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The Profitability of Nonprofit Hospitals: Do They Really Need More Money? - Summary*

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In a free enterprise system, profit is a crucial component of the price system, signaling how resources should flow to create the greatest possible benefits to individuals and society. Compensation for talent plays the same part. However, the health care system is not subject to the free enterprise price system. Once the federal tax system encouraged employers to provide health benefits after World War II and the federal government began to cover so much of the nation's health bill after 1965, a true price system largely ceased to operate in health care.

Nonprofit hospitals play an active role in advocating government-provided healthcare through programs like Medicaid. They claim that unpaid debts and heavy use of emergency facilities have nearly bankrupted them. However, a government-inspired/incentivized/created health care payment system (private insurance, Medicare, and Medicaid) pumps money into the health care sector through a non-market, irrational pricing system. As a result, many "nonprofit" hospitals are highly profitable entities with revenues substantially in excess of costs.

Nonprofit hospitals' own Form 990 tax filings (publicly available) provide the evidence that exposes the falsehood that these hospitals are on the precipice of financial ruin and must charge high prices to survive.

In Oklahoma:

- 32 Oklahoma nonprofit hospitals experience an average 9.8 percent profit margin.
- If bad debt (overstated due to non-market, inflated pricing) is excluded from the calculation, the average profit margin jumps to 15.2 percent.
- The same hospitals average $31 million per hospital in cash and cash equivalent assets.

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- They average $158 million each in net assets.
- Nonprofits are so flush with cash that they buy private physician practices and then practice monopolistic pricing. In 2009 a cortisone shot at one practice cost $146; in 2013 with the same physician and drug, it cost $987. All that had changed was the physician's practice had been purchased by a nonprofit hospital.
- The "non-profit" hospitals charge substantially more than independent surgery centers for the same operations.
- Among 22 nonprofit hospitals, the highest-paid employee's salary averaged $800,000.
- The Director and Vice-chair of SSM Health, a chain of hospitals across several states that includes St. Anthony, Shawnee, received $5.5 million in compensation per year, or $1,900 per hour. A regional president received $1.1 million, yet has advocated for Medicaid expansion in Oklahoma, supposedly to help SSM with its financial strains.

Nationally:

- Nonprofit hospitals are constantly building new facilities.
- Seven of the top ten most profitable hospitals in the United States are "nonprofits."
- Nonprofit hospitals receive approximately $13 billion annually in federal tax breaks.
- Nonprofits report approximately 4.7 percent of expenses in charitable care compared to 4.4 percent by for-profit hospitals.
- Hospitals use price-lists called chargemasters that reflect highly artificial, highly inflated pricing when compared to their costs.
- The incentive to reinvest profits in facilities and purchasing physician practices creates huge hospital systems that dominate host cities, often becoming an area's largest employer.

It is obvious that nonprofit hospitals and those owning and/or operating them are getting wealthy, partly at taxpayers' expense. The third party payer system has given hospitals both the incentive and the ability to do so by distancing health care providers from the people who matter most – the patients. Until the American public is once again trusted to make decisions regarding their own care and the care of their loved ones, the issues present in the current system are not going to go away. This is why many issues worsened under the Affordable Care Act rather than improved. Perhaps the greatest irony though, is that many who advocate for more health funding in the name of the poor, are advocating for expansion of a system largely of their creation, mostly divorced of free enterprise, that makes a few ever richer and everyone else worse off.