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Advocate Health Care

July 8, 2005

The Honorable Charles Grassley
Chairman, United States Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley:

Advocate Health Care (Advocate) is pleased to provide the United States Senate Committee on Finance with the information requested in your correspondence to us on May 31, 2005. Attached please find our responses to the questions posed, as well as binders containing the documents requested. You will find that the response is complete with the exception of one subpart to Part 2, Question 21, relating to travel expenses for executive employees. We thank the Committee for the additional time to respond to this question and will respond no later than July 15, 2005.

Throughout our response, we provide extensive details about our operations, particularly as it relates to our mission-driven programs to assist our many patients in need of financial assistance. In fact, just last week, we announced that Advocate generated more than $245 million in charity care and unreimbursed services, health and wellness education and other community-based care in 2004. The nearly quarter of a billion dollars reported from across the system is believed to be Advocate's most extensive annual delivery of community benefits in its history.

We are proud of our commitment to the communities we are privileged to serve, and are pleased to have the opportunity to share our work with the Committee members and staff. We appreciate the Committee's very important role in developing American tax policy and believe that the Committee has a responsibility to ensure that tax-exemptions granted to 501(c)(3) not-for-profit organizations are warranted and appropriate. We look forward to working with you on this matter.

We would be pleased to further discuss with you or your staff any of the information we have submitted to the Committee. Please contact me directly at (630) 990-5035 or Eric Tower at (630) 990-5009 with any questions you might have. Additionally, our Washington representative regarding this matter is Colin Roskey. He can be reached at (202) 756-3436.

Very truly yours,

Gail D. Hasbrouck

Gail D. Hasbrouck
Senior Vice President and General Counsel

enclosure

INTRODUCTION

Advocate Health Care (Advocate) is pleased to provide the United States Senate Committee on Finance with information about our operations, particularly as it relates to our mission-driven programs to assist our many patients in need of financial assistance. We appreciate the Committee's very important role in developing American tax policy and believe that the Committee has a responsibility to ensure that tax-exemptions granted to 501(c)(3) not-for-profit organizations are warranted and appropriate. As such, we have worked diligently to answer the Committee's questions over the last several weeks, and welcome the opportunity for further dialogue with the Committee Members and staff as you review our responses. To give our answers fuller context, we first provide you with an overview of Advocate Health Care. We also want to take this opportunity to share with you why we believe the tax-exempt status of not-for-profit hospitals is critical to serving the health care needs of communities.

An Overview of Advocate Health Care

Advocate Health Care, based in Oak Brook, Illinois, is the largest fully integrated not-for-profit health care delivery system in metropolitan Chicago and the State of Illinois, and is recognized as one of the top health care systems in the country.

Advocate comprises eight acute care hospitals and two children's hospitals with 3,500 beds, four Level I Trauma Centers, a full-service home health care division, and multiple centers of medical care throughout Chicago and its metropolitan area.

Advocate's 6,000 affiliated physicians provide outstanding primary care and specialized services to millions of patients ranging from infants to the elderly. Through a long-standing academic and teaching affiliation with the University of Illinois at Chicago Health Sciences Center, Advocate trains more resident physicians than any non-university teaching hospital in Illinois.

Advocate draws patients with wide economic, ethnic and religious diversity from Chicago and six surrounding counties. In 2004, Advocate's doctors, nurses and other caregivers at our multiple sites of care treated more than 2.5 million inpatients and outpatients.

Further, nearly 25,000 people work at Advocate, making us the second largest private employer in the Chicago metro area.

Tracing our beginnings back over 100 years, Advocate is related to the Evangelical Lutheran Church in America and the United Church of Christ. Advocate's faith-based mission is focused on serving the health needs of individuals, families and communities with respect, integrity and dignity. Advocate's five core values - compassion, equality, excellence, partnership and stewardship - reflect and guide our mission.

Stewardship of Advocate's Mission

At Advocate, we seek to fulfill our faith-driven health care mission in the midst of a challenging environment for the delivery of health care. We must generate revenue, limit expenses, and realize a sufficient surplus in order to sustain and enhance our health care services and be able to continue to fulfill our mission. It is the charge of Advocate's governance and senior leadership to oversee stewardship of Advocate's resources.

In serving as stewards, Advocate's governance and leadership considers several perspectives, including the views of Advocate's church sponsors, clinicians, financial assistance counselors, charity care committees, ethics committees, clergy, community members, and public officials. Many of these groups are represented on Advocate's Board of Directors and Advocate hospitals' Governing Councils. All Advocate Board and Governing Council Members are volunteers who donate hundreds of hours each year to guide us in fulfilling our mission.

As a result of our compassionate and faith-based stewardship of resources, Advocate provided more than $245 million in community benefits and services to patients, families and the community in 2004. This amount includes nearly $50 million in charity care and medical services for which we were not paid. We believe that Advocate's charity care policy is among the most generous in the nation. While meeting the federal poverty level often defines eligibility for many government programs, Advocate offers a policy that provides free care to eligible patients whose incomes reach as much as 200 percent of the federal poverty level, while also providing substantial discounts for individuals and families earning up to 400 percent of that level. Our charity care policy has even been recognized by the Chicago Tribune's editorial board. A January 2004 Tribune editorial said, "Last April, Advocate Health Care, the Chicago area's largest provider of medical care, adopted charity care guidelines offering discounts to patients who can document of up to four times the poverty level...That's a generous policy, extending some discounts to those who have up to twice the personal income the previous Advocate policy allowed."

In addition, Medicare and Medicaid payments continue to fall short of actual health care costs incurred by hospitals and other providers. Advocate's community benefits contribution also includes $135 million in unreimbursed costs for care provided to Medicaid and Medicare beneficiaries.

In 2004, Advocate invested more than $18 million in subsidized health services, including health education programs for individuals of all ages; partnerships with community organizations to improve access to care for uninsured and underinsured individuals; outreach through health fairs, screenings and medical vans; and services targeted to a specific community, such as the deaf and hard of hearing or developmentally disabled children. Advocate also provided nearly $40 million in health and medical education programs, and more than $3 million in volunteer services and donations.

More details about Advocate's community benefits can be found throughout our response to the Committee's questions. Since our formation in 1995, Advocate has provided more than $1 billion in community benefits, charity care and other uncompensated services. We remain steadfast in our commitment to continue to provide exceptional care to the communities we serve.

The Value of Tax-Exempt Health Systems

We fully understand and agree with the Committee's concerns that tax-exempt hospitals be mission-driven organizations that return significant benefits to the communities they serve. The tax-exempt designation allows many of these hospitals to offer community programs and charity care that serve their missions, but do not add to their margins.

In the case of Advocate Health Care, for example, we have made a significant commitment to providing trauma care for patients with the most serious injuries. Advocate runs four of the State's 20 Level I Trauma Centers ("Level I" is the State of Illinois' highest designation). There are significant unreimbursed costs associated with maintaining a Level I Trauma Center, including making trauma surgeons and neurosurgeons available 24 hours-a-day. Despite these unreimbursed costs, Advocate has

maintained and enhanced our commitment to trauma care. Everyday, across the Advocate system, we save the lives of the community's most critically injured patients.

Additionally, Advocate's tax-exemption allows us to keep the doors open to hospitals in underserved communities. Advocate currently loses nearly $2 million per month on the three Advocate hospitals in the City of Chicago. Yet we proudly maintain this support because of our long-standing commitment to serving the inner city. By contrast, for-profit hospitals have been known to divest hospitals that do not meet financial objectives.[1]

Academic studies also show the importance of tax-exemption on the ability of not-for-profits to continue community support. A study in the May/June issue of the policy journal, *Health Affairs,* found that for-profit hospitals are more likely to offer profitable medical services relative to not-for-profit hospitals. For-profits are also more responsive to changes in service profitability than not-for-profits.[2] As such, not-for-profit hospitals maintain community access to many important health care services that otherwise may not exist.

Again, we commend the Committee for addressing this very important issue of the tax-exempt status of non-profit hospitals. We appreciate this opportunity to share with you Advocate Health Care's contributions to the communities we are privileged to serve. We look forward to working with the Committee on Finance to improve access to quality health care for all people living in the United States.

Charity Care and Community Benefit

1 ***How does your organization define charity care? What types of activities or programs does your organization include in its definition or determination of charity care? Which of these activities or programs would your organization not incur, at all or to the same extent, if you were organized and operated as a for-profit hospital? Does your organization maintain a charity policy? If so, please describe the policy or provide a copy of such policy. Does this policy require that certain types and amounts of charity care be provided?***

RESPONSE: A copy of Advocate's current charity care policy is attached at Tab 1. This policy defines "charity assistance" as "[h]ealth care services that Advocate facilities provide free-of-charge, or at a reduced amount, to individuals who meet certain financial eligibility criteria." The charity care programs extend to all activities and programs conducted by Advocate's hospitals. This policy provides for discounts to patients with incomes of up to four times the federal poverty level. We discuss our charity care program in greater detail in Part II, question 3.

In addition, as discussed in the responses to question 6, below, and further disclosed in our filing under the Illinois Community Benefit Act, attached at Tab 2, Advocate conducts a number of programs and activities that address the health needs of Advocate's communities and that are not reimbursed by patient fees or other sources of external reimbursement. These programs include but are not limited to language assistance services, community based clinical services, health

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[1] . In January 2004, Tenet Healthcare Corporation announced it would sell 27 under-performing hospitals. In a press release, Trever Fetter, Tenet's CEO said, "We have made the strategic decision to concentrate our efforts on a core group of hospitals in order to produce tangible benefits in quality and service for the communities we serve and to create long-term sustainable growth for our shareholders. We recognized that the growth potential of our strongest hospitals was at risk because of the growing need to divert resources to subsidize hospitals that can no longer meet Tenet's financial objectives."

[2] Horowitz, Making Profits And Providing Care: Comparing Nonprofit, For-Profit, And Government Hospitals, *Health Affairs*, May/June 2005.

education, research and clinical education, parish nursing programs and pastoral care. With respect to which of these expenses Advocate would incur if we were organized and operated as a for-profit hospital, it would be speculative to engage in comparisons without complete information about other healthcare organizations and their activities. It is fair to say that Advocate, like our faith-based predecessor organizations, always sought to serve our communities' needs through charity care and other forms of community benefit because the faith of its sponsors requires it to do so. From that perspective, our commitment to benefit our communities' health is deep and far reaching. However, if we were required to pay taxes, the resulting decrease in our operating income would necessarily diminish the amount of community benefits we could provide.

2 ***What are the 10 largest categories of charity care expenditures incurred by your hospital for the past five years? How does this differ from 10 years ago? 25 years ago?***

RESPONSE: Advocate Health Care Network (Advocate) was formed in 1995 and therefore information from 25 years ago is not available. Presented below are Advocate's uncompensated or unreimbursed costs towards charity care, bad debt, government health programs, and other subsidized health services and community benefits. Amounts presented correspond to the categories requested as part of the new Illinois Community Benefit Act, a copy of which is attached at Tab 3. 2004 was the first year Advocate was required to file a community benefit report under this law. Advocate's report, which was submitted on June 30, 2005, is attached at Tab 2. Comparable information from 1995 (ten years ago) is not available as the information was either not collected, or the information systems used to access such information were replaced or did not exist; however, starting in 1996 (the year after we were formed), Advocate prepared an annual Community Benefit Dividend Report. Copies of each of these reports are attached at Tab 4-12.

Below we provide a summary of our Illinois Community Benefit Act filing:

1) Medicare Program	$74,030,000	
2) Medicaid Program	62,033,000	$136,063,000
3) Medical education		39,722,000
4) Bad debt cost		27,286,000
5) Charity Care cost		20,267,000
6) Subsidized health services		18,232,000
7) Cost of volunteer services		2,244,000
8) Contributions to other charitable and Community/civic organizations		1,031,000
9) Language assistance services		669,000
10) Other government sponsored program services (TRIAD-CHAMPUS program)		69,000
		245,583,000

3 ***What percentage of your patients for your most recent fiscal year were: (a) uninsured, (b) covered by Medicare, (c) covered by Medicaid or other state or other governmental program providing medical care benefits for low income individuals, or (d) otherwise covered by private insurance?***

RESPONSE:

(a) Uninsured: 2.67%
(b) Medicare: 38.04%
(c) Medicaid: 12.98%
(d) Managed Care: 42.70%
(e) Other: 3.61%

4 ***Does your hospital ever agree to waive its fees immediately upon admission of a patient? If so, under what circumstances?***

RESPONSE: Yes. In certain cases, it is already known prior to admission that the patient qualifies for financial assistance and fees are waived upon admission. For patients whose financial circumstances are unknown, all hospitals are consistent with federal law. All hospitals treat patients admitted through the emergency department or in active labor without any financial screening. At Advocate Health Care hospitals, based on subsequent discussion with the patient and family, patients who meet financial eligibility criteria will receive charity assistance.

Non-emergency patients typically request charity assistance after services are provided. In some

cases, scheduled patients may request financial assistance and be screened financially prior to admission.

Advocate initiated correspondence with Secretary Thompson of the Department of Health and Human Services on these and other topics in August of 2003. Copies of that correspondence are attached at Tab 15, and are discussed further herein.

5 ***What effect, if any, has the increase in patient co-payments and deductibles had on patient bad debt writeoffs of your hospital over the past five years?***

RESPONSE: Advocate's bad debt write-offs as a percentage of gross revenue have decreased over the past five years. We would be happy to discuss this matter further with the Committee.

6 ***Has your hospital or other members of your hospital system group entered into joint ventures with other nonprofit, tax-exempt hospitals to provide charity care or health care services? If so, please describe the nature of such joint ventures.***

RESPONSE: We are uncertain how the Committee is defining the term "joint venture." Nevertheless, Advocate Health Care collaborates with numerous other tax-exempt health care organizations, including hospitals and clinics, to provide charity care and health care services. Most of these relationships are site-specific, depending on the community needs and institutions present in the local area a given Advocate hospital serves. Below we provide some examples of the type of collaborations that exist at our various sites.

- **Advocate Bethany Hospital** on Chicago's West side works with Access Community Health Network (a large network of Federally Qualified Health Centers) to provide Breast and Cervical Cancer services to uninsured and underinsured women referred by Access.

- **Advocate Good Samaritan Hospital in Downers Grove** has worked with Access DuPage, a county-wide collaboration of hospitals, health care providers and service organizations, to provide free/reduced-cost services to uninsured individuals. Advocate Good Samaritan Hospital's direct contribution to this project was $180,000 in 2004. In addition, Advocate's hospital-based physicians, including pathologists, radiologists, anesthesiologists and emergency room physicians have participated in this effort by donating their time as well. Advocate Good Samaritan Hospital also supports New Song Health Center, a free health clinic supported by various hospitals and church-based groups, by donating supplies and furniture.

- **Advocate Lutheran General Hospital and Advocate Medical Group** in Park Ridge collaborates closely with the Access Genesis Center for Health and Empowerment in Des Plaines, which is a Federally Qualified Health Center providing care to the uninsured and Medicaid recipients. We provide specialty physician services and hospital services to Genesis patients.

- **Advocate Illinois Masonic Medical Center** on Chicago's North Side works with several Federally Qualified Health Centers including the Howard Brown Health Center and the Erie Family Health Center to provide hospital services to patients. In addition, Masonic operates two School-Based Health Centers in collaboration with the Chicago Public Schools. These Centers are at Lakeview High School and Amundsen High School and

provide primary and preventive care free of charge to students.

- Physicians of the **Dreyer Clinic**, a for-profit affiliate of Advocate, started and almost exclusively staff the Aurora Free Clinic, which serves uninsured residents of Kane County.

7 ***Has your hospital or other members of your hospital system group entered into joint ventures with physicians or other for-profit companies or investors to conduct unrelated trade or business activities? If so, please describe the nature of such joint ventures.***

RESPONSE: No. Tax-exempt affiliates of the Advocate system have not entered into any joint ventures with physicians or other for-profit companies or investors. We assume that the Committee is using the definition of "unrelated trade" or "unrelated business activities" as activities that are undertaken for reasons other than the furtherance of a tax-exempt organization's tax-exempt objectives. *See, e.g.*, Hyatt and Hopkins, The Law of Tax Exempt Healthcare Organizations (2001) at 415-416.

8 ***Has your hospital or other members of your hospital system group entered into joint ventures with physicians or other for-profit companies or investors to conduct health care activities you consider to be substantially related to your core charitable mission? If so, please describe the nature of such joint ventures.***

RESPONSE: Advocate tax-exempt entities have not entered into joint ventures with physicians or other for-profit companies or investors to conduct health care activities that we consider to be "substantially related" to our core mission.

Taxable Advocate affiliates have entered into several joint ventures. These include investments in 4 surgery centers during the time period from the mid-1980's until the late 1990's, as well as an investment in a surgery center management company that is a "spin off" of one of the surgery centers, which was completed in 2003. In addition, Fresenius/National Medical Care and Advocate Network Services own and operate a free standing outpatient dialysis center located near one of our campuses. Fresenius manages the center for the joint venture under an Administrative Services Agreement. Advocate also owns a small (3.95%) interest in an Advanced Imaging Center of Northern Illinois, an imaging joint venture that has ceased operations but has not yet been liquidated.

9 ***Do any of your hospital or hospital system joint ventures have charity care policies that require certain types or amounts of charity care to be provided? If so, please describe such policies, and how they are similar to or different from your hospital's charity care policy. Also explain the role your hospital has in assuring that the charity care policy of the joint venture is enforced. If your organization does not track charity care expense by such categories, please explain why not, and provide a narrative response that explains whether there are certain categories of care for which charity care is more important or is not relevant.***

RESPONSE: Advocate has entered into five joint ventures through our tax-exempt entities. Along with a variety of other not-for-profit hospitals in the Chicago area, Advocate has contributed to and remains a member of Hospital Laundry Services, a not-for-profit entity that provides laundry services to its member hospitals. Advocate and Aurora Health System, a Milwaukee not-for-profit delivery system, are also partners in a laboratory joint venture, ACL,

which provides laboratory services to the two-system's hospitals and affiliated medical groups.[3] These entities primarily provide services to tax-exempt hospitals, and as such, Advocate cannot track charity care provided by these entities (because any charity care expenditures related to laundry and laboratory services are included in charity care expenditures by Advocate's hospitals).

Advocate is a partner in Rainbow Hospice, which was originally formed in the 1980s by Lutheran General Hospital (which became part of Advocate in 1995), Holy Family Hospital and Resurrection Medical Center to provide hospice services to patients and families of their respective hospital organizations. Over the years (by virtue of consolidations/mergers/etc) the ownership changed whereby today Advocate Health Care and Resurrection Health Care are the corporate members of Rainbow Hospice. Rainbow operates independently of both Advocate and Resurrection as a non-profit tax-exempt organization. The Financial Assistance/Charity Care Policy is attached at Tab 13.

Advocate North Side Health Network, which operates Advocate Illinois Masonic Medical Center ("IMMC"), has entered into a joint venture with the Rehabilitation Institute of Chicago, a tax-exempt entity, to provide rehabilitation services to inpatients and outpatients of IMMC, and through clinics, to other patients located in the IMMC service area. Pursuant to the joint venture agreement, that joint venture provides charity care in accordance with Advocate's charity care policy, which is attached at Tab 1, and patients of this venture are considered patients of IMMC. In 1992, IMMC also partnered with several Chicago north side hospitals to create Chicago Northside MRI, which provides MRI imaging services to their patients and communities. Over the years (by virtue of consolidation/mergers/closures/etc.) the ownership changed whereby today Advocate North Side Health Network (through the acquisition of Ravenswood Hospital and Illinois Masonic Medical Center) and Resurrection Health Services are the remaining two partners. This entity offers flexible payment plans to patients who do not have other means of payment, but does not itself offer charity care discounts. Patients in need of such discounts may obtain services at IMMC.

Advocate does not track charity care by categories because our charity care data gathering capabilities have been structured to conform with the requirements of the Illinois Community Benefits Act. The Act does not require tracking expenses by category.

10 ***Please respond to the following assertion: Many nonprofit, tax-exempt hospitals engage in joint ventures that shift the most profitable and valuable procedures, practices, and income streams to the joint ventures so that the greater profits and value may be shared with physicians and other for-profit persons.***

RESPONSE: Advocate does not engage in such joint ventures. Advocate lacks sufficient information to address allegations about other hospital systems or generalize about their collective practices.

11 ***How do you assure that your joint ventures with others do not deplete your hospital's resources that otherwise would be available for charity care, such as by tying up cash and other liquid assets in the investments in the joint venture?***

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[3] ACL also provides some laboratory services to some independent physicians affiliated with Aurora. All revenues from such services are considered unrelated business income.

RESPONSE: As noted in our response to Question 9, above, Advocate's tax-exempt affiliates have engaged in relatively few joint ventures. These ventures have been undertaken to further Advocate's charitable mission.

12 ***Please provide a charity care breakdown for each entity that is a member of your hospital system group. In your opinion, should charity care be measured on an aggregate group basis or on an organization-by-organization basis?***

RESPONSE: Consistent with the requirements of the Illinois Community Benefit Act, we disclose our charity care and other community benefit expenditures on a system-wide basis. Advocate supports measuring charity care on an aggregate basis, because this avoids problems that could arise with respect to potential double counting of community benefit expenditures (for example if one hospital within a system group made a charitable contribution to another member of the system group). Moreover, because 7 of Advocate's 8 hospitals are situated within a single legal entity, Advocate Health and Hospitals Corporation, measuring charity care on an aggregate group basis is consistent with Advocate's legal structure. Finally, Advocate also includes physician groups, a home health agency, and other entities that provide charity care but that are not hospitals. Advocate's Community Benefit Act filing with the State of Illinois is included at Tab 2.

13 ***In your judgment, should the Federal tax law require each joint venture in which a tax-exempt hospital participates to have a charity care requirement? If so, should the amount of the requirement differ depending upon the extent of ownership by exempt hospitals in the joint venture?***

RESPONSE: Advocate has no opinion at this time on the question, which presents complex issues. Whatever the proper answer to this policy question might be, it is currently the case that joint ventures involving Advocate's tax-exempt hospitals that deliver direct health care services to patients offer charity care under the same policies as the rest of the Advocate system. Some tax-exempt hospital joint ventures do not provide direct health care services. For example, Advocate Health Care participates in a joint venture to provide laundry services to hospitals. While such a joint venture certainly supports our mission, it does not provide patients directly with health care services and therefore does not directly provide charity care.

14 ***How does your hospital account for charity care provided by a joint venture in which the hospital participates? For example, if your hospital is a 50% owner of a joint venture, and the joint venture provides $100 of charity care, do you count $0, $50, $100, or some other amount, as charity care provided directly by your hospital?***

RESPONSE: Under accounting principles generally accepted in the United States ("GAAP"), a hospital may report charity care only for those entities/joint ventures that are consolidated in the parent company's (Advocate Health Care Network) financial statements. Thus only entities that are more than 50% controlled may be included in the reported compilation of charity care provided. Advocate's financial statements are prepared in accordance with GAAP.

15 ***What types of research and teaching are performed by your hospital as a charitable or educational activity?***

RESPONSE: Advocate provides a variety of charitable and educational activities related to research and teaching.

Educational Activity -Medical Education

Advocate provides medical education at the undergraduate and graduate levels at three hospitals:

- Advocate Christ Medical Center in Oak Lawn, IL
- Advocate Illinois Masonic Medical Center in Chicago, IL
- Advocate Lutheran General Hospital in Park Ridge, IL.

In 2004-5, Advocate educated approximately 625 residents/fellows in the graduate medical education programs of internal medicine, family medicine, anesthesiology, radiology, pathology, OB/GYN, cardiology, pediatrics, psychiatry, emergency medicine, orthopedics, geriatrics, and sports medicine. Undergraduate medical students educated at those departments of these hospitals during the same time period totaled approximately 1,500.

Advocate provided Continuing Medical Education opportunities for our physicians and associates totaling 2,548 instructional hours to 21,540 participants, of which 19,567 were physicians.

Research Activity Through the Medical Education and Research Department

Five primary types of research occur within the Advocate system. Those include:

- Clinical research funded by the Advocate Charitable Foundation that are initiated by either an investigator or Foundation personnel and performed in collaboration with the Foundation.
- Clinical research projects that are begun at the initiation of an investigator, but that are NOT conducted in collaboration with the Advocate Charitable Foundation. For example, a researcher may wish to investigate a question or conduct a study without internal or external funding.
- Clinical research projects that are industry-initiated clinical trials. Funding for these projects comes from the designer of the study to the researcher who implements the study.
- Clinical research projects that are done in compliance with research requirements relating to residents/fellows in medical education programs at Advocate.
- Cancer Cooperative Research Projects such as the Cancer and Leukemia Group B, Radiation Therapy Oncology Group, Southwest Oncology Group, and Gynecologic Oncology Group.

Other Educational Activities

Advocate also provides a wide variety of educational activities directed to non-physician health professionals and community members. A few examples are as follows:

- Advocate works with faith communities through our Parish Nurse Ministry to provide free services to community members, including educational activities directed at patients, health screenings, and support groups. The Parish Nurse Ministry also serves as a community setting for practicum experience for nursing students, preparing them to serve

the community.

- IMMC sponsors a two year radiography program and provides clinical psychology graduate student training for students in doctoral programs.

- Through affiliations with a number of schools, universities and community colleges, Advocate hospitals and other entities support internships and other training in a variety of health-related fields.

16 ***Please describe any fund-raising activities conducted by your hospital in an attempt to supplement fees for services and other revenues. Does your organization ever conduct fund-raising activities which commit the donations raised by the activity to be used to provide medical care to low-income or uninsured individuals or families?***

RESPONSE: Advocate, through Advocate Charitable Foundation, received almost $20 million in fund-raising revenues in 2004. Those gifts provided support for many programs across the system as well as funds for about 10% of capital expenditures.

Although donors designate the purpose of their gifts, Advocate Charitable Foundation makes specific appeals which commit donations to be used to provide medical care to low-income or uninsured individuals and families. Appeals for general charity care and programs for low-income patients or the uninsured are made to employees, through fund-raising events dedicated to such programs, annual mail appeals, and opportunities for Internet gifts. From 2002-2004, Advocate received and spent over $2.1 million in gifts for charity care and charity care programs.

Other gifts to Advocate (i.e., those not designated for charity care or charity care programs) also indirectly help low-income and uninsured individuals. Advocate has numerous clinical excellence initiatives for which we raise funds that impact patients served at all of our hospitals. An example would be the "eICU" or electronic intensive care unit initiative which monitors from a central location all adult intensive care beds throughout the system. Intensivist physicians, or doctors that specialize in ICU care, staff the e-ICU and assist the existing staff at the bedside. Since intensivist physicians are in short supply, the e-ICU allows us to leverage our intensivist physicians across the Advocate system. Additionally, the e-ICU technology monitors the vital signs of all Advocate ICU patients. The program provides "smart alerts" apprising staff of a potential problem sooner than in a conventional ICU. The e-ICU system has been found to lower mortality and length of stay for ICU patients.

Our hospitals in communities with large numbers of uninsured and Medicaid patients would be unlikely to have the resources to purchase an e-ICU were they not part of the Advocate system. Yet because Advocate raises funds for system level iniatives like the e-ICU, Advocate Bethany Hospital on Chicago's West side and Advocate Trinity Hospital on the Chicago's south side are the only community-based hospitals in Chicago with this life-saving technology. Both hospitals serve disproportionately large numbers of uninsured and Medicaid patients.

It is important to note that the charity care and other community benefits provided by Advocate could never be funded solely by philanthropy, but philanthropy is an important source of the funds needed for us to fulfill our mission, values, and philosophy.

Specifically, provide for the last three years the amount of charitable donations received by

your hospital.

RESPONSE: A chart setting forth charitable donations received by Advocate is included at Tab 14.

17 ***In general, does partnering with for-profits in a joint venture arrangement have implications on the provision of charity care and the satisfaction of the community benefit standard by the joint venture or by the overall hospital system that participates in the joint venture?***

RESPONSE: As noted in the answer to question 8, above, Advocate's tax-exempt affiliates have not partnered with for-profits in joint venture arrangements. In the absence of direct experience with such arrangements, Advocate cannot answer the question without speculating.

18 ***Do your compensation arrangements with physicians and other professionals in any way encourage or discourage the provision of charity care by your hospital or hospital system? If so, how?***

RESPONSE: Advocate's arrangements encourage the provision of charity care by requiring adherence to our policies and procedures and medical staff bylaws, which includes its charity care policy. In some instances, we have specifically incorporated our charity care policies into our agreements with physicians. We are not in a position to control the charitable practices undertaken by independent parties. However, the practices of such independent third parties do not reduce the amount of charity care provided our hospitals.

19 ***Please provide a breakdown of your charity care expenditures, across emergency room services, urgent care services, intensive care services, rehabilitation, maternity care, mental health care, cosmetic surgery, chemical dependency and outreach, and any other categories you consider to be appropriate.***

RESPONSE: Advocate does not track charity care expenditures based upon "service line."

20 ***What kinds of community outreach and education activities does your hospital conduct, and how much is expended on such activities (in absolute dollars and as a percent of your budget)?***

RESPONSE: The Illinois Community Benefits Act defines community benefits activities in ten categories. These ten categories and the corresponding costs to Advocate for providing services in these categories are provided within the attached Advocate Health Care 2004 Community Benefits Report, provided at Tab 2, and are enumerated in our response to Question 2, above. These community health outreach activities include:

- Language Assistance Services – Advocate provides interpretive (oral) and translation (written) services in languages other than English to our patients and their families.
- Donations – Advocate makes cash and in-kind donations (value of meeting space, computers, medical equipment and supplies, and personnel) to assist/support other community health care providers, social service agencies and organizations.
- Volunteer Services – Voluntary activities provided by Advocate employees and community volunteers in connection with and in support of Advocate's community benefits program.

- Education – In addition to community health education, Advocate provides hospital/clinical-based educational programs such as graduate medical education, medical group teaching programs, clinical pastoral education, health professions internships, undergraduate nursing, EMS training, radiology, occupational health, pharmacy and therapy students, etc.
- Subsidized Health Services – Services for which the system, in response to community need, must subsidize from other revenue sources. The balance of the community health outreach activities fall under the Subsidized Health Services category of the Illinois Community Benefits Act including the following categories and examples.
    - Community health education – examples include health fairs, presentations, school partnerships, Medicare/insurance counseling, senior citizen transportation, disease, substance abuse and bereavement support groups, etc.
    - Community-based clinical services – body fat testing, congestive heart failure assessments, cholesterol, diabetes, skin cancer and blood pressure screenings, senior flu shots, etc.
    - Community Partnerships – partnerships with community organizations, local government agencies, schools, faith organizations/churches and businesses focused on addressing access to care and improving the health and wellness of their communities.

Other significant community outreach programs for which costs are tracked and reported include childhood trauma (violence and sexual abuse) treatment and home health hospice patient counseling, the adult downs syndrome, pediatric development and genetics clinics, and older adult services. Advocate's costs for providing these programs and the community outreach activities outlined in the paragraphs above are provided in Advocate's 2004 Community Benefits Report, a copy of which is attached.

It should be noted that although Advocate's accounting software does a fairly good job of capturing many of the costs related to community health education, fairs and community based clinical services, it does not adequately capture the subsidized costs of many of Advocate's large, system programs – programs predominantly paid for by grants but for which considerable planning and development support is provided by Advocate management and associates. The sheer size and complexity of Advocate's financial reporting system makes it immensely difficult to sift out these planning and development costs. In reporting only those programs for which we can track and report financial loss, many of Advocate's most profound system community outreach programs are not reported. Some of these notable programs are mentioned in the Community Benefits narrative report as part of Advocate's 2004 Community Benefits Report.

The reported cost of Advocate's community health outreach programs and activities is $61,967,000. This represents 2.4% of 2004 total operating expenses. Total cost of community benefits including charity care, bad debts and unreimbursed government sponsored programs totaled $245,583,000, approximately 3 times greater than Advocate's net operating income for 2004. This figure represents 9.6% of Advocate's total 2004 operating expenses – less bad debt expense. Significantly, the reported cost of Advocate's community health programs and activities is approximately three times Advocate's net operating income for 2004.

21 ***Please explain how the amount of charity care you provide differs in magnitude and kind from that provided by your for-profit competitors?***

RESPONSE: Advocate does not track charity care offered by for-profit hospitals, ambulatory surgical facilities, physicians, urgent care centers, and other such entities. Anecdotally, we understands that our charity care policy, which offers significant care and discounts to patients with incomes of up to 4 times the federal poverty level, is among the most generous in the nation among not-for-profit health care systems.

22 ***How much does your hospital spend on free or below-cost infant and child care programs, such as childhood immunization programs?***

RESPONSE: Throughout 2004, Advocate and its sites offered subsidized health services costing, which includes health education programs to individuals of all ages. While we appreciate the Finance Committee's interest in the provision of subsidized health services for children specifically, it is nearly impossible for Advocate to determine the exact dollar amount spent on individuals under the age of 18. Many of our programs are focused on the community as a whole, such as our asthma outreach program, and dollars spent are not tracked separately for adults and children. However, several programs are focused solely on infants and children. For example, *Baby Advocate*, a system-wide vaccination and developmental reminders program, helped 36,000 families. Similarly, Advocate's *Healthy Steps* program, which uses a national model to engage parents as partners with doctors in their child's health, served 29,000 individuals throughout the Chicago and its suburbs. Advocate's sites also contributed to children's health through free or minimal cost health fairs, immunization programs, asthma education outreach, car seat check-up programs, poison control education, safe baby sitter classes and other programs that touched thousands of children's lives. Advocate's Community Benefit Act filing is included at Tab 2.

23 ***Does your organization conduct clinical trial programs, and if so, how does your organization treat such programs for purposes of determining charity care?***

RESPONSE: Advocate Health Care conducts clinical trials. All trials that have had a business review and have consented to internet listing on our website are available on www.advocatehealth.com. In the business review, prospective budgets are prepared, reviewed and approved. Advocate Health Care does not attribute to charity care any losses related to clinical trials identified during the revenue cycle management process.

24 ***How do you allocate expenses (direct labor and materials, indirect labor and materials, management, general and administrative, fund-raising, investment, and other) for purposes of determining the amounts you consider to have been expended on your charity care programs? Does this allocation include costs incurred pursuant to a cost-sharing arrangement with other members of your hospital system group? Is this allocation mechanism dictated by internal policy, Federal or State regulatory requirements, financial accounting principles, or other standards? Is your allocation of expenses to charity care consistent with expense allocation procedures you use to allocate expenses for other purposes, regulatory or otherwise? Please explain any similarities and differences.***

RESPONSE: Costs of charity care, bad debt and government sponsored programs for our hospitals and home care agency are calculated utilizing a Medicare cost to charge ratio. The cost to charge ratio is utilized because that is the methodology established under Illinois' Community Benefit Act, a copy of which is included at Tab 3. Expenses for non-cost-reporting entities are determined utilizing a ratio of financial statement expenses, excluding bad debt expense, to gross

charges.

With respect to Advocate's allocation of expenses to charity care and other community benefits, subsidized health care services costs (which are deemed a community benefit activity under Illinois law) are determined utilizing our decision support cost accounting system, not our Medicare cost reports. A similarity between these methodologies is that financial statement costs are the starting point for computing costs. A distinctive feature of Medicare's methodology is that it excludes certain costs and expenses from its definition of allowable Medicare costs. The methodologies may also differ in the basis they use for allocating costs to cost centers and patients.

25 ***Please provide a statistical breakdown of the hospital's average cost per patient and the average length of stay of your patients. Feel free to provide as much detail as you consider to be appropriate to demonstrate the range of costs and stays across different types of treatment.***

RESPONSE:

	2003	2004
Acute Care Length of Stay		
Bethany	4.88	4.40
Christ	5.41	5.36
Good Samaritan	4.49	4.40
Good Shepherd	3.57	3.55
IMMC	4.73	4.91
LGH	5.00	5.03
South Suburban	4.24	4.30
Trinity	4.33	4.26
Cost per Adjusted Discharge		
Bethany	$6,086	$6,155
Christ	$6,471	$7,031
Good Samaritan	$6,076	$7,045
Good Shepherd	$5,663	$6,400
IMMC	$7,977	$8,094
LGH	$6,768	$7,477
South Suburban	$5,212	$5,879
Trinity	$5,459	$6,415

Payments/Charges/Debt Collection/Tax-Exempt Status and Other Issues

1 ***Please explain what is the average mark-up of charges over costs?***

RESPONSE: The average cost-to-charge ratio for each of Advocate's hospitals is contained in Exhibit 1 of Advocate's charity care policy, which is attached at Tab 1. These figures were taken from each hospital's Medicare cost report.

What is the average private pay contractual allowance (charges to payments) weighted by payer?

RESPONSE: In this case, the use of the term "average" oversimplifies the determination of contractual allowances, since some payments are based upon a per diem or capitated rate. Moreover, negotiated discounts often contain a "prompt payment" clause that provides that a payor is responsible for full (non-discounted) charges if payment is not made within a specified time period (typically 30 to 60 days). System-wide, the average discount negotiated with managed care payors is a 48% discount off billed hospital charges. Advocate also provides services to patients insured by non-contracted managed care payors or other payors that are included within the "private pay" designation. These payors do not receive the 48% average discount, and if they were included in the calculation, the average private pay discount would be less than 48%.

2 ***Please explain the reason for charging "chargemaster" rates to uninsured individuals particularly in light of the Secretary of Health and Human Services' letter of February 19, 2004 to the President of the American Hospital Association and also in light of your not-for-profit and tax-exempt status.***

RESPONSE: Advocate Health Care continues to use a chargemaster because, until December, 2004, Medicare appeared to require billing uninsured patients at the rates set forth therein. The Secretary's letter of February 19, 2004 did not resolve several issues regarding use of the chargemaster, including its relationship to outlier reimbursement. Moreover, many managed care contracts are established at a rate equal to a discount off the chargemaster rate.

Please note that Advocate has previously sought definitive assurances from the responsible government agencies that other rates may be charged without means-testing, but did not receive definitive guidance on this question. See correspondence attached at Tab 15. As noted throughout our response, uninsured individuals who participate in Advocate's charity care program receive free care or significant discounts from the chargemaster rate to the cost of the treatment. Advocate has established a comprehensive program to educate our uninsured patients about our charity care program and assist them in applying for financial assistance, as described below in our response to Question 6.

3. ***Please explain how fairness or reasonableness of charges to the uninsured can be assured even in instances where you offer discounts where those discounts are discounts from the already high chargemaster rate? What is your discount policy?***

RESPONSE: Advocate's discount policies have always been fair and reasonable, and our current charity policy is among the most generous in the industry. Under our policy, medical care is provided without charge for patients earning up to 200% of the federal poverty level, and those earning between 200-400% of the federal poverty level receive significant discounts to the hospital's cost for their care, based on the hospital's cost to charge ratio reported to Medicare. These latter, discounted charges are capped, so that those earning from 200-300% of federal poverty level pay no more than 5% of their income, and those earning from 300-400% of federal poverty level pay no more than 10%. Four times the federal poverty level is $77,400 for a family of four. In 2004, Advocate approved the charity assistance applications of 99% of the patients who requested and completed applications for charity assistance. For uninsured patients who received charity assistance in 2004, charity care discounts were, on average 95% of charges. Patients with a remaining balance after the charity care discount is applied are provided interest-free payment plans on an as-needed basis.

It is also important to note that we instruct our hospitals to consider extenuating circumstances whenever appropriate. Bills can be adjusted even beyond what the policy would indicate if individual circumstances so warrant.

What is the collection rate for self-pay?

RESPONSE: Advocate's system-wide collection rate for the uninsured is 3.3% of charges.

4. ***If government programs pay for hospital services for its enrollees without regard to the chargemaster rate and commercial insurance carriers throughout the country likewise pay not based on the chargemaster rate, please explain why the uninsured continue to be charged the chargemaster rate?***

RESPONSE: See response to Question 2, above. All payors are charged at the chargemaster rate. These charges are adjusted via contractual allowances where there are agreements with payors to do so, or in the case of uninsured patients, through application of Advocate's charity care policy. Also, it is inaccurate to say that commercial insurance carriers do not pay based on the chargemaster rate, as many of the discounts are based on that rate, and carriers who do not satisfy their contractual prompt-pay obligations are required to pay the chargemaster rate. In addition, commercial liability insurers typically pay chargemaster rates for medical bills that are included in tort judgments or settlements.

Our efforts to counsel patients about financial matters is detailed in our response to question 6.

5. ***Please explain what is the economic benefit to your hospital of charging uninsureds the high chargemaster rate when uninsured people generally have less of an ability to pay hospital charges and do in fact generally pay only a fraction of what has been charged? Does this benefit justify your action particularly in light of your not-for-profit tax-exempt status?***

RESPONSE: There is little or no economic benefit to Advocate Health Care from charging the chargemaster rates to the uninsured. See answers to questions 2-4 above for further response to this question. See questions 6 and 7 below for information on the extensive steps Advocate takes to assist uninsured patients in applying for our charity care program.

6. ***The Committee has heard statements from individuals that have gone to many not-for-profit, tax-exempt hospitals in the very recent past and have seen no evidence of the fact that they make their tax-exempt and charitable missions known to patients via signs in patient access areas, brochures, booklets and the like. Please comment on what your hospital does to provide such visible information on the subject.***

RESPONSE: Advocate works diligently to educate patients about our charity care program and provide patients with the assistance they need to complete the charity care application. Our goal is to work with uninsured patients on the front-end, while they are at the hospital, to begin the financial counseling process including, if appropriate, applying for Advocate's charity care program. As part of this process, we first evaluate whether the patient might be eligible for a government-sponsored insurance program like Medicaid, and if not, we assist them with in completing the Advocate charity care application.

At times it is not possible for us to provide financial counseling to an uninsured patient while he

or she is at the hospital due to his or her condition or for other reasons. To address this, we also have an extensive communications process to reach uninsured and underinsured patients after they leave the hospital and to make them aware of our charity care program and the opportunity to apply.

Patients at Advocate Hospitals are educated about the availability of charity care in the following ways:

- Multi-lingual signage is posted in locations throughout our hospitals, including patient registration, the emergency department, and the business office. The signs include a statement that financial counseling, including charity assistance, is available. A hospital financial counselor's telephone number is provided. (See photos in Tab 16)
- Hand-out cards, which are smaller versions of the signs posted around the hospital, are distributed to uninsured patients in the emergency department and provide the financial counselor contact information. (See Tab 17)
- Consent forms include a statement that financial counseling, including charity assistance, is available upon request. (See Tab 18)

Once an uninsured patient leaves the hospital, we conduct extensive outreach to educate patients who have yet to begin the financial counseling process about the availability of financial counseling and charity care.

- A minimum of seven attempts by phone or by mail are made over a period of 120 days to contact the patient with an offer of financial counseling and to educate them on the availability of charity care.
- Patient bills sent to uninsured patients include a statement in English and Spanish that Advocate is able to help the patient apply for a government-sponsored insurance program or charity care. The telephone number for financial counseling assistance is provided. (See Tab 19)
- If our outreach attempts fail, Advocate's collection agencies are required to refer cases back to the hospital if they determine that a patient may be eligible for a government-sponsored program or charity care. Our financial counselors then make contact with these patients.
- A patient accounting web site is being developed for 2005 3rd quarter implementation that will provide patients with the ability to check the status of their hospital account(s), communicate via e-mail with the hospital patient accounting department, review general information about hospital insurance claims and frequently asked questions, obtain links to payors, and make payment on their account. A description of the Advocate financial assistance options available, including charity assistance, will be provided.
- Other information is provided to patients and their families through Advocate's newsletters, annual report, magazine articles, web site, etc.

Finally, it is important to recognize that the Advocate charity care program is unique in that it is also open to underinsured patients. To assist underinsured patients, statements sent to all patients with balances remaining after insurance has paid include a message and telephone number about how to contact a financial counselor about payment options, including applying for Advocate's charity care program.

7. ***Please identify what steps your hospital has taken to insure that lower level staff, who are actually the front-line staff, are aware of your not-for-profit status and charitable mission and have been instructed to implement the same in their treatment of uninsured patients. Please produce any documents conveying such information to your staff.***

RESPONSE: Advocate instills awareness of our values and charitable mission with *all* associates, and the process of doing so is continuous. It begins in the recruitment and hiring process, continues through new employee orientation, and is reinforced in multiple ways from day to day. Our aim is to create a culture in which it is second nature for associates at all levels to think "MVP" (Advocate's Mission, Values and Philosophy). That culture is imbued with a sense that all people who come through our doors have worth and dignity and deserve respect. From that starting point, the specifics of how to treat uninsured patients and those with financial need are not an "add-on," but are a natural extension of our values.

Building on this foundation, we have also redoubled our efforts to educate front-line employees about our charity care program. Beginning in November 2003 and continuing in 2004, instructor-led training was conducted for front line employees throughout the Advocate system.

This training program provided an overview of Advocate's charity policies and procedures as well as guidance on communicating with patients and family members that express questions or concerns about their bill. Front-line employees were encouraged to let patients and families know that the charity care program is available and to link patients and families in need with a financial counselor. The program is now available for new employees, and those wanting to review the material an additional time, through a computer-based training module on Advocate's intranet. Additionally, Advocate's internal news letters and Intranet regularly carry articles about our charity care program and the patients who have been helped by the program.

For employees working as financial counselors our training program is intensive and ongoing. Our financial counselors receive extensive training on our policies and procedures and how to assist patients throughout the process of applying for both government-sponsored programs like Medicaid and Advocate's charity care program.

Additionally, we are continually working to make the application process easier and more efficient for patients, and financial counselors are trained on an ongoing basis. For example, Advocate assisted an external vendor with the development of financial counseling software that provides patients with real-time eligibility information for government programs like Medicaid. The software also pre-fills the charity care application for patients not eligible for a government program. This software is now being implemented throughout the Advocate system and counselors are being trained to use the new system.

Training documents are included in our response at Tab 20-22. Additional documents discussing our charity care program are included at Tab 23. Printouts of Advocate's online training program are included at Tab 24.

8. ***If your hospital believes that Medicare rules created roadblocks to providing discounts to the uninsured, as is evidenced by the President of the American Hospital Association's (AHA) December 2003 letter to the Department of Health and Human Services, why did your hospital, or your hospital through the AHA not raise the same with the Department at an earlier date? In considering this question it is noteworthy that in December of 2002, Trevor Fetter, the CEO***

of Tenet Healthcare, stated in an investor conference call "I would like to turn to an issue that has bothered me for years. I mentioned earlier that Medicare requires hospitals to set charges the same for everyone. This means that the uninsured or underinsured patient receives a bill of gross charges. In other words, the entire hospital industry renders its highest bills to the customers who are least able or likely to pay."

RESPONSE: As discussed earlier, Advocate did raise concerns about Medicare rules "at an earlier date" through correspondence with Secretary Thompson. In any event, Advocate has always provided discounts to uninsured patients with demonstrated financial need. Beginning in fall of 2002, we examined our charity care program and determined that, with the increasing number of uninsured individuals in the Chicago region, we as a leading non-profit, faith-based health system should expand the eligibility criteria for our charity care program. In April 2003, prior to the AHA's letter to DHHS, we raised the upper income limit for our charity care program to 400 percent of the federal poverty level.

In addition, please state whether your organization ever grossed up their charges on the Medicare cost report because they had a lower OPD fee schedule?

RESPONSE: Advocate has not grossed up charges on our Medicare cost reports because of a lower OPD fee schedule.

Please state your views on whether it is allowable or acceptable for hospitals to lower their charges for the insured and not the uninsured?

RESPONSE: Advocate's charity care policy effectively means that charges for the uninsured are reduced. We think this is the right thing to do.

9. ***It has been suggested that one of the reasons that a hospital may have maintained these high chargemaster rates is that it allows the hospital to obtain more in the way of Medicare outlier payments thus further costing the government additional money for the care of the uninsured.***

Please explain why your hospital, as a tax-exempt not-for-profit hospital, feels that this is appropriate or inappropriate. What was the growth rate in your Medicare outlier payments from 1998 to 2002?

RESPONSE: In the aggregate, Advocate's outlier payments fell by 37.6% from 1998 through 2002. Advocate has no comment on the appropriateness of alleged practices of other hospitals.

10. ***Secretary Thompson, in his letter mentioned above, noted that "Medicare and Medicaid have a long history of doing their part to help the uninsured that includes paying hospitals $22 billion each year through the disproportionate share hospitals' provision to help hospitals bear the cost of caring for the poor and uninsured." In light of the fact that you are a tax-exempt not-for-profit hospital, please comment on whether or not you believe it is appropriate for your hospital to receive such aid from the government.***

RESPONSE: We believe it is both appropriate and necessary for not-for-profit hospitals to receive this aid. Even with the $22 billion in payments referenced in the question, Medicare and Medicaid do not fully cover hospitals' costs of caring for their respective beneficiaries. These payments, in addition to monies saved due to tax exemption, make it possible for non-profit

hospitals to care for the uninsured and beneficiaries of public programs.

Please list your payments under disproportionate share for the past three years as compared to uncompenstated care, separating out bad debt.

RESPONSE: Payments under disproportionate share, as compared to uncompensated care (separating out bad debt), are listed at Tab 25. For 2004, Advocate received $28,203,000 in disproportionate share payments, while providing $184,532,000 in uncompensated care without bad debt. The unreimbursed costs for 2004 on this schedule correspond to the community benefit costs reflected on Advocate's 2004 Illinois Community Benefit Act report. Since 2004 was the first year Advocate for which required to file a report using the methodology established by the Illinois Community Benefit Act, comparable subsidized health services and other community benefits costs for 2003 and 2002 for the hospitals are not available. Likewise, the cost of uncompensated care and subsidized health services and other community benefits costs for 2003 and 2002 for the non-hospital operations are also not available.

11. ***Do you agree that the chargemaster method of charging uninsureds should be discontinued? In answering, I would ask that you consider the statement of Mr. Jack Bovender, the Chairman and CEO of Hospitals Corporation of America, one of the largest for-profit hospitals in the country. Mr. Bovender has stated, "the chargemaster system on which hospitals rely to set pricing and billing codes have a 40 year history of changes that have distorted the relationship between price and cost. It grew out of a time when decreasing Medicare reimbursement prompted cost shifting to the private sector and this was exacerbated in the 90's by aggressive managed care discounting. I am not here to try to justify this and it really needs to be fixed."***

RESPONSE: While Mr. Bovender's point is well taken, it does tend to attribute the responsibility for this state of affairs to the provider institutions. To the extent that the systemic factors he mentions encouraged this kind of practice in the first place, changing those factors could make it easier for providers to change their practices.

12. ***At the hearing of the Oversight Investigation Subcommittee of the House Energy and Commerce Committee on hospital billing dated June 24, 2004, Mr. Bovender stated that he "was told by both inside and outside legal counsel . . . [in late 2002] that we had to get clearance [for discounting to the uninsured] through CMS." Please identify whether your hospital has received such legal advice and if so, please provide any written documentation of that advice.***

RESPONSE: Advice from legal counsel is privileged and confidential, and providing that advice in response to this request could mean that legal advice on the subject of charges, billing and collection is no longer privileged. It would be inappropriate for Advocate to waive attorney-client privilege in response to this question. However, at Tab 26, we have attached guidance received by the Illinois Hospital Association in 2003. Moreover, as indicated above in the response to Question 8, we revised our charity care policy in 2003 to provide for discounts to uninsured patients with incomes of up to four times federal poverty level.

13. ***Please provide all documents related to your hospital's consideration of medical charges for billing practices, charity or indigent care, discounts or write-offs to uninsured patients.***

RESPONSE: See response to question 14 below.

14. ***Please provide all documents relating to your charity care policy, community benefit reports, community benefit assessment, community benefit strategy and/or charity care audits for the time period of January 1, 1998 through the present. In providing the same, please identify specifically where those documents consider your hospital's treatment of the uninsured.***

RESPONSE: We are attempting to provide as much information as possible regarding documents relating to our charity care program which is detailed below:

Charity Care Applications, requests for financial assistance and related documents are included at Tabs 27-30.

Charity Care Policy Documents

Advocate Health Care offers a generous charity care program – offering discounts to patients earning up to four times the poverty level, or $77,400 for a family of four. Application for financial assistance is required and qualification is based on economic as opposed to insurance status. Information on financial assistance is provided at the hospitals through posted notices and brochures, as well as Advocate's widely-distributed annual reports. Our charity care policies from January 1, 1998, to the present are attached at Tab 31.

Community Benefits Reports

An Advocate Health Care Community Benefits Report is developed and available to the public each year. Reports prior to 2004, focused on Advocate's internal definition of community benefits that included the provision of charity care, costs of unreimbursed care to Medicaid recipients, unreimbursed costs of services and programs addressing health, wellness and service needs, and donations to other not-for-profit organizations. Community Benefit Reports and assessments are included at Tabs 2-5.

Community Benefit Strategy

In January 1998, Advocate's Board of Directors approved a *Report of the Board-appointed Community Benefits Task Force.* The report contained strategies for implementing a system-wide community benefits program. Guidance oversight, direct operational implementation, structure and a process for decision-making were addressed within this report. This strategy remained in effect until the 2004 Community Benefits Plan was developed. A copy of the 1998 Report of the Community Benefits Task Force is attached. See Tab 11. Also attached as Tab 12 is an *Analysis of Advocate's Community Benefits Activities* dated August 31, 1999, as provided to the Board of Directors of Advocate Health Care Network. (See also *Advocate's 2004 Community Benefits Plan* within the *2004 Community Benefits Report.*). The foregoing documents discuss our treatment of the uninsured in various places.

15. ***Please provide any community needs assessment done by you or on your behalf during the time period of January 1, 1998 through the present. In providing the same, please identify specifically where your hospital considered its treatment of the uninsured in its community needs assessment.***

RESPONSE: See our response to question 14.

16. ***Please identify how many lawsuits you have filed against uninsured patients for the current***

year and the preceding five calendar years and please identify whether or not you are compelled by law to file such lawsuits in order to collect from these individuals. Please identify the amount of debt that was at issue in each suit. Please identify any times you have sold debt owed to the hospital from uninsured patients to other companies for collection.

RESPONSE: Advocate is not compelled by law to file lawsuits, but to satisfy Medicare requirements for bad debt reimbursement, we are required to engage in "reasonable" collection efforts and to treat Medicare and non-Medicare patients (including uninsured patients) alike. In some circumstances, a lawsuit is a reasonable collection effort. Statistics (number and dollar value) for lawsuits filed from 1999 to the present are attached at Tab 32. Through May 2005, Advocate had not filed any suits against uninsured patients. In 2004, 68 lawsuits were filed against the uninsured, representing 0.13% of uninsured patient encounters (51,194). In 2003, Advocate filed 273 lawsuits against the uninsured, which represent 0.53% of uninsured patient encounters (51,856). Data breaking out lawsuits against uninsured patients versus insured patients is not available for all agencies prior to 2003. Advocate has not sold debt owed to the hospital by any patients to another company for collection.

Advocate permits the filing of lawsuits only under limited circumstances, after all available remedies have been exhausted and a determination has been made that the patient has the means to satisfy the bill. All collection firms that Advocate hospitals engage are required to evaluate the patient's ability to pay the account balance in order to determine the appropriate collection approach or a recommendation for charity assistance. Short and long term interest-free time payment plans are offered to patients unable to pay their bill in a single payment. The Advocate Health Care Charity Assistance Application is sent to patients expressing difficulty with their bill or displaying an inability to pay it.

Collection firms (and their agents) are prohibited from placing liens on any residential real estate that is the patient's primary residence and sole real estate asset, applying attorney liens, or using "body attachments."

Please provide copies of your contracts, if any, with collection agencies. Please identify whether this collection agency is a for-profit or nonprofit subsidiary of your organization. Please discuss any financial relationship with a bank or credit card company that patients use to help finance their debt. Please explain if you differentiate between Medicare and Non Medicare patients in regard to debt. If you sell debt, what is your policy on when that debt is sold, particularly in terms of the age of the debt.

RESPONSE: The most recent version of Advocate's form of contract with collection agencies is attached at Tab 33 along with a listing of our current contracted collection firms. None of these firms is a for-profit or nonprofit subsidiary of Advocate. Advocate does not have a relationship with a bank or credit card company that patients use to help finance their debt. Advocate identifies patients as Medicare eligible to its collection firms (Medicare Financial Class), but collection policies and procedures are the same for Medicare and non-Medicare patients. Advocate has not sold debt owed to any hospital by any patients to another company for collection.

17. ***Please identify any money or investments that your hospital or related organization (including supporting organization or private foundation) has in off-shore bank. Identify the amount in these accounts. Please explain why your organization has taken this action.***

RESPONSE: Due to a negative/challenging malpractice insurance marketplace in the domestic United States, due to prohibitive costs, Advocate has been forced to self-insure, and to obtain an additional off-shore reinsurance arrangement as an alternative.

Advocate Health Care operates an Insurance Captive known as Advocate Insurance Segregated Portfolio Company ("AISPC"). It possesses an unrestricted Class B license issued by the Cayman Monetary Authority located in Grand Cayman, Cayman Islands, BWI.

As of December 31, 2004, Advocate's investments in the Advocate Insurance SPC – Core were $2,101,115. Advocate also maintains segregated cells for two physician groups. As of that date, the Advocate Insurance SPC - Dreyer Segregated Cell and the Advocate Insurance SPC - AHC Segregated Cell were both funded with $100,000. The Illinois Masonic Insurance Company was funded with $78,219 as of that date. Advocate anticipates that these amounts will rise because we have begun self-insuring our three physician groups (Advocate Medical Group, Advocate Health Centers, and Dreyer Clinic, Inc.), and due to fluctuations in the confidence level established by AISPC's independent actuary.

18 ***Please provide an organization chart including Type I and Type II supporting organizations. The chart should identify ownership interest and the type of organization (nonprofit, for profit, partnership, etc.).***

RESPONSE: Advocate's organization chart is attached at Tab 34. Because of the complexity of Advocate's corporate structure, not all entities related to Advocate are included on this chart. For complete information, please refer to the summary of Advocate investment entities included at Tab 34, which includes information about ownership and type of organization.

Not listed on Advocate's organizational chart are supporting organizations, of which Advocate has four. Data for these entities (which are Type II organizations) is for 2003, because none of these entities has yet filed its 2004 tax return.

Masonic Family Health Services, NFP - 36-3725634 – This organization exists to support the charitable, educational and research activities related to the improvement of health care and the treatment of the sick and injured of Illinois Masonic Medical Center which is part of Advocate Northside Health Network and the surrounding communities. It had contributions in 2003 of $41,534. In 2003 it ran a deficit of $604. Its total assets at the end of the year were $90,044 and made cash donations of $41,534.

The Service League of Lutheran General Health System - 36- 6206192 --This organization's volunteers run a thrift shop as well as a gift shop to raise money to enhance the comfort and care of patients and support patient educational services at Lutheran General Hospital which is part of Advocate Health & Hospitals Corporation. It had contributions in 2003 of $22,240 and net sales of inventory of $762,423. In 2003 it ran a deficit of $43,710. Its total assets at the end of the year were $523,256. It made cash donations of $180,029. The volunteer support provided to Lutheran General Hospital's'patients and patients' family members is invaluable.

Mens Association of Lutheran General Hospital – 36-6124748 – This organization contributes funds to Lutheran General Hospital which is part of Advocate Health & Hospitals Corporation for the acquisition of specialized medical equipment and the support of various hospital

programs. It had assets at the end of 2003 of $21,136. It had excess revenue over expenses of $722 in 2003 and contributed $42,750 in support to Lutheran General Hospital.

Masonic Family Health Foundation, Inc. - 36-4397387 – This organization exists to further the charitable, educational and scientific purposes of Masonic Family Health Services, NFP. Masonic Family Health Services, NFP exists to support the charitable, educational and research activities related to the improvement of health care and the treatment of the sick and injured of Illinois Masonic Medical Center which is part of Advocate Northside Health Network, and other surrounding community organizations. It had contributions in 2003 of $394,825. In 2003 it ran a deficit of $7,034,100. Its total assets at the end of the year were $80,250,872. It made distributions of $7,303,975 to Advocate Northside Health Network and other community organizations.

19. ***Some hospitals have taken the position that the provision of healthcare, no matter the cost to the patient, is inherently charitable. Do you agree that the provision of health care to uninsureds is charitable even if there is a high charge associated with it? If so, please explain.***

RESPONSE: Advocate has not taken that position on this issue. The provision of healthcare for a charge is a community benefit recognized in IRS rulings since 1969, and may qualify a hospital for recognition of tax exempt status if the hospital also provides certain other community benefits, such as maintaining an emergency room available to all patients regardless of ability to pay and accepting Medicare and Medicaid patients. As stated above, Advocate's charity care program provides substantial subsidies to patients based on their ability to pay rather than the chargemaster, with free care given to patients earning below 200% of the federal poverty level and discounts from charges to cost, with percent of income caps, for patients earning between 200-400% of federal poverty level. Our uninsured patients on average pay only a small fraction of what it costs Advocate to provide the service.

20. ***Some hospitals have stated that all patients, insured and uninsured alike, are charged the same amount for services. It seems that this is a response based on semantics as it is my understanding that all insureds and government payors ultimately are expected to pay less than the chargemaster rate while uninsured patients are expected to pay the full amount. Please respond and in your response identify the net effective discount to all patient groups based on contractual or other allowances with those groups and identify the discount offered to uninsured patients as well.***

RESPONSE: The following table summarizes the net effective discount, on a system-wide basis, for the various types of patient groups.

Medicare	68.3%
Medicaid	65.2%
Managed Care	51.1%
Uninsured	96.7%[4]
Other payors	34.9%

[4] The uninsured pay 3.3% of charges. As described in the answer to Part II, question 3, Advocate has a generous charity care program through which in 2004 it approved 99% of the completed applications, with resulting discounts averaging 95% of charges.

Please explain what your policies are for providing elective procedures, ex. breast biopsies, mammograms, colonoscopies, physicals, etc. to the uninsured.

RESPONSE: Advocate Health Care's Hospital Charity Assistance Policy extends "services free-of-charge, or at a reduced amount, to an individual whose financial status makes it impossible or impractical to pay fully for the services." Charity assistance is provided to patients who meet financial criteria, which provides discounts to uninsured and underinsured patients with incomes up to four times the federal poverty threshold. Consideration for elective services is subject to each hospital's budget constraints and is weighed against charity care needs for non elective procedures. Part of each site charity care committee's charge is to assess and/or develop a list of approved "alternative" providers for elective procedures such as those listed above. As part of this process, Advocate has either provided elective procedures or recommended alternative providers.

21. ***Please provide for the last three years a detailed breakdown of travel of your five top salaried employees: for trips over $1000 please provide receipts for hotel; meals; airfare and all other reimbursed items as well as the purpose of the trip. Please provide all salaries and other benefits provided to these five individuals for the last three years from any organization identified in question B18. Finally, please detail any payments or reimbursements made to employees for country clubs.***

RESPONSE: A chart listing all salaries and benefits of our top five individuals for the last three years is included at Tab 35. Advocate recently responded to an inquiry from the Internal Revenue Service concerning compensation of officers and directors of the Ravenswood Foundation. Consistent with Advocate's Mission, Values and Philosophy, that response details the process that Advocate uses in setting compensation for all of our employees, particularly our highest-paid employees. Also provided in that response is information concerning Advocate's governance process generally, including board minutes, conflict of interest policies, and other similar information. This correspondence, along with the IRS' response, is included at Tab 36.

We do not reimburse for country club dues; however, in an extremely limited number of circumstances, Advocate reimburses a small number of executives for private club dues. These reimbursements total less than $400 a month. The executives use these memberships for meetings and other business purposes.

We are in the process of finalizing our travel expense reports and will supply them to you as an amendment to this filing in a timely fashion but no later than July 15, 2005.

Additional Information

To assist the Committee in better understanding Advocate, we have attached additional information to this response. At Tabs 37-43, we have included our annual reports from 1998-2004. At Tab 44, we have provided a copy of our quarterly report. Lastly, you will find Appendix A to our recent bond refinancing which provides an overview of our system and its environment, at Tab 45.

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PART I: CHARITY CARE AND COMMUNITY BENEFIT

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