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Do Minimum Charity Care Provision Requirements Increase Provision of Charity Care in Nonprofit Hospitals?

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Nonprofit hospitals receive significant federal, state, and local tax exemptions, partly based on the rationale that nonprofit hospitals provide public goods and services such as community benefits and charity care.[1,2,3] Hospital charity care refers to healthcare services provided to patients without the intent of billing and are one form of community benefit (activities or treatments provided in response to community health needs) that hospitals may offer. It is believed that tax exemptions might allow nonprofit hospitals to provide more charity care than for-profits.

KEY FINDINGS

- Government and nonprofit hospitals provided more charity care than for-profit hospitals in Illinois between 2009 and 2015, which may be related to differing goals, objectives, and constraints related to healthcare provision across the sectors.
- Minimum Charity Care Provision (MCCP) requirements for nonprofit hospitals do not seem to lead to more charity care on average.
- MCCP requirements narrow the gap between nonprofit hospitals that offer high and low levels of charity care.
- Regulatory policies like MCCP requirements, which focus on external motivation, may crowd out internal motivations for nonprofit hospitals to provide more charity care.

As of 2021, five states have laws requiring nonprofit hospitals to spend a certain percentage of their expenditures on charity care. These requirements are known as Minimum Charity Care Provision (MCCP) requirements. In theory, these requirements could lead to higher levels of charity care spending through increased incentives and clearer targets for policy goals, but empirical evidence is mixed.

Though MCCP requirements call for nonprofit hospitals to spend a certain percentage of their revenues on charity care, it is not clear whether these requirements actually increase spending on charity care. This brief summarizes the findings from our recent paper published in *Journal of Public Administration Research and Theory*.[4] We examined differences across sectors in the hospital market (that is, nonprofit, for-profit, and government) in the provision of charity care and the extent to which regulation influences its provision in nonprofit hospitals. We use data from the Illinois Annual Hospital Questionnaire (AHQ) and the United States Census Bureau's American Community Survey (ACS) to estimate the impact of the MCCP requirement in Illinois on charity care provision by nonprofit hospitals.

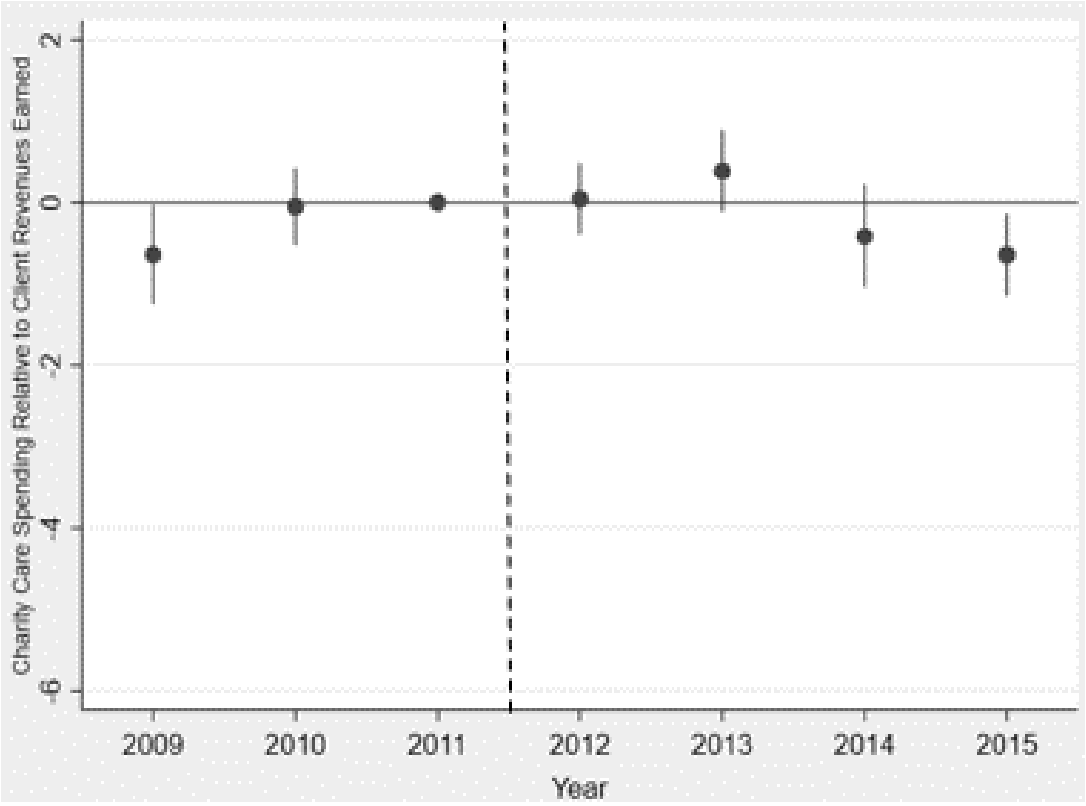

Figure 1. Minimum Charity Care Provision Requirements Do Not Increase Charity Care

Note: Continuously operating general hospitals (from 2009-2015). Sample includes observations in years with audited financial statements and information on charity care provided.

While charity care provision varies across nonprofit, for-profit, and government hospitals, MCCP requirements do not increase nonprofit hospitals' spending on charity care, on average (as shown in Figure 1). There are at least two potential explanations for this. First, many nonprofit hospitals already exceeded the low benchmark mandated by MCCP requirements prior to its implementation, so the threat of removal of tax exemptions might provide sufficient motivation even though the performance targets were ambiguous. Second, there are potential drawbacks to policies that use threat of punishment to provide incentives for regulatory compliance, because they may crowd out internal motivations to provide more care (such as feelings of altruism and fairness).

Even in the absence of MCCP requirements, nonprofit hospitals were already tasked with providing community benefits and charity care (though without specific regulatory standards). The characteristics of nonprofit hospitals, such as mission, politics, and employee culture, may already influence the provision of charity care. For many of these organizations, the provision of community benefits and charity care was not incidental, but central to their organizational mission.

Additionally, the legal requirements for community benefits and charity care are ambiguous. While hospitals must meet MCCP requirements or potentially lose their tax-exempt status, those requirements do not have clearly defined guidelines. Our paper notes that several hospitals in Illinois lost their tax-exempt status after failing to provide sufficient community benefits and charity care even before specific

MCCP targets were instituted. For generous nonprofit hospitals, the MCCP requirements may have undermined performance because they set a lower expectation. Indeed, the gap between nonprofit hospitals with relatively high and low levels of charity care provision narrowed considerably.

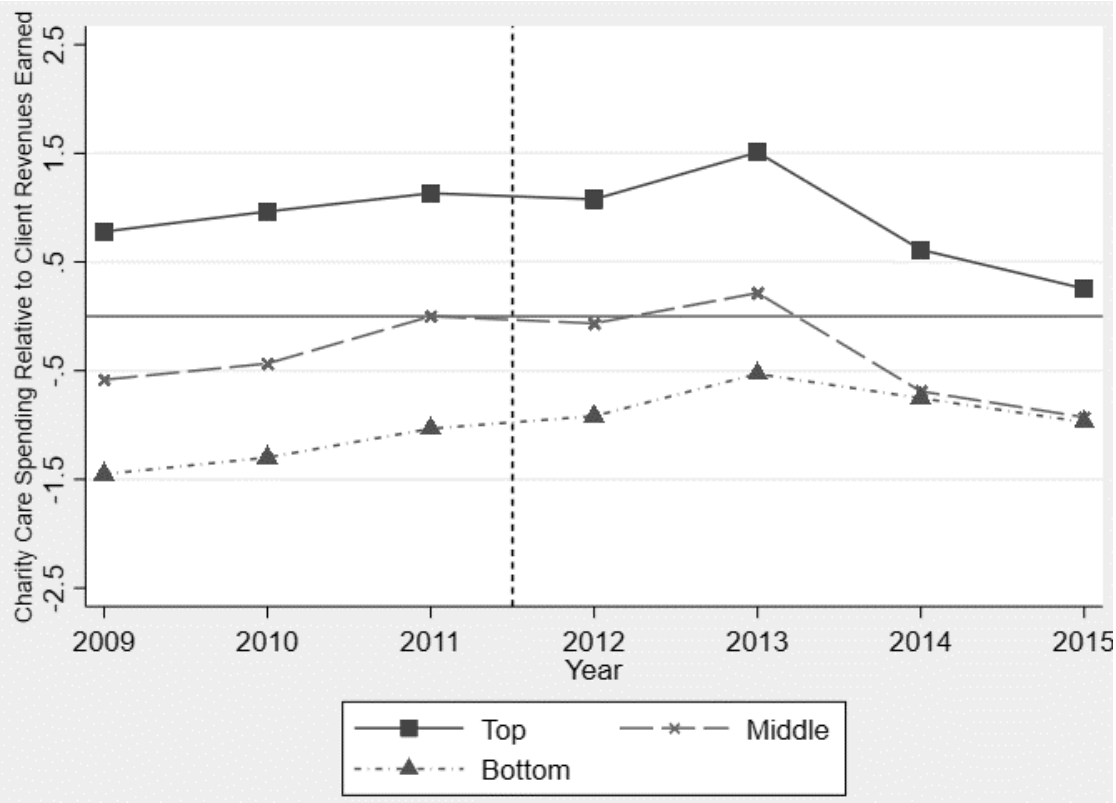

Figure 2. Minimum Charity Care Provision Requirements Narrow Differences In Performance Among Nonprofit Hospitals

Note: "Top" indicates nonprofit hospital charity spending in the top tercile (> 1.82% of client revenues earned plus charity spending), "Middle" indicates middle tercile (1.29% - 1.82% of client revenues earned plus charity spending), "Bottom" indicates bottom tercile (< 1.29% of client revenues earned plus charity spending). Sample includes observations of continuously operating general hospitals (from 2009-2015) in years with audited financial statements and information on charity care provided.

Though MCCP requirements do not change average provision of charity care, Figure 2 shows responses vary among nonprofit hospitals that spent different amounts on charity care before the implementation of MCCP. In fact, MCCP requirements in Illinois caused differences in charity care to narrow; less-generous hospitals provided more care to meet the target benchmark, while generous hospitals maintained or decreased their charity care services. External motivations to increase charity care (such as a threat of tax exemption loss) did not influence nonprofit hospitals that already exceeded standards. Instead, those external motivations may have set a lower bar.

If anything, targeting policies that use external incentives may have crowded out some organizations' internal motivations to provide public goods and services. As a result, setting clearer performance targets was not enough to achieve lawmakers' goal of increasing nonprofit charity care provision overall. On the other hand, clear MCCP threshold requirements did force less-generous hospitals to increase their spending on charity care.

Recommendations for Policy

Governments should consider using other forms of regulations to encourage improved performance, such as measuring the extent to which nonprofit hospitals address unmet needs or improve the health outcomes of their communities - to incentivize nonprofit hospitals to increase charity care services, rather than setting uniform target levels (like MCCP requirements). Researchers should assess the extent to which those performance-based approaches are, indeed, more effective than policies that set a uniform bar.

Data and Methods

We combined data from Illinois' Annual Hospital Questionnaire (AHQ) and the Census Bureau's American Community Health Survey (ACS). The former provides data on hospital size, finances, and demographics while the latter supplies demographic and economic data for the counties in which the hospitals are located. The AHQ utilizes data from all hospitals in Illinois that submitted audited financial statements to the Illinois Health Facilities and Services Review Board between 2009 and 2015, excluding hospitals that closed. The entire methods sections may be accessed through our published study here: https://doi.org/10.1093/jopart/muab025.

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