Charitable Mission Unknown:

Non-Profit Nursing Homes Fall Short of Community Benefit Standards

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Taking Action Making Change

Northwest Federation of Community Organizations

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INTRODUCTION

Communities across Washington support their non-profit health care institutions. They do so, however, with the understanding that in return, these institutions will provide specific community health benefits. Indeed, this trade off was the basis for establishing non-profit health care institutions as early as 1894. The populations these institutions served in those days were mostly people who could not afford to pay for health care. In return for this service, these non-profit institutions were given a tax subsidy, on the condition that any profits would go directly into improving care for the poor.[1]

In recent years, the missions of non-profit hospitals have been scrutinized to assess whether or not they fulfilling their obligation to provide for their community. In some cases, this closer inspection of charity care provision has uncovered non-profit hospitals not providing an appropriate level of community benefits. This has resulted in many of these hospitals redesigning their charity care programs to serve more patients who are uninsured or otherwise unable to pay for hospital services.

Non-profit nursing homes occupy a different position in the health care industry than non-profit hospitals, as their services are usually long-term. For this reason, providing charity care does not apply to skilled nursing facilities. However, as non-profit organizations receiving preferential tax treatment, these institutions still have an obligation to serve their community.

One way nursing homes can serve their communities is by making beds available to low-income seniors through the Medicaid program. However, not all non-profit skilled nursing facilities in Washington are serving their fair share of Medicaid patients. In fact, when compared to all 246 for and non-profit skilled nursing facilities across the state, many large non-profit facilities are serving a below average number of Medicaid patients.

This report looks at non-profit nursing homes across Washington to determine whether or not they are providing an adequate community benefit. It goes on to suggest that all non-profit nursing homes should have a plan to offer community benefits.

METHODOLOGY

The facilities in this report were chosen to give a broad picture of non-profit skilled nursing facilities across Washington. Most major metropolitan areas are represented, including Seattle/Tacoma/Olympia, Spokane, Yakima, and the Tri-Cities, as well as facilities in Wenatchee and Lacey. All of the facilities have below median Medicaid loads, ranging from 24.33 percent to 64.62 percent.

Data on non-profit nursing homes comes from a variety of public sources, including Internal Revenue Service forms for tax exempt institutions, annual cost reports for each skilled nursing facility, and phone interviews with administrators of skilled nursing facilities.

Estimated tax subsidies were calculated using IRS Corporate Tax Rates and each skilled nursing facility's earnings over expenses for the most recent year a form 990 was filed. In all cases this was either 2004 or 2005.

WASHINGTON NON-PROFIT NURSING HOMES ENJOY FINANCIAL ADVANTAGES OVER FOR PROFITS

The primary financial advantage non-profits enjoy is their tax subsidy. Below is an estimate of this tax subsidy for several non-profit nursing facilities across Washington. (Table 1)

An analysis of state B&O and real estate tax breaks also reveal a significant subsidy for non-profit nursing homes. Using 2005 cost reports for nursing homes in Washington[4], this report finds that non-profit nursing homes receive a total of almost nine million dollars in state tax subsidies. (Figure 1)

ESTIMATED TAX SUBSIDIES FOR SEVERAL NON-PROFIT NURSING HOMES[2]

FACILITY NAME	CITY	MEDICAID LOAD	NUMBER OF BEDS	TAX SUBSIDY[3]	TAX SUBSIDY PER BED
Central Washington TCU	Wentachee	21.93%	22	$211,836	$9,629
Columbia Lutheran Home	Seattle	48.61%	116	$315,414	$2,719
Exeter House and Park Shore*	Seattle	30.31% and 24.33%	32 and 30	$582,618	$18,207
Foss Home & Village	Seattle	61.87%	211	$279.991	$1,327
Panorama City Convalescent & Rehab Center	Lacey	41.93%	115	$1,138,341	$7,344
Providence Marianwood	Issaquah	44.12%	120	$81,972	$683
Providence Mother Joseph Care Center	Olympia	58.41%	152	$120,378	$792
Riverview Lutheran Care Center	Spokane	50.60%	75	$177,726	$2,370
Summitview Healthcare Center	Yakima	64.62%	78	$109,716	$1,407

Table 1

*Exeter House and Park Shore are both run by Presbyterian Retirement Communities Northwest, the tax subsidy listed here is a total for both facilities.

ESTIMATED STATE TAX BREAK FOR NON-PROFIT NURSING HOMES*

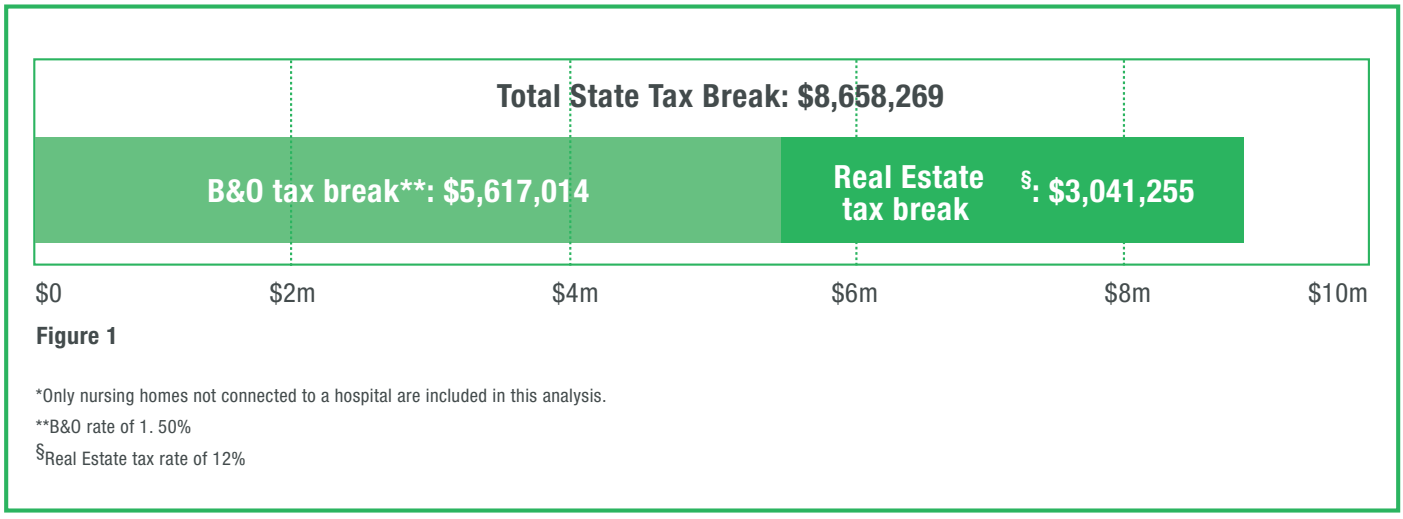

Figure 1

*Only nursing homes not connected to a hospital are included in this analysis.

**B&O rate of 1. 50%

§Real Estate tax rate of 12%

EVIDENCE THAT TAX SUBSIDY BENEFITS THE COMMUNITY IS UNCLEAR

The presumed benefit to the public for the non-profit tax subsidies is that these non-profit facilities serve the community. These community benefits include certain health services and resources provided, without compensation, by health care institutions. In non-profit hospitals, this usually comes in the form of free care. Several states, including Washington, have free care requirements for non-profit hospitals.[5] However, there is no such requirement for skilled nursing facilities, nor is there a standard community benefit that most facilities deliver.

In fact, according to Yale University School of Public Health professor Mark Schlesinger, "The community benefit notion was originally developed for hospitals and though there have been efforts to apply it to aspects of health care, there has been relatively little thought about how the standard might apply to nursing homes. And, little evidence that these non-profit facilities are fulfilling a conventional notion of a 'charitable mission'."

Where could this tax subsidy be spent?

If the total state tax subsidy were spent on nursing home care and matched by federal dollars, it could go to increasing salaries of all low-wage nursing home workers by 74 cents.

Total non-profit tax break	$8,658,269
Federal match if spent on nursing homes	$8,658,269
Total missing revenues for nursing homes	$17,316,538
Total low wage worker hours*	$23,442,198
Value of tax breaks in low wage raises	$0.74

*CNA, housekeeping, laundry, dietary hours from 2005 cost reports for nursing homes not in hospitals

WASHINGTON NON-PROFIT NURSING HOMES LAG BEHIND IN SERVING THE POOR

The historical means by which non-profit health care facilities fulfill their obligation to the community has been to serve the poor.[6]

In today's health care industry Medicaid is available for those unable to afford care. One way to measure how a facility responds to their social responsibility is to analyze the facility's Medicaid load. (Figure 2)

When comparing the number of Medicaid patients served in for-profit and non-profit facilities, it is clear that non-profit nursing homes are not pulling their weight. Sixty-two percent of all non-profit nursing home beds in Washington are in facilities that serve a below average Medicaid load. The same

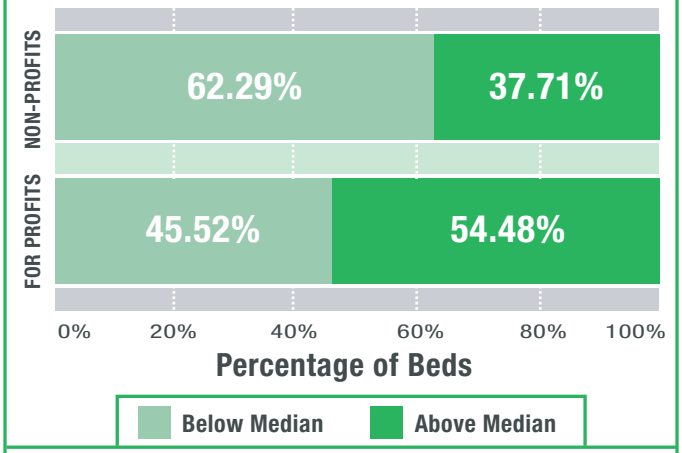

Figure 2
A majority of non-profit nursing home beds are in facilities with a below median Medicaid load.

analysis on all for-profit homes reveals that these numbers are essentially reversed, almost 55 percent of all for-profit beds are in homes that have an above average Medicaid load. (Figure 2)

National studies of nursing homes come to the same conclusion: that non-profit ownership is not necessarily related to a higher propensity to treat low-income patients.[7]

NURSING HOMES FOR THE WEALTHY

For some non-profit nursing homes, not only are the Medicaid loads relatively low, but high entrance fees, and relatively high private bed charges are barriers for all but the wealthiest seniors.

ENTRANCE FEES: Several nursing homes in Washington have up to six figure entrance fees. Two examples, Park Shore and Exeter House, both run by Presbyterian Retirement Communities Northwest, have Medicaid loads well below average (24.33 percent and 30.61 percent respectively), and entrance fees ranging from $55,000 to $395,000. For both these facilities, a financial statement showing resources adequate to meet the anticipated costs during residency is part of the application.

A few other facilities with low-Medicaid loads and relatively high entrance fees are shown below. (Table 2)

There is no question that the facilities above have the resources to offer a very high level of care. However, with these high costs, low- and middle-income seniors are shut out.

PRIVATE BED FEES: On average, private patients charges are higher in non-profit nursing facilities than in their for-profit counterparts. (Figure 3) This leads to two consequences; first, low- and middle-income seniors again will tend towards facilities with lower private charges, mostly for-profits. Second,

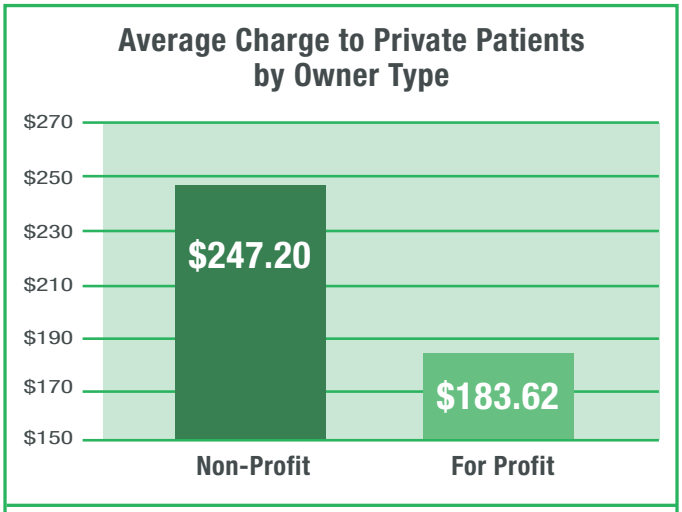

Figure 3
Private patients in non-profits nursing homes are charged 35% higher fees than private patients in for profit homes.

Facility	Medicaid Load	Entrance Fee/ * Security Deposit	Monthly Fees
Park Shore	24.33%	$50,000 – $395,000	$1,687 – $3,408
Exeter House	30.61%	$55,000 – $340,000	$1,436 – $4,315**
Panorama City Convalescent and Rehabilitaion Center	41.93%	$64,000 – $275,000	$790 – $1,595

Table 2

*Price listed here are for one person. Exeter House and Park Shore add $15,000 to the entrance fee for each addtional person.
**Exeter house also offers a month to month option with no entrance fees. These monthly charges range from $2,078 to $5,715 for one person.

higher charges again drive up revenue, which allows non-profits more resources for quality care.

While it is certainly not the standard in Washington nursing homes, the fact that any non-profit health care facility caters towards the wealthy is clearly contrary to the idea of non-profit status and community benefits. Additionally, higher private patient charges in non-profit nursing homes indicate that on average, these facilities are not leading the way in serving the poor.

WHAT OTHER COMMUNITY BENEFITS DO WASHINGTON NON-PROFIT NURSING HOMES OFFER?

While the traditional community benefit has been service to the poor, there are other ways a health care institution can benefit the community.[8] In interviews with Washington non-profits, many administrators reported that much of their tax subsidy goes to cover the gap between Medicaid payments and the actual cost of care. However, aside from at least one notable exception (see below), none of the administrators who claimed this as a community benefit were able to quantify this expenditure. It is therefore impossible to measure whether or not this community benefit justifies their tax subsidy.

The other benefit cited by many non-profits was that the facility provides a high level of care for all patients. Several administrators reported that their tax exempt status allows them to have lower staff to patient ratios, resulting in a higher level of care. This claim is supported by research which indicates that nationally, non-profit nursing homes provide a higher level of care than their for-profit counterparts.[9] (See inset box)

The question that remains, however, is whether or not providing a high level of care is enough to justify a tax subsidy. Quality care is clearly the mission of any health care facility, regardless of ownership status. Since non-profit nursing homes are not leading in caring for the poor, where is the justification for a tax subsidy?

SOME NURSING HOMES PROVIDE EXAMPLES OF HOW TO FULFILL THEIR SOCIAL RESPONSIBILITY

The Catholic Health Association (CHA) has published a guide for its non-profit health provider members to help members with mission-driven health care organizations to develop, enhance, and

Why the difference in care?

One reason for the inequity in care between for-profits and non-profits in Washington is the funding structure which leaves nursing facilities with higher Medicaid loads with less revenue.

Lower Medicaid load corresponds to higher private pay patients, which generates more revenue and increases Medicaid reimbursement rates. The increased funds can then be directed to improving the quality of care. Low- and middle-income seniors then are left fewer choices in facilities.

On average, for-profits in Washington serve a greater percentage of Medicaid patients than non-profits. This results in a disparity in care between wealthy seniors who can afford to pay out of pocket costs and low- and middle-income seniors and their families who are dependent on facilities that serve a high Medicaid population.

For more information on funding inequities, see "In Search of Quality Care, Low Income Seniors Left Behind", available at www.nwfco.org

report on their community benefit programs. This type of transparent framework can help to remove ambiguity on whether or not tax subsidies are being used properly. Chief administrator of Providence at Marionwood (44.12 percent Medicaid), Jerry Hoganson, says his facility followed the CHA guide and was able to report one million dollars on community benefits in the last year.

Other frameworks for developing a process to plan, implement and report on community benefits have been offered by the American Association of Homes and Services for the Aging, and the Community Catalyst.

COMMUNITY BENEFITS DELIVERED BUT UNREPORTED

In some non-profit nursing homes, the portion of work that may serve as their community benefit obligation becomes a separate program from the nursing home. Columbia Lutheran Ministries (48.61 percent Medicaid) has two programs; one is the nursing home, the other a community outreach program called Club 24. Columbia Lutheran Ministries President, Jerry Lewis, explained that Club 24 provides in-home services allowing seniors to remain independent in their own homes. Through donations from several local churches, Columbia Lutheran Ministries also provides short and long-term support in the form of meals and counseling for families in the community who have experienced a loss or accident.

While these services from Columbia Lutheran Ministries' Club 24 may fit a definition of community benefit, Lewis concedes that his organization could do a better job of reporting these activities to the public. As a result, Lewis says that "we don't really get enough credit from the community for all the work that we do there."

CONCLUSION AND RECOMMENDATIONS

Non-profit nursing homes have thus far escaped the scrutiny non-profit hospitals have experienced in the past several years. As a result, little is known about exactly how they are serving their community, and whether or not their tax subsidies are justified.

It is clear that a majority of non-profit facilities in Washington do not serve a large proportion of low-income seniors. It would not, therefore, be accurate to suggest that this traditional non-profit community benefit alone is a complete justification for a tax subsidy. Thus, the traditional justification for tax exemptions for non-profit health care facilities – charity care for the poor – does not apply to nursing homes. However, because of this ambiguity regarding the specific social responsibilities of non-profit nursing homes, it is difficult to determine the impact and relevance of other claims of community benefit.

It is true that, when it comes to nursing homes, ownership – and funding - matters.[10] National and local analyses have shown that on average, non-profit nursing homes are able to offer a higher level of care than their for-profit counterparts. One of the primary reasons for this inequity in Washington is the funding structure which drives down Medicaid reimbursement rates for facilities with high Medicaid loads.[11] An effort to offer quality care, however, does not fit an expectation of community benefit, since this is the expectation of all health care facilities.

Aside from the few facilities that have crafted an explicit plan to provide and document a program of community benefits, most non-profit nursing homes show little evidence offering any true community benefit. This is not to suggest that non-profit nursing homes do are not providing any community benefits at all, but merely that there is no consistency or standard that the nursing home industry follows to justify their tax subsidy.

The fact remains, however, that these facilities must be accountable to the public. This report, therefore, recommends the following actions:

- All nursing homes should establish a framework that clearly reports on the provision and impact of programs for community benefit. A starting point for this process is to explicitly determine who is in their community, and what exactly can be defined as a community benefit.

- Medicaid reimbursement rates need to be adjusted so that they cover the full cost of actual care. This would allow facilities with high Medicaid loads to offer better care, as well as making more money available in non-profits for a program of community benefits that has the most positive impact.

- Health care policy makers should consider establishing a standard of community benefits to qualify for non-profit tax-exempt status–one example would be a minimum level of Medicaid patient load.

REFERENCES

[1] Bloche, Gregg M, *Tax Preferences For Nonprofits: From Per Se Exemption To Pay-For-Performance,* Health Affairs, 25, no. 4 (2006): w304-w307.

[2] These nursing homes were selected to represent a cross section of non-profit nursing homes across Washington State with a below median Medicaid load.

[3] Tax subsidies are calculated using line 18 of IRS form 990 which calculates revenue over expenses for non-profits. Tax rates are calculated using the following IRS corporate tax rates:

TAX INCOME OVER	NOT OVER	TAX RATE
$0	$50,000	15%
50,000	75,000	25%
75,000	100,000	34%
100,000	335,000	39%
335,000	10,000,000	34%
10,000,000	15,000,000	35%
15,000,000	18,333,333	38%
18,333,333	.....	35%

[4] Only nursing homes not connected to a hospital are included in this analysis.

[5] Washington Administrative Code § 246-453-001, etc. seq. Hospital Charity Care.

[6] R. Stevens, *In Sickness and in Wealth: American Hospitals in the Twentieth Century*, New York: Basic Books, 1989, 17.

[7] M. Schlesinger and B.H. Gray, "Nonprofit Organizations and Health Care: The Paradoxes of Persistent Attention," in *The Nonprofit Sector: A Research Handbook,* 2d ed., ed. W.W. Powell and R. Steinberg, New Haven, Conn.: Yale University Press, 2006.

[8] Mark Schlesinger and Bradford H. Gray, *How Nonprofits Matter In American Medicine, And What To Do About It,* Health Affairs, July/August 2006; 25(4): w287-w303.

[9] Ibid.

[10] Schlesinger and Gray, *How Nonprofits Matter.*

[11] Smith, Gerald "In Search of Quality Care: Low Income Seniors Left Behind," Northwest Federation of Community Organizations, available at www.nwfco.org, last accessed December 29, 2006.

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About the organizations releasing this report

Northwest Federation of Community Organizations (NWFCO) is a regional federation of four statewide, community-based social and economic justice organizations located in the states of Idaho, Montana, Oregon, and Washington: Idaho Community Action Network (ICAN), Montana People's Action (MPA), Oregon Action (OA), and Washington Citizen Action Network. Collectively, these organizations engage in community organizing and coalition buiding in 14 rural and major metropolitan areas, included the Northwest's largest cities (Seattle and Portland) and the largest cities in Montana and Oregon. 1265 South Main Street Suite #304, Seattle, WA 98144, Voice: (206) 568-5400, Fax: (206) 568-5444, Web: http://www.nwfco.org

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