

A Lesson from Texas: Why Pursuing Charity Care Shouldn't End with a Collection Notice

Tanner Aliff & Nicholas Armstrong

What is Charity Care?

- After incorporating as a 501(c)(3) with the IRS, nonprofit hospitals (NPHs) are exempt from virtually all taxes (i.e., property, sales, corporate income, Ad Valorem/Bonds, capital gains etc)
- The estimated tax-value that state and federal governments annually forgo is between \$22 to \$27 Billion. We in Texas are still waiting for an estimate for our hospitals tax exemption values from the Texas Hospital Association
- State and federal governments allow for this generous tax advantage because nonprofit hospitals agree to provide what is called “Community Benefit”
- Community Benefit encompasses: Research costs, training health professionals, public health awareness programs, community building programs, losses from government means-tested programs (i.e., Medicaid) and most importantly **charity care**
- **Charity Care**: Hospital charity care, also known as financial assistance, is where a hospital covers the entire cost or heavily discounts the cost of care for an uninsured or underinsured patient that typically earns 150% - 400% the federal poverty level

What Are States Finding When They Investigate Charity Care?

Washington state, Providence Health: Attorney General Bob Ferguson found that 9 Providence Health and 5 Swedish hospitals wrongfully sent 100,000 low-income patients who were eligible for charity care to debt collections. Providence was forced to pay \$157.8 million dollars in debt relief.

North Carolina Treasurer's Audit: The study concluded that for-profit hospitals give more charity care than their nonprofit counterparts. NPHs enjoyed an estimated \$1.8 billion in tax breaks from 2019-2020, but charity care spending across the majority of NPHs did not surpass 60% of their tax breaks.

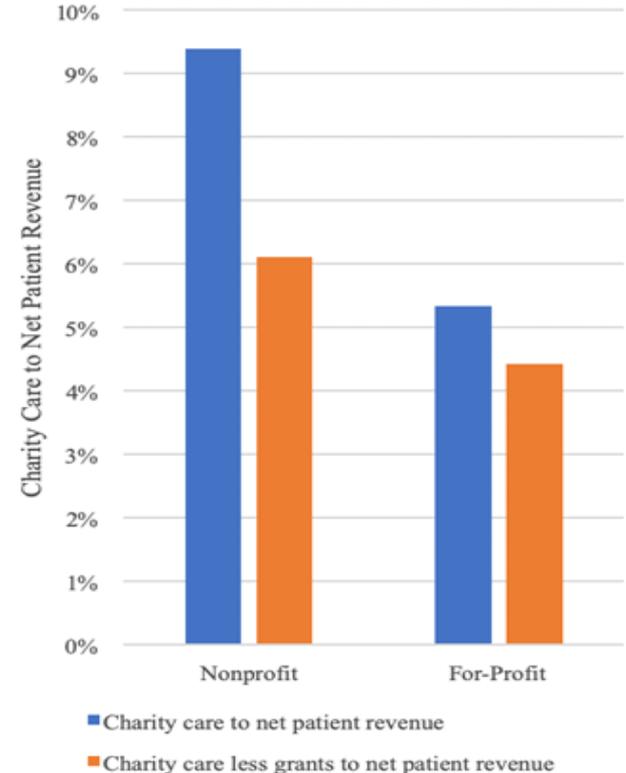
Montana Audit: The audit found that the way hospitals report community benefit spending is vague and not consistent across the state. The report found that there was little to no effect on the health of patients in Montana based on the self reported \$257 million Montana NPHs reported spending.

Minnesota/Wisconsin, Allina Health: Allina Health had an internal policy of denying patients care if they had more than \$4,500 in medical debt. Hospital administrators would be barred from scheduling follow-up appointments if patients had outstanding debt.

Pennsylvania's Tower Health Ruling: One hospital had its state property tax exemption revoked after a court found that the hospital "did not operate free from a profit motive."

Case Study: What did Texas do about Charity Care this Session?

- In 2024, Texas spent \$5 million to Myers & Stauffer to review its charity care requirement.
- TPPF's research found only a 1.67% difference in charity care spending between for-profit and nonprofit hospitals.
- TPPF polling shows 87% of Texans were unaware of charity care



Note. Produced using data from personal communication, Baker Institute at Rice University, March 2022, and authors' calculations.

Texas Case Study Continued:

- **HB 3708:** Requires non-disproportionate share NPHs (i.e., large metropolitan private hospitals) to pre-screen patients for charity care eligibility before being allowed to send patients to debt collectors. And created a penalty process where patients can appeal to Texas Health and Human Services.



HB 3708

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JOHN H. BUCY III

JAMES B.



Thank You & Feel Free to Reachout!



Tanner Aliff - Senior Research Fellow at the Paragon Health Institute

Twitter/X: @taliff5 **LinkedIn:** Tanner Aliff

Nicholas Armstrong - Policy Analyst at the Texas Public Policy Foundation

Email: narmstrong@texaspolicy.com **Twitter/X:** @NickStrong901 **LinkedIn:** Nicholas Armstrong

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