

# United States Senate

WASHINGTON, DC 20510

February 20, 2023

Bob Sternfels  
Global Managing Partner  
McKinsey & Company  
555 California Street  
Suite 4700  
San Francisco, CA 94104

Dear Mr. Sternfels,

We are writing to express our concerns about a troubling report that McKinsey & Company has partnered with the nonprofit Providence hospital system to “wring money out of patients” and “pressure them to pay” – even when they were entitled to free care.<sup>1</sup> The report indicates that Providence, one of the country’s largest nonprofit hospitals chains, with locations in Alaska, California, Montana, Oregon, Texas, and Washington, entered into a \$45 million consulting deal with McKinsey to create a plan to maximize the money collected from its patients.<sup>2</sup> This plan, called “Rev-Up,” is comprised of “elaborate systems to convert needy patients into sources of revenue,” which appears to undermine the rationale for providing Providence with over \$1 billion in tax exemptions and left “thousands of poor patients ... saddled with debts that they never should have owed.”<sup>3</sup>

Nonprofit hospitals enjoy lucrative tax exemptions in exchange for meeting requirements enforced by the Internal Revenue Service to provide services such as free care for the poor.<sup>4</sup> However, Providence’s questionable partnership with McKinsey reveals the predatory influence of for-profit consulting firms that prioritize profits over care. The disturbing reports raise numerous questions about the behavior of both McKinsey and Providence, and we write to seek a greater understanding of the full scope of McKinsey’s partnerships with nonprofit hospitals and the extent to which vulnerable patients may be exploited by them.

Nearly half of the hospitals in the United States are nongovernment not-for-profit community hospitals”<sup>5</sup> which have unique obligations to advance community health. To maintain the significant benefits afforded to them by their nonprofit status, nonprofit hospitals are required by

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<sup>1</sup> The New York Times, “They Were Entitled to Free Care. Hospitals Hounded Them to Pay,” Jessica Silver-Greenberg and Katie Thomas, December 15, 2022, <https://www.nytimes.com/2022/09/24/business/nonprofit-hospitals-poor-patients.html>.

<sup>2</sup> *Id.*; Providence, “About Us,” <https://www.providence.org/about>.

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

<sup>4</sup> Kaiser Family Foundation, “Hospital Charity Care: How It Works and Why It Matters,” Zachary Levinson, Scott Hulver, and Tricia Neuman, <https://www.kff.org/health-costs/issue-brief/hospital-charity-care-how-it-works-and-why-it-matters/>.

<sup>5</sup> American Hospital Association, “Fast Facts on U.S. Hospitals, 2022,” <https://www.aha.org/statistics/fast-facts-us-hospitals>.

federal law to demonstrate that their services are in the public interest, such as by providing financial assistance to patients who are unable to pay.<sup>6</sup> In return, nonprofit hospitals enjoy their tax-free status, which amounts to an average of \$11.3 million annually per hospital.<sup>7</sup>

However, when enlisted to help senior executives at Providence increase revenues, McKinsey created a program rife with alarming and predatory tactics that appear to violate the hospital's nonprofit commitments.<sup>8</sup> The program, called "Rev-Up," served as a playbook for Providence employees to use to pressure patients to pay for delivered health care services, including some patients whose income qualified them to receive free care.<sup>9</sup> The playbook instructed staff to use specific phrases to solicit money from patients, refuse to accept "the first 'no'" if a patient is unable to pay – no matter their income or ability to pay, approach patients for payment as soon as physicians completed their examinations, and document in patients' medical charts that payment was repeatedly requested. Staff were instructed to follow these scripts without screening patients to determine if they qualified for financial assistance.<sup>10</sup>

As a result of this predatory program, more than 55,000 patients at Providence hospitals were pursued by debt collectors when they should have been offered financial assistance, such as discounted care.<sup>11</sup> In October 2022, following scrutiny of the "Rev-Up" program,<sup>12</sup> Providence announced a plan to refund about 760 low-income patients who were wrongly pressured into paying medical bills under the "Rev-Up" program – a tiny fraction of those impacted.<sup>13</sup>

This case is set against the backdrop of surging revenues for nonprofit hospitals. The top seven performing nonprofit hospitals saw their revenues increase by 15 percent between 2014 and 2017, and net patient revenue and total operating expenses for nonprofit hospitals have already exceeded pre-pandemic levels.<sup>14</sup> The massive growth in nonprofit hospital revenues raises questions about whether these hospitals' drive to increase revenues – sometimes at the expense

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<sup>6</sup> *Id.*

<sup>7</sup> The Journal of Health Care Organization, Provision, and Financing, "Comparing the Value of Nonprofit Hospitals' Tax Exemption to Their Community Benefits," Bradley Herring, Darrell Gaskin, Hossein Zare and Gerard Anderson, February 13, 2018, <https://journals.sagepub.com/doi/full/10.1177/0046958017751970>.

<sup>8</sup> The New York Times, "They Were Entitled to Free Care. Hospitals Hounded Them to Pay," Jessica Silver-Greenberg and Katie Thomas, December 15, 2022, <https://www.nytimes.com/2022/09/24/business/nonprofit-hospitals-poor-patients.html>.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> Med Page Today, "Medicare Advantage Plans Take Top Spot in Shkreli Awards," Cheryl Clark, January 10, 2023, <https://www.medpagetoday.com/special-reports/features/102564#:~:text=More%20than%2055%2C000%20patients%20were,refunds%20to%20about%20760%20patients>.

<sup>12</sup> Letter from U.S. Senator Patty Murray to Providence St. Joseph Health President and Chief Executive Officer Rod Hochman, September 28, 2022, <https://www.help.senate.gov/download/092822-letter-to-providence-st-joseph-health-final>.

<sup>13</sup> Healthcare Dive, "Providence to refund some 760 low-income patients wrongly charged for care," Sydney Halleman, October 6, 2022, <https://www.healthcaredive.com/news/nyt-investigation-providence-refund-700-low-income-patients-wrongly-charged-care/633486/>.

<sup>14</sup> Alvarez & Marsal, "Barometer of the Post-COVID Healthcare Economy", report, December 16, 2022, p. x, <https://www.alvarezandmarsal.com/sites/default/files/2022-04/401037HIGPostCOVIDHealthcareEconomyReport2022Q2Q3.pdf>; Politico, "How hospitals got richer off Obamacare," Dan Diamond, July 17, 2017, <https://www.politico.com/interactives/2017/obamacare-non-profit-hospital-taxes/>; U.S. News, "U.S. News Best Hospitals," <https://health.usnews.com/best-hospitals>.

of the neediest patients – is consistent with their nonprofit status, and raises concern over the full scope of partnerships these hospitals have had with consulting firms to maximize their revenue.

McKinsey’s role in the Providence scandal is even more alarming given its troubled history of questionable health care consulting. In 2021, McKinsey struck a nearly \$600 million agreement with attorneys general in 47 states, the District of Columbia, and five territories for its role in turbocharging the opioid crisis, which has taken the lives of more than 450,000 people in the U.S. over the past two decades.<sup>15</sup> In October 2022, McKinsey agreed to settle even more claims brought by hundreds of local governments and school districts across the country that alleged the firm’s work for Purdue Pharma had fueled opioid addiction.<sup>16</sup> And McKinsey continues to face ongoing lawsuits from Native American tribes and families of children harmed by their parents’ use of opioids during pregnancy.<sup>17</sup>

The details about McKinsey’s services, as uncovered by these lawsuits, are deeply troubling. According to a 2019 complaint filed by the Massachusetts Attorney General’s Office, McKinsey allegedly worked with Purdue executives to come up with ways to “counter the emotional messages from mothers with teenagers that overdosed” on OxyContin.<sup>18</sup> This behavior demonstrates a flagrant prioritization of your own company’s bottom line ahead of the public health and well-being of vulnerable communities.

In order to have a full understanding of McKinsey’s consulting services to, or for the benefit of, nonprofit hospitals and how this work may have taken advantage of low-income patients, we request answers to the following questions and related information no later than March 6, 2023:

1. Which nonprofit hospitals have, since January 2013, hired McKinsey to help increase revenues?
  - a. Please provide a list of all such hospitals, the total number of patients affected, and the dates in which McKinsey contracted with these hospitals.
  - b. Please provide a summary of the nature of the programs that McKinsey assisted in developing for these hospitals.
  - c. How much did these nonprofit hospitals pay McKinsey and related entities for these and related services?
  
2. Does McKinsey have a continuing relationship with the Providence hospital system?
  - a. Is McKinsey involved in identifying and refunding patients adversely impacted by the “Rev-Up” program?
    - i. If so, how are these determinations made?

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<sup>15</sup> The New York Times, “McKinsey Settles for Nearly \$600 Million Over Role in Opioid Crisis,” Michael Forsythe and Walt Bogdanich, November 5, 2021, <https://www.nytimes.com/2021/02/03/business/mckinsey-opioids-settlement.html>.

<sup>16</sup> Reuters, “McKinsey reaches deal with U.S. local governments over opioids,” Brendan Pierson, October 27, 2022, <https://www.reuters.com/legal/mckinsey-reaches-deal-with-us-local-governments-over-opioids-2022-10-27/>.

<sup>17</sup> Wall Street Journal, “McKinsey Ordered To Face Opioid Lawsuits From Native American Tribes, Local Officials,” Alexander Gladstone, October 28, 2022, <https://www.wsj.com/articles/mckinsey-ordered-to-face-opioid-lawsuits-from-native-american-tribes-local-officials-11666978788>.

<sup>18</sup> Commonwealth of Massachusetts vs. Purdue Pharma L.P. et al., 1884-cv-01808 (BLS2), p. 249, (Superior Court of Massachusetts, 2019).

- ii. What efforts are made to reach out to low-income patients who were exploited by the program and to refund them their money?
3. What is the total payment McKinsey received for its work with Providence hospitals?
  - a. Were any of these funds returned after the revelations about how the program was impacting low-income patients?
4. Are there any internal McKinsey guidelines regarding business practices or strategies that McKinsey refuses to advise its clients to undertake, or refuses to help clients execute, because those practices are or would be predatory, unethical, or harmful to society?
  - a. If so, please share those guidelines.
  - b. If so, when were those guidelines adopted? And when were they last revised?
5. In developing the Rev-Up program—
  - a. Was McKinsey aware that the “Rev-Up” program was being developed for Providence and that Providence is a nonprofit hospital system?<sup>19</sup>
  - b. Was McKinsey aware that nonprofit hospital systems must operate as a charity within the meaning of IRC section 501(c)(3), and that nonprofit hospitals are required to meet certain financial, billing, and community benefit standards set out under federal and state law?<sup>20</sup>
  - c. Did McKinsey review IRC section 501(r) and the regulations thereunder that apply to nonprofit hospitals<sup>21</sup> to determine whether the “Rev-Up” program it developed complied with federal laws governing nonprofit hospitals?
    - i. Was McKinsey aware that these federal rules explicitly prohibit the use of extraordinary collection actions before a nonprofit hospital has made an effort to determine whether an individual is eligible for financial assistance?<sup>22</sup>
    - ii. Did McKinsey review the “Rev-Up” program to determine whether it explicitly violated any federal or state laws?
  - d. Did McKinsey review the community health needs assessments or financial assistance policies for Providence hospitals?
6. Many of the Providence hospital community health needs assessments identify access to health care and chronic care services, access to mental health and substance use disorder treatment, food insecurity, and lack of stable or affordable housing as key community health challenges.<sup>23</sup> Did McKinsey review the anticipated impact of the “Rev-Up” program on any of the following metrics:

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<sup>19</sup> The New York Times, “They Were Entitled to Free Care. Hospitals Hounded Them to Pay,” Jessica Silver-Greenberg and Katie Thomas, December 15, 2022, <https://www.nytimes.com/2022/09/24/business/nonprofit-hospitals-poor-patients.html>.

<sup>20</sup> Internal Revenue Service, “Community Health Needs Assessment for Charitable Hospital Organizations - Section 501(r)(3),” <https://www.irs.gov/charities-non-profits/community-health-needs-assessment-for-charitable-hospital-organizations-section-501r3>.

<sup>21</sup> Internal Revenue Service, “Requirements for 501(c)(3) Hospitals Under the Affordable Care Act – Section 501(r),” <https://www.irs.gov/charities-non-profits/charitable-organizations/requirements-for-501c3-hospitals-under-the-affordable-care-act-section-501r>.

<sup>22</sup> Internal Revenue Service, “Billing & Collections – Section 501(r)(6),” <https://www.irs.gov/charities-non-profits/billing-and-collections-section-501r6>.

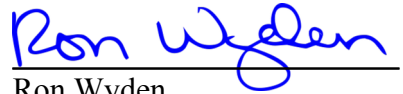
- a. Access to health care and chronic care services?
  - b. Access to mental health and substance use disorder treatment?
  - c. Food security?
  - d. Access to stable or affordable housing?
7. Does McKinsey at this time believe the Rev-Up program has resulted in improved outcomes for any of the following metrics:
- a. Access to health care and chronic care services?
  - b. Access to mental health and substance use disorder treatment?
  - c. Food security?
  - d. Access to stable or affordable housing?
8. Did McKinsey at any time represent to Providence officials that the “Rev-Up” program complied with (or was intended to comply with) federal and state requirements applicable to nonprofit hospitals?

Sincerely,



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Elizabeth Warren  
United States Senator



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Ron Wyden  
United States Senator

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<sup>23</sup> Providence, “Community Health Needs Assessment,” report, 2022, <https://www.providence.org/-/media/project/psjh/providence/socal/files/about/community-benefit/pdfs/2022/2022-chna-providencelittlecompanyofmarytorrance.pdf?la=en&rev=f26816d87e8d4eba92c4708f38100d41&hash=6EBC349613124F534C3F4B382B735C13>.