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SAMA Practice Cost Study Updated Final Report

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Statement of Confidentiality

The contents of this report for the SAMA Practice Cost Study is private and confidential. The proposal is intended for the specific purposes for which it was commissioned and intended solely for internal use and not for external consumption.

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2 Executive Summary

2.1 Project Objective

The main objective of the Practice Cost Study (PCS) was to understand the **costs of running a private practice** in 2017 in South Africa.

To provide relevant context a **Scope of Practice analyses** was undertaken to provide background to the financial results. In addition, two detailed analysis on **Salaries and Equipment cost** were undertaken as these elements are often under reported within practice cost studies and were deemed as significant contributors.

Therefore, this PCS contains the following elements:

- Scope of Practice
- Cost Analyses:
 - Financial Analysis
 - Salary Costs
 - Equipment Costs

SAMA appointed the Consortium (HealthMan, MPC and PPO Serve) to do a study of the costs involved in running a private medical practice in South Africa. This included General Practitioners (GPs) and all Specialist disciplines, with the exception of Radiology and Pathology. Due to their complex business structures, Oncology was excluded in the study.

2.2 Project Methodology & Approach

The Consortium solicited the support of all GP and Specialists Societies/Associations, IPAs and Management Groups for the study and they all sent out communications to their respective members to encourage them to participate.

The project methodology followed a voluntary sample approach. Surveys were sent out to all Doctors in the SAMA, HealthMan and MPC databases; totalling over 8 000 Doctors. Participation rates were lower than expected. After numerous initiatives to solicit participation, 121 GPs and 552 Specialists participated in the study. However, this was sufficient to produce statistically sound results for most disciplines.

Response bias and the effects thereof on the PCS was considered. Based on the variation in costs received, no obvious participation bias was identified.

Statistical validity of the results were determined by the variation between the costs of different participating Doctors in each discipline. Where there was little variation, lower participation rates were required. Where there was higher levels of variation, a higher volume of participating Doctors would be required. The representative sample size per discipline is displayed in Section 7, where the detailed results per discipline can be found.

All results were collected at an individual Doctor level. Data collected from group practices, was broken down to an individual Doctor level to allow like-for-like comparison.

All data was extracted from Annual Financial Statements or completed Financial Survey forms. The results of the study provides for a fair representation of the actual costs of running a private practice. No higher level of assurance applied to financial information can be obtained to support a study of this nature.

The data for this PCS was gathered as follows:

- **Scope of Practice Analysis:** data was collected via a survey which was completed by the medical practice and submitted online, electronically or via paper.
- **Cost Analysis:**
 - **Financial Analysis:** data was collected via the submission of Annual Financial Statements or the completion of a financial survey which was submitted electronically or via paper.
 - **Salary Analysis:** data was collected via a survey which was completed by the medical practice and submitted online, electronically or via paper.
 - **Equipment Analysis:** data was collected via desktop research by an external consultant, which was also reviewed by the various societies for validation.

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The following four steps were followed in the project approach:

- **Step 1:** Agreement to participate from Societies, Representative Organisations and IPAs
- **Step 2:** Model development & sample approach
- **Step 3:** Data Analysis and application of the methodology
- **Step 4:** Preparation and submission of the Final Report

As a final validation exercise, this PCS was compared to the National Department of Health (NDoH) 2008/9 Practice Cost Studies (PCS).

2.3 Results

2.3.1 Scope of Practice

There was participation from Doctors across all provinces and geographical areas e.g. rural, big town, big city and metro councils (metro).

Within the GP discipline, most of the participants practiced in family practices as sole practitioners and single shareholder incorporated practices. The largest portion of GPs see between 24 and 36 patients per day.

As with the GPs, most Specialist practices are sole practitioners or single shareholder incorporated practices. Specialists are generally hospital based and the majority of the participants see less than 12 patients a day. Some Specialist disciplines were better represented than others. For more information in this regard refer to the results section, Section 6 of this report.

2.3.2 Operating Cost of Running a Practice

a) Financial Analysis

The total operating costs of running a practice varies between disciplines. The average operating cost of running a practice is as follows (note figures below do not include Doctor's remuneration):

General Practitioners¹ | R 858 201

¹ **Statistically representative sample**

Anaesthetists ²	R 509 494
ENTs ¹	R 1 282 704
General Surgeons (consolidated) ¹ <i>(Incl. Cardio Thoracic Surgeons, Neuro Surgeons & Plastic Surgeons)</i>	R 1 617 593
Gynaecologist/ Obstetricians ¹	R 1 672 791
Ophthalmologists ²	R 2 222 150
Orthopaedic Surgeons ²	R 1 607 757
Paediatricians (consolidated) ¹ <i>(Incl. Paediatric Cardiologists)</i>	R 1 004 176
Physicians (consolidated) ² <i>(Incl. Cardiologists, Dermatologists, Gastroenterologists, Neurologists, Pulmonologists & Rheumatologists)</i>	R 1 487 112
Psychiatrists ¹	R 872 323
Urologists ²	R 1 221 068

All Consulting Specialists¹ | R 1 155 626
(Incl. Cardiologists, Dermatologist, Gastroenterologists, Neurologist, Paediatrics, Paediatric Cardiologists, Physicians, Pulmonologists, Psychiatrists & Rheumatologists)

All Surgical Specialists¹ | R 1 631 632
(Incl. Cardio Thoracic, ENT, General Surgeons, Neuro Surgeons, Obstetrician/ Gynaecologist, Ophthalmologists, Orthopaedics, Plastic Surgeons & Urologist)

As noted, costs above do not include Doctor's remuneration. Doctor's remuneration is however an important component of the cost of running a practice and therefore a benchmark was required. A standardised GP and Specialist salary was selected from the published 2017 DPSA salary scales and incorporated in the results per discipline section, in Section 7 of this report. It must be noted that a Doctor has no guarantee that they would generate enough revenue to be able to earn this remuneration.

b) Salary Survey

There was variation in the number of staff a practice employs and their salary scales. This was not explained by provincial or urban versus rural variables, and seems to be based on each individual Doctor's preference and how they choose to run their practices. Even in the same geographical area these variations existed.

² **Not statistically sound due to low participation – for information only**

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Eleven different job types were identified, ranging from Doctors, to practice staff and support staff such as tea ladies and gardeners. The different job types and their comparative salaries are shown in Section 7.3 of this report.

c) Equipment Analysis

Equipment is unique per discipline with large variations between sub-disciplines. Equipment needed within a practice is largely based on the Doctor's unique chosen scope of practice. Variations also exist based on the chosen manufacturers and brands used.

Not all Doctors' Annual Financial Statements reflect the cost of equipment, because it has more often than not been fully depreciated. The equipment cost noted in the results section is therefore underestimated.

2.4 Findings

2.4.1 Participation

In our opinion there were varying degrees of indifference and despondency amongst Doctors in participating in this PCS, which resulted in lower than anticipated participation rates.

Some Doctors verbalised their pessimism in practice cost studies in general, noting that they felt that participation in the previous National Department of Health (NDoH) 2008/9 PCS made no difference. Some Doctors were just non responsive.

Despite the Societies' support and other initiatives employed to get more participants, participation remained below stakeholder expectations. Note that even when no statistically valid sample was obtained, the data was still shown in this report for information purposes only.

2.4.2 Cost Analysis Results

Costs variation exists between disciplines. It is clear that Surgical disciplines have a higher cost base due to the use of equipment and higher malpractice risk insurance and indemnity costs. Anaesthetists³, GPs and Psychiatrists have the lowest cost base.

When compared to the NDoH 2008/9 PCS results, costs have consistently increased between Consumer Price Index (CPI) as published by StatsSA and CPI+2% across all disciplines. It is therefore anticipated that the costs of running a practice will continue with this trend in future.

Cost fluctuations are also seen between provinces and geographical areas within individual disciplines, but due to data confidentiality of the participating Doctors, provinces with less than 10 participants per discipline were not published separately in this report.

The operating costs in this section reflects the national averages per discipline. More details per province, where participation volumes were high enough can be found in Section 7 of this report.

The following two tables reflect a high level summary of the findings of this PCS.

³ Numbers not representative

a) Overall Findings per discipline (Operating Costs per Individual Doctor, excluding Doctor remuneration)

Financial Survey Results

Scope of Practice Survey Results

Discipline Grouping	Annual Operating Costs	Sample Achieved	Discipline	Annual Operating Costs	Type of Practices	Working day	Patients seen per day	Years in Practice
GP	R 858 201	✓	GP	R 858 201	Freestanding in family practice	46% 8–10 hours	24–36 patients per day	Equal spread of experience
Anaesthetists	R 509 494	x	Anaesthetists	R 509 494				
Consulting disciplines	R 1 155 626	✓	Paediatricians	R 1 004 176	Hospital based	40% 8–10 hours	12 patients per day	A participation bias towards younger specialists compared to the databases
		x	Consolidated Physicians	R 1 487 112				
		✓	Psychiatrists	R 872 323				
✓	ENT	R 1 282 704						
✓	Consolidated General Surgeons	R 1 617 593						
Surgical disciplines	R 1 631 632	x	Orthopaedic Surgeons	R 1 607 757				
		✓	Gynaecologists/Obstetricians	R 1 672 791				
		x	Ophthalmologists	R 2 222 150				
		x	Urologists	R 1 221 068				

Observations

There is variation in Operating Costs between disciplines. GPs together with Anaesthetists⁴ and Psychiatrists have the lowest overall costs, whereas the Surgical disciplines have the highest Operating Costs of running a practice. This is driven by higher malpractice risk insurance and indemnity cost, higher staff costs and more equipment. The GP Scope of Practice Survey shows a fairly homogenous population, mostly practicing in family medicine as a sole practitioner at a free standing practice or independent Medical Centre. In this PCS, GPs were represented across all provinces and geographic areas. Most GPs are indemnified by Medical Protection Society (MPS) with an even spread across the years they are in private practice. It is interesting to note that there is slightly less GPs who have been practicing between 11 and 20 years, which could be attributed to the first decade following the country's first democratic elections that brought high levels of emigration and a drop in the number of people entering the profession.

Specialists were also represented across all provinces and geographic areas. The Freestate proportionally to the database had a much higher participation rate, with Gauteng showing a much lower participation rate than expected (based on the number of Specialists practicing in Gauteng). Most Specialists work as sole practitioners and are mostly hospital based. A large portion of Specialists see less than 12 patients per day in their consulting rooms. On average, specialists spend most of their time seeing patients in hospitals wards and in theatre rather than their consulting rooms.

⁴ Numbers not representative

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b) Findings on Individual Cost Components (Operating Costs per Individual Doctor, including Doctor remuneration⁵)

Total Cost Summary	Actual GP Costs 2017	Actual Consulting Specialists Costs 2017	Actual Surgical Specialist Costs 2017	Difference between Consulting Specialist & GP	Difference between Surgical Specialist & GP	Cost Drivers
Personnel cost (indirect labour)	472 118	625 162	833 969	153 055	361 851	Number of staff
Premises	146 802	121 813	147 356	(24 000)	554	High GP rental costs
Practice management & admin	126 415	229 250	264 937	102 835	138 522	Specialists have higher transport risk insurance and indemnity
Financing & insurance costs	67 030	89 844	218 889	22 814	151 859	High malpractice risk insurance and indemnity
Indirect material	849	2 453	1 925	1 604	1 076	
Sundry expenses	14 894	14 974	14 146	80	(748)	
Equipment costs	30 093	72 131	150 410	42 038	120 317	Specialists have more equipment
Total Operating Costs	R 858 201	R 1 155 626	R 1 631 632	297 425	773 431	
Doctor Remuneration ⁵	1 200 000	1 500 000	1 500 000	300 000	300 000	
Total Practice Costs	R2 058 201	R 2 655 626	R 3 131 632	597 425	1 073 431	

Observations

A standardised GP and Specialist salary was selected from the published DPSA salary scales, to provide for a benchmarked Doctor remuneration. This cost component could not be excluded from the study as it represents a large and inherent cost of running a practice. It is important to note that there is no guarantee that Doctors would earn this income. Doctor's remuneration will depend on the Doctor's ability to generate enough revenue to cover operating costs as well as earn a market related income. Specialists, and the Surgical practices in particular, employ more staff than GPs and therefore have higher indirect labour costs. GPs have higher rental costs than Specialists, who benefit from affordable rental space offered by hospitals. Most Specialists are hospital based. Specialists, particularly the Surgical disciplines, have high malpractice risk insurance or indemnity premiums and more specialised equipment to account for, hence their higher overall costs. Note all three groupings in the table above was statistically representative sample.

⁵ Based on 2017 DPSA salary scales

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As explained in the report, malpractice risk insurance or indemnity premiums are under-represented in these costs due to the accounting practices of Doctors. Many Doctors account for their malpractice risk insurance or indemnity premiums in their personal income tax returns, which means their malpractice risk insurance or indemnity premiums are not reflected on their practice Annual Financials Statements. Equipment is also under represented, as many of the longer practising-Doctors have already fully depreciated their equipment. To obtain a clearer understanding of the individual equipment costs per discipline refer to Annexure G.

c) Findings of Individual Cost Components as a Percentage of Costs per Individual Discipline

	GP	Anaesthetists	ENT	Consolidated Surgeons	Gynaecologists / Obstetricians	Ophthalmologists	Orthopaedic Surgeons	Consolidated Paediatricians	Consolidated Physicians	Psychiatrists	Urologists
Personnel cost	55%	50%	54%	51%	49%	49%	55%	54%	57%	46%	50%
Premises	17%	5%	9%	9%	6%	12%	8%	11%	9%	16%	10%
Practice mx/ admin	15%	27%	19%	18%	14%	13%	18%	20%	18%	25%	20%
Financing/ insurance	8%	14%	10%	13%	24%	7%	15%	8%	8%	8%	11%
Indirect material	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Sundry expenses	2%	1%	1%	1%	1%	1%	1%	1%	2%	1%	2%
Equipment costs	4%	3%	8%	8%	6%	19%	3%	6%	7%	5%	6%
Total Operating Costs	R858 201	R509 494	R 1 282 704	R 1 617 593	R 1 672 791	R 2 222 150	R 1 607 757	R 1 004 176	R 1 487 112	R872 323	R 1 221 068
GP Remuneration	1 200 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000
Total Practice Costs	R2 058 201	R 2 009 494	R 2 782 704	R 3 117 593	R 3 172 791	R 3 722 150	R 3 107 757	R 2 504 176	R 2 987 112	R 2 372 323	R 2 721 068

d) Findings of Individual Cost Components as Comparison of the Costs Components between Disciplines

	GP	Anaesthetists	ENT	Consolidated Surgeons	Gynaecologists / Obstetricians	Ophthalmologists	Orthopaedic Surgeons	Consolidated Paediatricians	Consolidated Physicians	Psychiatrists	Urologists
Personnel cost	472 118	252 492	698 321	830 454	811 949	1 087 972	889 064	540 243	847 045	398 173	615 355
Premises	146 802	27 001	113 503	141 707	96 151	272 011	126 909	109 118	129 560	135 980	120 546
Practice mx/ admin	126 415	139 567	237 434	284 787	238 703	283 805	281 378	203 476	265 250	219 655	247 643
Financing/ insurance	67 030	69 495	125 043	218 348	408 089	148 165	248 934	78 833	112 398	72 170	138 319
Indirect material	849	1 795	2 468	1 663	1 921	3 167	865	2 805	2 757	1 078	1 076
Sundry expenses	14 894	3 599	8 088	18 457	9 733	11 851	16 935	11 213	24 473	5 539	19 458
Equipment costs	30 093	15 545	97 846	122 176	106 244	415 179	43 672	58 488	105 629	39 728	78 672
Total Operating Costs	858 201	509 494	1 282 704	1 617 593	1 672 791	2 222 150	1 607 757	1 004 176	1 487 112	872 323	1 221 068
GP Remuneration	1 200 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000
Total Practice Costs	R2 058 201	R 2 009 494	R 2 782 704	R 3 117 593	R 3 172 791	R 3 722 150	R 3 107 757	R 2 504 176	R 2 987 112	R 2 372 323	R 2 721 068

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Observations

Personnel costs make up about half of all Operating Costs. Note that personnel costs reflect the indirect labour costs, therefore costs relating to staff and not including the Doctors remuneration. Personnel costs make up an average of 54% for Consulting Specialists, 51% for Surgical Specialists and 55% for GPs. A strong correlation exists on the personnel cost line for all disciplines.

As a percentage of overall costs, the Anaesthetists⁶ have the highest proportional Practice Management and Administration costs, however the actual costs for this category is lower than all the other Specialist disciplines. The Gynaecologists/ Obstetricians have the highest proportional (and actual) Financing/ Insurance costs due to high malpractice risk insurance or indemnity cover. It must be noted that this study did not differentiate between Gynaecologists and Obstetricians, as there is no differentiation of the discipline types.

The Ophthalmologists⁷ have the highest proportional and actual Equipment costs compared to any other discipline. It is a requirement for an Ophthalmology practices to have access to high cost equipment. They also have higher personnel and premises cost. This is due to the fact that their practices have higher reliance on additional clinical staff such as Ophthalmic assistants and equipment that require large consulting and procedure rooms.

Proportionally the personnel costs for Psychiatrists are the lowest, as they employ less staff. Anaesthetists, Psychiatrists and Urologists⁸ have comparatively higher Practice Management and Administrative cost components, because they spend less in the other categories. Due to the nature of Psychiatry as a discipline, their consulting rooms tend to be predominantly in urban areas and many have rooms outside of hospitals, driving up the Premises cost component.

⁶ Numbers not representative

⁷ Numbers not representative

⁸ Numbers not representative