



MASSACHUSETTS MEDICAL SOCIETY

Every physician matters, each patient counts.

Rising Health Care Costs and the Impact on Physicians

Massachusetts Medical Society
Department of Health Policy and Research
Massachusetts Medical Society
860 Winter Street
Waltham, MA 02451
(781) 434-7661

Introduction

Massachusetts and the nation are grappling with escalating health care costs, which are consuming a greater portion of the economy. Increases in health care plan premiums and the implementation of state and national health care reform efforts are pressing issues for Massachusetts. RAND Corporation (RAND), in a study commissioned earlier this year by the Commonwealth of Massachusetts Division of Health Care Finance and Policy (DHCFP), estimated spending on health care in Massachusetts in 2010 at \$43 billion, and cumulative spending between 2010 and 2020 at \$670 billion.¹

Massachusetts has a top quality health care system with a highly skilled physicians and other health care providers and top quality hospitals. Despite the exceptional quality and improvements in access to care, Massachusetts' physicians remain concerned about the weight of rising health care costs.

Although health care costs and premiums continue to climb, physicians continue to struggle in the current practice environment. Increasing costs in maintaining a practice, high housing to income ratios and rising medical liability premiums are factors to the negative practice environment for physicians. Given the important economic impact physicians have on the local economy and the important role they play in providing access to care for patients and a productive workforce, policymakers will need to consider changes to the health care system that not only improve quality and efficiency but also improve the viability of physicians' practices so they can continue to operate on the frontlines of care in our Commonwealth.

Background

Massachusetts Health Care Reform

Massachusetts has successfully implemented close to 100 percent coverage of the uninsured while adding only 1 percent of new costs to the state budget, and remains a model for the country. More than 410,000 people have enrolled in health insurance since the implementation of health care reform. As of March 31, 2010, about 103,000 of the newly insured, are in private commercial insurance, purchasing either through the Commonwealth Choice offering or a private health plan through their employer or directly on their own from private insurance carriers. The Commonwealth Choice membership represents over 40 percent of the statewide growth in the non-group market since July 2007 when Commonwealth Choice came on the market. There are also approximately 157,000 new members in MassHealth since the inception of healthcare reform. The Commonwealth Care program for FY 11 is funded at \$830 million up from \$724 million in FY 10 in order to account for the anticipated growth related to people losing unemployment benefits.²

Health insurance coverage in Massachusetts far surpasses coverage nationally and in all other states, as detailed by the Census Bureau (See Appendix A for details).¹ Massachusetts also continues

¹ RAND Health. August 2009. *Controlling Health Care Spending in Massachusetts: An Analysis of Options*,

² MA Health Connector. Health Reform Facts and Figures, Summer 2011. Retrieved on September 23, 2011 at <https://www.mahealthconnector.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Health%2520Care%2520Reform/Facts%2520and%2520Figures/Facts%2520and%2520Figures.pdf>

to lead the nation in the percent of children with health care coverage. In 2009, 99 percent of children in the Commonwealth had health insurance coverage.³

Health access and its related costs continue to gain broad attention nationally and locally.⁴ On March 23, 2010, the U.S. signed into law the Patient Protection and Affordable Care Act (ACA) “a comprehensive national health system reform, aimed at expanding the number of insured Americans, controlling the growth of health care spending, improving Americans' health status and supporting quality improvement initiatives.”⁵ Massachusetts government officials believe the new law will help the Commonwealth continue the Commonwealth's progress in providing access to health insurance for its residents.⁴

The Rising Cost of Health Care

According to estimates from the Massachusetts Division of Health Care Finance and Policy (DHCFP), per capita spending is projected to double over the next decade at a rate surpassing increases for per capita health care expenditures in the U.S. The following chart prepared by the Massachusetts Division of Health Care Finance & Policy (DHCFP) illustrates how Massachusetts per capita health care expenditures will rise over the next decade from \$10,262 in 2011 to a projected \$17,872 by 2020.⁶

³ Massachusetts Budget & Policy Center. September 2010. *Massachusetts still leads in health care coverage*. Retrieved on April 12, 2011 from http://www.massbudget.org/file_storage/documents/HealthFacts928.pdf.

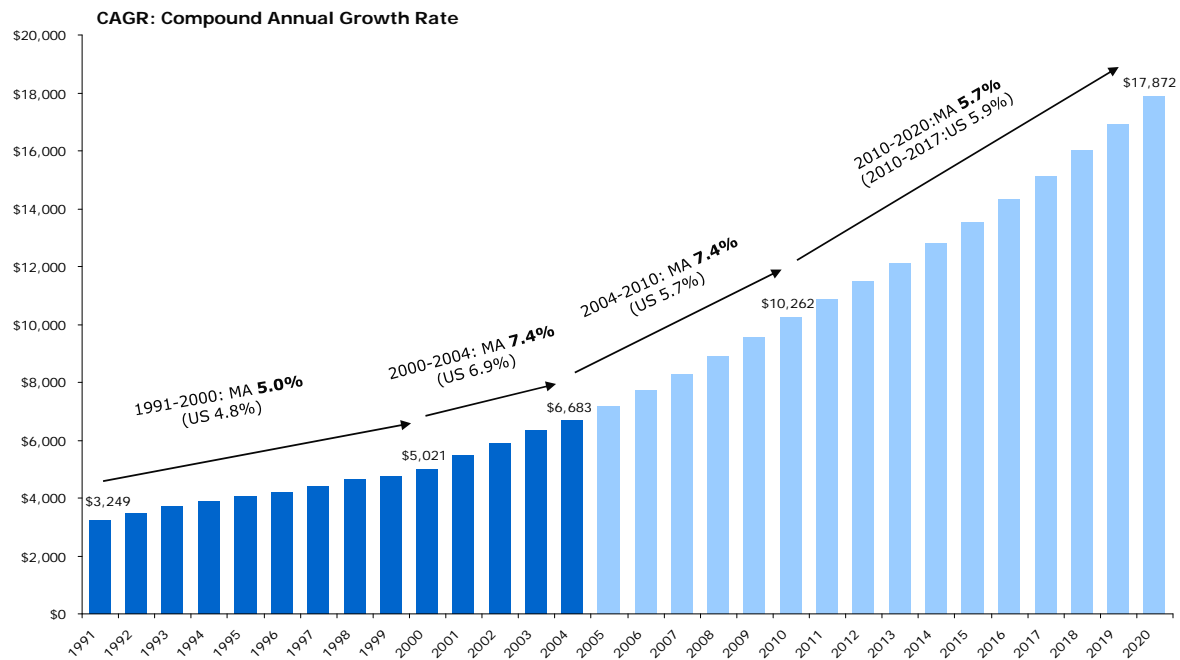
⁴ Commonwealth Connector. 2010. Health Care Reform: Overview. Retrieved on March 18, 2011 from <https://www.mahealthconnector.org/portal/site/connector/menuitem.d7b34e88a23468a2dbef6f47d7468a0c?fiShown=default>.

⁵ Massachusetts Medical Society. 2011. *Health Care Reform*. Retrieved on March 17, 2011 from http://www.massmed.org/AM/Template.cfm?Section=Health_Care_Reform2&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=142&ContentID=27585.

⁶ Division of Health Care Finance and Policy. Massachusetts Health Care Cost Trends, Historical (1991-2004) and Projected (2004–2020), November 2009. Retrieved on September 23, 2011 at http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/09/cost_trends_nov-2009.ppt

Per Capita Spending Is Projected to Nearly Double from 2009 to 2020 (Assumes No Cost Containment Intervention)

Massachusetts Per Capita Personal Health Care Expenditures, 1991-2020



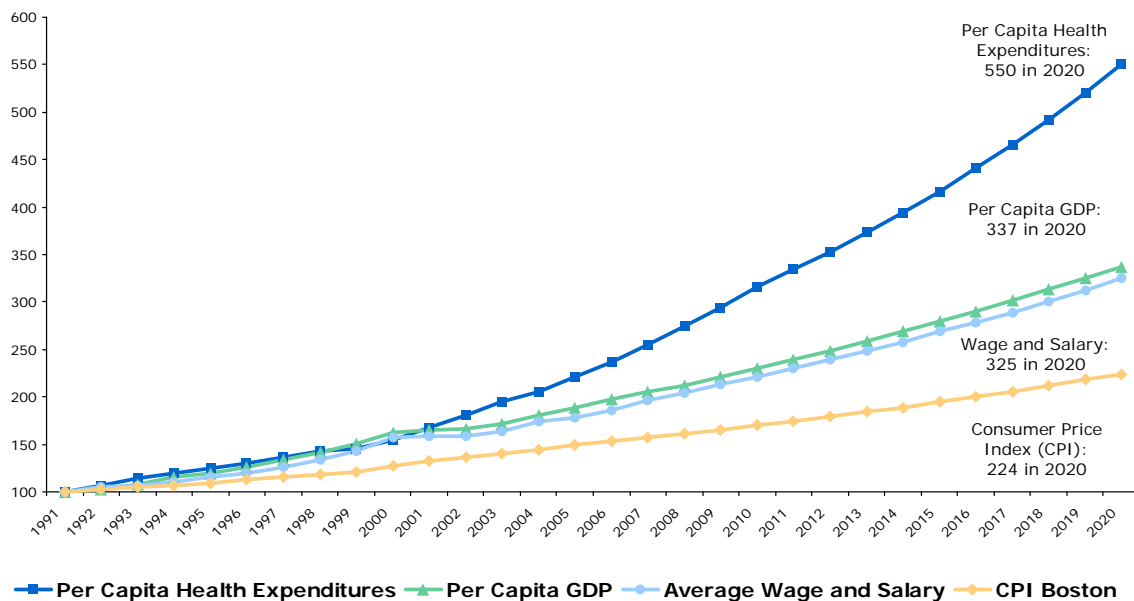
Note: The health expenditures are defined by residence location and as personal health expenditures by CMS, which exclude expenditures on administration, public health, and construction. Data for 2005 – 2020 are projected.
Source: Centers for Medicare & Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group, 2007.

Massachusetts Division of Health Care Finance and Policy

According to the DHCFF, growth in spending is projected to surpass other economic indicators including GDP, wages and salaries, and the Consumer Price Index.

Growth in Health Spending Expected to Surpass Other Economic Indicators

Index of Health Expenditures Per Capita and Other Indicators in MA, 1991-2020



Sources: Part I. 1991-2007: Per capita health expenditures: Centers for Medicare & Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group, 2007 (2004-2020 data are projected). Per capita GDP and wage and salary: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce. CPI-Urban for Boston area: Bureau of Labor Statistics, U.S. Department of Labor. Part II. 2008-2020 (except for health spending): US Social Security Administration, "The 2008 OASDI Trustees Report," Supplemental Single-Year Tables, intermediate projection, www.ssa.gov/OACT/TR/tr08/index.html Per capita GDP index: real GDP annual change + GDP price index annual change - population annual change; wage index: average annual wage in covered employment.

Massachusetts Division of Health Care Finance and Policy

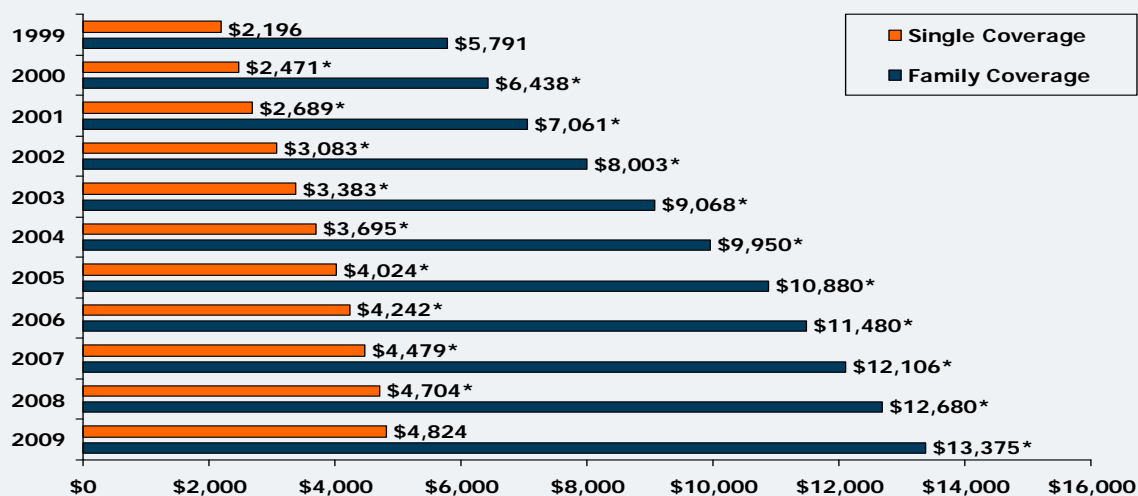
Rising Health Care Premiums in Massachusetts

According to data from the Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009, average annual premiums for single and family coverage in the U.S. has grown significantly from 1999 to 2009. Average single coverage costs were \$2,196 in 1999 while average family coverage was \$5,791. By 2009 the average cost of coverage had grown to \$4,824 for single coverage and \$13,375 for family coverage (see chart below).⁷ Costs estimated by AHRQ/MEPS survey for 2009 average annual premiums for employer-sponsored health insurance were slightly lower than the Kaiser estimates from CMS at \$4,386 for single coverage and \$12,298 for family coverage.⁸

⁷ The Kaiser Family Foundation. 2010. Average Annual Premiums for Single and Family Coverage, 1999-2009. Retrieved on February 24, 2010 from <http://facts.kff.org/chart.aspx?ch=1023>.

⁸ The Kaiser Family Foundation. 2010. State Health Facts. Retrieved on February 24, 2010 from statehealthfacts.org. Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2008 Medical Expenditure Panel Survey (MEPS) -Insurance Component. Tables II.C.1, II.C.2, II.C.3 available at: Medical Expenditure Panel survey (MEPS), accessed August 24, 2009.

Average Annual Premiums for Single and Family Coverage, 1999-2009



* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

Health insurance premiums are extremely expensive for Massachusetts residents having increased almost every year for the past two decades at a pace that well exceeds the annual increase in the cost of living.⁹ In a report on state health insurance premium trends, the Commonwealth Fund states that Massachusetts has the most expensive family coverage through an employer in the nation at a cost of \$13,788 annually. Some of the increased cost is due to a higher cost of living in Massachusetts. Data from DHCFP show that the average rate of increase in premiums in Massachusetts from 2001 to 2007 was 8.9 percent versus 7.7 percent nationally.¹⁰

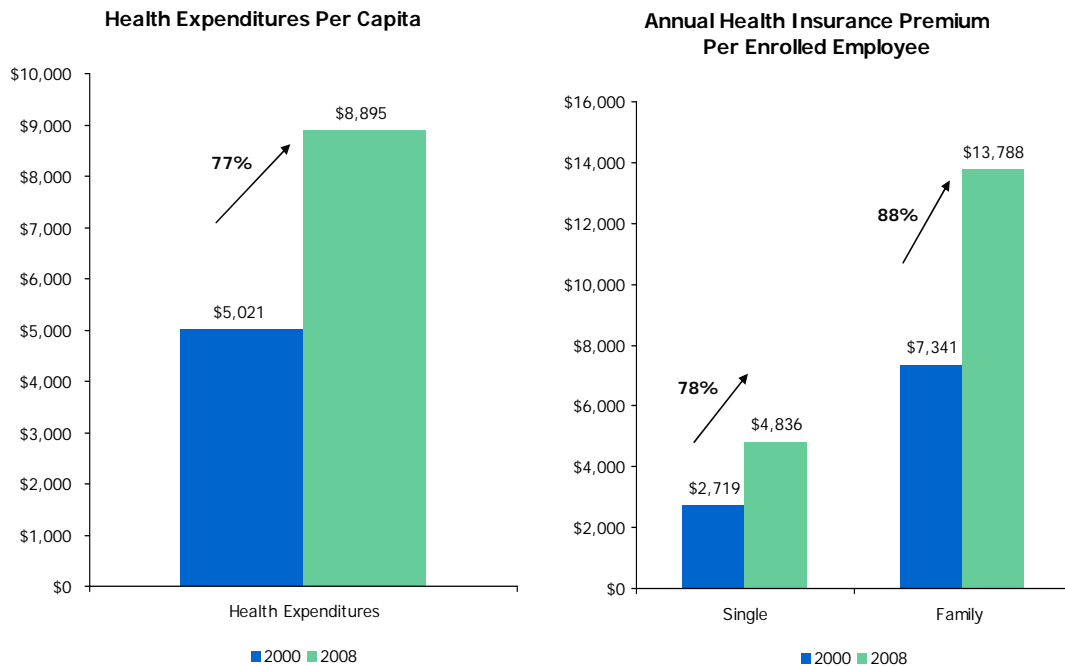
According to estimates from the Massachusetts Division of Health Care Finance & Policy (DHCFP), premiums grew faster than per capita health spending in Massachusetts as the charts below demonstrate.

⁹ http://www.mass.gov/Eeohhs2/docs/dhcfp/pc/Final_Report/Final_Report.pdf

¹⁰ Roadmap to cost containment. http://www.mass.gov/lhqcc/docs/roadmap_to_cost_containment_nov-2009.pdf

Premiums Grew Faster than Per Capita Health Spending in MA

MA Health Expenditures and Insurance Premiums in MA, 2000 and 2008



Sources: Health expenditure data for 2000 are from Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group. 2007 (by Residence Location). Data for 2007 are estimated by DHCFP. Premium data for 2000 from Agency for Healthcare Research and Quality (AHRQ), Medical Expenditure Panel Survey (MEPS) Insurance Component. 2007 premiums are estimated using the average of 2006 and 2008 premiums.

Massachusetts Division of Health Care Finance and Policy - 12

In addition, the cost of insurance premiums was higher in Massachusetts than in the U.S. in 2008 with single and family premiums in Massachusetts 10 percent to 12 percent higher than U.S. premiums.

Physicians' Share of the Cost

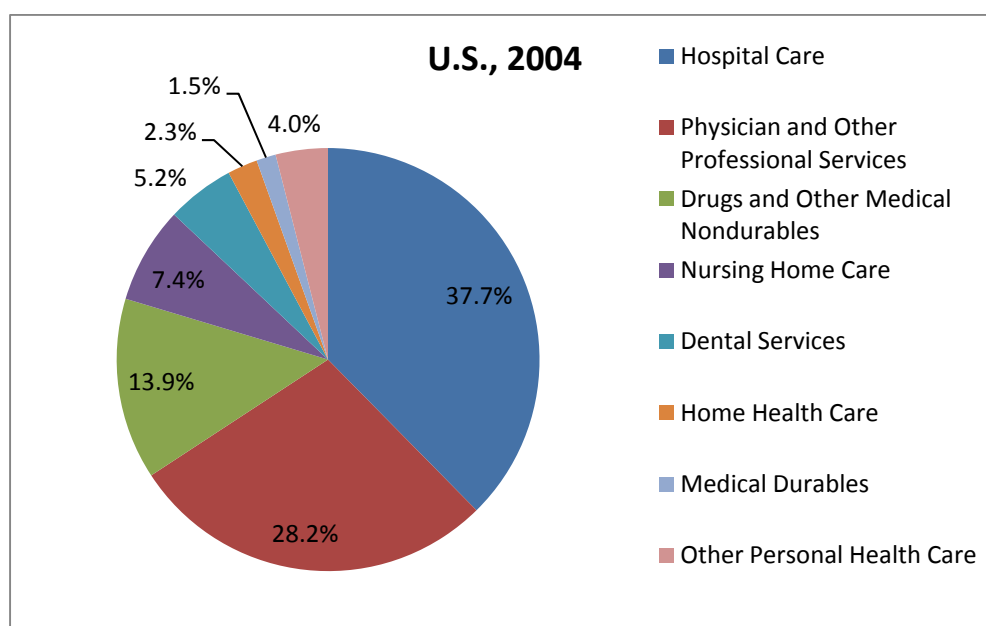
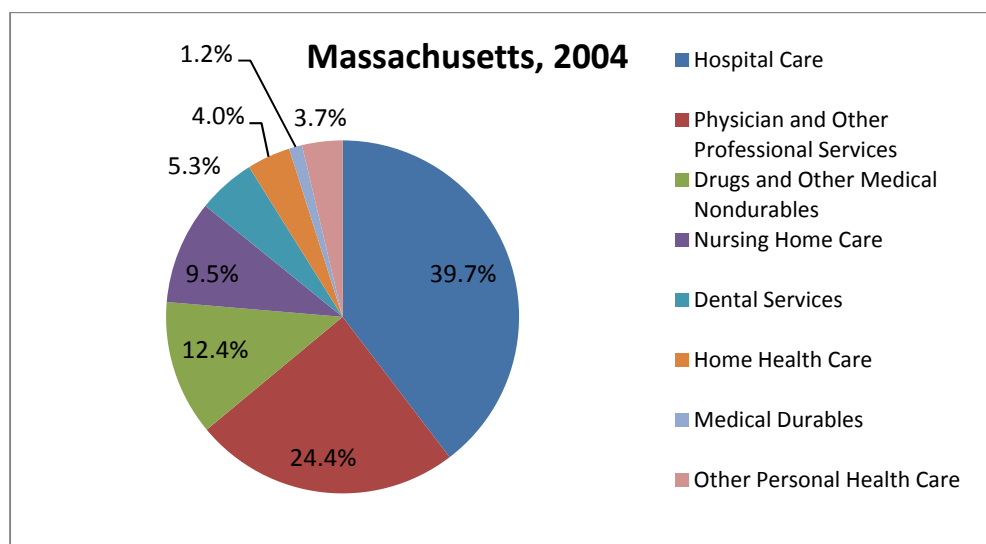
Although health care costs in the U.S. and Massachusetts continue to rise, the share of cost attributable to physicians has not, particularly in Massachusetts. Specifically, national spending on physician and other clinical services has decelerated growing just 4.0 percent in 2009, slower than the 5.2 percent in 2008. Although spending on physician and clinical services is projected to grow 6.3 percent in 2009 to \$528 billion. Between 2009 and 2019 (CMS projects an average growth of 5.4% per year for physician and clinical services)¹¹ trend analysis shows average annual growth for physician and clinical services was slightly lower in Massachusetts (6.3%) compared to the U.S. (6.4%).¹²

Not only is growth for physician and clinical services growing at a slower pace in Massachusetts compared to the rest of the country, the percentage of health care cost spent on physician services is lower in Massachusetts than in the U.S. The pie charts below show that, while the U.S. spent 28

¹¹ CMS. 2009. NHE Fact Sheet. Retrieved on April 4, 2011 from https://www.cms.gov/NationalHealthExpendData/25_NHE_Fact_Sheet.asp.

¹² CMS. 2009. Retrieved on April 15, 2011 from <https://www.cms.gov/NationalHealthExpendData/downloads/res-us.pdf>.

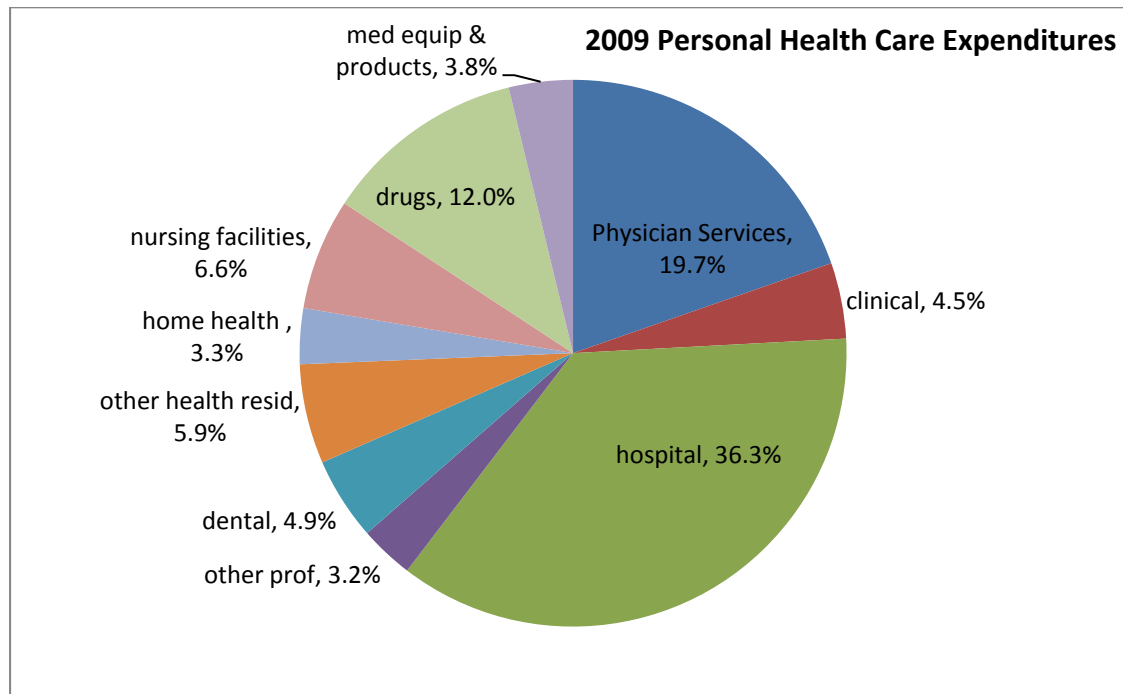
percent of health expenditures on physicians and other professional services, Massachusetts spent four percentage points less (24%).¹³



Updated information from 2009 national figures shows that, when physician services are examined separately from other clinical services, physician services account for less than 20 percent of the total expenditures (19.7%). The pie chart below provides a breakdown of these national

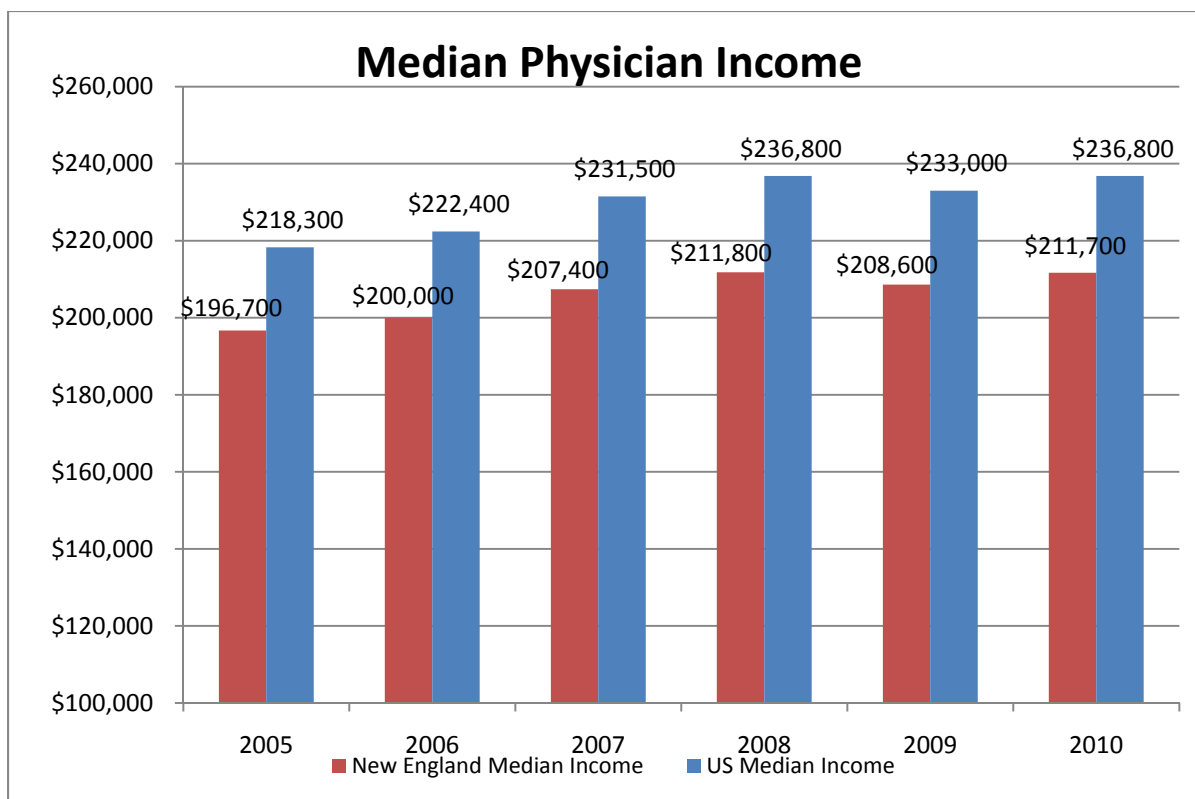
¹³ Kaiser Family Foundation. Retrieved on February 12, 2010 from <http://www.statehealthfacts.org>.

expenditures. Unfortunately, specific data on physician services are currently not available at the state level.



Physician Income

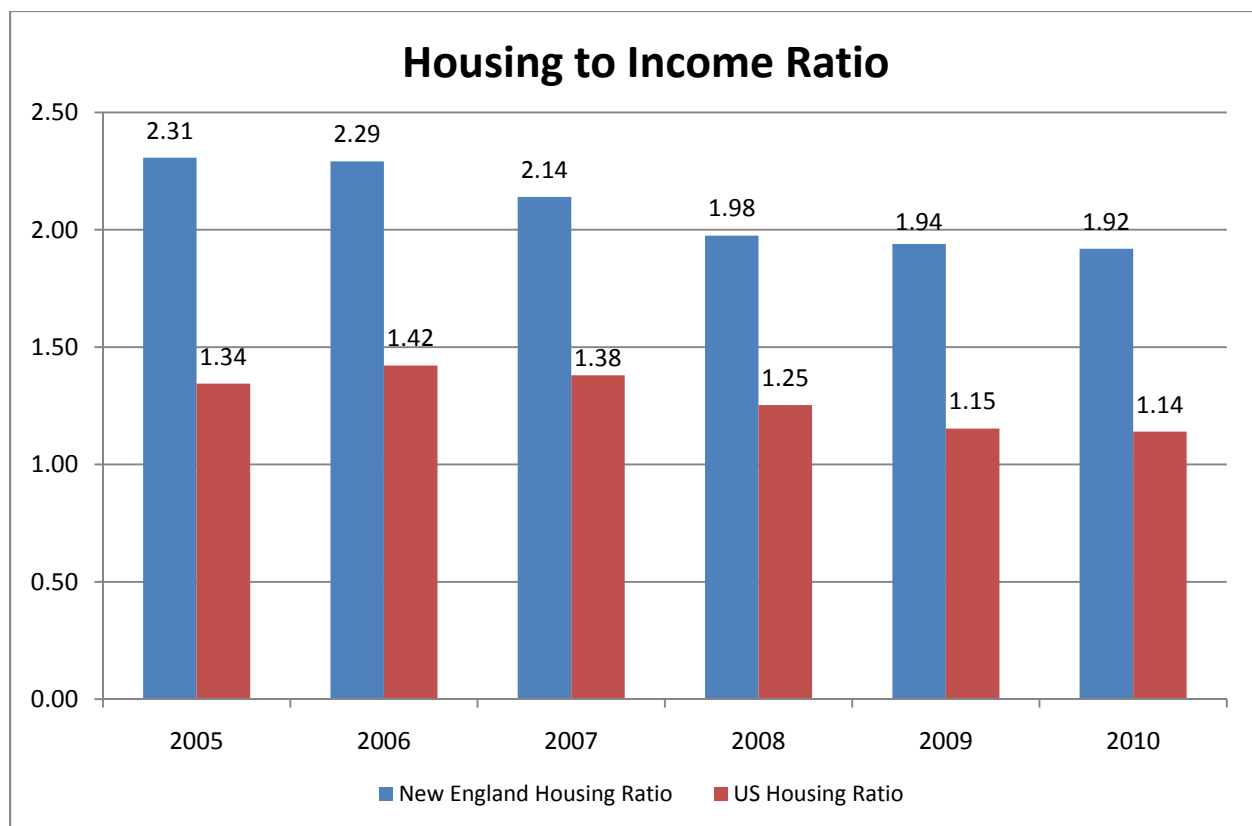
Although costs are increasing for physicians in Massachusetts, the following analysis demonstrates that New England physicians are earning less than their counterparts in the rest of the country. For example, an analysis of median physician compensation data from the MMS Physician Practice Index, demonstrates that, over the past five years, median physician income in the U.S. has been, on average, about 12 percent higher in the U.S. compared to New England. The following chart provides a breakdown of average median physician income for the past six years.



Source: MMS 2011 Practice Index

Housing to Income Ratio

Another important ratio to consider when examining compensation for physicians is the price of housing to physician ratio, an important aspect impacting the cost of living for physicians in Massachusetts. The MMS Physician Practice Index includes a ratio of median housing prices to median physician income for New England and the U.S. Trend analysis of these ratios found that, on average, the New England ratio was approximately 40 percent higher than the U.S. ratio between 2005 and 2010. The following chart provides a comparison of these ratios for Massachusetts and the U.S. over the past six years.



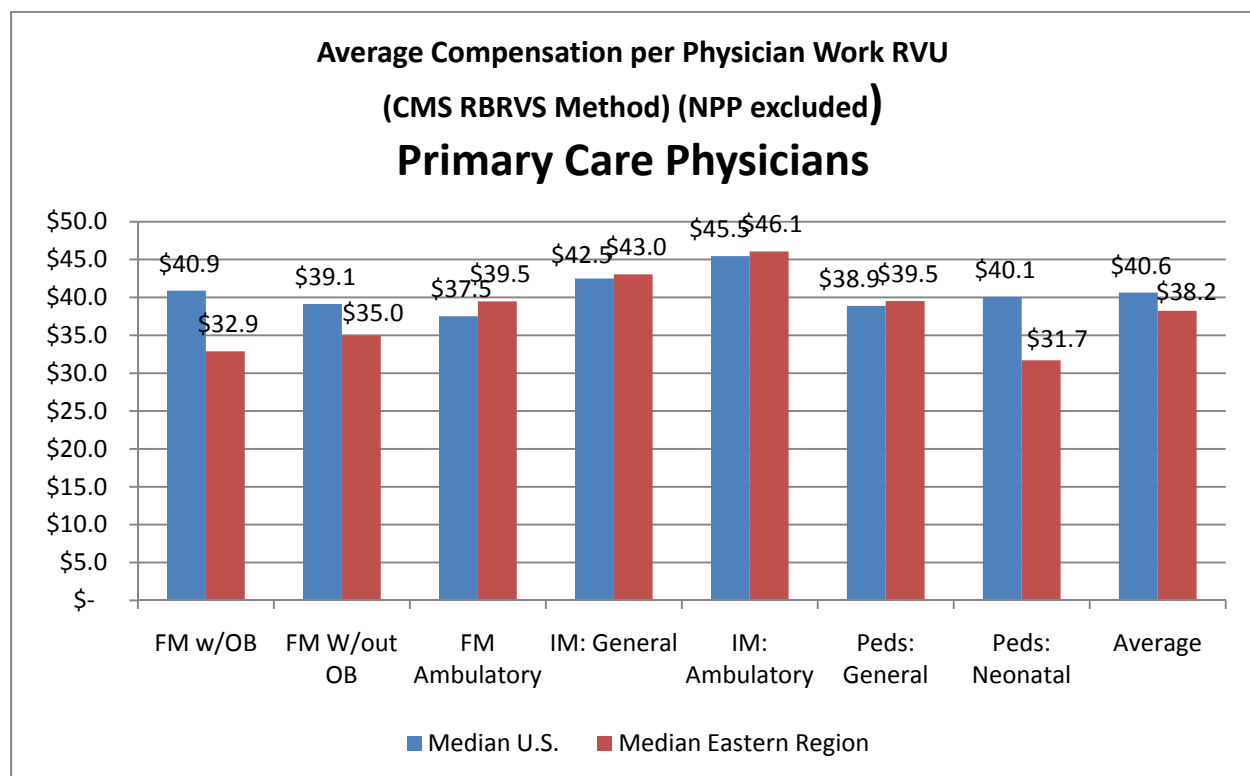
Source: *MMS 2011 Practice Index*.

While physician income in New England has not kept pace with the rest of the U.S., the following analysis shows that, although U.S. physicians are paid more, differences in income are not attributable to lower productivity in Massachusetts. The following section outlines how Massachusetts physicians exhibit higher productivity than U.S. physicians.

Productivity

An industry standard for measuring productivity is Relative Value Units (RVUs), described as the numeric reimbursement value associated with the services physician practices provide.¹⁴ Although data are not available on Massachusetts physician RVUs, the Medical Group Management Association provides regional data for this productivity measure. Therefore, it is possible to compare the Eastern Region of the U.S., which includes Massachusetts, to the rest of the U.S. In examining the available regional data for the Eastern region it is clear that the Eastern region physicians are more productive as measured by RVUs. Specifically, U.S. average median physician work RVUs were approximately 5 percent lower than physician work RVUs for physicians in the Eastern Region of the country.

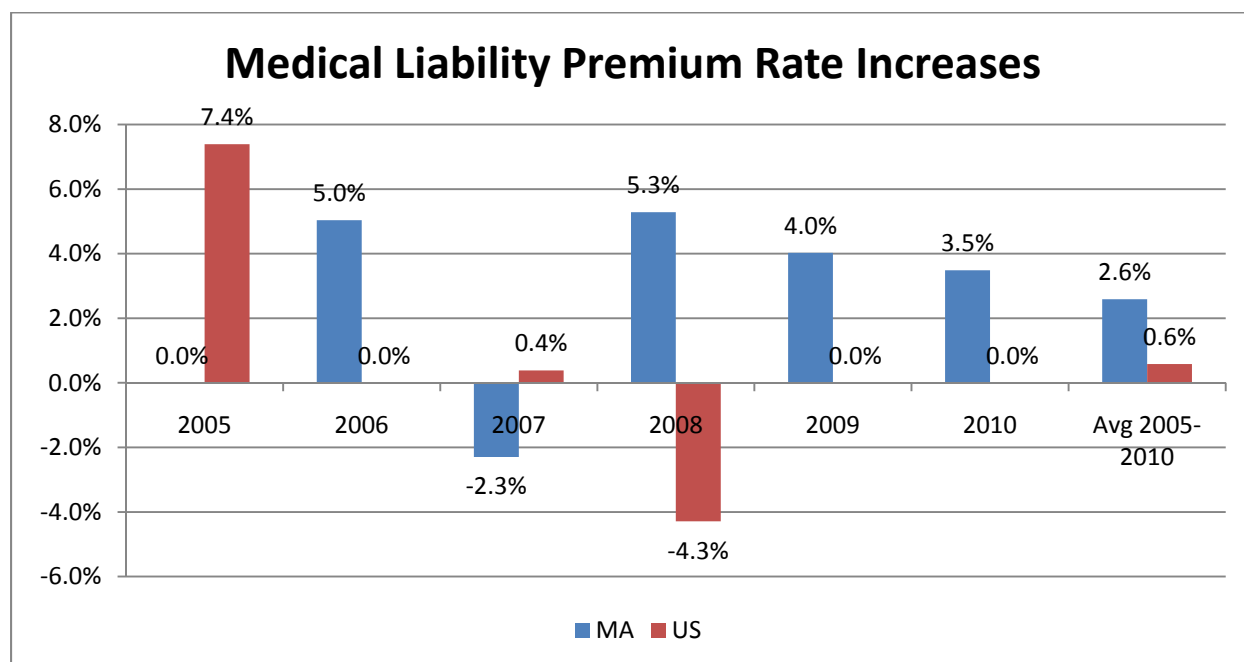
An analysis of physician compensation to RVUs ratios for the U.S. and the Eastern Region demonstrates that average U.S. physician median compensation to work RVU ratios are about 9 percent higher compared to Eastern Region physicians. The chart below shows detailed data for select primary care physician compensation to work RVU ratios. (See appendix B for specialty physicians.) U.S. primary care specialists' compensation to work ratios were over 6 percent higher than Eastern Region physicians. Specialty physicians in the U.S. were compensated more than 9 percent higher than their Eastern Region counterparts.



Medical Liability Insurance Premiums

¹⁴ Medical Group Management Association. 2010. *Physician Compensation and Production Survey*.

An analysis of medical liability premiums from the MMS Physician Practice Index data illustrates important practice cost differentials between Massachusetts and the U.S. Trend analysis found that over the past five years, medical liability premiums in Massachusetts have increased, on average by about 2.6 percent compared to less than .6 percent for the rest of the country resulting in average medical liability premium increases that were about four times higher in Massachusetts compared to the rest of the country over the past six years. The table below provides an overview of the increases in premiums between 2005 and 2010.



Source: MMS 2011 Practice Index.

The current medical liability environment appears to add significantly to the cost of health care. A study conducted by the MMS in 2008 found that a substantial proportion of laboratory tests, imaging studies, referrals and consultations, and hospital admissions ordered by physicians in the eight specialty areas included in the study were motivated by liability concerns. The cost of professional liability insurance and the risk associated with medical malpractice suits present significant financial concerns for Massachusetts physicians. One third of physicians in the sample, and a majority of neurosurgeons and obstetrician/gynecologists, characterized their liability insurance premiums as “very burdensome” financially. Almost half of physicians in the sample, and nearly three-quarters of neurosurgeons, were “very concerned” about the impact of a malpractice suit on their practice.

The estimated annual cost to the health care system in Massachusetts of defensive medical practices is substantial. Among the eight subspecialties in this study, the estimated cost of defensively-motivated radiological imaging, laboratory testing, and consultations or referrals was \$281 million in 2006 dollars. In addition, the cost of hospital admissions was estimated to be \$1.1 billion, for a combined estimate of nearly \$1.4 billion. The estimated cost of hospitalizations was determined by taking 13 percent of admissions to Massachusetts hospitals in 2007 and multiplying by the average cost of a hospitalization for Massachusetts using data from the American Hospital Association. The subspecialties targeted in the survey constitute only 46 percent of the physicians in Massachusetts, so the dollar estimates do not include tests and diagnostic procedures ordered by

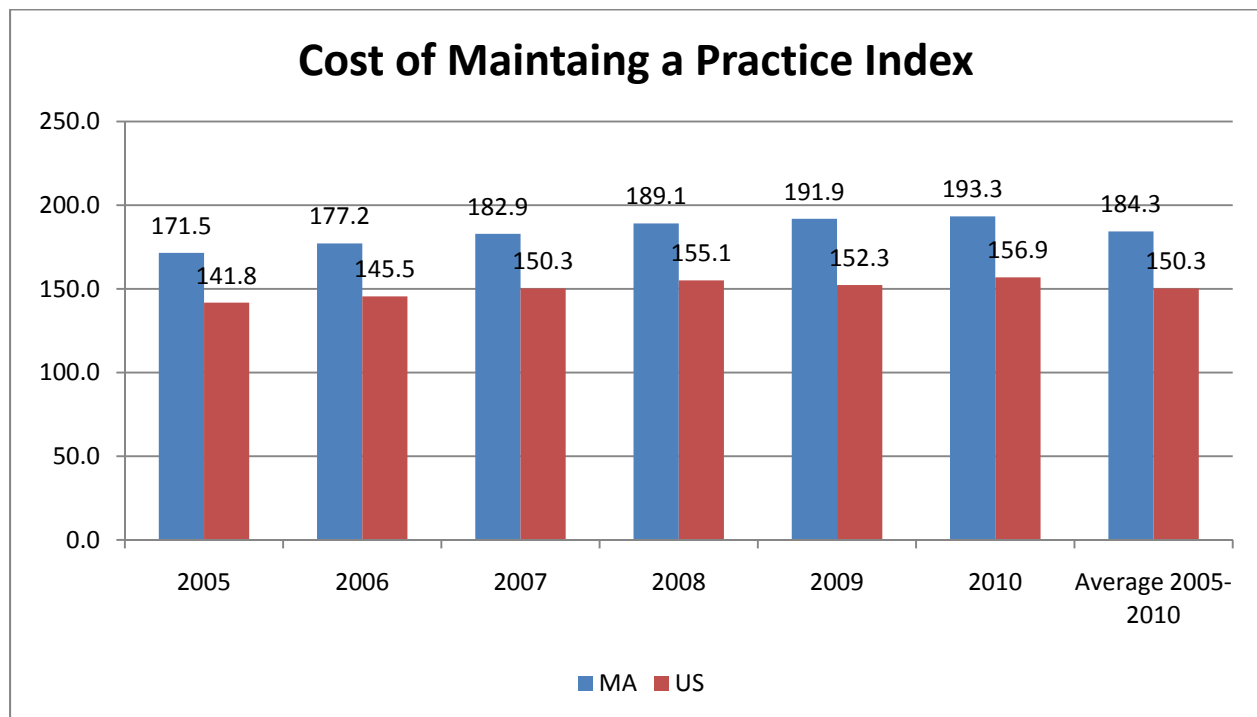
physicians in other specialties. The dollar estimates also do not include the costs of observation admissions to hospitals, specialty referrals and consultations, or unnecessary prescriptions. Therefore, it is likely that the total cost of defensive medicine in Massachusetts accounts for billions of dollars – a conclusion that would be consistent with several other previous studies.

Cost of Maintaining a Physician Practice

The MMS Practice Index calculates an index to estimate the cost of maintaining a physician's practice in Massachusetts and the U.S. The index is composed of three components:

- A composite of physician office hourly wages for accounting clerks, registered nurses, and secretaries from 1994 to 2010.
- Mean medical supply expenses per self-employed physician
- Annual rates of change in average cost per square foot for class B office space.

An analysis of the indexes outline in the chart below demonstrates that MA practice costs have average about 23 percent higher than the US since 2005.



Source: MMS 2011 Practice Index.

The Economic Impact of Physician Practices on the Economy

According to a recent report from the American Medical Association (AMA), office-based physicians in Massachusetts play a vital role in the Massachusetts economy by creating jobs, purchasing goods and services and supporting state and community public programs through the tax revenues they create. The economic impact of office-based physicians varies across states and depends on the number of physicians in each state as well as the characteristics of the state's economy. There were 638,661 office-based physicians practicing within the fifty states and the District of Columbia as of October 2010.¹ Of these, 19,550 physicians practiced in the State of Massachusetts.

- **Total Output:** In Massachusetts, office-based physicians created a total of \$31.7 billion in direct and indirect economic output (i.e., sales revenues) in 2009.²
- **Jobs:** Physician offices employ support staff and often work with non-physician providers, increasing the total number of employees in the industry to well above the count of physicians alone. In 2009, Massachusetts's office-based physicians supported 112,224 jobs, the total of direct and indirect positions. On average each office-based physician supported 5.7 jobs, including his own.
- **Wages and Benefits:** Office-based physicians significantly contribute to wages and other benefits in their communities. In Massachusetts, physician offices contributed \$23.5 billion in direct and indirect wages and benefits for all employees in 2009; on average each physician supported \$1,200,670 in total wages and benefits.
- **Tax Revenues:** The revenues and earnings generated by physicians' offices contribute to state and local taxes, which in turn support public works and community development. In Massachusetts, physician offices supported \$1,552.5 million in local and state tax revenues in the year 2009.¹⁵

Conclusion

Economic pressures play a role in a physician's satisfaction with the practice of medicine. Research shows that dissatisfied physicians are two to three times more likely than the satisfied physician to leave medicine or decrease the number of hours worked.¹⁶

The MMS 2011 Workforce Study demonstrates that 41 percent are dissatisfied with the practice of medicine, while more than half (53%) believe that their current income level is uncompetitive compared with their colleagues in other states. Further, 43 percent of respondents report that they expect their salary levels to fall over the next five years.¹⁷ 9 percent of the respondents indicated that they are currently planning to move outside the state and an additional 22 percent indicated that, while they are not currently planning to move out of state, they will do so if the current practice environment does not improve.

Policymakers and government officials examining the long-term prospects of health care reform in Massachusetts need to be aware of the issues inherent in a system with rising health care costs and deteriorating practice environments for physicians as they move toward affordable, efficient health care access for all.

¹⁵ American Medical Association. January 2011. The economic impact of office-based physicians in Massachusetts: State Report. SNR Denton & The Lewin Group, Inc.

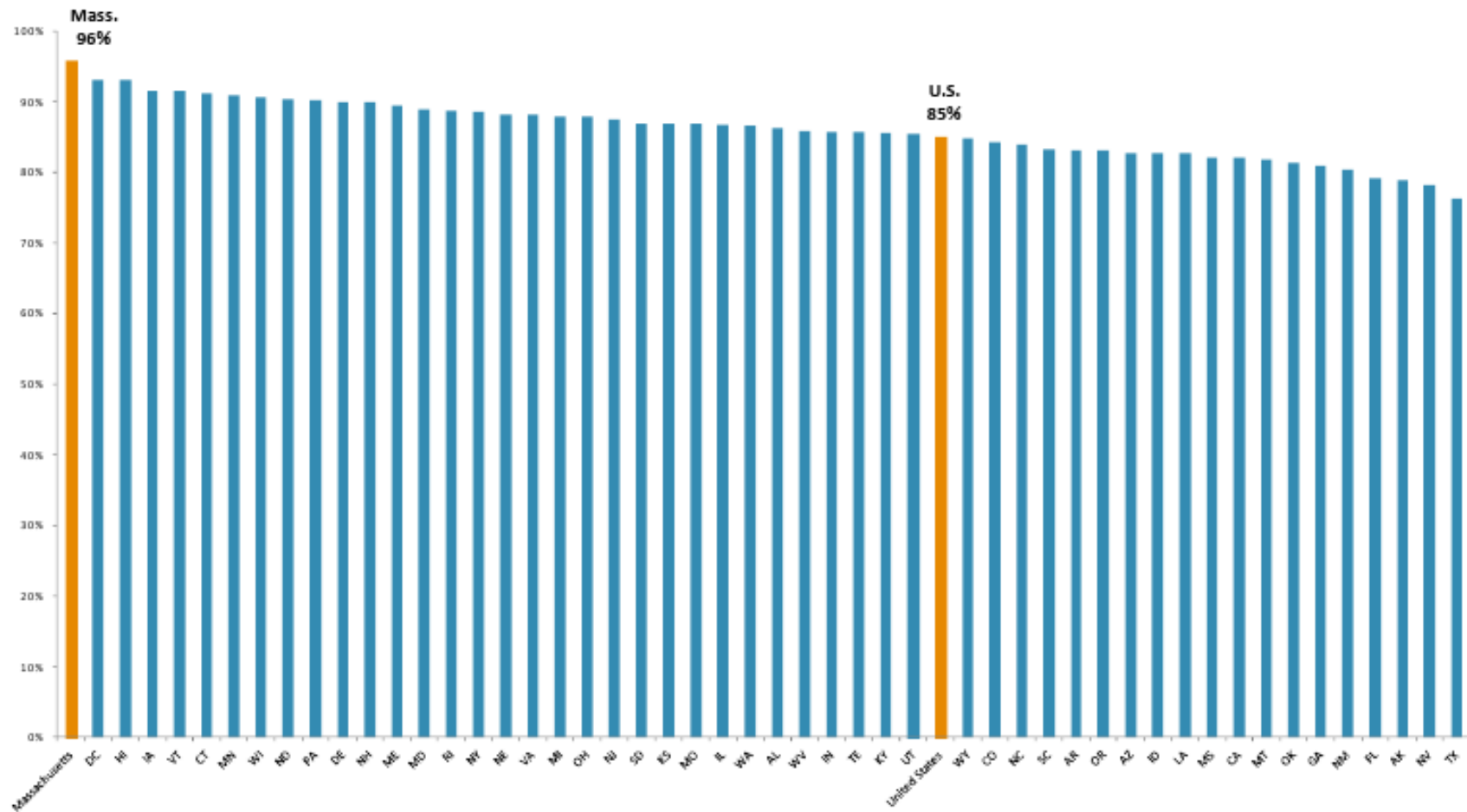
¹⁶ Landon BE, Reschovsky JD, Pham HH, Blumenthal D. Leaving medicine: the consequences of physician dissatisfaction. *Med Care*. 2006;44:234–242.

¹⁷ Massachusetts Medical Society. 2011. Physician Workforce Study. www.massmed.org/workforce.

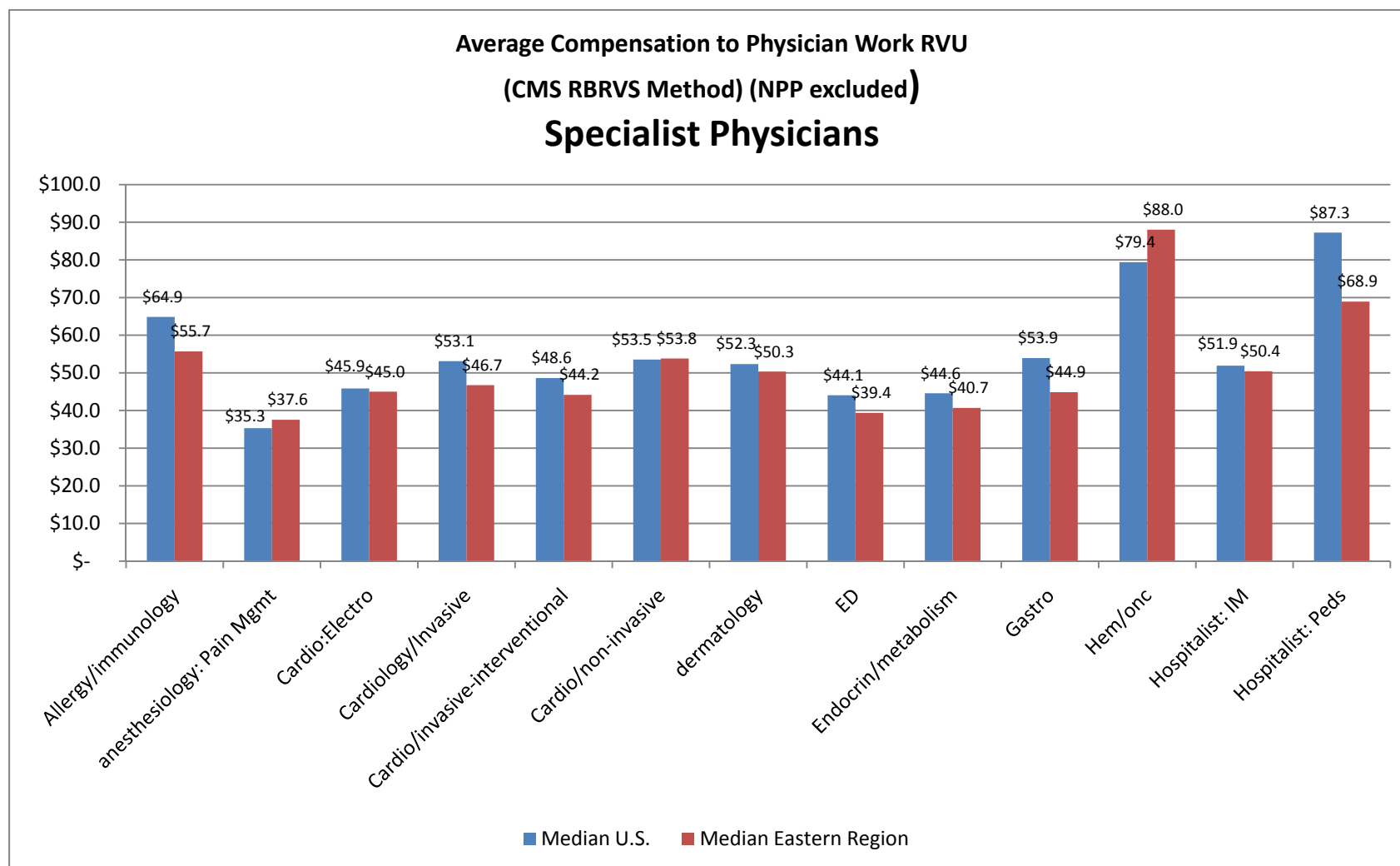
Appendix A

Massachusetts Leads Nation with 96% Health Insurance Coverage

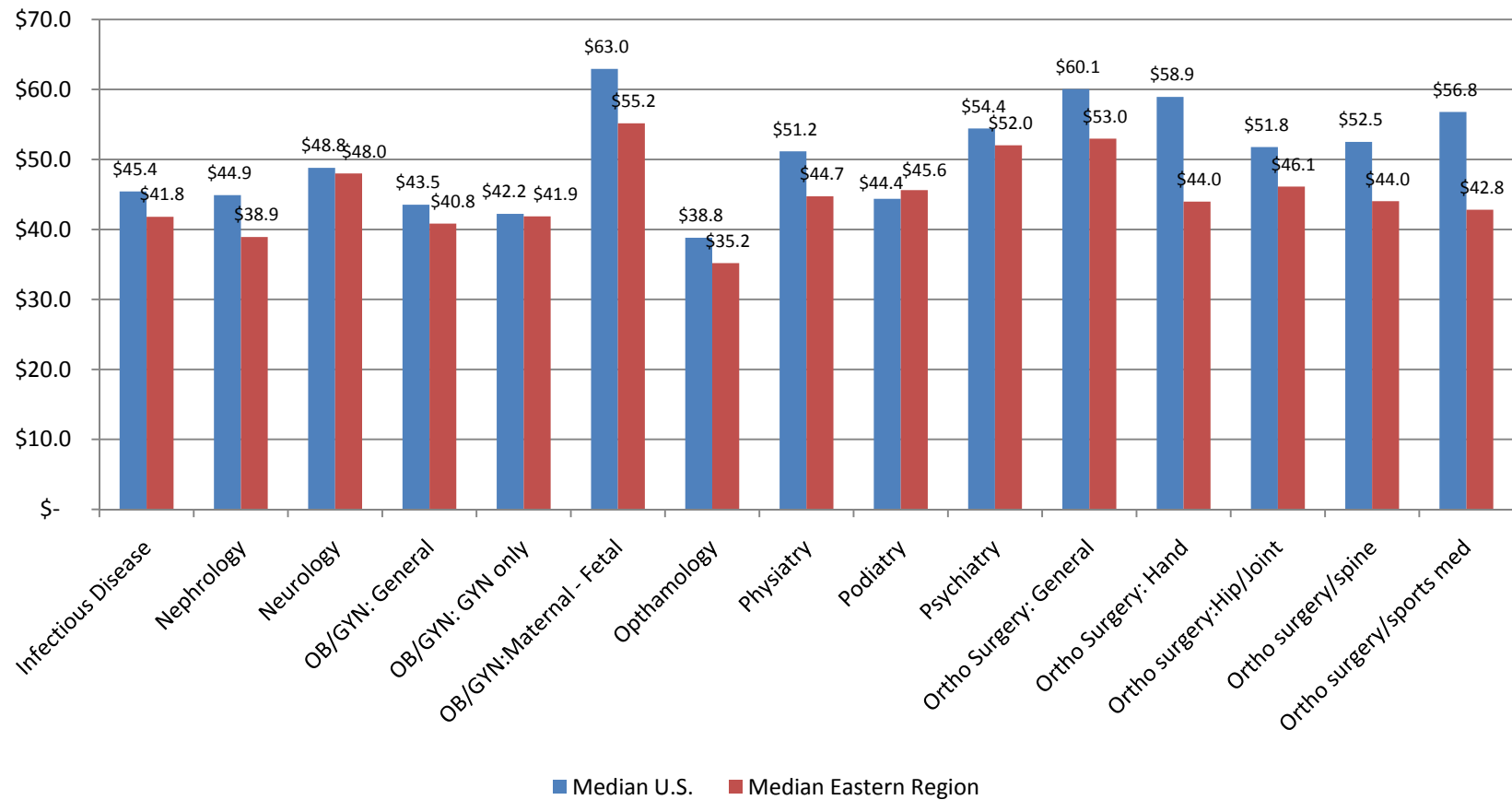
Percent with Health Insurance Coverage, American Community Survey, 2009



Appendix B



**Average Compensation to Physician Work RVU
(CMS RBRVS Method) (NPP excluded)
Specialist Physicians**



**Average Compensation to Physician Work RVU
(CMS RBRVS Method) (NPP excluded)
Specialist Physicians**

