



# **A CRISIS OF AFFORDABLE HEALTH CARE IN GEORGIA: THE GRADY HEALTH SYSTEM**

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## EXECUTIVE SUMMARY

Not for profit hospitals are failing to fulfill their common mission of providing quality health care to Georgia communities, regardless of patients' ability to pay. Prices for services to the medically uninsured are significantly higher than average payments received from most third party payers.

Between 2003 and 2005, 17.5 percent of Georgia residents were medically uninsured. Nationwide data suggests that the majority of the uninsured are not the poorest among us, but the working poor, the self-employed, the middle class, and small business owners.

The Grady Health System, which is one of the state's **60 nonprofit hospitals**, lost more than \$20 million last year, up from \$13 million in 2005 and \$10 million the year before. Budget challenges and management failures have resulted in deep cuts in staffing and services, compromising patient care.

## *Policy Recommendations*

- Tax-exempt status should be extended to free health care clinics. So-called not for profit health care facilities that currently claim tax-exempt status should be compelled by state officials to “certify” their nonprofit mission.
- Not for profit hospitals should employ a standardized system of advising the public of available services provided, the terms of eligibility for accessing free and reduced charge services, the application process for accessing free and reduced charge services, and the person or office to which pricing complaints or questions should be directed.
- Hospital administration, including the Fulton-DeKalb Hospital Authority, should establish a formal committee process for working with employees and/or the employees' designated union representative to jointly develop and pursue initiatives to increase efficiency and quality in the provision of medical and health care services.

## INTRODUCTION

At least 45 million Americans are living without health insurance. Between 2003 and 2005, 17.5 percent of Georgia residents were medically uninsured – a number that increases every year.<sup>1</sup>

The majority of the newly uninsured between 2003 and 2004 – over 750,000 people – were working adults.<sup>ii</sup> Meanwhile, from 2000 to 2005, employer provided health insurance to children under 18 years old decreased by 8.9 percent.

Today's medically uninsured are the working poor, the self-employed, the middle class and small business owners. The majority of the medically uninsured are not the poorest among us, who can access Medicaid assistance, or older citizens, who are covered by Medicare.

The medically uninsured are charged significantly higher prices for products and services than average payments received from most third party payers. In fact, hospitals charge the uninsured as much as ten times more than HMO's, insurance companies and government programs such as Medicare.<sup>iii</sup> Products consumed in a hospital, such as children's aspirin, are routinely marked-up several hundred percent over retail. Because nobody negotiates a discount for the uninsured, these patients get stuck with unreasonable mark-ups, artificially inflated prices, and enormous bills.

Medical bills are the leading cause of personal bankruptcies.<sup>iv</sup> Of the 100 counties in the nation with the highest rates of bankruptcy, 45 are in Georgia.<sup>v</sup> Clearly, medical debt impacts Georgia families.

Moreover, expensive hospital charges for the medically uninsured affect everyone. The higher the hospital bills, the more people need insurance – and the more they are willing to pay for insurance. It is a vicious cycle that drives health care costs higher and higher each year.

Georgia's not for profit hospitals share the common mission of guaranteeing care to all, regardless of ability to pay. Facilities such as Memorial Health in Savannah, Pheobe Putney Memorial Hospital in Albany, and the Medical College of Georgia Health System in Augusta are subsidized by state and local governments to offer health services to medically uninsured and "indigent" patients. For example, not for profit hospitals draw down funds from the state Indigent Care Trust Fund (ICTF) and access substantial tax exemptions. In short, not for profit hospitals don't contribute to vital local infrastructure, such as road and sewer maintenance, or police and firefighter forces, even though they may utilize all of these services.

Regulations and requirements associated with the ICTF and the tax-exempt status – not to mention their own founding missions – compel not for profit hospitals to provide free and reduced charge health services to eligible patients. Instead, hospital pricing practices targeting the medically uninsured discourage eligible patients from accessing reduced-cost health services. In fact, hospitals are the number one client of collection agencies.<sup>vi</sup>

As indicated by IRS filings from 2002, 34 not for profit hospitals in the state held approximately \$2.6 billion in untaxed cash and securities, and total hospital profit for 2002 was over \$500 million.<sup>vii</sup> Thus, hospital pricing also functions to increase profitability for some so-called "not for profit" facilities.

Georgia's not for profit hospitals have demonstrated that they will guard their tax exemptions at all costs, even at the expense of expanding access to care. In 2006, the Georgia General Assembly overwhelmingly approved House Bill 1272, which would have extended tax-exempt status to free health clinics that serve underprivileged communities. These clinics help curb rising health care costs by providing treatment for common conditions like asthma, high blood pressure and diabetes before they lead to expensive hospital emergency room visits. But when hospital association lobbyists and hospital administrators realized the bill

would also require the legislature to re-authorize and re-examine tax exemptions in 2008, they pressured Governor Perdue to veto the bill.<sup>viii</sup>

Once again, state lawmakers have proposed legislation – House Bill 294 – to help these clinics keep the doors open by granting them tax-exempt status. While HB 294 was voted out of the House Health & Human Services committee, the legislation was never put to a vote on the House or Senate floors during the 2007 General Assembly.

Georgia’s political leadership has failed twice to support low-cost and no-cost health care options, and demand accountability from those hospitals already reaping the benefits of tax subsidies. Georgia’s not for profit hospitals are failing to fulfill ethical and financial obligations to families and communities across the state. Georgia’s medically uninsured pay the price.

***The following statistics are from an analysis by the Georgia Healthcare Coverage Project. Region 3 is home to approximately 40 percent of Georgians, and contains 10 of the most populous counties in Georgia: Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayetteville, Fulton, Gwinnett, Henry and Rockdale. The majority of Grady patients live in Region 3.***

- ✓ **Almost 270,000 residents in Region 3, or about nine percent of the population age 64 and younger, are medically uninsured.**
- ✓ **Uninsured Region 3 residents account for 25 percent of the state’s total number of uninsured. About one million people in Georgia age 64 and younger are currently medically uninsured.**
- ✓ **61 percent of the medically uninsured in Region 3 are employed or self-employed. The balance either does not work, or is a dependent of someone who doesn’t work. Sixty-eight percent of the medically uninsured population of Georgia is employed.**
- ✓ **Thirty-seven percent of medically uninsured Georgia citizens report having no routine medical check-up within the last two years – compared to only ten percent of medically insured citizens.**

## **GRADY’S ROLE, RESPONSIBILITIES AND REVENUES**

Faced with a mounting fiscal crisis, the Grady Health System is undergoing yet another restructuring. In one of his first actions as Grady’s newly-installed CEO, Otis Story terminated the contract services of a private consulting firm originally hired to trim the health system’s budget. Mr. Story has publicly criticized the early retirement packages offered by hospital administrators under the advice of consultants Alvarez & Marsal, which were accepted by hundreds of veteran Grady workers, many of them nurses working in patient care, clinical laboratories, financial counseling and patient intake.<sup>ix</sup>

Short-sighted, temporary cost-cutting measures, such as the recent buyouts, do little to combat the real problem – the rising cost of health care, resulting in fewer people who are able to afford health insurance. Grady needs a fix, but we cannot hope to find it without first gaining a better understanding of the problems preventing the hospital from sufficiently fulfilling its health care mission.

Henry W. Grady, who inspired the construction of Grady Memorial Hospital in 1890, was a visionary of the “New South” and dedicated to serving the poor and underprivileged. Henry W. Grady’s perspective is

timeless and relevant to current efforts to confront the health care crisis and the troubled times at Grady Memorial Hospital:

*“If society, like a machine, were no stronger than its weakest part, I should despair of both sections. But know that society, sentient and responsible in every fibre, can mend and repair until the whole has the strength of the best, I despair neither.”<sup>x</sup>*

For over a century and under different supervising authorities, Grady Memorial Hospital has provided quality medical care, served as the major teaching hospital in the state, and hosted efforts to innovate new treatments. Since 1954 the hospital and health system have been overseen by the Fulton-DeKalb Hospital Authority and its Board of Trustees, all appointed by the county commissioners of both Fulton and DeKalb. Under the authority, the Grady Health System’s proclaimed mission is to serve the community “by providing quality, comprehensive healthcare in a compassionate, culturally competent, ethical and fiscally responsible manner.”<sup>xi</sup>

Since Grady Hospital opened in 1892 with 100 beds, the system has grown to 953 beds at the hospital, 10 neighborhood/airport health centers, Crestview Health and Rehabilitation Center, the Infectious Disease Program, and Children’s Healthcare of Atlanta at Hughes Spalding. At Grady Memorial Hospital, the system features the area’s only Level I Trauma Center, Georgia’s only Poison Center, one of the largest Burn Units in the country, and one of the nation’s premiere infectious disease programs.

Grady also serves as an educational and research institution. Since 1975, both Emory’s and Morehouse University’s medical schools have shared responsibility for patient care, medical education, and clinical research at Grady. The Morehouse University Medical School and Grady provide medical education and training to physicians committed to underserved communities and research aimed at treating diseases that disproportionately impact minorities and the poor.<sup>xii</sup> Such a partnership is inspired by and reflects the humanitarian vision of Henry W. Grady.

Aside from these medical and health education services, the system has steadily increased the number of patients it serves. Total outpatient visits grew 24.2% from 1999 to 2005, reaching 888,594 visits.<sup>xiii</sup> Although hospital admissions receded in both 2004 and 2005, at just over 30,000 patients admitted, ambulance trips and emergency room visits continue to increase on par with outpatient visits.

For years, the demand for Grady’s valuable public health services has outpaced the funding provided by those government authorities responsible for the care of children, low income, and elderly citizens. Fulton and DeKalb counties are responsible for the Grady Health System, agreeing to:

*“provide adequately for the medical care and hospitalization of the indigent sick of such Counties by the authority and to provide for the constructing, equipping and financing of adequate hospital facilities and projects for use in rendering such medical care and hospitalization to such indigent sick of the Counties.”<sup>xiv</sup>*

Funding by these two counties has failed to keep pace with Grady’s mission and growing responsibilities. According to information provided by Grady’s 2005 annual report, since 1993 the combined county contributions to the system as a proportion of operating expenses fell from 28.6% to 15.5% by 2005.<sup>xv</sup> From 1995 to 2005 the Fulton county payments have grown only 9.6% while Grady’s operating expenses have grown by 70.6% during the same period. DeKalb county’s payments have gradually declined by 6.3% as a portion of cash revenues over the last decade.

However, in 2005 Fulton county's share of indigent care constituted 24.7% of the outpatient load and 16.8% of inpatient admissions. DeKalb county's portion of indigent care amounted to 12.8% of outpatient visits and 6.9% of inpatient admissions. Taken together, the combined burden of indigent care, both inpatient and outpatient, attributed to county residents far exceeded the combined contributions to the operational expenses or cash revenues of Grady.

The contributions of Fulton and DeKalb counties pale in comparison to federal Medicaid and Medicare monies. In 2005, Medicaid receipts totaled 41.8% of revenues and Medicare contributed another 16.7% at Grady.<sup>xvi</sup> Taken together, Medicaid and Medicare contributed 58.5% of Grady's revenues in 2005. Cuts in these federal monies strain the state's budget and force the Grady Health System to provide more care for fewer dollars.

Despite efforts to attract insured patients, institute self-pay practices<sup>xvii</sup>, and seek more grants, only a quarter of Grady's revenues come from such sources. From time to time, community leaders and highly paid consultants, including Deloitte and Alvarez & Marsal, have urged Grady to "attract" higher numbers of privately insured patients to increase revenues without considering the overall costs of expanding its role and increasing the health systems' already numerous responsibilities.<sup>xviii</sup>

As the experience of Grady Health System illustrates, successive cost cutting measures and programs may provide short-term, temporary relief, but may also undermine the efficiency and quality of care provided. Any restructuring program at Grady should take this into account, ensuring that future efficiency and health care quality is not jeopardized by the rush to cut the budget at any cost.

## **GRADY PATIENTS, WORKERS FEEL THE IMPACT**

The burden of making Grady's mission work today falls on the shoulders of thousands of employees responsible for delivering the health system's essential public services. In recent years, Grady employees and their union representative, the American Federation of State, County and Municipal Employees (AFSCME) - Local 1644, have attempted to work with Grady's management to carry out the hospital's mission and confront its challenges – with little success and much frustration.

For example, hospital administrators nationwide have long ignored evidence that increased nurse staffing levels leads to improved patient safety.<sup>xix</sup> Recently, the Grady Hospital System offered buyouts to several hundred senior employees, many of them nurses. Over 400 accepted. Now the hospital finds itself significantly reducing nurse staffing numbers at a time when there is a shortage of nurses and nurse teachers statewide.<sup>xx</sup>

This strategy may ultimately prove more expensive than maintaining current nurse staffing levels, or even increasing the number of nurses. Increasing nurse staffing levels leads to lower incidence of nearly all adverse patient outcomes and would frequently eliminate the need for expensive procedures to treat infections, pneumonia, shock, upper gastrointestinal bleeding and other problems that occur less often when more nurses are employed.

In another example, Dr. Samuel R. Newcom documents how the restructuring of Grady places a greater burden on low income patients, and employees.<sup>xxi</sup> In his report, published in *Ethics and Behavior*, Dr.

Newcom explores the prejudicial treatment of low income patients who faced the prospects of a ten dollar pharmaceutical co-pay in the mid- to late-1990s when hospital administrators attempted to cut costs. He details and questions the ethics of such measures, along with the hospital administration's efforts to decrease the number of medical professionals and employees, despite increasing demands for affordable, public health care. His own case, as he reports it, calls into question the ethical and fair treatment of patients and Grady's employees as they respond to restructuring efforts from above with without labor-management cooperation.

## JOSIE EVANS: NURSING NEARLY FOUR DECADES AT GRADY

Josie Evans has been a nurse in the Grady Hospital Post Anesthesia Care Unit – commonly referred to as the recovery room – for 36 years. She loves being a nurse and she loves Grady.

But she says her job has gotten harder as the hospital has continued to reduce its number of support staff. Even worse, she says the quality of patient care has gone down.

Most recently, in March 2007, more than 400 of the 562 eligible Grady employees accepted early retirement packages. Evans says that fewer nurses and nurses' aids make it more likely that patients will develop painful bed sores. Bed sores are preventable, but prevention requires staff to keep patients moving, or turned in their beds.

"I know how bad a bed sore can be," Evans says. "My dad lived with me in my dining room for four years and didn't have a spot on him. But finally, I had to put him in a nursing home, and soon after he got there he got a bed sore. Within two months he died."

Evans says Grady needs more nurses and nurses' aids, not fewer. She also says the hospital needs to find a way to handle the flood of patients that fill its emergency room on the weekends.

Grady's ER has 80 beds, as well as 30 "holding spots" for patients in the hallways. On a Friday or Saturday night, all of these are routinely filled. When that happens, ER patients are sent up to the recovery room to wait for a bed to open up downstairs. Often, that will take hours.

Evans says she gets upset at ambulance drivers for bringing patients to Grady, even after the ER has reached capacity.

"The thing that bothers me is that even though we're on diversion and other hospitals have room they keep sending us more patients," she says. "Why can't the other hospitals take that patient into their ER and at least get them stable?"

Why do ambulance drivers keep bringing patients to Grady? Evans says it's because Grady has the best doctors and nurses.

"They get them to us, because even if they're in the hallway, somebody is going to get to them," she says. "They bring them to us because they've got the best chance of surviving at Grady."

Evans works four days a week at the hospital – two 12-hour shifts and two eight-hour shifts. She says all that time spent on her feet, operating heavy hospital equipment, is exhausting.

"A lot of ICU beds, they don't even work. We have to work them with our feet," Evans says. "It takes a toll on your body. I've had a bad back for years and it's hard on my back."

Evans says she doesn't think cutting back on support staff makes sense. She'd rather see hospital administrators investing in more preventative care.

"A bed sore is going to end up costing more than paying one nursing aid," she says.

Despite all of Grady's problems, Evans says she's proud to be a long-time partner in the hospital's mission of service.

"The Grady way is that if you don't have insurance, come on in because we're going to treat you like you do have insurance," she says. "The Grady way is that if the elite hospitals don't want to bother with

**you, we will. If you're homeless or poor, we'll take you in and wash the lice and crabs off of you."**

Grady's latest round of restructuring has already led to documented reports and complaints of unfair treatment of hospital employees. Increasingly, medical professionals are called upon to carry out duties once assigned to administrative or hospital service employees. Essential medical support services, including lab tests and the pharmacy's hours of operation, have been cut back or altogether eliminated. Increased employee productivity and extra work go without reward or recognition. And, with so many policy changes underway, the hospital management continues to use an antiquated conflict resolution system with employees and refuses to recognize their union representative in matters affecting their wages and working conditions.<sup>xxii</sup>

Requiring medical professionals to bear a greater load will undoubtedly impact the quality of care offered to patients. Grady's employees and patients deserve better.

## **CONCLUSION**

Elected officials, community leaders, employee representatives, patients, and other stakeholders must work to identify and confront the underlying problems which prevent all Georgia citizens from obtaining medical insurance, and accessing medical services and quality health care.

### ***Policy Recommendations***

- Tax-exempt status should be extended to free health care clinics. So-called not for profit health care facilities that currently claim tax-exempt status should be compelled by state officials to "certify" their nonprofit mission.
- Not for profit hospitals should employ a standardized system of advising the public of available services provided, the terms of eligibility for accessing free and reduced charge services, the application process for accessing free and reduced charge services, and the person or office to which pricing complaints or questions should be directed.
- Hospital administration, including the Fulton-DeKalb Hospital Authority, should establish a formal committee process for working with employees and/or the employees' designated union representative to jointly develop and pursue initiatives to increase efficiency and quality in the provision of medical and health care services.

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<sup>i</sup> U.S. Census Bureau. "Income, Poverty and Health Insurance in the United States, 2005." Page 26



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- <sup>ii</sup> Center on Budget and Policy Priorities. “The Number of Uninsured Americans Continued to Rise in 2004.” August 30, 2005.
- <sup>iii</sup> “From the President: Hospital Overcharging.” *Journal of American Physicians and Surgeons*. Volume 11. Number 1. Spring 2006.
- <sup>iv</sup> “Illness and Injury as Contributors to Bankruptcy.” *Health Affairs*. February, 2005.
- <sup>v</sup> Atlanta Journal-Constitution, February 02, 2005.
- <sup>vi</sup> *National Survey on the Uninsured*, Kaiser Family Foundation, April 2000.
- <sup>vii</sup> As reported by Georgia Watch, based on information culled from Georgia IRS filings for 34 nonprofit hospitals.
- <sup>viii</sup> “Bill contains a hidden headache for hospitals. Nonprofits could lose tax exemption; legislators chagrined.” Atlanta Journal-Constitution. April 10, 2006.
- <sup>ix</sup> “Grady Health System: Advice team given notice” Atlanta Journal Constitution. May 18, 2007.
- <sup>x</sup> As reported by Asa G. Yancey, Sr. M.D., “Grady Memorial Hospital Centennial: History and Development, 1892-1992.” *Journal of the Medical Association of Georgia*. Vol. 81. Nov. 1992:622.
- <sup>xi</sup> The Fulton-DeKalb Hospital Authority. “Extraordinary Grady: Grady Health System 2005 Annual Report.” No publication date. Also see Grady’s website at <http://www.gradyhealthsystem.org/mission.asp>.
- <sup>xii</sup> The New Georgia Encyclopedia. “Grady Health System.” Accessed at <http://www.georgiaencyclopedia.org> on March 26, 2007.
- <sup>xiii</sup> Ibid. page 3.
- <sup>xiv</sup> As quoted from the renewed contract between Fulton and DeKalb counties that establishes and regulates the Fulton-DeKalb Hospital Authority that supervises the Grady Health System. Signed on June 8, 1984.
- <sup>xv</sup> All the Fulton and DeKalb counties’ figures are reported in The Fulton-DeKalb Hospital Authority. “Extraordinary Grady: Grady Health System 2005 Annual Report,” page 3.
- <sup>xvi</sup> As reported in The Fulton-DeKalb Hospital Authority. “Extraordinary Grady: Grady Health System 2005 Annual Report,” page 3.
- <sup>xvii</sup> For testimonial report of the establishment of pharmaceutical co-pays for indigent and low income patients in 1998 see Samuel R. Newcom. “Fighting Class Cleansing at Grady Memorial Hospital. *Ethics and Behavior*. Vol. 10, No. 1 (2000: 87).
- <sup>xviii</sup> For a sampling of such recommendations see John G. Malcom, “Grady Health System: Terminally Ill or Making Progress?” Unpublished manuscript distributed by the Georgia Public Policy Foundation; and John Sherman, “Fulton, DeKalb should consider privatizing Grady.” *Atlanta Business Chronicle*. July 28, 2000; and John Sherman. “Grady Hospital needs a strategic plan for survival.” *Atlanta Business Chronicle*. September 22, 2000.
- <sup>xix</sup> “Nurse Staffing and Patient Outcomes.” University of Iowa College of Nursing. 1998.
- <sup>xx</sup> “Nurse Numbers on Critical List.” Atlanta Journal Constitution. May 4, 2007.

<sup>xxi</sup> Samuel R. Newcom. “Fighting Class Cleansing at Grady Memorial Hospital. Ethics and Behavior. Vol. 10, No. 1 (2000).

<sup>xxii</sup> See Grady’s Employee Handbook, “Issues Resolution” and “Grievance Procedure,” pages 43-58.