Broken Promises at Tenet DMC

How a Dallas-based company abandoned its commitment to charity health care in Detroit

March 2018

MI NURSES Association
Executive Summary:

Executives at Dallas-based Tenet Healthcare, the owners of Detroit Medical Center (DMC), have decided to reduce their spending on charity care in Detroit-area acute care hospital facilities to near zero – a 98 percent reduction since Tenet purchased DMC in 2013.¹

This near elimination of care for the indigent is a clear violation of legal commitments made by Tenet at the time of their purchase of Vanguard Health System (which then owned DMC) in 2013.² It is a far greater reduction than peer Detroit-area institutions during the same time period.

According to figures reported to the Center for Medicaid and Medicare Services, Tenet DMC spent just $470,000 on charity care in Detroit-area acute care hospitals in 2016. By contrast, Beaumont Health spent more than $26 million and Henry Ford Health Systems spend more than $19 million.

The decision by Dallas-based executives to make charity care nearly unavailable at one of the Detroit area’s largest operators of acute care hospitals has potentially grave consequences for the city’s most vulnerable residents.³ At present, some 7.4 percent of Detroit’s 673,000 residents do not have health insurance – almost 50,000 people.⁴ These 50,000 people, many of them low-income or indigent, are now virtually shut out from Tenet DMC.⁵

Between 2013 and 2016 Tenet DMC reduced its charity care spending in acute care hospital facilities from more than $22 million to less than a million dollars per year.⁶ Tenet DMC is now spending just a few hundred dollars per bed on care for the indigent.⁷ This is in sharp contrast to its peer Detroit-area institutions⁸, Henry Ford Health System and Beaumont Health, that are still spending millions per year and thousands per bed in acute hospital facilities to provide care to those who cannot afford it.

¹ See Table 1 for charity care spending by Detroit-area health systems; also see page 10 for methodology.
³ Id.
⁵ Id.
⁶ Graph 1
⁷ Id.
⁸ Peer health systems include Beaumont Health and Henry Ford Health System.
With bipartisan support for expansion of health insurance in Michigan under terms of the Affordable Care Act (ACA), hospitals and health care systems now see many fewer uninsured patients and spending on charity care has been reduced in the Detroit area and throughout Michigan.\(^9\)

However, the 98 percent reduction in charity care spending at acute care hospital facilities by Tenet DMC between 2013 and 2016 is far greater than the 66 percent reduction in uninsured residents in the city of Detroit achieved through implementation of the Affordable Care Act over the same period.\(^{10}\) It is also far greater than the reduction in charity care spending at peer Detroit-area institutions Beaumont Health (67 percent) and Henry Ford Health Systems (65 percent).

The facts outlined in this report – based on Tenet DMC’s own submissions to Medicare – show that Tenet DMC has failed to live up to its commitment to provide charity care to Detroit’s indigent population.


1. From 2013 to 2016, Tenet DMC executives slashed the amount of charity care they provided in Detroit-area acute hospital facilities by 98 percent, to near zero.

Michigan Governor Rick Snyder signed Medicaid expansion into law in September 2013\(^{11}\), under terms of the federal Affordable Care Act, and expansion took effect in April 2014.\(^{12}\) In subsequent years, hospitals and health care systems are seeing far fewer uninsured patients and spending on charity care has been reduced in the Detroit area and across the state.\(^{13}\)

The Dallas-based executives of Tenet DMC, however, stand alone in their decision to reduce charity to near zero – a 98 percent reduction.\(^{14}\) Tenet DMC is betraying its commitment, made in writing at the time of its acquisition of Vanguard Health Systems, to continue to serve Detroit’s indigent population.\(^{15}\)

### Table 1.

**Charity Care Costs, 2013-2016**

*Detroit-area acute care hospitals; Systems with over 1,000 beds*

*(figures in millions)*

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2016</th>
<th>% Reduction 2013-16</th>
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<tbody>
<tr>
<td>Tenet DMC</td>
<td>$22.9</td>
<td>$0.47</td>
<td>-98%</td>
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<tr>
<td>Beaumont Health</td>
<td>$79.8</td>
<td>$26.6</td>
<td>-67%</td>
</tr>
<tr>
<td>Henry Ford Health System</td>
<td>$55.7</td>
<td>$19.3</td>
<td>-65%</td>
</tr>
</tbody>
</table>

Source: Form CMS-2552-10, Worksheet S-10- Hospital Uncompensated and Indigent Data for FY-2013 and FY-2016, cms.gov

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\(^{14}\) Graph 1

Beaumont Health, Henry Ford Health Systems and Tenet DMC are the largest health care providers in the Detroit area. They are the only three organizations in the Detroit area which operate more than 1,000 beds in acute care facilities.

Even after across-the-board reductions due to Medicaid expansion, Henry Ford and Beaumont are still spending thousands per bed on care for the indigent. But Tenet DMC has now reduced its spending to just a few hundred per bed for indigent patients – the lowest spending, by far, of any large Detroit-area health care provider.

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16 Table 1
17 Data for bed size is from 2016 Medicare Cost Reports. CMS.gov
Charity care is critical for Detroit

Detroit is the sixth poorest city in the nation, with a median household income of just over $28,000. Charity care from area hospitals has historically been an important part of an essential safety net for Detroit residents. Thanks to bipartisan support for expansion of health care in Michigan, Detroit reduced its proportion of uninsured residents from 22 percent in 2013 to just 7.4 percent in 2016. This is a 66 percent reduction – which almost exactly matches the reduction in charity care spending at Henry Ford (65 percent) and Beaumont (67 percent). It is far less, however, than the 98 percent reduction at Tenet DMC facilities.

Tenet DMC, Beaumont, Henry Ford and Trinity Health all operate hospitals and draw patients from outside the city of Detroit, so there may be additional factors involved in the reduction in charity care.

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Table 1, p. 3 and Graph 1, p. 4.

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spending. However, Tenet’s almost complete elimination of charity care spending in acute care hospitals is unique among large Detroit-area hospital systems.

The 7.4 percent of Detroit’s population of 693,000 residents without health insurance represents almost 50,000 people.22 These residents – many of whom are low-income or indigent – are now almost entirely shut out of Tenet DMC.

Although Tenet DMC is now a private, for-profit company, Tenet purchased a former non-profit hospital chain in 2013 and at that time agreed, in writing, to continue a practice of providing “significant levels of care for indigent and low-income patients.”23 But this spending has now been reduced to near zero, in contrast with peer institutions.24

3. Tenet is violating its written commitment to provide charity care in Detroit

Vanguard Health Systems took over DMC in 2010, converting a long-standing non-profit network of community-based hospitals into a for-profit health system.25 To preserve its legacy of “providing health care services to nearly one million people annually and serving a disproportionate share of the indigent, uninsured, and underinsured” population, the state Attorney General created a community agreement to bind Vanguard Health Systems to DMC’s charity care policy as a condition of sale.26

In 2013, Tenet Healthcare, a Dallas-based company, purchased Vanguard Health Systems and “acknowledged its obligation to fulfill the commitments established in the [Purchase and Sales Agreement] as conditions of the sale of the Detroit Medical Center.”27 Included in these conditions was the promise to maintain DMC’s charity care policies to provide “significant levels of care for indigent and low-income patients…”28

Tenet DMC is bound for 10 years after closing the sale to adhere to DMC’s charity care policy29 – but just three years after its 2013 purchase, Tenet is clearly violating the terms of sale.30

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24 Table 1; Graph 1


28 Section 12.2 of the Post Closing Covenants of Buyer. Article 12 of the Purchase and Sales Agreement includes 20 Post-Closing Covenants that outline specific terms that Tenet Healthcare/DMC must abide by to meet its charity care policy. Id; See also U.S. Securities and Exchange Comm., “Exhibit 2.1- Amendment No.2 to Purchase and Sale Agreement,” available at https://www.sec.gov/Archives/edgar/data/1045829/000104582910000033/exhibit2_1.htm.

29 Id.

30 “It is incumbent on Legacy DMC to exercise its mandate to enforce Vanguard’s covenant maintaining the policy of charity and indigent care. It is a reality that dollars spent and patient volumes will fluctuate over the course of ten years; thus, Legacy DMC must be vigilant in focusing on preserving the standard of charity care provided.” Mike Cox, “Report on the Proposed Sale of the Detroit Medical Center Hospital Businesses to Vanguard Health Systems, Inc.” November 13, 2010 (20).
Tenet DMC is also obligated to meet five requirements to prominently publish:

- the availability of its financial assistance to uninsured and underinsured patients;
- the availability of assistance for Medicaid coverage;
- access to a patient-care ombudsman or hotline to facilitate resolution of billing and treatment issues;
- patient’s rights; and
- its debt collection policy.31

4. Tenet Healthcare/DMC’s lagging contribution to Detroit’s indigent population is increasing the share of costs paid by other health systems

The Attorney General’s approval letter for the sale of DMC to Vanguard Health Systems in 2010 emphasizes the essential role that DMC plays in providing services for indigent populations.32 Yet the data reported by Tenet DMC in Medicare cost reports indicate how far the Dallas-based company has strayed from its written promise to provide charity care.

Graph 3.

Charity Care Costs 2013
Acute Care Hospitals in Detroit Area; Systems with over 1,000 beds

31 DMC.org, “Section 12.2 Indigent and Low Income Care of Post-Closing Covenants of Buyer,” https://www.dmc.org/for-patients/insurance-financial-support/financial-assistance-program
32 “The reliance of indigent patients on DMC’s hospitals for quality health-care services cannot be overstated. DMC is also the largest employer in Detroit and provides training resources for future physicians, nurses, and other health-care professionals. It is essential that DMC continue to operate.” Mike Cox, “Report on the Proposed Sale of the Detroit Medical Center Hospital Businesses to Vanguard Health Systems, Inc.” November 13, 2010.
Because Tenet DMC has failed to live up to their commitment to DMC’s charity care policy in Detroit, their peer health systems are now bearing the burden of providing charity care.\textsuperscript{33} In 2013, Tenet DMC contributed 15 percent of the charity care costs in the larger Detroit area, among health systems operating acute care hospitals with more than 1,000 beds.\textsuperscript{34} In 2016, this plummeted to a mere 1 percent share charity care costs among these major Detroit-area health systems.\textsuperscript{35} Tenet DMC’s

\textsuperscript{33} Graph 3; Graph 4
\textsuperscript{34} Graph 3
\textsuperscript{35} Graph 4
competitors, Beaumont Health and Henry Ford Health System – even though their own spending has been reduced – are now paying a much larger share of charity care costs, essentially picked up the tab left by Tenet.36

Beaumont Health is now paying 57 percent of charity costs among Detroit area health systems operating more than 1,000 beds in acute care facilities, up from 50 percent in 2013.37 Henry Ford Health Systems is now paying 42 percent of costs, up from 35 percent in 2013.38

5. Recommendations

As the body enforcing the community agreement, we urge the DMC Legacy Board to:

- Obligate Tenet DMC to create and pay into a trust the difference between what Tenet DMC paid in charity care and the regional average. These funds should be used to provide free care to uninsured patients in the Detroit area, overseen by the Legacy Board.
- Investigate the reasons behind the stark 98 percent decrease in Tenet DMC’s spending on charity care for the indigent Detroit population from 2013 to 2016.
- Make public Tenet DMC’s charity care policies, expenditures, and related data39;
- Provide patients with adequate notice that charity care is available; and
- Add an ombudsman position to the Legacy Board – a reputable community leader, and not someone selected by Tenet DMC -- with a focus on ensuring compliance with spending on charity care and other commitments.

As documented by Tenet DMC’s own reports to Medicare, Dallas-based executives have failed to meet their binding commitments to provide charity care in Detroit. It is now up to the Legacy Board, elected officials, and the public to hold Tenet DMC accountable to the promises they made to the community when they purchased the Detroit Medical Center hospitals.

6. Methodology

Charity care data is derived from annual reports obtained from the Centers for Medicare and Medicaid Services (“CMS”). Medicare cost reports are filed annually by acute care hospital facilities and added into a Healthcare Cost Report Information System (“HCRIS”). Hospital facilities report uncompensated care, bad debt, and charity care according to specific information required in Form CMS-2552-10, Worksheet S-10 Hospital Uncompensated and Indigent Data. For this report, data for Detroit-area

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36 Graph 3; Graph 4
37 Id.
38 Id.
39 “Tenet has classified the charity care and bad debt expense information in the VHS Report as confidential.” Legacy DMC letter to Mr. William R. Bloomfield, June 9, 2016, (2).
facilities were obtained from Medicare cost reports from 2013 to 2016 and totaled for the hospital and health care systems under review.\textsuperscript{40}

Beaumont Health, Henry Ford Health Systems and Tenet DMC were chosen because they are the largest hospital systems in the Detroit area, each operating more than 1,000 beds in acute care facilities. Tenet DMC and Henry Ford Health Systems also operate Detroit-area hospitals which do not meet the Medicare definition of acute care facilities and are not required to report charity care data.

\textsuperscript{40} ResDAC, “Medicare Hospital Cost Reports: Uncompensated Care,” Nov. 7, 2017
https://www.resdac.org/resconnect/articles/132; see also Cost Report Data, “Form CMS-2552-10,”
Appendix

Charity Care Data, 2013-2016

*Detroit-area Acute Care Hospitals, Systems with More Than 1,000 Beds*

<table>
<thead>
<tr>
<th>CMS IDPK</th>
<th>Hospital Name</th>
<th>System</th>
<th>City</th>
<th>Beds</th>
<th>2013</th>
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<td>230277</td>
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<td>COMMERCE TOWNSHIP</td>
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Source: Form CMS-2552-10, Worksheet S-10- Hospital Uncompensated and Indigent Data for FY-2013 and FY-2016, cms.gov