MERRITT HAWKINS
an AMN Healthcare company

TESTIMONY BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND REGULATIONS

"THE DECLINE OF SOLO AND SMALL MEDICAL PRACTICES"

Testimony of

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INTRODUCTION

Mr. Chairman and Distinguished Members of the Subcommittee

My name is Mark Smith and I am the President of Merritt Hawkins, the largest physician search and consulting firm in the United States and a company of AMN Healthcare, the nation's largest health care workforce solutions company. In the course of my 22 years with Merritt Hawkins I have consulted with hundreds of physician practices and health care facilities across the country, and my company has produced numerous white papers, surveys, presentations and books concerning physician practice patterns, physician supply and demand trends, physician compensation, physician morale and related topics.

I appreciate the opportunity to address the subcommittee today on the decline of solo and small physician practices.

The Arc of Physician Practice

Those who remember the 1970s television show "Marcus Welby, M.D." may still have an image in mind of physicians as small business owners running their own practices, perhaps with the assistance of a younger partner or associate.

This classic model of independent, small physician practice still exists, but it is rapidly becoming an anachronism. Today, physicians are more likely to be hospital or medical group employees than they are to be medical practice owners. This is particularly true of medical residents completing their training. In a 2011 survey of final-year medical residents conducted by Merritt Hawkins, only 1 percent of respondents indicated they would prefer an independent solo practice.[1] By contrast, 60 percent indicated they would prefer to be employed by a hospital, medical group, outpatient clinic or academic facility.

In the 12-month period from April 1, 2011 to March 31, 2012, Merritt Hawkins conducted over two thousand, seven hundred physician search assignments on behalf of hospitals, medical groups and small physician practices nationwide. In only 47 of these assignments – or two percent – were we tasked with finding a physician to start a solo practice or to join a solo practitioner as a partner. By contrast, in 2004, 42 percent of Merritt Hawkins' search assignments featured a solo setting or a small practice partnership.[2]

Furthermore, in the 12 month period alluded to above, 63 percent of Merritt Hawkins' physician search assignments featured hospital employment of the physician, up from 56 percent the previous year and only 11 percent in 2004. If this trend continues, we project that in two years, 75 percent of all newly hired physicians will be hospital employees.

In short, virtually no one wants to be Marcus Welby anymore.

[1] Survey of Final-Year Medical Residents. Merritt Hawkins, 2011
[2] Review of Physician Recruiting Incentives. Merritt Hawkins, 2012

A study by the national consulting firm Accenture further underlines this trend. It indicates that in 2000, independent physicians owning their own practices comprised 57 percent of all physicians. That number declined to 43 percent in 2009 and is projected to decline to 33% by 2013.[3]

This represents a fundamental transformation in the structure of physician practices, away from the classic private practice model and towards employment and an increasingly diverse number of other practice styles.

Five Reasons

There are five primary reasons why this transformation is taking place that I will address in order. They include:

Flat or declining reimbursement
Growing regulatory and administrative paperwork
Malpractice insurance costs
The implementation of information technology
The effects of health reform

Reimbursement

In the days of Marcus Welby, both Medicare and private insurers typically paid physicians retrospectively for "usual, customary and reasonable charges." The physician used his or her judgment regarding patient treatment and generally was paid for services invoiced at an amount above the physicians' cost of doing business.

This system has been repeatedly modified since in an effort to reduce costs and manage care. Physician reimbursement in some cases has been cut or has not kept pace with inflation. The result is that many physicians now see little connection between their own labor and business costs and the amount for which they are reimbursed.

In a national survey of physicians Merritt Hawkins conducted on behalf of the non-profit group The Physicians Foundation, over 68 percent of physicians indicated that Medicaid pays them less than their cost of doing business, over 43 percent said some HMOs and PPOs pay them less than their costs, and over 36 percent said Medicare pays them less than their costs.[4] In some cases, physicians are not paid at all for their services. Over 53 percent of physicians surveyed said they provide $35,000 or more each year of uncompensated care.

This is a difficult business model to sustain. Many physicians have responded by seeing more patients (and consequently spending less time per patient) and by excluding certain types of patients from their practices. In the survey cited above, over 33 percent of physicians said they have closed their practices to Medicaid patients, over 30 percent have closed their practices to some HMO and PPO patients, and over 11 percent have closed their practices to Medicare patients. Nevertheless, some small private practices physicians are having trouble keeping their doors open. There have been reports in the media

[3] Adopting to a New Model of Physician Employment. Accenture, August, 2011
[4] Survey: The Physicians Perspective. The Physicians Foundation, 2008

in recent months about a growing number of private practice physicians going out of business -- an unusual occurrence throughout most of my career.[5]

This trend may reach a culmination on January 1, 2013, when physicians are due for a 30 percent reduction of their Medicare reimbursement rates under Medicare's Sustainable Growth Rate (SGR) formula. Though these cuts have been deferred in the past, it is difficult for small private practices to operate in a climate of uncertainty in which their revenues could be reduced by a devastating margin.

By contrast, employment by a hospital, medical group or other entity provides physicians with the security of a salary and the freedom from the fear that their practices will go under.

Regulatory/Administrative Paperwork

Virtually all businesses in the United States are subject to regulatory compliance, and physician practices are no different. As small business owners, solo and small practice physicians must abide by equal opportunity employment laws, worker safety laws, local real estate ordnances and many other rules and regulations. On top of this, physicians work in one of the most highly regulated of all professions. It has been reported that the U.S. federal tax code runs to some 75,000 pages, whereas the Medicare regulatory code by which physicians must abide runs to 130,000 pages.

Physicians must spend a significant amount of time on paperwork to ensure that they are compliant with the laws regulating their profession. As third party payer reimbursement policies become more restrictive, physicians also must perform considerable documentation to ensure that they are paid.

In the physician survey referenced above, physicians reported that they spend an average of 15 hours per week on non-clinical paperwork duties, or about 26 percent of their total working hours. These administrative duties, and the general pressures of running a business, can be alien to the mindset and makeup of many physicians, who are essentially scientists by training and caregivers by inclination.

Many physicians perceive that employment will reduce the amount of administrative and regulatory duties to which they are subject and allow them to focus on medicine.

Malpractice

Among the various costs of doing business, small private practitioners must pay for their own malpractice insurance. Malpractice insurance costs vary by region and by specialty and can be quite substantial. The annual cost for malpractice insurance for an obstetrician/gynecologist in Broward County, Florida, for example, is $158,157 per year.[6] As malpractice insurance rates remain high, employment becomes an attractive option to physicians because employers typically provide malpractice insurance as part of the employment contract.

Information Technology

[5] Kavilanz, Parija. Doctors going broke. CNNMoney.com. Jan. 6, 2012
[6] www.mymedicalpracticeinsurance.com

For a variety of reasons, physicians are obliged to incorporate a growing level of information technology into their practices, particularly in the form of electronic medical records (EMR). Those who not do so face reductions in their Medicare reimbursement in coming years. While the federal government has provided funds for physicians to implement EMR, many still find it difficult to do so due to lack of time or available expertise. Sixty-nine percent of physicians in The Physicians Foundation survey referenced above indicated they have not implemented EMR due to lack of resources or expertise, 68 percent said they do not have the personnel to implement EMR, and 61 percent said they do not have the time. In addition, some physicians are doubtful that EMR will increase their efficiency and others have concerns about EMR and patient confidentiality.

The necessity of implementing information technology is a prominent example of how the resources, expertise and time of small medical practice owners is being taxed in today's increasingly complex and demanding medical practice environment.

A growing number of physicians are embracing employment as a potential refuge from these challenges and concerns.

Health Reform

Health reform is a driver of a number of health care trends, including the general decline of small, independent private practice. I include in the term "health reform" not just provisions of the Patient Protection and Affordable Care Act but also market forces taking place apart from the Act. So defined, health reform encourages the consolidation of physician practices and hospitals into larger entities. Larger organizations are required in the post reform era to achieve the economies of scale needed to expand access to care while reducing costs.

In addition, health reform encourages the formation of new delivery models such as Accountable Care Organizations (ACOs) which depend on both hospital/physician alignment and the use of advanced information technology. ACOs are risk bearing entities, and as such require a high level of administrative and business expertise. It is difficult for solo or small practice physicians to participate in these models, which more naturally lend themselves to hospital employment of physicians.

Conclusion

Combined, these factors and others have created conditions in which the small, private medical practice model is increasingly untenable. This model is only likely to persist in any numbers in smaller, rural areas where there are few physicians, and even here physicians will likely need to partner or affiliate with larger entities in some way. The solo, small practice model also may persist among those physicians willing and able to maintain "cash only" or so-called concierge practices in which physicians directly contract with patients and do not accept third-party payments. Whether the proliferation of this model in wide geographic areas is possible remains to be seen.

Otherwise, physicians are likely to be employed by multi-physician groups or by hospitals, as the era of Marcus Welby rapidly disappears in the rear view mirror.

Thank you for the opportunity to address the Subcommittee and for examining the challenges facing America's solo and small practice physicians.