Ways & Means Grills Hospital CEOs On Site Neutrality, Tax-Exempt Status

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Health system CEOs faced some tough questions on site neutrality and tax-exempt status and agreed to work with lawmakers on reforms during Tuesday's House Ways & Means Committee hearing on hospitals' role in the health care affordability crisis.

The four-and-a-half hour hearing included testimony from Sam Hazan, CEO of for-profit health system, HCA; Wright Lassiter III, CEO of CommonSpirit; Brian Donley, CEO of New York Presbyterian; Michael Waldrum, CEO of ECU Health; and Brad Woodhouse, president of Protect Our Care.

The conversation ranged from blaming the other party, or another sector, for creating the current situation --- Republicans pointed to the Affordable Care Act while Democrats blamed HR 1 -- to substantive questions and answers about next steps.

It ended with witnesses agreeing with Rep. Tom Suozzi's (R-NY) request to reconvene all players -- including insurers, drug makers and pharmaceutical benefit managers -- for a larger discussion on addressing health care costs.

Ways & Means Chair Jason Smith (R-MO) opened the meeting by railing over the nearly 300% increase in hospital costs over the past two decades spurred by mergers and consolidations. These mergers are leading to higher prices but not better care, he said. He blasted urban hospitals, which he said have the advantage of a higher wage index but also reclassify as rural to glean higher pay and other government benefits. Urban hospitals also claim residency slots that Congress had set aside for rural facilities, Smith said. And he pointed to hospitals' leveraging of higher payments for services done in hospital outpatient departments than in independent practices -- which he said increases spending by the federal government and also by patients who have higher co-pays.

When Congress tries to right those wrongs through site-neutral policies, “big hospitals fight tooth and nail,” Smith said.

Smith also made clear the committee is eyeing non-profit hospitals’ tax-exempt status.

"For-profit hospitals are legally required to put shareholders over patients, but so-called ‘non-profit’ hospitals rarely act much different,” Smith said. “Tax-exempt hospitals deliver charity care that is consistently worth less than the tax break they receive. These ‘non-profit’ hospitals receive a $28 billion tax break while only spending roughly $16 billion on charity care. The difference fuels a spending spree totally unrelated to providing health care, like real estate investments, stadium naming rights, green energy initiatives, and political activism,” he said.

Democrats, including ranking member Richard Neal (D-MA), pointed out they had spent months warning the cuts in H.R. 1 and Republicans’ refusal to extend the ACA enhanced tax credits would push the system to the breaking point.

“We need to be talking about real solutions that bring costs down right now for workers and families, and that starts with reversing the harm of Republican cuts and ending the president’s price hikes,” he said.

The witnesses in general called on the committee to ensure stable, affordable coverage, regulatory relief and accountability from the insurance industry.

Site-neutral reform

Several lawmakers, including Oklahoma GOP Rep. Kevin Hern, Rep. Nicole Malliotakis (R-NY) and others, reiterated how higher Medicare payments for outpatient departments are driving consolidation and increasing patient cost-sharing, and they challenged witnesses to justify the discrepancy.

The CEOs argued that hospitals are required to be open 24/7 and serve more complex patients, which they said warrants additional funding.

Still, CEOs suggested there are opportunities for reform, including by looking at services where pay discrepancies are not reasonable.

Hospitals are mandated to care for all patients, and the hospital outpatient departments help with recruiting, Waldrum said. He also emphasized that Medicare is not paying for the “same service” but the “only service” in certain areas.

There may be room for some rational reworking, but these payments are essential when there are no alternative access points, Waldrum argued.

Hern asked the CEOs how they would ensure that patients don’t see higher co-pays following a merger if they are not willing to support site-neutral policies. All the CEOs said they don’t buy practices as a strategy.

Rep. Greg Steube (R-FL) asked the executives how they can justify higher fees for outpatient facilities when they are not meaningfully different in the quality of care delivered. Hazan reiterated how hospitals are mandated to stay open and care for all patients regardless of ability to pay, but did say that some non-emergency procedures with significant price discrepancies could be a place to start.

The witnesses also told Steube that they would not fight implementation of a requirement for facilities to have separate National Provider Identity numbers, a step toward site neutrality enacted under Consolidated Appropriations Act, and that the American Hospital Association is already asking CMS to implement it in the least burdensome way possible.

Numerous lawmakers also pressed Donley on the loophole in Medicare that allows urban hospitals, including several New York Presbyterian facilities, to classify as rural. Donley emphasized that his hospital does not consider itself geographically rural, but that CMS allows the designation as a rural referral facility. Rep. Rep. Carol Miller (R-IA) promoted the Defend Rural Health Act that would end the loophole.

Tax-exempt status

Per Smith’s opening remarks, lawmakers are increasingly interested in non-profit hospitals’ compliance with charitable giving requirements for maintaining their tax-exempt status.

Non-profit hospitals get a significant tax benefit and for that they are expected to meet certain obligations that are relatively broad under the community benefits standard,

Malliotakis said. She asked Donley to explain how New York-Presbyterian satisfies those standards and how any attempts to strengthen them should be designed to avoid unintended consequences.

Donley said his hospital offers $2.4 billion in community benefits, four times the $622 million tax advantage. As far as reforms, Donley said that as a hospital in a Medicaid expansion state where there's only a 5% uninsurance rate, it's important to consider not just the amount of charity care a hospital provides, but also the Medicaid population.

All four CEOs had previously told the committee that they lose money on Medicaid patients.

Hern pressed Donley on whether the community benefits are reported at the system level or by individual facilities. When Donley said that it's at the system level, Hern wondered how the IRS could determine a facility is satisfying those standards without specific information. "I think that would be a discussion we have to have," Donley replied.

Rep. Greg Murphy (R-NC), meanwhile, made the case that the hospitals shouldn't be profitable at all.

"We have to fix this problem," Murphy said, referring broadly to the costs of care. "We cannot justify that billions of dollars are taken out of patients' pockets, not being able to allow them to access health care, and that it goes for profit on stock markets. We just can't do that anymore."

"Now I don't want to sound like a communist. I'm not. I'm a capitalist at heart. I absolutely believe in this. But if we now have institutions that put profits above patients, and I'll bet more on the insurance industry than anything, we have to rethink this model."

Murphy also made clear he thinks Medicare for All is a "ridiculous initiative."

Earlier in the hearing, Rep. John Larson (D-CT) asked the witness panel whether they would support providing Americans affordable care via Medicare for All; two of the panelists, Woodhouse and Waldrum, raised their hands, while the rest emphasized that they back universal coverage.

There is no replacement for a local hospital when you need it most," Federation of American Hospitals CEO Charlene McDonald said in a statement after the hearing. "Taxpaying hospitals show up for patients in communities across the country -- beyond the coasts and major cities -- keeping hospital doors open while providing significant levels of charity care, investing directly in cities and towns, anchoring local economies as leading employers, and training the next generation of the health care workforce.

"For our hospitals, affordability is not an abstract policy debate -- it is a daily reality," she added. "Our hospitals will continue to lead the way in providing access to care and ensuring patients have the tools needed to make informed decisions about their care. For the system to work for the patients we serve, that same level of accountability and transparency must extend across the entire health care landscape." -- *Amy Lotven* (alotven@iwpnews.com)