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United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510-6275

KOLAN L. DAVIS, *Chief Counsel and Staff Director*  
KRISTINE J. LUCIUS, *Democratic Chief Counsel and Staff Director*

June 9, 2016

**VIA ELECTRONIC TRANSMISSION**

The Honorable John Koskinen  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224

Dear Commissioner Koskinen:

On January 16, 2015, I began an investigation into Mosaic Life-Care, a 501(c)(3) non-profit charitable hospital. Mosaic provides care to low-income persons in Kansas, Missouri, and Nebraska, with the vast majority of its locations in Missouri. I started the investigation because news reports at the time indicated that Mosaic had placed thousands of low-income persons in collection and sued many of them, rather than providing charity care as they are required to do as a charitable hospital.<sup>1</sup> Due to my investigation, Mosaic instituted a debt forgiveness program that resulted in approximately 3,300 low-income patients receiving, in total, \$16.9 million dollars in debt forgiveness. That breaks down to approximately \$5,052 for each patient. I have attached to this letter a short memorandum that I transmitted to my colleagues on the Senate Finance and Judiciary Committees providing more detail with respect to the results of my investigation.

As Commissioner of the Internal Revenue Service (IRS), you should be made aware of problematic activity within the charitable hospital community. Granted, we can both agree that many charitable hospitals perform good work on behalf of the communities that they service. However, some charitable hospitals get as close to the line as possible, while others callously breach it. It is important that Congress, via its oversight role, and the IRS ensure that charitable hospitals are functioning as intended.

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<sup>1</sup> Paul Kiel and Chris Arnold, *From the E.R. to the Courtroom: How Nonprofit Hospitals are Seizing Patients' Wages*, PROPUBLICA (Dec. 19, 2014), <http://www.propublica.org/article/how-nonprofit-hospitals-are-seizing-patients-wages>.

Indeed, the Mosaic investigation has already resulted in more changes. Based on the Mosaic results, ProPublica and National Public Radio questioned the collection practices of an Indiana based charitable hospital, Deaconess, which, according to news reports, filed more than 20,000 lawsuits from 2010 through 2015 against its patients.<sup>2</sup> In response to questions about its financial assistance policy, the hospital reconsidered its policies and released a statement stating “we will enhance our processes to further benefit our patients by offering financial assistance through the life of the account,” which makes a patient eligible for financial assistance even after being sued by the hospital.<sup>3</sup> With this change, at any point in the collection process, a patient can apply for financial assistance when their economic circumstances change. In addition, Deaconess said that it would lower the threshold by which patients can qualify for financial assistance by allowing those with incomes at twice the poverty line to receive free care.

These are welcome improvements to the charitable hospital community and others should follow the examples set by Mosaic and Deaconess to better fulfill their charitable mission. As you are aware, I authored nonprofit hospital reforms that were ultimately enacted in 2009. Among these reforms were requirements that nonprofit hospitals establish and make public a financial assistance policy (FAP) and imposing restrictions on certain billing and collection procedures. Given the abuses observed in my investigation of Mosaic, I am interested in learning more about the IRS’ implementation and enforcement of these provisions. To help me better understand the effect of these provisions, please answer the following questions:

- Since the FAP and billing and collection provisions became effective, how many nonprofit hospitals has the IRS found to be out of compliance with these two requirements? Please identify whether the hospital was out of compliance with FAP requirements, billing and collection requirements, or both, as well as whether the noncompliance was determined to be willful and/or egregious or minor and/or inadvertent.
- What, if any, enforcement action has the IRS taken against nonprofit hospitals found to be out of compliance with either the FAP or billing and collection provisions? In responding to this question, please indicate the number of hospitals associated with each type of enforcement action, such as whether they were permitted to take corrective action to rectify the non-compliance, had their tax-exempt status revoked, or any other action that may have been taken.

In addition to the further requirements for nonprofit hospitals, the nonprofit hospital reforms also required the IRS and Department of Health and Human Services to collect information on nonprofit hospitals and provide an annual report to Congress. The first report was issued in January of 2015 and contained information for calendar year 2011. However, at this time, the IRS has yet to issue a 2016 report covering calendar year 2012. Please provide me an update on the status of this year’s report and when Congress can expect to receive it.

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<sup>2</sup> Paul Kiel and Chris Arnold, *Nonprofit Hospital Stops Suing So Many Poor Patients: Will Others Follow?*, PROPUBLICA (June 1, 2016), <https://www.propublica.org/article/nonprofit-hospital-stops-suing-so-many-poor-patients-will-others-follow>

<sup>3</sup> *Id.*

The information provided with respect to Mosaic illustrates the value of congressional oversight and sheds light on some of the steps that other charitable hospitals can take to ensure that low-income patients are treated fairly.

I look forward to receiving your response to my questions on IRS' enforcement efforts. Please respond no later than June 23, 2016. In addition, please continue to keep me informed of any efforts by the IRS to ensure that tax-exempt hospitals fulfill their obligations under the tax code.

In response, do not hesitate to contact me or Josh Flynn-Brown of my Judiciary Committee staff at (202) 224-5225.

Sincerely,



Charles E. Grassley  
Chairman  
Committee on the Judiciary

Cc:

Senate Finance Committee, Majority and Minority

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KOLAN L. DAVIS, *Chief Counsel and Staff Director*  
KRISTINE J. LUCIUS, *Democratic Chief Counsel and Staff Director*

To: Members of the Senate Judiciary and Finance Committees  
From: Senator Grassley, Chairman of the Judiciary Committee  
Member, Senate Finance Committee  
Date: May 24, 2016  
Re: Mosaic Life-Care

Dear Fellow Committee Members:

Mosaic Life-Care is a 501(c)(3) non-profit charitable hospital that provides care to low-income persons in Kansas, Missouri, and Nebraska, with the vast majority of its locations in Missouri. In December 2014, news reports alleged that Mosaic Life-Care in Missouri had placed thousands of accounts in collection.<sup>1</sup> So rather than providing charity care to low income patients, reports indicated that Mosaic was sending debt collectors after them. As a non-profit entity, Mosaic receives the benefit of tax-exempt status. As a condition of that status, Mosaic has a responsibility to provide charitable care to those who need it most. On January 16, 2015, I sent a letter to Mosaic beginning an investigation into the facts and circumstances of its billing and collection processes in an effort to ensure that low-income persons were being treated fairly.

During the course of the investigation, Mosaic took the position that it had not mistakenly placed thousands of accounts in collection even though the company itself later identified many of these accounts as qualifying for Mosaic's financial assistance, Medicaid, or private insurance. Instead, Mosaic asserted that these patients had failed to file for financial assistance. Thus, many patients were caught in a vicious debt collection cycle that they should never have been in. Given that thousands of accounts were placed in collection and later qualified for financial assistance, there was concern that Mosaic was not adequately informing patients of their rights and instead engaging in aggressive collection actions. I made my concerns clear to Mosaic and emphasized that many low-income patients may never be able to pay off their debt amounts.

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<sup>1</sup> Paul Kiel and Chris Arnold, *From the E.R. to the Courtroom: How Nonprofit Hospitals are Seizing Patients' Wages*, PROPUBLICA (Dec. 19, 2014), <http://www.propublica.org/article/how-nonprofit-hospitals-are-seizing-patients-wages>.

After extended communications between my investigative staff and Mosaic, I inquired whether Mosaic would be willing to forgive the debt of some accounts that had already been placed in collection or had been subject to legal action, given that many low-income persons may not have been aware of available financial assistance and thus may not have properly applied.

In response, Mosaic created a three-month debt forgiveness period from October 1, 2015 to December 31, 2015, where all individuals could apply or re-apply for financial assistance. These accounts included those in collection as well as those already subject to legal action. Importantly, during the three-month period Mosaic lowered the threshold by which accounts would qualify for financial assistance thereby allowing more people to qualify.

The debt forgiveness period resulted in 5,542 financial assistance applications of which 5,070 were approved. A total of \$16,885,358 in debt, interest, and legal fees was forgiven with average debt forgiveness at \$5,052. According to Mosaic, all accounts were not improperly placed in collections or incorrectly subjected to legal action. Rather, because of the lowered threshold for financial assistance during the debt forgiveness period, the accounts qualified for financial assistance. Attached to this letter is a more detailed breakdown of the debt forgiveness results.

With respect to my inquiry relating to Mosaic's billing and collection practices, Mosaic has made the following policy changes:

1. Mosaic will no longer charge interest on accounts until final judgment.
2. The four-statement cycle with financial assistance availability notification was extended to a six-statement cycle containing financial assistance availability notification. Patients will have a total of 180 days of direct notification of financial assistance prior to being sent to collections.
3. Seven Resource Advocates were hired to assist with Medicaid, Supplemental Assistance Program, and Social Security Disability applications.
4. Two additional Financial Counselors have been assigned to solely focus on assisting patients navigate the financial assistance process. Mosaic will be hiring an additional Financial Counselor who will be dedicated to its outpatient clinic.
5. Five Patient Financial Service representatives have been assigned with ensuring the timely processing of financial assistance applications.

Mosaic deserves credit for doing the right thing after its practices were scrutinized, but it should not take Congressional and press attention to ensure that tax-exempt, charitable organizations are focused on their mission of helping those in need. Congress, via its oversight powers, can help ensure that non-profit hospitals appropriately manage their responsibilities to low-income communities. That is, after all, one of the reasons why we created the tax-exempt status for charitable institutions in the first place.

It is unclear how many other charitable institutions may be engaging in similar practices. However, vigorous oversight is vital to finding and fixing other examples of such abuse. That is why I wanted to share the most recent results of this inquiry with my fellow Committee members, given the importance of this issue to the Finance Committee's oversight and potential legislative work. Please contact me or Josh Flynn-Brown of my Judiciary Committee staff if you have further questions.

Sincerely,



Charles E. Grassley  
Chairman  
Committee on the Judiciary

**Medical Debt Forgiveness Period** - October 1, 2015 – December 30, 2015

**Results:**

5542 Financial assistance applications received  
5070 Financial assistance applications approved  
4318 people received 100% debt elimination  
752 people had 50% of their debt and all interest and legal fees forgiven  
472 people had only their interest and legal fees forgiven  
472 Financial assistance applications did not qualify

\$16,885,358 debt, interest, and legal fees forgiven which represents roughly 3.88% of all estimated outstanding debt

- \$16,383,685 was debt
- \$501,673 was interest and legal fees
  - Of this amount, 70% was interest, 30% were legal fees

Range of debt relief

- Low \$.23
- High \$224,707.10
- Average \$5,052

Range of Legal fee relief

- Low \$0.80
- High \$3,583.69
- Median \$173.00

Range of Interest relief

Pre interest

- Low \$0.02
- High \$29,701.14
- Median \$14.82

Post Interest

- Low \$0.01
- High \$63,080.48
- Median \$25.21

## Changes to Mosaic's billing policy going forward

1. Beginning in 2016, the current four-statement cycle with financial assistance availability notification will extend to a six-statement cycle containing financial assistance availability notification. Thus, patients will have a total of at least six months (180 days) of direct notification of the availability of financial assistance prior to being sent to collections. Patients are still eligible to apply for financial assistance after being sent to collections for at least 240 days from the first post-discharge billing statement.
2. Mosaic will no longer charge interest on accounts until final judgment.
3. Seven Resource Advocates were hired under the Mosaic Advocacy Project (MAP) team. These advocates assist with Medicaid applications and have expanded to securing Supplemental Nutrition Assistance Program (SNAP) and social security disability applications.

The MAP team freed up two internal Enterprise Financial Counselors solely focused on helping patients navigate our financial assistance process for discounted care.

Five Patient Financial Service (PFS) representatives have been tasked with ensuring the timely processing of financial assistance applications.

In the process of hiring an additional Financial Counselor that will be dedicated to a new outpatient clinic focused on serving low-income patients.