

## **DOCTORS, PHYSICIANS & MEDICAL PRACTICES - INDUSTRY ANALYSIS**

### **INDUSTRY PROFILE**

Globally, there are about 9 million physicians (not including midwives, dentists, or other health personnel), according to the World Health Organization. China has around 1.9 million doctors, followed by the US, with around 794,000, and India, with around 660,000. Other countries have more physicians per capita, including Austria and Belarus (nearly 5 doctors per 1,000 population), Bulgaria (almost 4), and Cuba (more than 6).

The US physicians industry includes around 220,000 offices with combined annual revenue of about \$380 billion and is expected to grow at a moderate rate in the next two years. Key growth drivers are demographics and access to health care. Demand for physician services is driven by population growth and demographics. The profitability of individual practices depends on the reputation and expertise of the physician and staff. Large practices have advantages in leveraging administrative processes and expensive diagnostic equipment. Small practices compete effectively by providing specialized skills and good customer service. Physicians generally have several direct competitors in the immediate geographic area.

The industry is highly fragmented: the top 50 firms account for about 10 percent of industry revenue. About 75 percent of all physician offices are small, with fewer than 10 employees (including the doctors); only about 1,300 offices have more than 100 employees.

Operations of physician offices revolve around patient care, appointment scheduling, records management, and insurance processing. Typically, a patient makes an appointment several days or weeks before being seen, a medical record file is retrieved, the patient sees the doctor for less than 20 minutes, the doctor orders tests or prescribes treatment, the doctor's consultation and any test results or treatments are entered into the medical records, and the cost of the visit is billed to an insurance plan.

The type of patient care that doctors provide depends on their area of expertise, advances in diagnostic and treatment knowledge, and on the type of insurance plan that covers the patient. Some plans limit the types of tests paid for and the types of treatments covered. Typically, the physicians in a group practice all specialize in the same general area of medicine. Offices with a mixture of specialties are more common in smaller communities.

To provide a broad range of care, most doctors in private practice have affiliations with local hospitals. While general practitioners usually deliver most treatments in their office, surgeons often deliver treatment in a hospital or an ambulatory surgical center. Some doctor's offices have basic laboratory and x-ray equipment, but more sophisticated testing is usually handled by independent laboratories.

The explosion of medical knowledge during the past 20 years has forced doctors to specialize in smaller areas of medicine, while making it more difficult for doctors to stay abreast of the latest diagnostic and treatment developments in their field. Doctors keep up-to-date on new diagnostic

devices and treatments with continuing education, reading medical journals, and through visits from sales representatives of device makers and drug companies.

The federal government has made the computerization of health care records a top priority, allotting funds from the economic stimulus package of 2009 specifically for that purpose. It has also included electronic health records (EHR) in the Affordable Care Act (ACA) of 2010. The administrative functions of most physician offices are highly computerized, relying on software created specifically to manage medical offices. Many visits to a doctor's office last less than 20 minutes, but require scheduling, reminding, retrieving medical records, ordering tests, rescheduling, billing, and billing reconciliation, reconciling payment, and accounting. Without computer systems, this volume of administrative activity would be prohibitively expensive. Using computers to aid medical treatment has become more common, especially as medical records become available in computerized form, providing doctors easier access to records and allowing "expert systems" to flag possible drug interactions and suggest diagnoses and treatments.

Doctors get new patients largely through referrals from existing patients and other doctors, and from being included on approved lists of corporate insurance plans. Doctors who contract with managed care plans may get new patients from the membership. TV and print advertising, formerly banned, have become common, as has direct mailing. Location is important for many patients, as are the hospitals and insurance plans with which the doctor has contracts.

## Industry Overview

### **Competitive Landscape, Products, Operations & Technology**

#### **Sales & Marketing**

While health care prices are set by physicians, most insurance plans' fee schedules determine what physicians will receive for their services. Medicare also sets price schedules for procedures.

Participation in various medical insurance plans is required for most physician offices, as insurers pay for most doctor services. Nationwide, over 50 percent of payments to doctors are by private insurance; another 30 percent is from public plans, mainly Medicare and Medicaid. Many insurance plans have extensive fee schedules that specify how much the insurer will pay for a particular service; often have an approved list of drugs doctors can prescribe, and a list of approved tests and treatments for specific medical conditions. Reimbursement rates may be negotiable with some insurers but are non-negotiable for Medicare and Medicaid.

**Medicare** and **Medicaid** are government-sponsored health insurance plans that cover people 65 and over and the poor. Both are funded mainly by the federal government, but Medicaid plans are administered by the states. As the largest payer for health services in the US, Medicare has enormous leverage with providers of health services. Physician offices typically have high receivables, as payments from insurers may not be received for several weeks after treatment. Disputes with insurers are common and insurers often deny or reduce reimbursement requests.

**Capital investments** for new equipment, including computer systems, are necessary every few years because of rapid technological advances.

**State medical boards** regulate the practice of medicine. Once a doctor is licensed to practice in a particular state, however, active regulation is virtually nonexistent. State boards respond to complaints about doctors but don't monitor activities or inspect offices. To prescribe certain "controlled" drugs, doctors must be registered with the Drug Enforcement Administration (DEA). Offices that participate in Medicare and Medicaid programs are subject to investigation by federal and state investigators.

A more indirect regulatory role over the activities of physician offices is exercised by managed care plans and other insurers, which monitor the quality of care, provided to members and often actively prescribe "best practices" for patient care. Some plans prepare and publish "scorecards" for individual doctors or physician groups. The Health Insurance Portability and Accountability Act (HIPAA) restrict doctors from releasing patient information and impose standards on physician practices for electronic record-keeping and communication.

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Worldwide, the top issue for physicians is the rising cost of health care. According to the Organization for Economic Co-Operation and Development, South Korea, Ireland, and Poland had the highest growth rates in health care costs between 1990 and 2007 (9.6 percent, 9 percent, and 7.8 percent, respectively). When health care costs rise, consumers will delay or avoid going to the doctor or filling prescriptions, according to a survey by The Commonwealth Fund. The survey said that consumers in the US, Germany, and Australia were the most likely to put off care due to costs.

## **Location of the World's Physicians - World Health Organization**

### **Finance & Regulation & International Insights**

The world's **population is aging**, leading to higher health care usage. As nations' population age, the workers paying in to pension and health plans shrink, further straining health care schemes. While most developed nations have national health systems, many also have a system of private health insurance (for example, Germany). Ireland's government-owned Vhi, which is preparing for privatization, has had to raise premiums due to higher demand from its aging customer base. The insurer has 60 percent of the Irish health insurance market and insures nearly all of its elderly. Incidences of diabetes are rising throughout the world, including in developing nations. In particular, the Middle East is seeing a rise in the disease. According to the International Diabetes Foundation, some 27 million adults in the Middle East and North Africa suffer from the disease, which is nearly 10 percent of the world's adults with the disease.

**Chronic or lifestyle diseases**, long a bane of the developed world, are moving into third world countries as populations become wealthier. Chronic conditions are expensive to treat and cause a strain on health systems. Third-world nations are plagued by a lack of clean drinking water, high rates of malaria, and HIV/AIDS, among other health issues. These countries often have the fewest physicians per capita to treat patients, and may have little money to confront and control these diseases.

Across the US, the number of doctors per 100,000 people averages about 270, ranging from a high of more than 800 in Washington, DC, to about 170 in Idaho. Consumer spending on health care averages about \$3,000 per person per year; it is highest in the Midwest and lowest in the South. In the largest US cities, per-person spending on health care ranges from a high of around \$3,500 in Chicago to just over \$1,600 in Miami. Most jobs in physician offices are clerical and involve scheduling, keeping medical records, and billing. In most offices these activities are highly computerized and require computer skills. In small practices, workers usually need to be able to operate all of these systems. In larger groups, specialization of function is more common. In many offices physician assistants take on routine medical tasks. More medical care is performed by nurses or physician assistants to allow doctors to see more patients and have time for more complex medical issues. Because of the repetitive nature of much of the work and the limited prospects for career advancement, employee turnover can be high. Compensation for employees in physician offices varies by job duties.

The median annual compensation for primary care physicians was around \$200,000 in 2010, and the median for physician specialists was \$355,000. Overall, average hourly industry wages for physician offices are moderately higher than the national average.

## **Industry Employment Growth -Bureau of Labor Statistics**

### **Regional Highlights**

**Human Resources** - Average Hourly Earnings & Annual Wage Increase - Bureau of Labor Statistics

**Demand:** Driven by population growth and demographics - Requires good reputation and expertise - Risk: Malpractice litigation and insurer pressure to lower reimbursements

Industry Growth Rating

**Opportunity: Congress Takes Aim at Sustainable Growth Rate** - Legislation pending in Congress would eliminate the sustainable growth rate (SGR) as part of Medicare's formula for physician reimbursement, easing a perennial source of concern for medical practices. The Medicare Physician Payment Innovation Act of 2013 calls for freezing current physician compensation through 2019, and testing a variety of payment methods to determine which processes are the most cost-effective. The SGR has long been the bane of physicians, as it calls for substantial cuts in Medicare reimbursement in order to keep costs low. Congress has stopped the cuts from taking effect most years, but legislators and health care providers alike say such last-minute, short-term fixes are untenable in the long term.

**Industry Impact** - Although health care providers have long called for the elimination of the SGR, Medicare will still require a physician payment model to be as low-cost as possible without impacting the quality of care.

Quarterly Industry Update

## November 2013

US consumer prices for medical care commodities, which may impact physician offices' operational costs for equipment and supplies, rose 3.3 percent in March 2013 compared to the same period in 2012. US consumer prices for medical care services, an indicator of profitability for physician offices, rose 3.5 percent in March 2013 compared to the same month in 2012. Total US revenue for physician offices rose 7.3 percent in the fourth quarter of 2012 compared to the previous quarter.

### Industry Indicators

US personal consumption expenditures on physicians are forecast to grow at an annual compounded rate of 6 percent between 2013 and 2017. Data Published: March 2013.

### Consumer Spending Growth for Physician Services Increases

First Research forecasts are based on INFORUM forecasts that are licensed from the Inter-industry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "inter-industry-macro" approach to modeling the economy captures the links between industries and the aggregate economy.

### Industry Drivers

**Health Care Reform** - The health care reform law adopted in 2010 will dramatically change how US doctors manage their practices. The law, known as the Affordable Care Act (ACA), is intended to make health insurance available to all Americans. The new law could exacerbate a growing doctor shortage and force doctors to accept lower reimbursements by increasing the number of Medicare and Medicaid patients. Some physicians also are concerned that more government involvement in health care will make the practice of medicine more difficult.

**Dependence on Reimbursement Rates** - Although doctors serve individuals, most medical bills are paid by various third-party health care insurers and MCOs as well as by Medicare and Medicaid. One of the mandates of the ACA of 2010 is to reduce Medicare and Medicaid reimbursements, which are already considered low by most doctors. The consolidation of third-party payers in the past decade has produced a number of large payers that frequently follow Medicare's lead in setting rates. Further reductions in reimbursement rates could have a significant effect on revenues of physician offices.

**Operational Costs Increasing** - Doctors' costs for labor, supplies, and liability insurance have increased faster than insurers' reimbursement rates, which have risen only modestly in recent years. Some doctors charge fees to cover services that insurance doesn't pay for, such as annual administrative fees or penalties for missed appointments.

**High Malpractice Insurance Premiums** - Malpractice insurance premiums rose sharply in recent years, in part due to so-called "jackpot judgments" in which plaintiffs were awarded multi-million dollar settlements. Many doctors support tort reform, which would reduce or limit jury awards for damages, and thus help keep premiums low. Several states impose caps on awards, which state officials say help them retain and recruit physicians.

**Receivables Difficulties** - Payments for doctors' services can be delayed or denied by insurers. Even though most states have enacted prompt-payment laws, physician payments are often delayed because their billing is not "clean"; that is, payers have questions about it. Some health plans insist that when claims are clean, up to 90 percent are paid within 14 days. Since many regions are dominated by only one or two insurance providers, insurers have more leverage than doctors in pay disputes.

**Medicare and the Sustainable Growth Rate** - Medicare mandates successive fee cuts for physicians using a formula called the Sustainable Growth Rate (SGR). Congress has stopped the cuts with short-term fixes, but those fixes expire and must be renewed each time. Physicians say that Medicare does not reimburse doctors adequately for their services. Some physicians limit the number of Medicare patients they see, and others have opted out of the program entirely. Medicare's fee schedule also keeps payments from private insurers low.

**Vulnerability to Unintentional Billing Fraud** - Like other health care providers, doctors' offices sometimes bill for services that weren't rendered, or they "up code" - claim a more expensive type of treatment than was actually performed. The complexity of billing several third-party payers can easily result in unintentional fraud; the associated penalties can devastate a practice.

**Doctor-Patient Distrust** - The doctor-patient relationship, long the basis of the US medical system, is facing issues of trust. News about medical errors and the increasing influence of drug companies fuels consumer mistrust. In addition, doctors are no longer the only source of medical information, due to increased drug company advertising directly to consumers and the availability of medical information on the Internet. Patients increasingly want to be listened to, while cost pressures limit the time that doctors can spend with them.

Business Challenges

**Independent Practice Associations** - Through Independent Practice Associations (IPAs), single-physician practices can contract with managed care plans without having to join a large group practice or sign exclusive agreements, allowing them to remain small and independent. IPAs also provide risk-sharing arrangements and other strategic alliance information, and push for direct contracts with employers.

**Growing Demand for Health Care Services** - Between 2005 and 2015, the number of Americans 65 or older will increase 26 percent; those over 65 account for 36 percent of US personal health care expenses. Additionally, health care reform means that millions more Americans are expected to obtain health insurance. Doctors may find that an increase in demand means an increase in income as well as a strain on capacity.



**Physician Shortage** - Experts estimate there is a shortage of between 50,000 and 139,000 doctors in the US, which will be compounded by the increased demand brought on by health care reform. The shortage is especially acute in rural areas. Doctors are also working fewer hours. Some doctors say that lower reimbursement rates by Medicare and private insurance has made them disinclined to work longer hours. Around 30 percent more medical students are necessary to combat the shortage, according to the Association of American Medical Colleges.

Business Trends

**Growing Demand for Preventative Medicine** - Advances in medicine show that many medical disorders can be prevented or delayed through early intervention, such as lowering cholesterol. Health insurance providers and employers that provide health care benefits have a vested interest in keeping medical usage low by promoting less expensive preventive care to avoid expensive surgical procedures. This may benefit general practitioners who manage their patients' overall health.

**Some Specialties Growing in Popularity** - As the US population ages during the next decade, demand for cardiologists, gerontologists, and neurologists is expected to grow rapidly, while demand for pediatricians and obstetricians will increase more slowly. More extensive use of new imaging technology, such as MRI, will boost demand for radiologists.

**Growth of Non-insurance Practices** - Some doctors are seeing fewer patients, but charging them more, with the bulk of the cost paid for by the patient rather than a third-party payer. So-called "concierge" practices may serve only 300 patients rather than the typical 1,000, but charge each an annual fee of \$1,500 to \$4,000 for regular checkups and advice. At the other end of the spectrum, doctors are offering similar services to patients who can't afford health insurance and who may pay only \$75 per month with a visit copay of \$10. Though the fees are low, doctors can recoup expenses because they avoid complex insurance billing systems.

**More Physicians Adopt e-Technology** - Electronic devices, including handhelds and high-speed Internet access, are being used by physicians to take notes, communicate with hospitals, and even perform diagnostic tests. Doctors are using the devices at rates much higher than consumers, because the technology is affordable and helps doctors access information faster and stay organized. The adoption of electronic health records (EHR) is also growing because of federal health care initiatives. Doctors are also moving into telemedicine, in which they offer online consultations. Large insurers are beginning to reimburse such e-visits, which will likely encourage greater usage.

#### **How You Can Contact Us:**

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