

HEALTHCARE FINANCIAL ASSISTANCE HIDDEN IN PLAIN SIGHT?

Most Americans are eligible for 501(r) financial assistance at nonprofit hospitals, but experts say the charity care program has been flying under the radar.

Written By Bruce Shutan

In the face of rising healthcare costs, a federal charity care program that has been largely eluding group health plans holds tremendous promise for helping self-insured employers avoid expensive hospital claims and balance billing.

Look no further than Section 501(r) of the Internal Revenue Service Code, which requires 501(c)(3) hospital organizations to limit amounts charged for emergency or other medically necessary care to patients who are eligible for substantially discounted or free care.



Patrick Haig

Eligibility for this program, established as part of the Affordable Care Act (ACA) in 2010 and in effect since 2015 after a public comment period, is pegged at up to 400% of the federal poverty level, though some hospitals actually raise that threshold to 500%. The same rule applies to subsidies for enrollment in ACA Marketplace plans. Facilities that fail to meet this requirement run the risk of losing their tax-exempt status. Of 6,120 hospitals in the U.S., 5,129 are

community hospitals – 58% of which are not-for-profit facilities.

“The headline is not as many people know about this program as should know about it,” observes Patrick Haig, co-founder and CEO of Goodbill, which actively promotes 501(r) through third-party administrators (TPAs) and benefit brokers. “It’s heavily underutilized.”

Advocacy is needed to “relieve consumers of the pressure from hard-to-understand, opaque and extremely expensive hospital bills,” he explains. After initially targeting the direct-to-consumer market and building a product that automates bill negotiation, his company learned to apply other levers to reduce consumer burdens – one of those being 501(r).

Nearly 38 million Americans, or 11.5% of the population, live in poverty, according to the latest U.S. Census Bureau statistics from 2022. But even middle-class households are feeling squeezed when it comes to healthcare. That means a family of four earning a low-six income would qualify for financial assistance under the 501(r) program. Most polls show that as many as two-thirds of working Americans say they live paycheck to paycheck.



Stacy Morris

Moreover, medical debt is now the leading cause of personal bankruptcy filings in the U.S., and it is nearly double for Americans who’ve been hospitalized vs. those who have not, notes Stacy Morris, president and CEO of Employer Driven Insurance Services (EDIS), a TPA.

BILLBOARDS VS. FINE PRINT



Justin Leader

The goal of 501(r) is to prevent any missed opportunities to eliminate out-of-pocket expenses for eligible populations and hold nonprofit hospitals accountable for discounting care as they’re required to do under the law, explains Justin Leader, president and CEO of BenefitsDNA, an employee benefits advisory firm.

Nonprofit hospitals are supposed to proactively offer 501(r) financial assistance, according to Morris. “You should see it on billboards out there, and you don’t,” she says. Although tax-exempt hospitals are required by law to make reasonable efforts to make the public aware of 501(r) assistance, Haig says many do not make it easy. For example, the information may be buried on a website, billing statement or waiting room, while few facilities make a digital application available as a PDF. Most require that it be snail-mailed or even faxed, which can result in piles of paper. More than 90% of policies require additional documentation



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that includes proof of income and assets in the form of pay stubs or bank statements.

Haig believes that members shouldn't have to pull this type of valuable information out of their health plans. After all, he says the plan knows when a claim comes in, whether it's from a nonprofit facility and which members might be eligible for financial assistance. As such, the employer can easily inform and instruct members on how they can apply for vastly reduced rates.

"It's all about push vs. pull," he says. "Catching people at a moment where they know they're going to get a bill and you're there to say, 'no, let's actually

make sure that bill doesn't show up,' I don't know what stronger value prop you could possibly give them."

Hospitals write off the balances of patients who qualify based on their income. How they calculate that dollar amount, he adds, is to divide the amount of money due from all claims within a 12-month period from any public or private payer by what was billed and apply that ratio to the claim. Hospitals must limit amounts charged, regardless of insurance coverage. Calculations are based on either the Medicare or Medicaid fee, or allowed amounts are divided over their billed amounts for both public and private payers from a 12-month lookback period.

Asked why 501(r) has flown under the radar as long as it has, Leader says, "Where there's a mystery, there's margin, and in turn, where there's no effective oversight and consequences, there's no incentive for change."

While believing the threat of nonprofit hospitals losing their tax-exempt status is real, he notes that no one has really forced the issue. But as it bubbles to the surface, he says, "There's nothing that makes a hospital change their mind faster when you remind them of their obligation to the populations that they are meant to serve where



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Leader launched a business about four years ago with others that acknowledged the need for better health plan member education, including how to secure charity care. "We have a dedicated team member who is working with folks like Goodbill to evaluate eligibility at the countless not-for-profit hospitals that aren't administering these programs," he explains. The importance of advocacy, hand-holding, walking people through that process and making it as easy as possible for the member is critically important to securing 501(r) assistance, Leader adds.

A MATTER OF CAA COMPLIANCE

Given the increasing importance of complying with the Consolidated Appropriations Act (CAA), Haig says 501(r) fits the fiduciary duty conversation around what plan sponsors are doing to mitigate member costs.

The income graphic shows the typical federal poverty level thresholds

More members qualify for 501(r) than you might think.

Household size	Federal threshold	100% discount		Partial discount	
		2.5x threshold	4x threshold	2.5x threshold	4x threshold
1	\$15,060	...	\$37,650	\$60,240	
2	\$20,440		\$51,100	\$81,600	
3	\$25,820		\$64,550	\$103,280	
4	\$31,200		\$78,000	\$124,800	
5	\$36,580		\$91,450	\$146,320	
6	\$41,960		\$104,900	\$167,840	
7	\$47,340		\$118,350	\$189,360	
8	\$52,720		\$131,800	\$210,880	

that hospitals use for 501(r) – each hospital may vary somewhat (using 2x instead of 2.5x FPL, for example), but these are the typical thresholds we see.

"If you have a population that would be highly eligible for this type of program, and you're not doing anything about it, how can you credibly say you're protecting their dollars?" he asks. "You should at least make it easy for them to avail themselves of it and save their own money." He also urges TPAs to get it into their stack, noting that very knowable dollars will be left on the floor on behalf of clients and members if 501(r) isn't part of their cost-containment measures.

"It's all about saving dollars for the member and benefiting them transparently in an understandable way," Haig says. "We think there's a lot of value there for the plan, too, because the member is your secret weapon to contain costs."

4 in 10

hospital claims, on average, qualify for a 501(r) discount



The "4 in 10" claim graphic is the average share of claims that Goodbill finds eligible for 501(r) discounts during our reviews.

Unlike the 401(k) and pension space that includes registered investment advisers, co-fiduciaries and 3(21) investment advisers who are managing money like it's their own, Leader laments that the health and welfare benefits side "has been built upon the extraction of dollars without the delivery of value... The sooner we get in line with 408(b)(2)(B) disclosure rules within the CAA that state plan sponsors have to understand direct, indirect and non-monetary compensation of covered service providers, the better it will be for all of us."

HEARTSTRINGS AND HAPPY ENDINGS

The charity care topic hits close



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to home for Leader, a child adopted into a blue-collar family who grew up covered under the federal Children's Health Insurance Program in Bedford, Pa. His aunt, who lived nearby and worked for an hourly wage at Denny's, avoided going to the doctor because she couldn't afford the out-of-pocket costs tied to her high-deductible health plan. After years of neglecting her health, she was diagnosed with stage-four cervical cancer, and while her care was covered at 100%, she ended up passing away.

"Think about the impact to just one person, multiply that by

the hundreds of thousands of patients who are eligible, and we can really start to change the perspective of healthcare in our country and understand the intent of systems to serve the community," he says.

6 in 10

U.S. hospitals are nonprofit, and required to offer 501(r) discounts



The map graphic shows every hospital in the U.S. that is by definition a non-profit hospital. That's approx. 60% of hospitals.



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A member Goodbill serviced last year who had lost her job qualified for 100% off on her \$4,800 claim. The hospital then retroactively applied her 501(r) application to previous unpaid bills, as well as an upcoming cataract surgery. Having long avoided her mailbox for fear that another hospital bill would arrive in the mail, she finally had peace of mind knowing more than \$40,000 in charges were going to be waived.

“We’re not here to always paint the hospital in a bad light,” Haig explains. “It was the hospital saying, ‘Hey, we’re going to stretch that approval to cover the backdate,’ which, by law, they are required to do. If there was any kind of member out of pocket and they’re approved [for financial assistance], then they have to refund any dollars paid.”

In the span of just a few months, EDIS saw more than a dozen hospital bills written off across its client base. The savings have been so significant that the TPA initially rolled it out to one block of level-funded stop-loss plans for larger employers and has since reached 830 different employer groups throughout the nation.

“We have members who, once they have saved thousands of dollars in what they otherwise would have been paying to the hospital, shout it from the rooftops, but they are just reaching the ears of their co-workers, friends and family,” Morris reports. “So, I feel like it’s a program that’s going to spread through word of mouth more than most other avenues.”

TALENT-MANAGEMENT TOOL

In a tight labor market, 501(r) also can be seen as a recruitment and retention tool that generates employee goodwill. Four members of EDIS’s own staff have had hospital bills completely written off from this program. Since the corporate office is located in a rural area between Fresno and Bakersfield, Calif., almost everyone at the TPA is eligible for financial assistance.

One such employee is a single mother with a heart condition who supports her children and grandchildren. A bill that was discounted to \$138,000 was erased under 501(r), prompting tears of joy. “You’re talking about somebody living check to check,” Morris says. “Her checks aren’t even covering her bills because she has so many other responsibilities outside of herself. And so, this was a lifesaver. Not only did the hospital write off her claim, but they also agreed to apply the 501(r) discounts for the remainder of the year, so she doesn’t have to go through the process over and over again.”



Payment integrity also comes into play. Plan discounts are often based on incorrect charges because most hospital bills are wrong, Morris cautions. “It’s humans throwing codes in there that that make the most sense to them, and it’s not them that has to pay the bill,” she explains. “So, the audits aren’t the strongest, but whenever you tie in 501(r) with a simultaneous 100% hospital bill audit, you’re guaranteeing the employer, the member, the TPA partner and everybody who has an investment in this program that you’re doing the best thing for the plan.” ■

Bruce Shutan is a Portland, Oregon-based freelance writer who has closely covered the employee benefits industry for more than 35 years.