

# IDAHO MEDICAL ASSOCIATION

P.O. BOX 2668 • 305 W. JEFFERSON • BOISE, IDAHO • 83701 • (208) 344-7888 • FAX (208) 344-7903 • www.idmed.org



January 4, 2008

SUSIE POULIOT  
CHIEF EXECUTIVE OFFICER

Senator John Goedde, Co-Chair  
Rep. Scott Bedke, Co-Chair  
Joint Economic Outlook and Revenue Assessment Committee  
Hand Delivered

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 2008 and 2009. The IMA is a membership organization that represents over 2000 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 health care costs rising faster than inflation?

Unlike last year where many of our responses were anecdotal in nature, the legislature has directed several studies of the health care industry in Idaho and some of the following information is taken from these resources.

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.

### 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 7.5% per year for the past 15 years. This does not mean reimbursement for a particular service has increased by 7.5% 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 relating to physician practices. This is not true for the specialty hospital segment of the health care industry, where physicians often join with outside investors to construct specialty hospitals. This is the financial arrangement for the new ortho/neuro hospital in Boise.

As was noted in one of the Office of Performance Evaluations studies, about \$350 million dollars of hospital-related construction is currently underway in Idaho.

Physician supply in Idaho and access to medical services is a continuing concern. This was well documented in the recently completed Medical School Feasibility Study done at the request of the State Board of Education. Idaho nets about 75 additional physicians per year but this is not enough to keep up with Idaho's population growth. Idaho has ranked 47<sup>th</sup> or 48<sup>th</sup> among the states in physicians per capita for years and has the sixth oldest physician population in the nation, 40% of Idaho physicians are over 55—so the pace of physician retirement will only increase.

A shortage of physicians impacts Idahoans access to care but also impacts Idaho's economy. The American Academy of Family Physicians estimates that each family physician generates \$812,000 of economic activity. The Academy estimates Idaho will need 720 family physicians in 2020, a fifty percent increase from the current 480.

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 third 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.

### **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.

This issue has taken a far more prominent position now that the legislature-funded Medical School Feasibility Study has been released. That report clearly identified the current shortage of physicians in Idaho and stated that without remedial actions, the shortage will worsen in the future and eventually lead to greater access to care problems. While the report made no concrete recommendations, the IMA urges the legislature to consider funding additional medical school seats at the University of Washington and Utah schools of medicine and enlarging current residencies and creating new residencies and further collaborative strategic planning process for establishing an Idaho-based four-year medical school model.

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.

Although a last minute deal in Congress stayed a 10% cut in physician fees until June 30, 2008, Idaho physicians will still have this threat hanging over them. A 10% cut in Medicare payments translates into a loss of \$50 million in income for Idaho physicians. Additional cuts in future years are planned and total a ruinous 30% cut in fees in total.

2. What percentage of the state's economy does the medical services sector constitute? This question was discussed extensively in the Office of Performance Evaluation Report Estimating Private Health Expenditures in Idaho. The health care sector accounted for 6.7% of the Idaho State Gross Product in 2004 or about \$5.6 billion. Physician services account for about 27% of total health care spending or about \$1.55 billion. Of course, both of those figures would have to be revised upward for FY 2008 and 2009.

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 7.5% 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? This issue was specifically addressed in the OPE report, Health Trends in and Drivers of Expenditures in Idaho. Most of the cost drivers identified there are discussed below. The report did state that cost growth in the physician services sector of the health care market was responsible for 25.5% of the total cost increase. For the years 2000 through 2004, physician services grew at a rate of 8.2% per year which was in line with cost growth in physician services nationally and slightly less rate of growth than in the surrounding states.

**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. The rate of obesity in Idaho in adults is 24%. Obesity-related health spending is estimated to account for 27% of inflation adjusted per capita health spending.

**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.

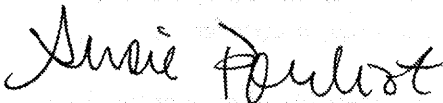
**E. Physician Reimbursement**--Most people in Idaho are insured by Blue Cross, Regence BlueShield, Medicare or Medicaid. The rates of reimbursement are controlled by each of these organizations affecting 90 to 95 % of the State's physicians.

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.

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

Sincerely,



Susie Pouliot,  
Chief Executive Officer

C: IMA Board of Trustees