

# Non-Profit Hospitals Can Be Extremely Profitable



By Chuck Dinerstein, MD, MBA — July 19, 2017



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One of the common misconceptions about hospitals, and perhaps corporations in general, is the term "non-profit." People assume it means they don't care about making money, but they sure do. Non-profit does not refer to their bottom line, after all, you cannot be in business and continue to lose money. Non-profit is instead simply a tax status, and specifically, it exempts hospitals from paying real estate and other taxes in exchange for contributing a fixed portion of their revenues to 'community benefit' rather than paying dividends to shareholders. As always, the devil is in the details. Unsurprisingly, Cleveland Clinic, one of the largest health systems in the country, was held up as an example of a wildly profitable non-profit in [a recent article in \*Politico\*](#) <sup>[1]</sup>. The main thrust of their article has its political agenda, and we have gone after them often for their willingness to sell "wellness" and alternative medicine beliefs to make money, but *Politico* marshals a number of facts that you might find of interest.

- Cleveland Clinic occupies a 167-acre 'campus' in Cleveland. (That's about 20% of Central Park)
- Cleveland Clinic has a revenue of about \$7.2 billion and employs over 50,000 employees. That is a big business, excuse me, healthcare organization.
- Cleveland Clinic's 2016 **profits** were approximately \$514 *million*
- Cleveland Clinic says their [community benefit](#) <sup>[2]</sup> for 2015 was \$693 million

So at first glance, we learn, that a non-profit can be quite profitable and that the Clinic spends a considerable amount of money for the benefit of the community in lieu of paying taxes to the city or state.

Or do they?

It depends on your definition of "community." We might think that means the regional area, others may think it means society in general, but the Clinic is large enough it can claim to be its own community. Here is the breakdown of Cleveland Clinic's community benefits.

- **Medicaid shortfall \$242.7 million** – this is the difference in what Medicaid paid versus their own usual and customary charges - basically, this is money they paid to themselves they list as a community benefit.
- **Education \$256.5 million** – this is money they paid likely paid themselves to train “residents, physicians, nurses and allied health professionals,” or to provide “Health talks, live webchats, podcasts and articles on health management are provided at no cost through the health resource center, libraries, and our website.” This is in addition to about \$74 million in additional payments from Medicare the Clinic receives for training residents. [1] Education is important, it is one of the Clinic's three missions, but how much benefits just the medical community who work at Cleveland Clinic and how much benefits the community at large?
- **Research \$67 million** – this is monies supporting the medical research of the Clinic which does benefit all of us and is therefore a public good. Except Cleveland Clinic Innovations was established in 2000 and is considered “the commercialization arm of Cleveland Clinic, turns medical breakthrough inventions of our caregivers into patient-benefiting medical products and companies.” It [holds](#) [3] 450 licenses, 800 patents and created 40 active spin-offs. So research dollars support work that ultimately is commercialized and the commercialized profits accrue to the Clinic making it hard to tell which community is being served, the Clinics or the community at large.
- **Financial assistance \$69.3 million** – represents free or discounted medical care to patients in financial need. Difficult to argue that this doesn't provide care to patients.
- **Subsidized Health Services \$18.6 million** – monies used to support community programs that by themselves are unprofitable. Again, a program that more clearly “gives back.”
- **Outreach programs \$38.7 million** – “... outreach programs, many of which are designed to serve the most vulnerable and at-risk populations. Our well-established programs range from free wellness initiatives, health screenings, clinical services and education, to enrollment assistance for government-funded health programs.” Screening and education who can argue. And who can argue with the Clinic helping patients obtain government funded assistance to which they are entitled? But the [same assistance](#) [4], when provided by a dialysis company that results in immediate improvement in the payments they receive from the same patients, is **considered unethical** or a shady business practice.

To be honest, I am torn over what to think about how this kind of non-profit “pay back.” In providing a community benefit, it is easy to see how the definition of community may impact where funds are directed. Easily half of the Clinic's community benefit accrues to the Clinic itself in research and shortfall payments.

So what they claim is \$690 million is a lot closer to say, \$350 million and represents about a 5% tax on the Clinic's annual revenue. Is that the fair share of a non-profit, when for-profit corporations in the U.S. have the highest taxes in the developed world? Would paying those monies to the local and state government result in greater good? Who is a more faithful shepherd of these dollars, the Clinic or the State? Here is a potential conflict of interest that is not resolved through transparency.

Maybe the conflict that community benefits engender is too great to overcome or perhaps we should demand a different way to describe "the community" and the benefits that it is to receive than just leaving it up to non-profits to define as they please under a broad tax status.

NOTE:

[1] Direct Graduate Medical Education ([DGME](#) <sup>[5]</sup>) payments are added to hospitals that train residents to defray those costs by Medicare and are based on a variety of factors. All teaching hospitals and health systems receive these payments.

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**Links**

[1] <http://www.politico.com/interactives/2017/obamacare-cleveland-clinic-non-profit-hospital-taxes/>

[2] <https://my.clevelandclinic.org/-/scassets/files/org/about/community-reports/2015-community-benefit.ashx?la=en>

[3] <http://innovations.clevelandclinic.org/About/Overview.aspx>

[4] <http://www.acsh.org/news/2016/09/07/dialysis-no-good-deed-goes-unpunished-9956>

[5] <http://www.healthtransformation.ohio.gov/LinkClick.aspx?fileticket=WvonZuMotws%3D&tabid=162>