October 14, 2024

Association of
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The Honorable Jason Smith
Chair, Ways & Means Committee
U.S. House of Representatives
1139 Longworth
Washington DC 20515

The Honorable David Schweikert
Chair, New Economy Tax Committee Team
Ways & Means Committee
U.S. House of Representatives
1139 Longworth
Washington, DC 20515

Dear Chair Smith and Chair Schweikert,

On behalf of the Association of American Medical Colleges (AAMC), I write in response to the Ways and Means Committee Republican members' work to review and examine tax provisions from the Tax Cuts and Jobs Act (TCJA, P.L. 115-97) that will expire in 2025, and identify legislative policies for future action. We appreciate the opportunity to help inform this effort and partner with you as you develop tax policies that will directly impact the nation's teaching health systems and hospitals, medical schools, and other academic medicine partners' ability to care for their patients and communities. Tax policy is extremely important to AAMC-member institutions. As the Tax Committee Teams debate revisions to federal tax policy, we urge you to work with stakeholders including the AAMC to consider targeted revisions to the Internal Revenue Service (IRS) Form 990, Schedule H, to develop a more comprehensive definition of community benefit, and to reject the elimination or restriction of the tax-exempt status of non-profit hospitals.

The AAMC is a nonprofit association dedicated to improving the health of people everywhere through medical education, health care, medical research, and community collaborations. Its members are all 158 U.S. medical schools accredited by the Liaison Committee on Medical Education; 13 accredited Canadian medical schools; approximately 400 academic health systems and teaching hospitals, including Department of Veterans Affairs medical centers; and more than 70 academic societies. Through these institutions and organizations, the AAMC leads and serves America's medical schools, academic health systems and teaching hospitals, and the millions of individuals across academic medicine, including more than 193,000 full-time faculty members, 96,000 medical students, 153,000 resident physicians, and 60,000 graduate students and postdoctoral researchers in the biomedical sciences. Following a 2022 merger, the Alliance of Academic Health Centers and the Alliance of Academic Health Centers International broadened participation in the AAMC by U.S. and international academic health centers.

The nation's teaching health systems and hospitals play an outsized and unique role in their communities. They train future physicians and additional members of the health care team, as well as deliver patient care informed by the latest knowledge and science. Teaching health systems and hospitals are a pivotal, core community asset and use savings through tax exemptions not only to provide charity care but also to support their unique academic medicine missions of high-quality patient care, physician and workforce education and training, medical research, and community collaboration. Only in the academic medicine setting do these missions coalesce for the benefit of all patients.

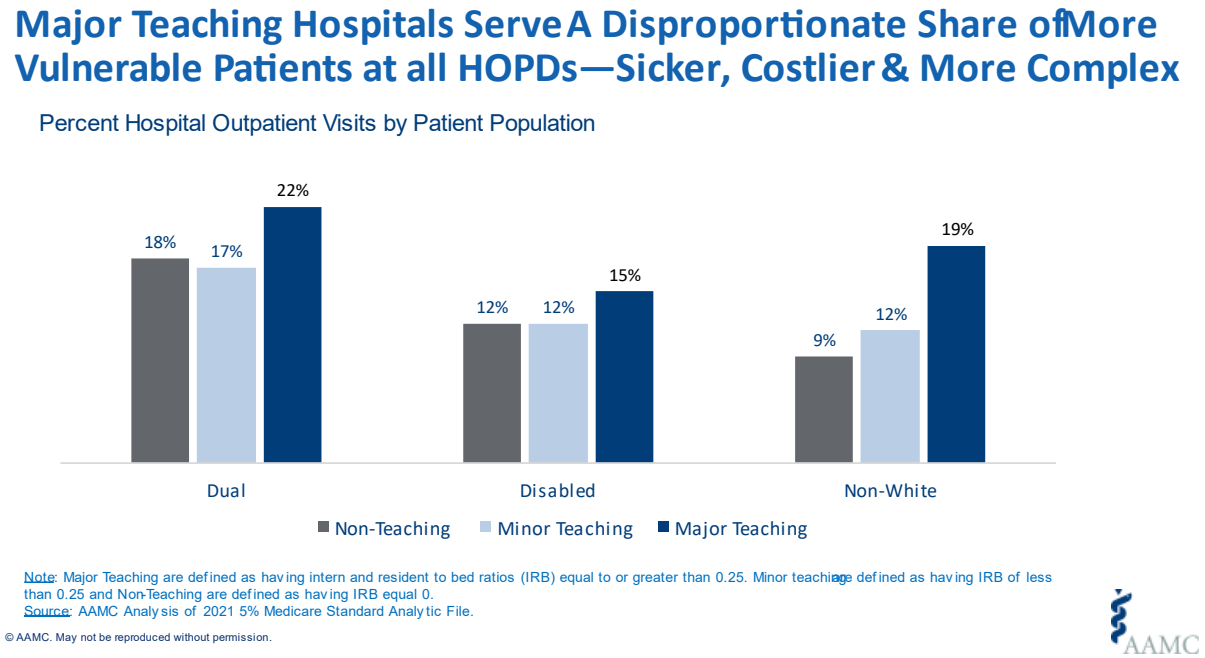
However, our members also continue to face profound financial challenges stemming from historic workforce shortages, unprecedented capacity constraints, insufficient reimbursement by payers, supply chain disruptions, significant growth in expenses such as labor costs, and the potential for misguided and counterproductive payment cuts in the Medicare and Medicaid programs. According to the Medicare Payment Advisory Commission, hospitals' overall fee-for-service Medicare margins dropped to a record low -11.6 percent in 2022, and this trend is expected to persist in coming years.[1]

Teaching Health Systems and Hospitals are a Cornerstone of Our Health Care Infrastructure

Teaching health systems and hospitals are vital in their communities and are a critical component of the nation's health care infrastructure, leveraging cutting-edge technology, research, and expertise to care for the nation's most vulnerable patients. AAMC-member institutions provide highly specialized health care services that are often unavailable in other settings, including oncology services, transplant surgery, trauma care, and treatment for rare and complex conditions. Although they account for just five percent of all short-term, non-federal acute care hospitals nationwide, AAMC members comprise 100 percent of all National Cancer Institute (NCI)-designated comprehensive cancer centers, 74 percent of all burn unit beds, and 64 percent of all level-one trauma centers.[2] Because of the invaluable services they provide, AAMC-member institutions fundamentally serve as quaternary and tertiary care facilities, serving patients seeking advanced levels of specialized care.

In addition to these unique capabilities, teaching hospitals also serve a more medically and socially complex patient population than their non-teaching counterparts. As shown in the figure below, major teaching hospitals care for more dual eligibles, disabled, and non-white patients in the outpatient setting. In addition, AAMC-member institutions play an outsized role in our health care safety net. Although they account for just 5% of hospitals nationwide, AAMC members account for 28% of Medicaid inpatient days and 32% of charity care costs. These statistics demonstrate the academic medicine community's shared commitment to caring for the underserved. Our member institutions need to be supported in order to deliver this much needed care.

[1] https://www.medpac.gov/wp-content/uploads/2023/03/Hospital-Dec-2023-SEC.pdf
[2] AAMC analysis of FY2021 American Hospital Association data, American College of Surgeons Level 1 Trauma Center designations, 2023, and the National Cancer Institute's Office of Cancer Centers, 2022. AAMC membership data, December 2022.



Not only do AAMC-member institutions provide life-saving health care services to the most medically complex patients, but they also serve as a safety net to other health care providers across their community, state, and region. Due to their unique capabilities, teaching hospitals often receive transfers of seriously ill patients from other health care facilities, including non-teaching, community hospitals. Some researchers have hypothesized that this safety net function has positive spillover effects for patients across a given health care market, regardless of whether they are treated at a teaching hospital or another setting. One recent study found that the presence of a teaching hospital is associated with improved mortality outcomes and more healthy days at home for patients treated at community hospitals.[3] Teaching hospitals are more likely to offer vital, low-margin services like labor and delivery, substance use disorder treatment, and inpatient psychiatric care. Because of these factors, while AAMC members account for just a small proportion of hospitals nationwide, they play a significant role in improving the quality of care.

A recent study by the AAMC's Research and Action Institute highlights the role teaching health systems and hospitals play in addressing their community's health care needs by providing a full spectrum of clinical care, including less common or highly complex services across states or regions (as indicated in the chart below).[4] In the report, the authors also explained that AAMC-member teaching health and hospitals are in the top quartile of spending on community benefits.[5]

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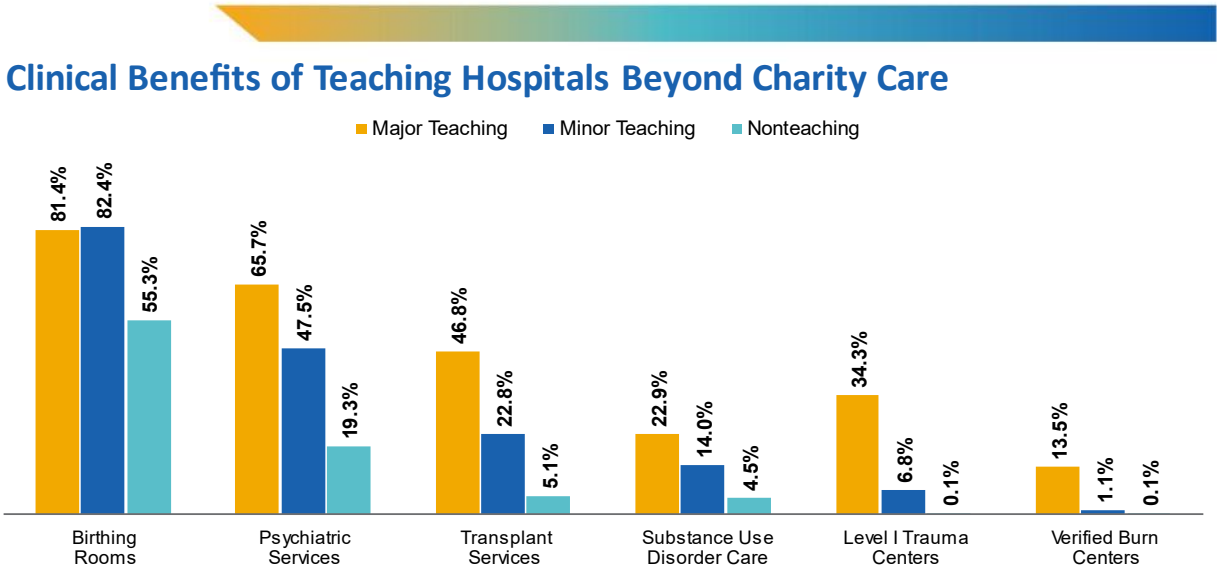
[3] Burke, Laura G., Austin B. Frakt, Dhruv Khullar, E. John Orav, and Ashish K. Jha. "Association Between Teaching Status and Mortality in US Hospitals." *JAMA* 317, no. 20 (2017): 2105-2113.
[4] https://www.aamcresearchinstitute.org/our-work/data-snapshot/clinical-benefits-not-profit-health-systems
[5] Changes in teaching hospitals' community benefit spending after implementation of the Affordable Care Act. Acad. Med. 2018;93(10):1524-1530. doi:10.1097/ACM.0000000000002293



Share of hospitals offering services by teaching status.

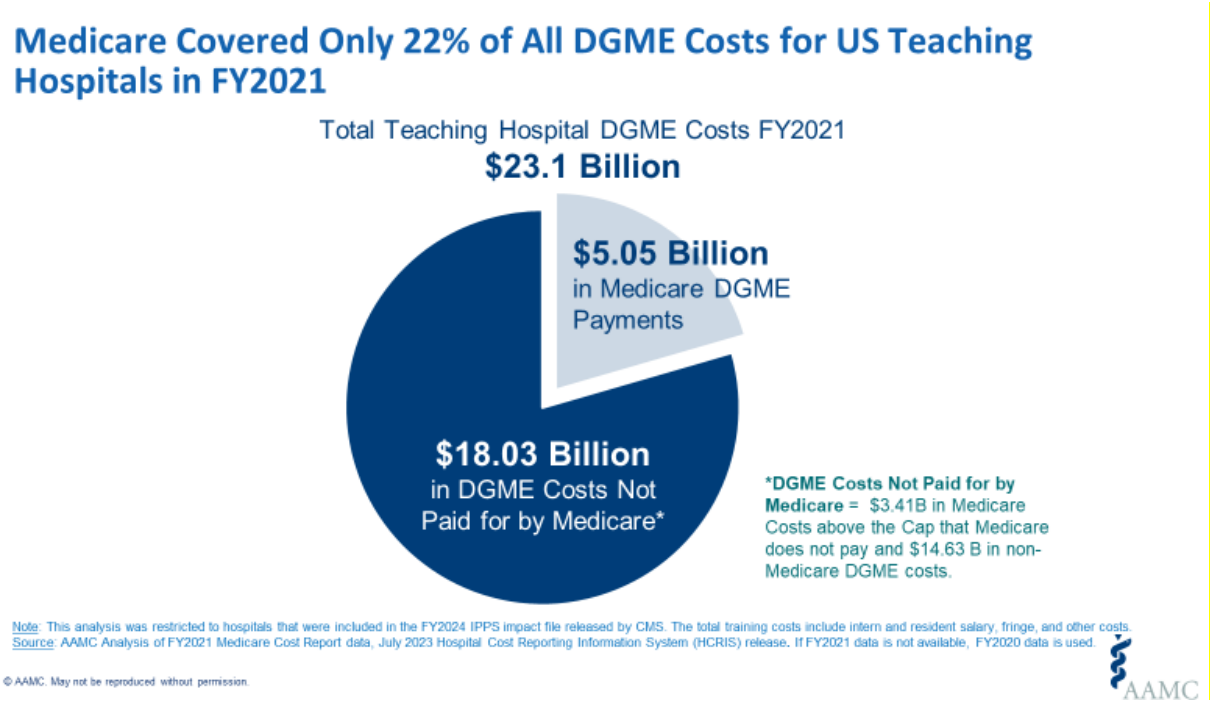
Note: Major teaching hospitals were classified as having resident -to-bed ratios equal to or greater than 25%. Transplant services incl ude bone marrow, heart, kidney, liver, lung, tissue, and/or other transplants.
Source: American Hospital Association Annual Survey Database for fiscal year 2022.

Teaching Health Systems and Hospitals are the Largest Funders of Graduate Medical Education Funding

Graduate medical education (GME) is the supervised hands-on training after medical school that all physicians must complete to be licensed and practice independently. The length of this training varies but generally lasts at least three to five years for initial specialty training while subspecialty training may last up to 11 years after graduation from medical school. GME is a necessary component of the pathway to becoming a physician. Although teaching health systems and hospitals are the largest funders of GME and physician training, Medicare is the primary public source of support. Medicare support helps to offset the stipends paid to residents, the costs of supervision, and the increased costs associated with operating teaching programs. However, as part of the Balanced Budget Act of 1997, a hospital-level cap was placed on Medicare support for GME which has frozen significant increases in residency training for more than 25 years, creating a bottleneck for the physician workforce.

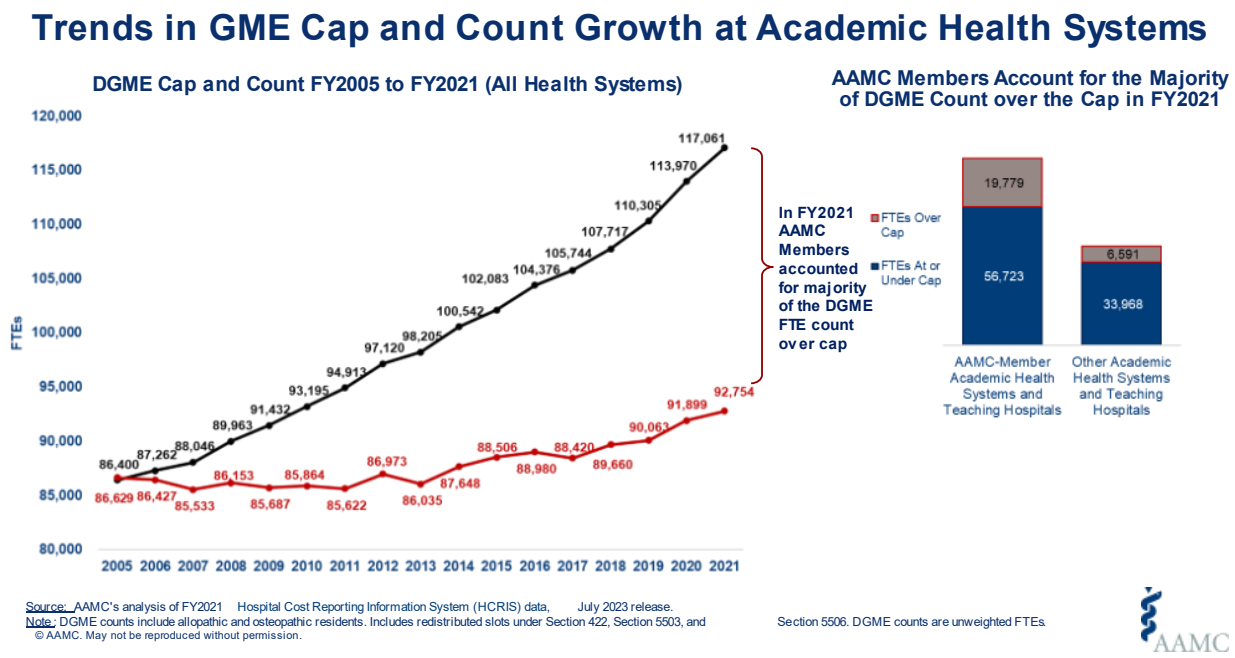
Working in partnership with the nation's medical schools, AAMC-member teaching health systems and hospitals represent only 5% of all inpatient U.S. hospitals, yet they train 72% of residents nationwide. Again, our teaching health systems and hospitals have an outsized role in this area of the health care system and need to be supported. These institutions train approximately 77,000 residents across the country – making them the primary producers of both primary care and specialty physicians. Additionally, these institutions provide much needed care to rural and other underserved communities. Of these residents, Medicare supports approximately 57,000 trainees, meaning these teaching health systems and hospitals are fully funding the training of nearly 20,000 residents. Additionally, teaching health systems and hospitals spend approximately $23.1 billion on physician

training annually, but they are reimbursed only Medicare's "share" of the costs, which is approximately $5 billion (about 22%). This amounts to over $18 billion in direct costs not paid for by Medicare. Despite the immense financial pressures teaching hospitals face, AAMC-member teaching health systems and hospitals continue to train above their caps out of their commitments to their missions and the patients and communities they serve.



While AAMC-member teaching health systems and hospitals continue to train well above their caps, financial challenges continue to squeeze budgets, making it more difficult to meet the physician training demands they face. A recent analysis of the latest Medicare cost report data for academic health systems indicates that Direct Graduate Medical Education (DGME) full-time equivalent (FTE) counts have steadily increased year over year, greatly outpacing growth in approved DGME FTE caps. Ninety percent of AAMC-member teaching health systems and hospitals are over their caps. Further, 95 percent of teaching hospitals that were over their cap by at least 100 full-time FTE positions were AAMC members, training an average of 185 FTEs over the cap.[6] These academic health systems continue to contribute to medical education, scientific and medical research, world-class patient care, and community collaborations and account for the majority of resident FTEs above the cap. This demonstrates the continued commitment that teaching health systems have to their missions and giving back to their communities and the nation.

[6] AAMC's analysis of FY2021 Hospital Cost Reporting Information System (HCRIS) data, July 2023 release.



AAMC Members are Pillars of Physician Education and Community Health Nationwide

Every community nationwide benefits from the education and training mission inherent in teaching hospitals, regardless of whether there is a teaching health system or medical school physically located there. In addition to their role in residency training described above, teaching health systems and hospitals frequently serve as the clinical training sites for medical students, who begin their required hands-on educational experiences while they are in medical school before they begin residency training. As a result of their fundamental role in the U.S. health care system, the physician training environment at academic health systems is characterized by experience working in multidisciplinary and multi-professional teams; regular interaction with a wide array of patients, conditions, and care settings throughout the community; exposure to and experience driving discovery and innovation toward the most promising new cures and other medical interventions; and critical thinking skills refined by a culture of continual improvement. These institutions are the model for physician training around the globe and help facilitate the highest quality care, patient safety, and access. In short, there is no environment better suited to preparing the next generation of physicians to provide care to patients in any situation, and graduates of these programs practice in communities across the country.

However, the highly interactive nature of physician training makes medical education a costly endeavor, and medical school tuition generally only covers a fraction of a school's expenses. Teaching health systems and hospitals frequently partner with medical schools to support the academic mission. If teaching health systems and hospitals were forced to scale back their support for their medical school partners, the unintended consequence would be to undermine medical education, threatening access to care for families in every district in the country. As it is, many medical education programs have reported concerns about identifying clinical training sites and shortages of qualified preceptors

willing to mentor medical students on top of their patient care responsibilities. While creative solutions, such as tax credits implemented in some states for physicians who volunteer to serve as preceptors, may help ease some of the immediate pressures on medical education programs, it also will be key to ensure policies are strengthening the stability of teaching health systems and hospitals.

Academic Medicine is Driving Medical Research and Advancing Patient Care

Aside from their support of the academic mission at medical schools, teaching health systems and hospitals also provide support for medical research. Just about every treatment, diagnostic, and preventive intervention in medicine cabinets and at hospital bedsides nationwide has its roots in research supported by the National Institutes of Health (NIH), and approximately 60 percent of the external research that NIH supports occurs at AAMC-member institutions across the country. Our members are pursuing advances in disease prevention, treatment, and diagnosis, across the full spectrum of conditions facing patients and families everywhere, including cancer, Alzheimer's, diabetes, and more. In addition to their integral role in advancing discovery, these institutions then apply that knowledge by providing the world's most advanced and expert patient care informed by the latest innovations in fundamental and clinical research. In other words, our member academic health systems not only play a fundamental role in creating the breakthroughs of the future, but they also are actively putting such innovations into practice for patients.

While they receive support from the NIH and other entities for this work, academic medicine is also providing significant investment in research and scientific discovery. In fact, for each dollar of federal research support, our members must contribute an estimated additional $0.53 of their own resources.[7] For patients, families, and communities awaiting a solution to a devastating diagnosis, a less invasive treatment regimen, or simply the hope of a healthier tomorrow, there is no doubt that academic medicine's contributions to medical research constitute a community benefit.

Academic Medicine's Vital Role in Disaster Response

When the unexpected happens, the academic medicine community is prepared to respond immediately to even the most devastating scenarios. From car accidents to large-scale disasters, access to trauma care (and all the expertise and technology it requires) can mean the difference between life and death. AAMC-member institutions represent over 60 percent of the nation's Level 1 trauma centers and according to the Centers for Disease Control and Prevention (CDC), severely injured patients who receive care at a Level 1 trauma center have a 25 percent better chance of survival than those who receive care elsewhere.[8,9]

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[7] Academic Medicine Investment in Medical Research: Summary and Technical Reports, Association of American Medical Colleges, 2015

[8] AAMC analysis of FY2022 American Hospital Association data, American College of Surgeons Level 1 Trauma Center designations, 2023, and the National Cancer Institute's Office of Cancer Centers, 2022. AAMC membership data, December 2023

[9] Centers for Disease Control and Prevention (CDC): http://www.cdc.gov/traumacare/access_trauma.html

Additionally, AAMC-member teaching health systems and hospitals treat higher rates of transfer cases from community and non-teaching hospitals.[10] These specially equipped and staffed facilities provide the highest level of trauma care and must be prepared to accept transfers from other settings that only can provide initial care. At all times, they must ensure immediate on-site access to a full team of surgical and other specialists, lab and radiological staff, and other providers. They must be equipped to treat a full spectrum of injuries at a moment's notice. They must participate in regional trauma system planning and operation and must support prevention activities like public education.

Level 1 centers also must maintain residency programs to prepare future generations of trauma specialists, as well as research programs that continually improve trauma care. With such extensive requirements, major teaching hospitals are well-suited to serve the nation's highest level trauma care needs.

As part of their commitment to their patient care, training, research, and community collaboration missions, our members maintain trauma centers and these critical services to protect the sickest or most vulnerable members of our communities. However, it is not always possible for the institutions to recover these stand-by and preparedness costs. Trauma centers must treat any patient regardless of his or her ability to pay for such care, and traditional billing mechanisms do not always capture the additional costs the facilities incur. Additionally, caring for a high percentage of uninsured and underinsured individuals can drive financial losses for an already costly endeavor.

Academic Health Systems as Economic Engines

As a result of their role in educating and training the health care workforce, delivering high-quality patient care, conducting groundbreaking medical research, and investing in community health, AAMC members also serve as fundamental economic engines that positively impact the financial health of their communities. A recent AAMC study on the economic impact of our member medical schools and teaching health systems and hospitals highlighted their significant contributions to the nation's economy, with their patient care, education, and research activity adding more than $728 billion to the gross domestic product (GDP), which equates to roughly 3.2 percent of U.S. GDP, and supporting more than 7 million jobs.[11]

Medical research investments and activities at medical schools and teaching health systems and hospitals alone play a significant role in the economic health of communities across the country. The report found that these activity's total impact included $33 billion to the nation's GDP, $21 billion in labor income, and 348,000 related jobs.[12]

Comprehensive Community Impact of Teaching Health Systems and Hospitals

[10] AAMC analysis of Medicare claims data, 2021. AAMC membership data, December 2023
[11] https://www.aamc.org/data-reports/teaching-hospitals/data/economic-impact-aamc-medical-schools-and-teaching-hospitals
[12] Ibid

There are myriad components of community benefit beyond charity care, and solely focusing on charity care ignores our members' outsized investment in and commitment to their communities and the nation. While AAMC-member teaching health systems and hospitals provide a significant and disproportionate volume of both charity care and uncompensated care ($19 million in charity and $32 million in uncompensated care annually median per hospital), this does not capture losses from Medicare and Medicaid underpayment or the necessity of subsidizing specialized services.[13] Additionally, our members invest over $18 billion annually to train resident physicians and significant resources to complement medical research awards. Subjecting AAMC-member institutions to unequal scrutiny for tax-exempt status may limit the ability of institutions to operate community care initiatives nationwide.

As demonstrated, the unique contributions of academic medicine improve the health of patients and communities across the entire country. AAMC members' patient care, education and training, research, and community collaboration mission areas are deeply interconnected and any proposal that impacts support for one mission area will inevitably limit the effectiveness of the others. As the Tax Committee Teams debate revisions to federal tax policy, we urge you to work with stakeholders to consider targeted revisions to the Internal Revenue Service (IRS) Form 990, Schedule H, develop a more comprehensive definition of community benefit, and reject the elimination or restriction of the tax-exempt status of non-profit hospitals.

Thank you for the opportunity to provide input to the New Economy Tax Committee Team. The AAMC wants to continue engaging with the committee on this and future iterations of health care and tax work. If you have any additional questions, please reach out to me (dturnipseed@aamc.org) or Len Marquez, AAMC senior director of government relations and legislative advocacy (lmarquez@aamc.org).

Sincerely,

Danielle Turnipseed, JD, MHSA, MPP
Chief Public Policy Officer
Association of American Medical Colleges

CC: David J. Skorton, MD
President and CEO
Association of American Medical Colleges

[13] AAMC analysis of FY2022 American Hospital Association data. AAMC membership data, December 2023.