PENNSYLVANIA

Making the hospital tax exemption work for Pennsylvania

An analysis of nonprofit hospital tax exemptions and community investments

LOWN INSTITUTE

SUMMARY

Pennsylvania nonprofit hospitals receive $2 billion in tax benefits each year

The Lown Institute analyzed how much 140 nonprofit hospitals in Pennsylvania received in tax benefits and spent on free care and community health initiatives from 2020-2022. Data sources for this analysis include IRS Form 990, CMS hospital cost reports, and municipal property data.

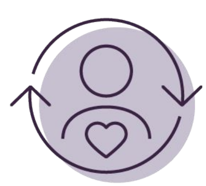
KEY TAKEAWAYS

- From 2020-2022, **62% of private nonprofit hospitals in Pennsylvania had a "fair share deficit,"** meaning they received more in tax benefits than they spent on meaningful community investments.
- The total fair share deficit for Pennsylvania hospitals was **$1.1 billion each year**. That's enough to feed nearly all people in Pennsylvania facing food insecurity, double state spending on mental health services, or wipe out more than half of the state's medical debt.
- Pennsylvania policymakers can follow the lead of other states to **improve transparency** in reporting, **make financial assistance more accessible**, and **increase hospital investments** in communities.

$1.1 BILLION

COULD BE PUT BACK INTO THE COMMUNITY

FOOD



MENTAL HEALTH

DEBT

INTRODUCTION

Nonprofit hospitals enjoy significant tax exemptions worth millions of dollars, and in return are expected to contribute to their communities through financial assistance and investments in community health. However, lax regulations leads to significant variation in the amount hospitals give back to their communities.

The Lown Institute has undertaken a comprehensive project across 20 states to assess hospitals' tax benefits and compare them to their community investments, what we call "Fair Share Spending." This initiative aims to identify hospitals that could do more for their communities, highlight leaders in community investment, and expose systemic issues within our healthcare system that lead to underspending.

TAX EXEMPTION VALUE RESULTS

From 2020-2022, Pennsylvania hospitals received $2 billion in tax breaks each year, an average of $15.2 million per hospital (slightly more than the 20-state average of $14.2 million).

Federal income tax was the largest proportion of tax benefits, driven by high incomes among some hospitals. For example, the Hospital of the University of Pennsylvania reported more than $600 million in net income in 2021 and five other hospitals had net income over $200 million that year.

INCOME, SALES TAX LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, Pennsylvania
Federal income tax	$594 million	29%
State and local sales tax	$426 million	21%
Local property tax	$326 million	16%
State income tax	$315 million	15%
Value of tax-exempt donations	$241 million	12%
Value of tax-exempt bonds	$137 million	7%
Federal unemployment tax	$9 million	0.4%
Total	**$2.0 billion**	**100%**

Sales tax made up a significant proportion of the overall tax exemption as well (21%). This proportion was greater than the national average (18%) due to relatively high sales tax rates in Pennsylvania and high spending on medical supplies ($46 million per hospital on average in 2021).

The property tax exemption were especially high for Allegheny County hospitals, which own $2.7 billion in assessed property and avoided $70 million in property taxes. Hospitals in Montgomery, Dauphin, and Philadelphia counties also avoided substantial property taxes ($30 million, $26 million, and $25 million, respectively).

COMMUNITY INVESTMENT RESULTS

From 2020-2022, Pennsylvania hospitals spent $1.3 billion on financial assistance and other community investments each year, an average of $9.8 million per hospital and 2.7% of expenses (a lower rate than 15 of the 20 states studied).

Subsidized health services (clinical services that meet an identified community need, provided at a loss to the hospital) made up the largest proportion of total community investment (51%). Financial assistance (free and discounted care for eligible patients) was the second-largest contributor, making up 27% of total community investment.

Pennsylvania hospitals spent more proportionally on community health improvement than other states on average, a positive sign that they are interested in addressing upstream health needs.

SUBSIDIZED HEALTH CARE SERVICES LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, Pennsylvania
Subsidized health care services	$672 million	51%
Financial assistance	$359 million	27%
Community health improvement services	$223 million	17%
Cash and in-kind contributions	$59 million	4%
Community building activities	$14 million	1%
Total	**$1.3 billion**	**100%**

FAIR SHARE SPENDING RESULTS

> **“Fair share spending"** is the difference between hospitals' tax exemptions and community investment.

On average, 62% of hospitals received more in tax breaks than they spent on community investment from 2020-2022. Hospitals with a fair share deficit had a collective deficit of about $1.1 billion each year.

The wealth and size of some Pennsylvania hospitals drives their large fair share deficits. However, low community investment spending also plays a role; seven of these hospitals spent less than 2% of expenses on community investment.

Some of these hospitals reported extremely low rates of community benefit spending, which may be due to underspending or underreporting. For example, the Hospital of the University of Pennsylvania reported no spending on any community health improvement programs despite listing several ongoing programs in their community health implementation plan.

HOSPITALS WITH THE LARGEST FAIR SHARE DEFICITS IN PENNSYLVANIA

Average per year, 2020-2022

-$247 million	Hospital of the University of Pennsylvania (Philadelphia)^
-$84 million	Milton S. Hershey Medical Center (Hershey)
-$74 million	WellSpan York Hospital (York)
-$45 million	Geisinger Medical Center (Danville)^
-$39 million	Lancaster General Health (Lancaster)
-$37 million	Saint Christopher’s Hospital for Children (Philadelphia)
-$35 million	Geisinger Wyoming Valley Medical Center (Wilkes Barre)^
-$34 million	West Penn Hospital (Pittsburgh)*
-$33 million	Children’s Hospital of Philadelphia (Philadelphia)^
-$33 million	Reading Hospital (West Reading)

**IRS information prorated across multiple hospitals*
^Includes more than one hospital campus within same CMS ID

HOSPITALS WITH THE LARGEST FAIR SHARE SURPLUSES IN PENNSYLVANIA

Average per year, 2020-2022

UPMC Presbyterian (Pittsburgh)*^	**$70 million**
Jefferson Abington Hospital (Abington)	**$24 million**
Mercy Fitzgerald Hospital (Darby)^	**$19 million**
Jefferson Torresdale Hospital (Philadelphia)^	**$18 million**
Thomas Jefferson University Hospital (Philadelphia)*^	**$18 million**
UPMC Cole (Coudersport)	**$15 million**
Washington Hospital (Washington)	**$13 million**
Indiana Regional Medical Center (Indiana)	**$12 million**
St. Luke's Hospital - Easton Campus (Easton)	**$11 million**
UPMC Hamot (Erie)*	**$10 million**

**IRS information prorated across multiple hospitals*
^Includes more than one hospital campus within same CMS ID

Seven of these high-surplus hospitals above gave more proportionally in community investment than the state average. The total community investment of these ten hospitals made up more than one quarter of the state's total community investment.

The greatest category of community investment was subsidized healthcare services, making up a little over half of all total spending. According to Schedule H supplemental information from Pennsylvania hospitals with high amounts of spending in this category, examples of subsidized health services include behavioral and mental health, primary care, dental services, family planning, care for refugee children, and geriatric care.

However, some hospitals and systems provided **little or no details about their subsidized services on their Schedule H**. Given the high proportion of spending in this category, policymakers should be aware of how hospitals are subsidizing needed services and potentially ask for more details in this category from high-spending hospitals.

HOW COULD FILLING GAPS IN FAIR SHARE SPENDING IMPROVE COMMUNITY HEALTH?

The $1.1 billion annual fair share deficit is enough to:

- ➔ **Double the $924 million the state spent on for mental health services in 2022-23**. Mental health is a key health issue in the state, with about 4 out of 10 adult Pennsylvanians reporting that a member of their family has experienced a severe mental health crisis (Muhlenberg Public Health Survey; PA Office of the Governor).
- ➔ Vastly **increase state spending on opioid remediation programs**. The state distributed $102 million from the Pennsylvania Opioid Misuse and Addiction Abatement Trust to finance and subsidize remediation programs in 2022. The total deficit could multiply this spending ten-fold (PA Opioid Trust).
- ➔ **Feed nearly all 1.5 million people in Pennsylvania facing food insecurity** (Feeding America).
- ➔ Cover the estimated cost for Pennsylvania to **protect residents from the effects of climate change** like extreme heat and rising sea levels (Climate Integrity).
- ➔ **Wipe out medical debt for nearly 590,000 people who owe $5,000 or less.** An estimated 690,000 adults in Pennsylvania owed medical debt each year in 2019-2021 (Peterson-KFF Health System Tracker).

If all Pennsylvania hospitals spent their fair share deficit, it could **double what the state spent on mental health services.**

POLICY IMPLICATIONS

Pennsylvania can reduce fair share spending gaps with more transparent reporting, financial assistance reforms, and monitoring consolidation.

TRANSPARENCY

Pennsylvania could improve transparency by **asking hospitals to report spending directly related to priority health needs**, and make these compiled reports publicly available.

Even for hospitals with high community investment spending on their IRS 990, these forms do not provide sufficient detail to understand how hospital spending links to health needs identified in the hospital's Community Health Needs Assessment (CHNA).

Currently, Pennsylvania requires hospitals to report their community benefit spending, but we were unable to find these reports compiled on a state government webpage.

ACCOUNTABILITY

Currently, Pennsylvania does not have any state minimum financial assistance eligibility requirements, garnering a "low" grade on medical debt protection. Policymakers have introduced legislation that would create a **uniform financial assistance application**, which could reduce administrative barriers to accessing free care.

The state could also consider implementing **financial assistance screening requirements**, as Oregon and others states have done, or create a **minimum spending threshold** for community investment, as Oregon does. Policymakers are currently considering adding a patient screening requirement before taking certain collection actions, which would be a positive step to prevent patients eligible for assistance from facing aggressive collection actions.

MERGERS AND ACQUISITIONS

In Pennsylvania, regional hospital system competitors are constantly fighting for market share. Along with mergers and acquisitions, some systems are investing in "micro-hospitals," which allow systems to gain a foothold in new markets at a lower capital expenditure. Pennsylvania policymakers can follow the lead of states like Connecticut and New York, which **use consolidation and mergers as an opportunity to require more community investment**.

METHODOLOGY

The study analyzed seven types of tax exemptions enjoyed by hospitals in Pennsylvania, including federal and state income tax, federal unemployment tax, sales tax, property tax, and the values of tax-exempt donations and bonds. Hospital net income data was sourced from CMS hospital cost reports. Information on tax-exempt donations and bonds was obtained from IRS Form 990. Three years of data (2020-2022) were included.

Estimating hospitals' property tax exemption faced multiple limitations, including restricted search functions (leading to projected underestimates of the value of property owned) and paywalled data (leading to imputed property values using the state median).

Community investments were identified from IRS Form 990 Schedule H, including the following categories: financial assistance, community health improvement services, subsidized healthcare services, contributions to community groups, and community building activities. For hospitals that filed as a group, community investment data was prorated according to hospitals' share of system charity care.

LOWN INSTITUTE

163 Highland Avenue, Needham, MA 02494
lowninstitute.org 617.992.9322
Media contact: ATolеos@lowninstitute.org
Policy contact: JGarber@lowninstitute.org

ABOUT THE LOWN INSTITUTE

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