquerading as charitable institutions.

Such hospitals are getting tax exemptions “because they are providing charitable care—free care or deeply discounted care—for those who can’t pay,” writes law school dean Lawrence Velvel. “The problem, though, is that they’re *not* providing very much charitable care.”

Velvel cites Chicago’s Northwestern Memorial Hospital as a case in point. It is exempt from about \$50-million in property and sales taxes and exempt from taxes on the gains of its cash and investments of \$1.82-billion. “But the percentage of charitable care Northwestern provides is less than two percent of its revenues,” writes Velvel, dean of the Massachusetts School of Law at Andover. Indeed, the \$21 million Northwestern spends on charitable care is, according to the *Wall Street Journal*, but “a fraction of what it received in tax breaks.”

Another example: BJC Healthcare, a 14-hospital, St. Louis-based enterprise, claimed \$1.8 billion in “community benefits” to various towns in 2004, Velvel writes, “but over one-half of that, or \$937 million, *was compensation paid its employees*, including \$1.8 million to its CEO, *while only \$35 million was charitable care.*” Velvel said BJC is contending that as the jobs it produces have a beneficial impact on its communities “it is proper to call the salaries a community benefit.”

The *Journal* reports BJC “won’t count its payroll as a community benefit in the future because of new” IRS standards that “won’t require the hospitals to provide any minimum amount of charity care.” Of this development, Velvel asks, “What’s that all about? These are at least *supposed* to be charity hospitals after all. Can these hospitals nonetheless provide *no* charity care since there will be no minimum amount required?”

“The huge tax breaks received by wealthy, supposedly charitable hospitals are raising eyebrows in Congress and elsewhere because of the dearth of true charitable care,” Velvel continues, in an essay published in his new book “*America 2008*” from Doukathsan Press.

“The vast sums these institutions take in are going elsewhere than to such care. As is typical of tax free nonprofits of many types, they put their money into fabulous buildings...and, as *always*, large salaries for administrators,” Velvel points out. At Northwestern Memorial, the Chief Executive Officer recently received a \$16.4 million payout one would not ordinarily associate with a charitable institution.

According to an article in *The Wall Street Journal*, “The hospital says it paid him \$5.45 million in salary, bonus and deferred compensation in its fiscal year ended August 31, 2006,

and an additional \$10.95 million when he retired the next day.” To which Velvel comments, “The very next day? This guy got \$5.45 million one day and more than doubled it a day later? Wow. That’s nice work if you can get it.”

Velvel writes the “fat cat charitable hospitals” that pay fortunes to their executives have gotten fat in the absence of anti-trust laws over the past 28 years by merging “like crazy and thereby (have) gotten power over prices.”

“They charge list prices that are several times cost. They focus on expensive procedures. They engage in a form of arbitrage (which I always thought was illegal); they issue tax exempt bonds and use the bond proceeds to buy securities that pay more than the hospitals are paying in interest on the tax exempt bonds,” Velvel writes.

He goes on to say, “They sell patients’ debts to tax collection companies — who are great fun to deal with, right? They sue the poor, who can’t pay, for their last nickel or the equivalent. And—just so you don’t forget—who gets all the money? Well, lots of it goes to the administrators, just like in for profit health insurance companies and just as with university presidents. As the president of a true nonprofit hospital, and therefore a struggling nonprofit hospital, said to the *(Wall Street) Journal*, “Nonprofit is a misnomer—...When you’re making hundreds of millions of dollars a year, how can you call yourself a not-for-profit?”

In its article of April 4, 2008, *The Wall Street Journal* pointed out, “No fewer than 25 nonprofit hospitals or hospital systems now earn more than \$250 million a year.”

According to the newspaper, however, there *are* charitable hospitals that are truly charitable, Velvel notes. “They treat the uninsured. Sometimes they pay millions in taxes of one kind or another. They are struggling financially. And, discussing two of them in the Chicago area, the *Journal* says their CEOs make just a bit more than \$200,000 per year.”

Velvel is dean and cofounder of the Massachusetts School of Law at Andover, established in 1988 to provide a quality, affordable legal education to students who would otherwise be unable to obtain a legal education. Tuition at the school is about just half charged by other New England law schools. Velvel has been honored for his work by legal publications and is the recipient of several publishing industry awards for his collections of essays.

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