

IDAHO MEDICAL ASSOCIATION

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January 5, 2007

Senator John Goedde
Representative Scott Bedke
Co-Chairmen—Joint Legislative Economic
Outlook and Revenue Assessment Committee
Idaho Legislature
Hand Delivered

Re: Economic Assessment of Idaho's Medical Services Sector

Dear Senator Goedde and Rep. Bedke:

Thank you for giving the Idaho Medical Association (IMA) the opportunity to address your Joint Committee regarding the economic outlook for Idaho's physicians for the fiscal years 2007 and 2008. The IMA is a membership organization that represents over 1900 physician-members who are in active practice in Idaho.

The Joint Committee has asked the IMA to respond to 11 questions; 6 relate to the Idaho economy as a whole and 5 specifically relate to Idaho's medical services sector. 3 of the general questions are beyond our expertise so we will not respond to them specifically. The general and specific questions that we have responded to are listed below.

General Questions:

1. How will your industry and/or company perform over the next 18 months?
2. Do you know of any companies that are planning on moving operations into or out of Idaho in the next 18 months?
3. What policies should Idaho follow to promote economic growth and higher wages?

Specific Questions:

1. What is the current state of Idaho's medical services sector?
2. What percentage of the state's economy does the medical services sector constitute?
3. How does positive or negative performance in the state's medical services sector affect General Fund revenues?
4. How is Idaho's medical services sector likely to perform over the next 18 months? What have been the historic spending growth trends in this sector, and how are they likely to trend over the next 18 months? How have employment levels and payrolls changed in this sector in recent years, and how are they likely to change over the next 18 months?
5. What are the primary reasons for rising health care costs?

My response to many of these questions will be anecdotal in nature rather than hard numbers. Where possible, I have accessed information from federal agencies, the Board of Medicine and IMA staff.

Committee questions relate to the “medical services sector.” For the purposes of this document, I define the medical services sector as the economic contributions made by physicians (MDs and DOs) in Idaho through the provision of medical services. I will use the phrase “medical services sector.”

General Questions:

1. How will your industry perform over the next 18 months?

According to the Centers for Medicare and Medicaid Services (CMS) the federal agency that regulates the Medicare and Medicaid programs, total physician reimbursement from all sources in Idaho has grown at an average rate of 9.6% per year for the past 15 years. This does not mean reimbursement for a particular service has increased by 9.6% per year. The growth in total physician reimbursement is due to such factors as increasing patient demand for medical services, a larger patient population, new technology, new drugs, and an aging patient population.

We expect the medical services sector to continue to grow at a similar pace over the next 18 months. For a number of reasons, the health care industry is not as sensitive to economic swings or cycles as other sectors of the economy.

2. Do you know of any companies that are planning on moving operations into or out of Idaho in the next 18 months?

The medical services sector in Idaho is characterized by physicians practicing medicine in small practices. In recent years, we estimate that Idaho has achieved a net gain of about 75 physicians per year. We currently have approximately 2500 actively practicing physicians in Idaho. Unlike other sectors of the economy, the medical services sector is not comprised of large corporations and therefore we don't expect any company moving operations into Idaho.

Physician supply in Idaho, and access to medical services is a continuing concern. Idaho nets about 75 additional physicians per year but this is barely enough to keep up with Idaho's population growth. Idaho has ranked 47th or 48th among the states in physicians per capita for years.

3. What policies should Idaho follow to promote economic growth and higher wages?

(I assume this question relates only to the medical services sector.) The Idaho Legislature has done an excellent job to promote economic growth and higher wages in the medical sector. Starting with tort reform, the Legislature has consistently helped physicians in Idaho keep their practices economically sound.

Medical malpractice premiums in Idaho are among the lowest in the country thanks to the excellent tort reform package the Legislature has put in place. According to recent AMA data, Idaho med/mal premium rates are consistently in the bottom three in the nation. Our low rates are a major recruiting tool in attracting physicians to Idaho. In fact, due to tort reform two medical malpractice insurance carriers in Idaho, including the largest carrier in Idaho, MIEC, have recently announced that, for the second consecutive year, that net premium rates will be reduced for Idaho physicians. Idaho physicians thank the Legislature for its support of sound liability reforms.

Additionally, the Idaho legislature has consistently held the line on imposing additional, and costly, regulations on physicians. The health care industry is among the most regulated in the nation and this results in higher costs for physicians. For example, implementing the medical information privacy law, the Health Insurance Portability and Accountability Act (HIPAA), cost physicians, hospitals, insurers and others in the health care industry upwards of \$60 billion. This was one of the largest unfunded mandates in U.S. history and costs continue to mount as we speak.

The Idaho Legislature will have the opportunity to say “no” to additional and costly regulations this session by rejecting the proposed certificate of need (CON) legislation. CON requires a bureaucratic approval process before new facilities or equipment can be built or put into use. In other states, such a process has resulted in considerable delays and disruptions. This legislation will stifle economic growth, increase the cost of health facilities and negatively impact patient access to medical care. We believe that the market should decide what capital is invested in our health care market and what isn’t and that state bureaucracy should not decide where private investment capital is utilized.

Specific Questions

1. What is the current state of Idaho’s medical services sector?

The medical services sector in Idaho is relatively stable but clouds are on the horizon. First, Idaho consistently ranks in the bottom two or three for the number of physicians per capita. Because Idaho has traditionally faced physician shortages of varying degree- especially in rural areas-we are never far away from access problems. Physician shortages in Idaho may worsen as several groups are predicting physician shortages nationally in the next 10 to 15 years. Last year, the Utah legislature directed the University of Utah School of Medicine to increase its class size because of physician shortage concerns.

Because of a flawed physician reimbursement formula, Medicare reimbursement may be reduced by over 30% over the next few years. This is on top of rates that have been basically frozen for the past five years. If these cuts are implemented, access to care for our senior citizens will be severely impacted.

2. What percentage of the state’s economy does the medical services sector constitute?

For 2004, CMS estimated that spending on personal health care constituted 13.3% of Idaho’s gross state product. This figure includes, but is considerably greater than, payment for physician services alone. We were unable to extract out of this report a specific amount for physician services.

3. How does positive or negative performance in the state’s medical services sector affect General Fund revenues?

Beyond the obvious impact on corporate and personal tax collections, we have no information regarding this impact.

4. How is Idaho’s medical services sector likely to perform over the next 18 months? What have been the historic spending growth trends in this sector, and how are they likely to trend over the next 18 months? How have employment levels and payrolls changed in this sector in recent years, and how are they likely to change over the next 18 months?

Due to issues outlined in #5 below relating to reasons for rising health care costs, we believe the historical annual average growth rate of 9.6% in the medical services sector will apply over the next 18 months unless the Medicare cuts, discussed above, are implemented.

We have no direct information on employment levels in the medical services sector. As we mentioned above, Idaho has about 2500 actively practicing physicians. National figures indicate the average medical practice employs 2 to 3 support staff for each physician. That means there are between 5,000 and 7,500 employees of physician practices in addition to the 2500 physicians, themselves and other part-time contracted staff.

With the influx of about 75 net new physicians per year, this equates to an additional 150 to 225 employees directly employed to say nothing of hospital employees, allied professionals, billers, accountants, etc.

5. What are the primary reasons for rising health care costs?

A. Ongoing Cost--According to the Center for Studying Health System Change, (September 1999), "trends in technology and the aging of our population will increase health care cost four percent (4%) a year independent of other factors".

B. The Aging of Our Population--As our population ages, the need for health care services by our seniors results in significant demand, utilization and cost to the health care system. Ironically, the success of our health care system is a major reason for increased consumption of medical services. Because of medical advances, people are surviving an injury or an illness that would have been fatal just a few years ago. But these survivors often require additional care, sometimes for the rest of their lives. Put another way, someone who survives an event at 65 years of age should be expected to need another 15 years of health care with the attendant costs if he or she lives until 80 years of age.

People are living longer due to medical advances. The frail elderly (age 85 and above) is one of the fastest growing population segments in the U.S. This population is a major consumer of health care services with the majority of their life-long healthcare costs spent in the last 6 months of their life.

D. Demand--People are aware of new services, technology and pharmaceuticals and want what is available. If they don't get what they want from one physician or clinic, they'll go somewhere else. Increasing utilization of services by all of us is a major cost factor.

G. New Technology--Criticism of higher health care cost has been aimed at new medical technology. It's true that physicians have more precise tools available today to better diagnose and treat patients. The new technology is definitely expensive, but it does help physicians do a better job alleviating pain and treating life-threatening illnesses which enhances the quality of life and even extends the life of their patients. We, the consumers of health care, demand the newest and best technology to diagnose and treat us.

H. Defensive Medicine—Defensive medicine is the practice where doctors order tests and procedures that may be of marginal benefit or even unnecessary to avoid legal liability. Increased costs can be associated with defensive medicine, but it needs to be pointed out

that the leading cause of malpractice suits is “the failure to diagnose”. In addition, some tests and procedures that were not done in the past may now be the standard of care on which physicians are judged (with the advantage of 20-20 hindsight) by a jury in a malpractice case.

I believe Idaho doctors are quite conservative in their practice of medicine and this has been substantiated by several governmental and private studies that show that utilization and cost of medical services in Idaho are some of the lowest in the country.

I. Poor Lifestyle Choices—An estimated 50% of health care costs are generated due to poor lifestyle choices many of us make. Not controlling our weight, smoking, drinking, taking illegal drugs, not wearing a seatbelt, riding a motorcycle without a helmet and on and on and on.

J. Separation of Consumer and Payer—Over-consumption of health care services occurs because of economic incentives built in to our health insurance system. Because of insurance (or readily available but costly care for the uninsured) the consumer doesn't care how much a medical service costs because he or she isn't paying for it.

E. Physician Reimbursement—Most people in Idaho are insured by Blue Cross, Regence BlueShield, Medicare or Medicaid. The rates of reimbursement are controlled by each of these organizations affecting 90 to 95 % of the State's physicians.

While the cost to run a physician's practice and provide patient care increase 3 to 6% per year, commercial reimbursement rates in Idaho have risen by an average of less than 3% per year. Medicare and Medicaid rate increases have been lower than the commercial increases.

Nationally, physician services account for approximately 21 % of health care cost. Within the Idaho Medicaid program, physician services accounted for 6% of expenditures in 2005.

Although the Committee did not request the following information, I have provided some thoughts from the IMA regarding cost containment strategies.

Recommendations For Controlling Health Care Costs:

1. Provide incentives for people to stop smoking.
2. Require the use of motorcycle helmets
3. Require the use of seatbelts-make it a primary offense for not wearing a seatbelt
4. Increase options for individuals to select their health care insurance and to participate in the cost of their care.

Utilization of health care services will never be lowered if individuals can look to a third party to pay for their care. The two options below need further consideration.

- A. Expansion of HSA's--a sound concept that empowers individuals to utilize care only when it is necessary with routine care paid for by the individual and more expensive care paid for by catastrophic insurance.
- B. Defined Insurance Contribution-- This is a new concept that needs development whereby an individual is given a set amount of money by his or her employer to purchase health care insurance. The individual can purchase a deluxe plan with a higher monthly premium requiring the individual to pay for part of the premium above the contribution provided by the employer. The individual may decide on a health insurance program that costs less per month but has a higher co-payment when services are used. HMO products or HSA's may also be one of the options available to the employee.

Insurance companies would compete for an employee's business by offering numerous products that better meet the needs of the employee (e.g. OB coverage or no OB coverage).

The employer can better budget for health care premium cost in that they set one amount for coverage with adjustments on a yearly basis. This is a program currently available to federal employees and Members of Congress.

Insurers don't like this concept in that they have to be more competitive with individual products. Human resource people from larger employers feel threatened by this concept in that a large part of their employment is eliminated by this means of purchasing health care insurance.

The tax structure needs to be modified so that employers can still expense the cost of health care insurance for their employees.

- 5. Provide access for the uninsured at clinics for primary care so they aren't forced to obtain such care at emergency rooms.

If you have questions regarding any information presented in this letter, please don't hesitate to contact me.

Sincerely,



Ron Hodge, J.D.
Associate Executive Director