



**Starting a Practice: Critical Economic Decisions Associated with Locating and Operating a Rural Primary Care Physician Practice**

The National Center for Rural Health Works is presenting a study outlining economic guidelines and tools for starting a rural primary care physician practice. Upon graduation, new physicians are faced with a new set of challenges regarding their future direction. The options include becoming a staffed physician at a hospital, partnering with an existing physician and operating their own practice. The alternatives are unlimited, but if unprepared, the decision process can be difficult. While these new graduates are equipped with the best medical training, many are searching for additional “real world” information to enable a successful transition to employment.

This information will provide a template for prospective physicians or community leaders to estimate potential physician income for a specific medical service area. Users can easily adapt the data to make the template applicable to other states.

This study addresses two distinct aspects critical to the financial success of a new physician: (1) estimate the number of primary care physicians a medical service area can support and (2) estimate the costs and revenues associated with starting and operating a rural primary care physician practice. Determining location is the first decision that must be addressed. Besides personal reasons, the location needs to be one in which the physician can succeed. The study provides a straight-forward methodology to assess the population in a service area, determine if additional physician services are needed and evaluate the financial feasibility of choosing a particular location.

To determine if a medical service area could support additional physician services, the

demand for services for a local population is estimated. **Table 1** presents an approach to estimating potential office visits for a typical rural community with a population of 9,151. Utilization rates by age and gender are applied to the service area population.

**Table 1  
Annual Primary Care Office Visits by Males**

Age	Population	Visit Rate	Total Visits
Under 15	975	2.6	2,535
15-24	814	1.1	895
25-44	1,248	1.6	1,997
45-64	1,012	3.0	3,036
65-74	284	5.5	1,562
75 +	<u>194</u>	7.1	<u>1,377</u>
Total	4,527		11,402

The table illustrates the estimated annual primary care office visits by males in the medical service area. For instance, the 975 males in the medical service area under the age of 15 will generate 2,535 primary care physician office visits. The example service area would generate 11,402 potential annual primary care office visits by all male residents. The same analysis can be done for females to estimate the total potential annual primary care physician office visits in a medical service area. National data estimate that 58.3 percent of these visits will be made to physicians or midlevel practitioners active in primary care. The rest will be made to specialists. With an additional 16,383 visits by all females, office visits total 27,785 for the medical service area. Almost fifty-eight percent or approximately 16,000 annual primary care office visits will be generated in the medical service area.

To obtain data to assist new primary care physicians, 25 primary care practices were surveyed in Oklahoma. The results represented new and established primary care physicians in practice less than two years to over 24 years.

The survey included both solo practices and clinics operating with multiple physicians. The clinics also varied in the use of midlevel physician assistants and nurse practitioners. Total visits including all types of physician visits ranged from 3,550 to 7,720 annual visits per physician. The average number of total annual visits per physician was **5,640**. The average number of office visits was **5,104**.

The surveys illustrated the diverse options available with clinic operations. Patient mixes, particularly in regards to payor source, varied significantly. Some clinics did not have Medicaid patients while others reported over 50 percent of their patients were receiving Medicaid benefits.

Many had contractual agreements with hospitals and/or nursing homes. Two clinics are never exactly the same when it comes to size, operational goals, and available services.

Estimates of practice revenues were collected by type of visit as well as payor source to examine various fees and collections. Information was also obtained to specify capital needs and to clearly estimate operating expenses.

The survey results, with additional state and national data sources, were used to construct a budget characterizing a single primary care physician practice. From these data, if the population in a medical service area generates 16,000 primary care physician visits and the two current primary care physicians are observing 10,200 visits, then there should be enough potential visits (5,800) to support a new primary care physician clinic or practice.

**Table 2** illustrates a typical single primary care physician practice in Oklahoma would generate almost **\$363,000** in annual revenue. After subtracting total annual costs, the physician would net approximately **\$153,000**. If revenues increased 10 percent, physician income would increase to almost \$189,000.

**Table 2**  
**Example Budget**  
**for Single Primary Care Physician Practice**

<b>Revenue</b>		
<b>Office</b>		
Initial Visits	766	
Avg Fees Collected/Visit	<u>\$81</u>	
<b>Total Fees Collected</b>		\$62,046
<b>Routine Visits</b>		
Routine Visits	4,338	
Avg Fees Collected/Visit	<u>\$61</u>	
<b>Total Fees Collected</b>		\$264,618
<b>Additional</b>		
Total Hosp/Nursing Home Visits	536	
Avg Fee Collected/Visit	<u>\$67</u>	
<b>Total Fees Collected</b>		<u>\$35,912</u>
<b>TOTAL Revenues</b>		<u><b>\$362,576</b></u>
<b>Annual Costs</b>		
Building Costs (if purchased)		27,911
Equipment		\$6,083
<b>Labor</b>		
LPN	\$31,500	
Office Manager	\$38,500	
Receptionist	<u>\$24,000</u>	
<b>Total Wages</b>	\$94,000	
Benefits (25%)	<u>\$23,500</u>	
<b>Total Labor Costs</b>		\$117,500
Operating		<u>\$58,400</u>
<b>TOTAL Annual Costs</b>		<u><b>\$209,894</b></u>
<b>Revenue Above Costs</b>		<u><b>\$152,682</b></u>

The intent of this study is to assist prospective primary care physicians and local leaders in determining if a local community could support a primary care physician. In conjunction with local support for improved health care, this study could assist a community in developing an action plan for primary care physician recruitment.

Study prepared by National Center for Rural Health Works, Oklahoma State University, and Oklahoma Center for Rural Health, OSU Health Sciences Center, College of Osteopathic Medicine, December 2008.  
The final version of this study will be posted on the RHW website at [www.ruralhealthworks.org](http://www.ruralhealthworks.org).