The Economic Reality of Primary Care

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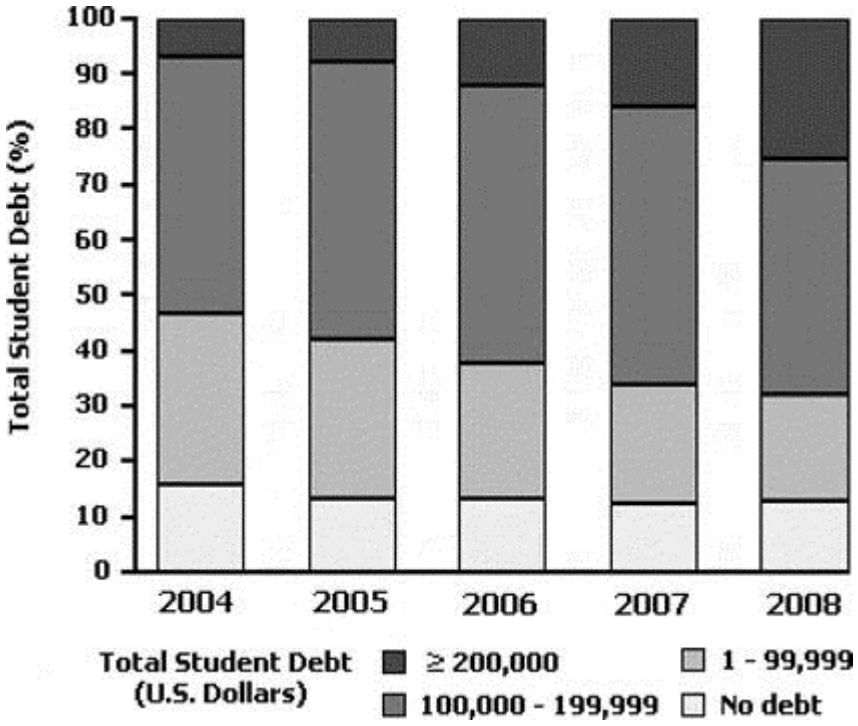
The ED was slow last night, and I had a discussion with a partner about his medical school class. I attended a rather inexpensive medical school, and quite a few people from my class went into pediatrics, family practice, and internal medicine. He attended an expensive medical school in an area with a high cost of living, and his impression was that the only members of his class who went into primary care were those whose parents were footing the tuition bill ("the trust fund students.") There was a paper published about a year ago about this phenomenon by a group at Dartmouth led by Martin Palmeri which made some interesting observations.

First, a figure on the increasing debt burden on medical students.



This is pretty self-explanatory. Over a period of 5 years the percentage of students graduating with more than $200K in debt

has gone from ~8% to ~26%. That trend has worsened over the last 3-4 years to the point where a majority of graduates at many schools have over $200K in debt. Combined with higher student loan interest rates and with subsidized Stafford loans going away, this debt burden is becoming the equivalent of a second mortgage payment.

After a discussion of the phenomenon of increasing debt, the group calculated out an average primary care physician income. This calculation is well-represented by this figure:

Table 1

Monthly Budgetary Shortfalls of Primary Care Compared With Other Specialties

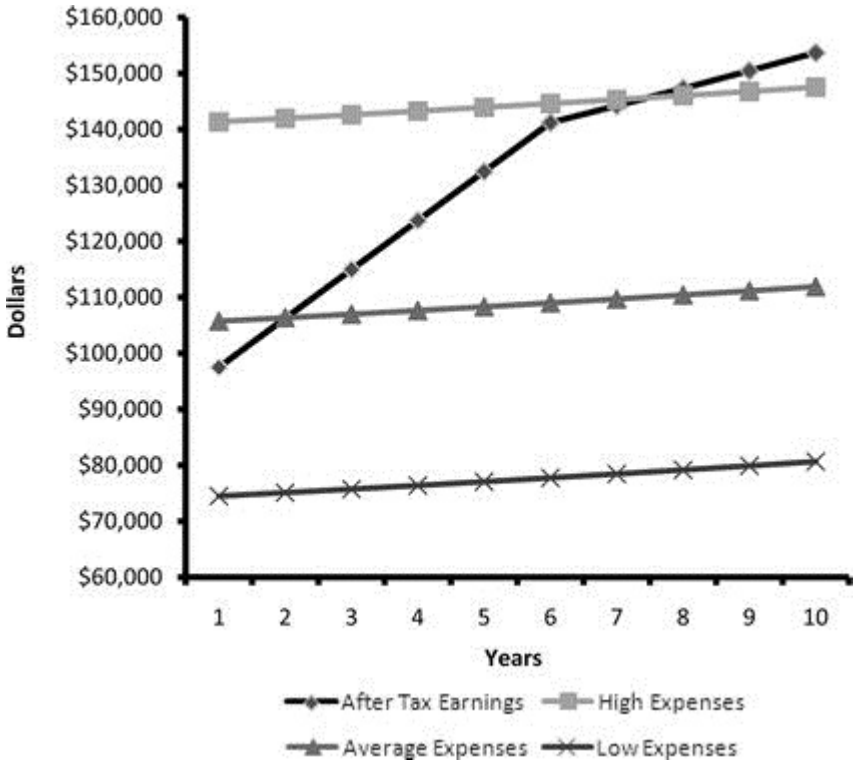
Expense	Physician specialty		
	Primary care	Psychiatry[2]	Radiology[2]
Monthly income (after taxes)	$8,125	$10,000	$21,875
Educational loan repayment	−$2,261	−$2,261	−$2,590*
Retirement savings	−$895	−$1,306	−$5,023
Mortgage/home expenses	−$1,734	−$1,734	−$1,734
College savings	−$1,967	−$1,967	−$1,967
Other expenses	−$2,069	−$2,069	−$2,069
Net income after expenses	**−$801**	**+$663**	**+$8,492**

* Higher savings rate is a function of longer residency training.

No huge surprise here, primary care docs get paid less than specialists as a function of less time in training and relatively poor reimbursement for non-procedural medical care. There is one line I want you to pay special attention to though- retirement savings. The suggestion is that primary care docs can save $895 a month for retirement and radiologists can save $5023 for retirement. Carry that to it's logical conclusion using the future value function in any spreadsheet. Assume the primary care doc has a 35 year career and the radiologist has a 33 year career. At age 65, what is the difference in wealth? Assuming 5% real returns, the primary care doc will end up with just $1.02 Million, which at

a 4% withdrawal rate, will provide a real retirement income of just over $40,000, a decidedly middle class amount. The radiologist will end up with $5.05 Million, allowing a real retirement income of $202,000 a year, five times as much as a primary care doctor (despite a salary difference of only 2.7 times). Looking at it a different way, if both doctors needed $2 Million to retire, the radiologist could retire at age 53, but the primary care doctor would have to work until age 77. Perhaps medical students choosing a specialty should look at these numbers rather than just the initial salary differences. I think I could put up with sitting in a dark room all day for a career that was half as long.

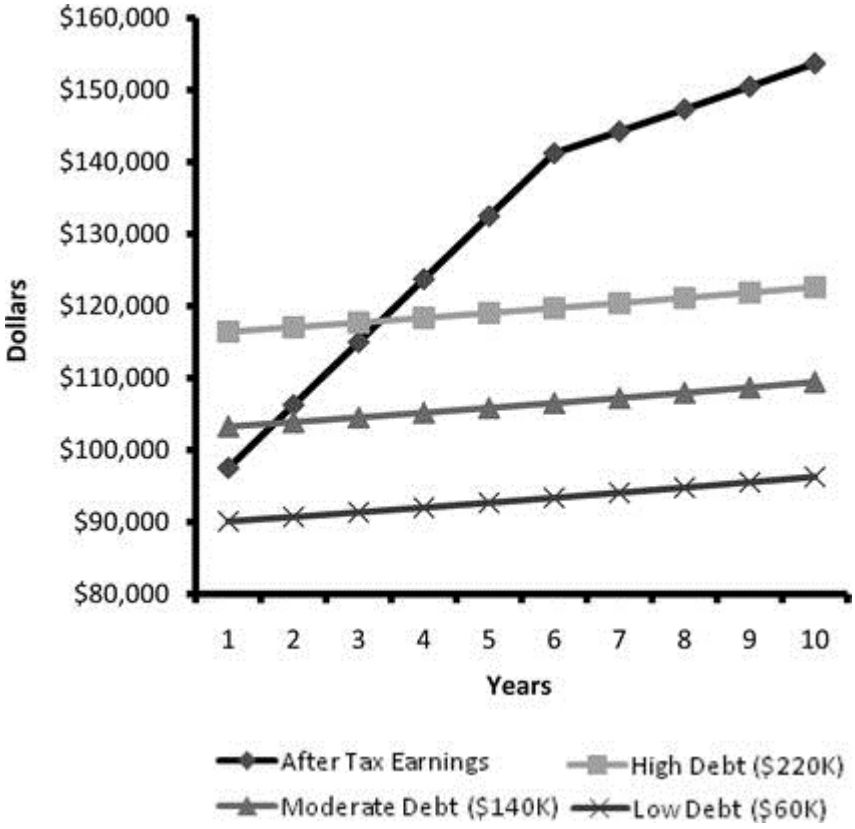
After looking at the income side of the equation, the authors next turned to the expenses side. They considered a "low-budget" physician (no student loans, kid's college was to be at a state school, and no changes to social security program) and a "high-budget" physician (high student loans deferred during residency, kids go to private colleges, and no social security program.) This figure shows what they found:



Basically, with a high-expense lifestyle (not a big house and

car, just student loans and a high savings rate for his kid's college), the doctor would spend more than he earned for the first 7 years of his post-residency career. In practicality, this means if you have a high educational debt burden, you won't be able to save for retirement or college for years after starting your career.

Finally, the authors plotted out after-tax income only against a low, moderate, and high student debt burden.



As you might expect, high student loans will keep you from saving much money. Not a huge revelation, but the trend will only get worse as reimbursements fall and debt burden goes up. Primary doctors with a $220K debt burden can't put $30K a year away for retirement until their 9th year of practice now. What will happen when that figure becomes the 20th year, or never?

The authors appropriately conclude:

> *Physicians cannot make the decision to follow a PC career path lightly. Although declining interest in the gate-keeping disciplines of internal medicine, family medicine, and pediatrics suggests that students intuitively grasp this problem, these data make the career choice disincentives explicit. Clearly, subspecialization allows a budget surplus for discretionary spending, ranging from modest to substantial. The financial situation of those who pursue subspecialization contrasts sharply with the dilemma of PC physicians who face difficult economic choices, as this paper demonstrates. The stark differences perhaps distort the choices newly minted physicians might make otherwise (e.g., choosing a subspecialty because of monetary concerns).*
>
> *This analysis should be viewed as a budgetary scaffold and not in absolute terms. The essence of the analysis is to provide a financial benchmark to guide PC policy makers and to serve as a warning that any erosion in PC physician income may make a career as an internist, family physician, or pediatrician untenable. Rising interest rates on educational loans, increasing student debt, declining Medicare/Medicaid reimbursement, and inflation can significantly reduce PC physician income.*

Moral of the story for pre-meds: Don't go to an expensive school if you think you want to do primary care.

Bottom line for medical students: If there's a specialty you like almost as much as or as much as primary care, you'd best choose that instead.

Summary for practicing primary care docs: You are not rich, so don't live like it. You can have a comfortable middle class lifestyle, but you simply cannot live in a house as big as a specialist's, drive a car as nice as a specialist's, go on vacation like a specialist, or retire early like a specialist. You cannot put off retirement savings until you

get a larger amount of discretionary income or you may never have a comfortable retirement. You must carve those retirement contributions out of your lifestyle.

Summary for specialists: Don’t laugh. With reimbursements falling and educational costs rising the primary care docs may just be the canaries in the gold mine.