

Washington's Ailing
Health Care System:
**Continued Decline,
Guarded Prognosis**

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Washington's Health Care Delivery System, January 2002

As Washington enters 2002, citizens across the state are beginning to experience the impact of a several year decline in the economic viability of the state's health care delivery system — primarily, the medical practices that, day-to-day, are the source of care for millions of Washingtonians.¹

The decline at first has been gradual — a slow erosion of the foundation of care driven by waning funding for public health care programs, growing administrative expenses, and mounting frustrations of physicians trying to comply with regulations, hassles, and patient expectations.

Now the pace appears to be quickening. In 2001 Washington witnessed:

- The dissolution of the largest multiple-specialty group practice in South Puget Sound, which at one time included 90 physicians.²
- The bankruptcy of the largest family practice clinic in Everett.³
- A growing number of medical practices experiencing decreased or negative operating margins.
 - In 2001, respondents to a survey conducted on behalf of the Washington State Medical–Education and Research Foundation reported an average loss of \$296,801, based on their direct patient care revenues, during fiscal year 2001.⁴ Simply stated, last year, many medical practices reported that they lost money providing care to patients.
- A net loss in the number of physicians from several communities as retirements and departures from the state increased.
- A growing number of medical practices unable to take Medicaid and/or Medicare patients due to their inability to continue to subsidize the care provided to these patients.
- Increasing hospital emergency department overcrowding as those without insurance seek care.⁵
- A growing number of patients — with insurance — finding themselves unable to find a physician.⁶

¹ There are an estimated 115,000 patient encounters with a physician or surgeon every day in Washington state.

² Olympia's Memorial Clinic.

³ Everett Family Medicine with, at the time of its closure, 12 physicians and 61 employees.

⁴ Survey conducted by the Washington State University, Social and Economic Sciences Research Center (SESRC) on behalf of the Washington State Medical Education and Research Foundation (WSM-ERF).

⁵ Spring-Summer 2001 Survey conducted by the Washington Chapter, American College of Emergency Physicians.

⁶ An estimated 2000 patients per physician are displaced and must find a new caregiver when a physician leaves his or her practice - source: Health Care Economics Department, Washington State Medical Association.

The Harsh Economics of Medical Practice Today

Medical practices, like any business, cannot provide services when the cost of doing so exceeds the revenue received.

During 2000, an average 68% of the total revenue generated in a Washington state medical practice was consumed by non-medical expenses. Non-medical expenses are defined as those expenses not directly related to actual patient care, including overhead costs and personnel.⁷

Single and multi-specialty physician practices reported in a recent survey that nearly one-third of their accounts receivable were over sixty days old.⁸ This measure indicates the level of delay that practices encounter in obtaining payment from patients and insurance sources. The longer the delay, the greater the amount of labor costs required to collect on services already rendered, further decreasing the practice's net income.

Health plan payments, for private business, for the same services provided in Portland or Boise can average 18% higher than in Washington state.⁹

*What's it worth? Washington State Medicaid payments compared to other commonly used services:*¹⁰

Repair broken arm	\$114.74	<u>US</u>	Repair dog's broken leg	\$500-800
Office visit	\$13.40		Take out pizza	\$19.00
Chest wound (knife)	\$108.24		Clogged drain (RotoRooter)	\$103.00/hr
Nail care/trimming	\$4.03		Pedicure/Manicure	\$50.00
Hernia repair	\$285.95		Car tune-up (60k service)	\$495.00
Skin Biopsy	\$26.89		Tanning Salon	\$40.00

Primary care practices with between 20 and 25% or more of revenues derived from Medicaid and the Basic Health Plan (BHP) combined might be considered "high share" — and "at risk." A Medicaid share of total practice revenue of 20% or more appears to represent both an exceptionally high volume of state program clients and is associated with weaker financial performance of primary care physicians' practices, on average.¹¹

⁷ Survey conducted by the Washington State University, Social and Economic Sciences Research Center (SESRC) on behalf of the Washington State Medical and Educational Research Foundation (WSM-ERF).

⁸ Survey conducted by the Washington State University, Social and Economic Sciences Research Center (SESRC) on behalf of the Washington State Medical and Educational Research Foundation (WSM-ERF).

⁹ WSMA Health Care Economics Department, January 2002.

¹⁰ Ibid.

¹¹ State Primary Care Provider Study commissioned by the legislature and conducted by the University of Washington Health Policy Analysis Program, 2001.

Unfunded mandates — including regulations requiring the use of interpreter services, federal Health Insurance Portability and Accountability Act (HIPAA) requirements, and the state's Medicaid drug control program — drive up administrative costs. Administrative burdens imposed by health plans and other regulatory requirements continue to drive up overhead costs for medical practices.¹² Five years ago, a ratio of three support staff to every care-giving physician was considered the norm, today the ratio is about 5 to 1.¹³

The exodus of physicians appears to be growing. For example:

- Physicians are leaving medical practice in Washington state. Since 1998, the state medical association has seen a 31% increase in the number of its physician members moving out of state.¹⁴
- More physicians are retiring, and at a younger age. Between 1996 and 2001, the number of retirements reported to Physicians Insurance increased 50% and the average age of these retirees dropped from 63 to 58 years of age.¹⁵
- Medical practices are finding it more difficult to recruit new physicians to the community. Difficulties are reported in:¹⁶

Bellingham (family practice, internal medicine, obstetrics-gynecology, neurology and neurosurgery)
Olympia¹⁷ (internal medicine, family practice, emergency medicine)
Seattle (neurosurgery, orthopedics and radiology)
Spokane (anesthesiology, pediatrics, family practice)
Tacoma (neurology, general surgery, and dermatology)
Vancouver¹⁸ (gastroenterology, cardiology, vascular surgery)
Walla Walla (anesthesiology, internal medicine¹⁹, other primary care physicians)

“The word is out around the country — Washington is a lousy place to practice medicine.”

— **Emergency Medicine physician, Olympia**, on her difficulties recruiting new physicians to her practice.

¹² A new corporation — Washington Health Care Forum Services — formed by the state medical association, state hospital association, Regence Blue Shield, Premera Blue Cross, Group Health Cooperative, FirstChoice, Providence Health Systems, Swedish Hospital and the Everett Clinic, is working to identify strategies for achieving administrative standardization and simplification, thereby reducing medical practice overhead expenses. Whether those strategies can affect sufficient savings in time to tangibly assist medical practices and hospitals is an open question.

¹³ Medical Group Management Association, “Cost Survey, 2001.”

¹⁴ WSMA Membership transition report, January 10, 2002.

¹⁵ Physicians Insurance, tracking report. This data is referenced as it is considered more reliable than retirements reported to either the Department of Health or state medical association. Often physicians will maintain their state licensure or membership in their professional association even though they have stopped the actual practice of medicine.

¹⁶ Members, American Medical Group Association.

¹⁷ The local county medical society reports that there are two primary care physicians currently accepting new Medicaid patients and an estimated five taking new Medicare patients.

¹⁸ The Vancouver area was officially designated by the federal government as a Health Manpower Shortage Area in the late 1990s.

¹⁹ New appointment can take six months.

Medicaid — Here Today. Gone Tomorrow

Over the last 12 years, eligibility for the state's Medicaid program has doubled to 858,000 clients.²⁰ Since 1993, overall state spending has remained relatively flat with a growth rate of approximately 4%.²¹ For the same period, Medicaid's medical expenditures grew an average of 20% per year. In the 1989-1991 biennium, the Medicaid budget was \$768 million — about 6% of the state's operating (General Fund-State [GF-S]) budget of \$12.8 billion — compared to the current Medicaid budget of \$2.3 billion, or 10% of the state's GF-S budget.²²

Despite the overall increase in funding, the Medicaid "per service" fee paid to physicians has decreased.

Today, Medicaid pays about one-third the rate of private insurers²³ and for most medical practices the payment received fails to cover the cost of the service provided.

Federal regulations require states to maintain a network of providers adequate to serve the people enrolled in the program. In Washington state this network is disappearing.

In a recent sampling of WSMA members:²⁴

- 30% of respondents said they have begun limiting the number of Medicaid Healthy Options and Basic Health Plan patients they will treat;
- Another 28% of respondents have decided to drop all Medicaid Healthy Options patients (up 10% from a previous poll conducted earlier in the year²⁵); and,
- 24% have decided to drop all Basic Health Plan patients (up 9% from a previous poll conducted earlier in the year).

Given the recent increase in overcrowding episodes in hospital emergency departments,²⁶ as well as the difficulty that Medicaid patients in most communities have trying to get an appointment with a physician, the federally mandated "adequate" network is fraying badly.

Medicare — Following the Medicaid Road

Washington state ranks 42nd among the states in Medicare spending per patient.²⁷ That's about \$3,900 per patient per year for all Medicare services.²⁸

- In Washington, D.C., in fiscal year 2000, Medicare spent more than \$10,000 per patient per year. In both Florida and New York, it's more than \$6,900 a year.²⁹

²⁰ DSHS presentation to Senate Health and Long Term Care Committee, "Progress and Challenges, 2001-2003", November 30, 2001.

²¹ Ibid.

²² Ibid.

²³ Study conducted for the State of Washington by Tucker Alan Inc., June 30, 1999.

²⁴ WSMA Membership Memo spot poll, December 19, 2001.

²⁵ WSMA Membership Memo spot poll, April 27, 2001.

²⁶ Spring-Summer 2001 Survey conducted by the Washington Chapter, American College of Emergency Physicians.

²⁷ Centers for Medicare and Medicaid Services, "Medicare Estimated Benefit Payments by State, 2000"

²⁸ Ibid.

²⁹ Ibid.

As of January 1, 2002 Medicare's payment rates to physicians have been reduced 5.4% nationally. This will be the 4th cut in physician payments over the past 10 years.³⁰

The result?

- Around Washington state, senior citizens are finding it increasingly difficult to see a primary care physician or to get a referral to a specialist.
- Increasingly, physicians are being forced to choose between keeping their medical practices financially viable and treating all of the Medicare patients that need their services.

In a recent poll conducted by the state medical association:³¹

- 57% of physicians who responded said they are either limiting their Medicare patients or dropping all Medicare patients from their practice.³²
- Of 194 physician practices representing approximately 325 physicians statewide:
 - 45% (88 practices) said they have decided to take no new Medicare patients;
 - 12% (23 practices) said they have decided to drop all Medicare patients; and
 - 43% (83 practices) indicated they are making no changes at this time.

Another Symptom: Overcrowding in Emergency Departments

When physician practices begin to limit new patients they can take, or close entirely, patients must find care elsewhere. In areas already experiencing a shortage of physicians, patients typically go to the local emergency department.

In a recent statewide survey of hospital emergency department directors:³³

- 91% of small hospitals and 100% of large hospitals reported that they have an overcrowding problem
- 76% of large hospitals reported an overcrowding frequency of two to three times per week or greater.
- 81% of large hospitals and 60% of small hospitals expect emergency department overcrowding to increase in the future.

Overcrowding occurs in an emergency department when its capacity to "move" patients is grid locked (too many patients arriving and too few patients departing). Like the proverbial canary in the mine, the experience of our state's emergency departments is telling us that the health care delivery system is deteriorating.

³⁰ AMA News Release October 31, 2001

³¹ WSMA Membership Memo spot poll, November 16, 2001.

³² WSMA Membership Memo, November 16, 2001.

³³ Spring-Summer 2001 Survey conducted by the Washington Chapter, American College of Emergency Physicians.

The Impact of the Medical Malpractice Crisis

Another marker of a healthy or unhealthy medical practice environment is the availability and cost of medical malpractice insurance.

Today, professional liability insurers are leaving Washington and rates are increasing, often dramatically. Driven by a dramatic rise in the size of jury awards, insurers are finding it increasingly difficult to provide this essential coverage.

Late in 2001, 1,900 physicians in Washington state were notified by the Washington Casualty Company, the company with the second largest share of the Washington state market, that it would no longer provide malpractice insurance. This notice was followed closely by an announcement that St. Paul, a leading nationally based underwriter, would drop its coverage for emergency medicine specialists and obstetricians.

Premiums charged by other companies that remain financially sound have been increased dramatically.

- Five years ago a typical annual premium for a family physician was \$5,633. Today, it can run as high as \$9,779. For obstetricians the increase has been from \$29,022 in 1997 to \$51,878 today.³⁴

For a medical practice already “on the edge,” increases in medical malpractice insurance rates such as those announced for 2002 can be the “last straw.”

“For a variety of economic reasons, malpractice rate increases will pinch some Washington doctors and bludgeon others, and many are not yet aware of what is in store for them.”

— The Olympian, January 8, 2002

Why the Viability of Medical Practices Matters to Every Washingtonian

Beyond providing health care, medical practices generate jobs and economic development. The health care delivery system is integral to the economic well being of Washington’s communities.

In 1998, the most recent date for which data are available, total personal health care expenditures in Washington state totaled \$19 billion, or about 11% of all state economic activity for that year.³⁵

In 1999, health care services employed 185,808 workers,³⁶ accounting for 7% of all employment in Washington,³⁷ and in 2000 employed 186,886 employees. By comparison, in 1999, 359,049 were employed in manufacturing, and 472,385 in retail trade.³⁸

³⁴ Physicians Insurance, January 2002.

³⁵ State Health Expenditure Accounts from the Health Care Financing Administration website at <http://www.hcfa.gov/stats>. State Health Care Expenditures (SHE) measure spending for personal health care services and products (hospital care, physician services, nursing home care, prescription drugs, etc.) by state of provider and by two sources of funding, Medicare and Medicaid. Costs such as insurance program administration, research, and construction expenses are not included in this total.

³⁶ The total exceeds 222,000 when workers in the biotechnology and medical technology fields are included.

³⁷ Washington Employment Security Department, Labor Market and Economic Analysis Branch, “Industry Analysis: Health Services,” Table i.

³⁸ Washington Employment Security Department, “Covered Employment and Wages by Industry, 1999,” available online: www.wa.gov/esd/lmea/labmrkt/emp/statem.him.

As noted earlier, the exodus of physicians from Washington state appears to be growing. Every physician who leaves practice results in five health care workers losing their jobs.³⁹ For every health care worker losing a job, two other citizens could lose their jobs.⁴⁰ Such a ripple effect could have a disastrous impact on an already weak economy.

Employees in health care earned a total of almost \$6 billion dollars in 1999, or about 6% of all wages compared to 1998 when employees earned about 8.8% of all wages.⁴¹

Forty-seven percent of health care employees are considered professional or technical employees, the second highest percentage in the state.

Continued Decline, Guarded Prognosis

The data from the past two years shows a health care delivery system in decline. If health care were an actual patient, its physicians would be able to offer the family only a guarded prognosis.

The data indicate that if we wish to save the very viability of an essential part of the quality and economic life of Washington state, then:

- Funding for publicly sponsored health care programs cannot remain at its current levels;
- The programs themselves cannot remain in their current form;
- Administrative expenses — including the cost of liability insurance — must be brought under control.

“Doctors go into the business to heal the sick, but these days it’s their business that’s sick, with ailments no stethoscope can diagnose. In other cities, physician groups have gone bankrupt.”

— **Spokesman Review, Spokane, January 6, 2002**

³⁹ Medical Group Management Association, “Cost Survey, 2001.”

⁴⁰ The health care employment multiplier is estimated at 2.01. Washington Employment Security Department. Labor Market and Economic Analysis Branch, “Industry Analysis Health Services.”

⁴¹ Ibid.