A Doctor Shortage? Fine!

By David J. Gibson, MD

Health care professionals are behaving rationally. They are entering other fields or selecting less hostile markets.

OUR MEDICAL SOCIETY RECENTLY reported that the number of doctors practicing in Sacramento and El Dorado counties dropped 13.4 percent between 1995 and 2000, while the area's population rose 9.6 percent. The total number of physicians per 100,000 people in the region dropped to 165 in 2000 from 205 in 1995, a 19.6 percent decline. Overall, the number of doctors in Sacramento and El Dorado counties dropped from 2,550 in 1995 to 2,249 in 2000.

More than a third of those who left town or ceased to practice are primary care physicians. There were almost 73 primary care physicians per 100,000 people in the region in 1995. By 2000, the number had dropped 20 percent to 58 per 100,000. Industry experts attribute the problem to the local dominance of managed care health plans. The real problem is getting new physicians to come to Sacramento.

According to the report, "If physician supply in our region continues to deteriorate, one of California's greatest regions of medical excellence will continue to decline."

We can wring our hands about the data, but the market is simply performing as it always does - balancing supply and demand. Over the past 20 years, California has become a hostile environment for physicians. With seven medical schools pumping out hundreds of newly minted physicians each year the supply of physicians in the market significantly outstripped demand.

In low managed care markets, the physician/population ratio runs at 2.53 per 1,000.[1] Sacramento's physician supply is 1.65 per 1,000. Clearly, we are in an environment where the negotiating strength is switching from the consumer of services to the provider.

Any market in our economy penalizes oversupply. Health plan insurance premiums in California are about 10 percent below the national average.[2] California has the lowest capitation rates in the country.[3] Reimbursement rates for California's primary care physicians run between 20 and 40 percent lower than rates paid to PCPs in other parts of the country. Parenthetically, the costs for physicians to provide services in California are among some of the highest in the nation. After adjusting for cost-of-living increases, capitation rates and physician reimbursement in California has fallen 55 percent since 1993.[4]

The same market forces have been affecting the nurse supply. California now ranks dead last amongst the 50 states in its number of registered nurses, averaging 500 per 100,000 people. Conservative estimates show that we face a shortage of 25,000 nurses in California.[5]

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In fact, the entire health care market has been moving toward a new balance at a rapid pace. Health insurance companies have merged and been acquired, producing large regional and national business units. Mergers and acquisitions have become commonplace in the pharmaceutical sector. Hospitals have merged into regional units and reduced the number of beds in any given market.

A change in the supply and demand ratio produces both problems and opportunities. What are some of the opportunities as the declining physician supply ripples across the market? Some of the issues to consider:

A change in the pricing structure

With the market strength that flows from supply/demand balancing, the physicians should discontinue risk assumption for professional services or pharmaceutical benefits. The reality: physicians are not insurance companies.

One of the most sinister effects of the dominance of managed care has been to alienate the physician from those that are sick. In today's environment, disease is equated with cost and underwriting undesirability. Thus, the inescapable reality - the sick should be avoided.

In this looking glass world, physicians who care for the sickest patients are financial under performers. In short, we have devolved from being the patient's advocate to becoming little insurance companies. In the process, we have lost our anchor to windward - the vulnerable patient. This relationship with the patient has served the profession since antiquity. Without controlling product design, product pricing or underwriting discipline, physicians should not be in the risk assumption business.

Physicians are trained to take care of people as individuals, one at a time. We do not take care of populations. There is nothing in our training or temperament to prepare us to think in terms of large systems or market trends. As the market has evolved under managed care, the sideshow has taken over the big top. Insurance companies have tried to practice medicine and physicians have tried to become insurance companies.

Control retail pricing for your services

The need to accept discounted fee schedules dictated by managed care companies should be relegated to the past. Each physician should seek actuarial advice as to reasonable reimbursement rates for professional services within each contract they negotiate.

Above all, avoid discounting your fees for volume. Giving volume discounts will simply perpetuate the gas war market that has so distracted physicians over the past 15 years. Patients are buying access to the physician, not the insurance company's nameplate on the group health insurance product.

Let the market balance itself

Do not interfere as the market corrects the provider supply/demand ratio. Any interference will likely generate severe dislocations in the future. For example, even with a decline in primary care physicians, Sacramento still has twice the national norm for primary care physicians compared to similar sized markets - .58 per 1,000 in Sacramento vs. .26 per 1,000.[6]

If managed care declines, the entire artificial market demand for primary care will collapse. Such an outcome would exacerbate the current oversupply of primary care providers in the Sacramento market. It would be a mistake to actively recruit new physicians with subsidized salaries until the supply/demand ratio stabilizes.

In a recent analysis of Medicare quality of care,[7] Jencks and colleagues ranked California as a dismal 41st out of 50 states as measured by 24 proven yardsticks of medical quality 15 years ago. Prior to the advent of managed care, California was nationally ranked at the top for delivering care based on these same medical quality measurements.

The market is self-correcting. I say, it's about time!

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1. InterStudy Competitive Edge, Regional Market Analysis 9.1, July 1, 1998.
2. Kaiser Family Foundation.
3. 1999 report by PriceWaterhouseCoopers.
4. Healthcare: An Industry in the ER; PriceWaterhouseCoopers study, 2000.
5. California Nursing Association
6. InterStudy Competitive Edge, Regional Market Analysis 9.1, July 1, 1998.
7. Quality of Medical Care Delivered to Medicare Beneficiaries: A Profile at State and National Levels; Stephen F. Jencks, MD, MPH; et.al.; JAMA / volume:284 (page: 1670), October 4, 2000.

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