

Health Affairs Press Release

Four Views on Nonprofit Healthcare Performance, Public Accountability and Tax Exemption

June 20, 2006

Researchers Find That Impact Of Nonprofits, And Grounds For Tax Exemption, Range Far Beyond Care For Indigent

*Health Affairs Authors Argue That States Should Help Each Community Decide
On Local Accountability Requirements For Nonprofits*

Bethesda, MD -- By itself, the amount of indigent care provided by nonprofit hospitals and other nonprofit health care entities does not justify their tax exemptions, but these institutions often provide other, less easily measured benefits that vary from service to service and from community to community.

That's the conclusion reached by Mark Schlesinger and Bradford Gray in the lead article of a four-paper package published today on the *Health Affairs* Web site. "There are many ways that providers can influence the health of communities. Thus, restricting the rationale for tax exemption to indigent care, as done in some states and favored by some policy analysts, is a misguided approach to improving community health," say Schlesinger, a professor of health policy at Yale University, and Gray, a principal research associate at the Urban Institute.

At a time when tax exemption for nonprofits is at the center of controversy in state legislatures, Congress, and the courts, Schlesinger and Gray provide a comprehensive look at whether and how nonprofits behave differently

[(s)-6]TJ3.616 0 Td[(i) Td[(t)10.83132 0 Td

Some ownership effects appear to apply more consistently across services, say Schlesinger and Gray. As a rule, nonprofits “appear more trustworthy in delivering services”: They are “less likely to make misleading claims, to have complaints lodged against them by patients, and to treat vulnerable patients differently from other clientele.” Nonprofit entities are also less aggressive about marking up prices and otherwise maximizing revenues, and they are “typically the incubators of innovation.”

A Mix Of For-Profit And Nonprofit Ownership Is Needed In Local Markets, Say *Health Affairs* Authors

Not all ownership-related effects constitute clear advantages for nonprofits. For example, “nonprofit health care providers are slower to react to change, expanding capacity less quickly when demand rises and dropping services or withdrawing from markets less frequently when profitability declines,” report Schlesinger and Gray, who say that this can help or hurt consumers, depending on the circumstances. The researchers conclude that a mix of both for-profits and nonprofits is appropriate.

The evidence available, while sketchy, suggests that “even a small for-profit presence (a share of 10 percent or less in the local market) induces greater efficiency among nonprofit competitors. The nonprofit presence required to induce greater trustworthiness in for-profit competitors appears to be larger -- market shares of at least 20–30 percent,” Schlesinger and Gray report.

“Because the spillover benefits of mixed ownership occur at the local level, it is there that an appropriate balance should be maintained. This contrasts dramatically with the current distribution of ownership for many services, in which many local markets are exclusively nonprofit or for-profit in character.”

Schlesinger and Gray reject what they say are the “two competing approaches to achieving accountability for nonprofit health care.” First, the two researchers argue that neither states nor the federal government should “establish standard criteria against which nonprofits’ performance would be evaluated.” This approach, which “seems to be the thrust of current congressional inquiries into nonprofit medical care,” is “excessively inflexible, substituting decisions by state and federal policymakers or regulators for choices better made in local communities.”

Schlesinger and Gray also criticize as inadequate “policies adopted by some states that require nonprofits to assess community needs and report publicly on their efforts to meet them.” They point out that “reporting requirements are not in themselves sufficient, since reports are famous for sitting unread on shelves” and “communities might lack the capacity to imagine forms of community benefit . . . or to influence nonprofits’ practices.”

In place of these two approaches, Schlesinger and Gray argue for an “approach to accountability that fosters community involvement, supported by a state-financed infrastructure.” First, “states should adopt guidelines

Horwitz Defends Freedom Of Nonprofit Actors; Hyman and Sage, And Bloche, Push For Subsidizing Performance, Not Ownership

In a Perspective on Schlesinger and Gray's article, Jill Horwitz argues that "mandating the use of private, charitable property for narrowly defined community purposes, even in exchange for [tax] exemption, violates the goals of charities law. Nonprofit institutions are meant to allow private actors, within broad constraints, to create and implement their own ideas of what counts as the public good."

The University of Michigan law professor adds that Schlesinger and Gray's "invocation of deliberation and community consultation is nice, but what legally enforceable duties do the authors envision? Without more detail, it is hard to imagine how a list of community-generated benefits would have enough bite to matter, yet not rise to the level of government."

public benefits worth more than the tax revenues forgone, it squanders our shared resources,” writes Bloche, a Georgetown University law professor and visiting fellow at the Brookings Institution.

Instead of granting tax exemption to nonprofits per se, Bloche argues, government should adopt a pay-for-performance approach to both charity care and community benefit: “Public spending, including tax subsidies, should support development of electronic medical records, evidence-based practice protocols, better ways to assess and compare hospitals’ and health plans’ clinical outcomes, and other quality-enhancing tools.”

You can read Schlesinger and Gray’s article and the three Perspectives at http://www.healthaffairs.org/alert_link.php?url=http://content.healthaffairs.org/cgi/content/full/hlthaff.25.w287/DC3&t=h&id=369