



Ophthalmology practice costs study, 2008-09

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Report by Access Economics Pty Limited for
**Australian Society of Ophthalmologists
Incorporated.**

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1 The task

Access Economics was commissioned by the Australian Society of Ophthalmologists (ASO) to conduct a study of the costs incurred by Ophthalmology Practices. The objective was to achieve a robust measure of practice costs. To inform the study, a survey of ophthalmology practices was undertaken in June 2010.

2 Structure of this report

The structure of this report is as follows:

- Part 3 addresses survey design;
- Part 4 addresses the response rate;
- Part 5 explains the methodologies used; and
- Part 6 reports on the results obtained from the survey.

3 Survey design

The survey was designed to measure practice costs incurred by ophthalmology practices in the 2008-09 financial year, so as to enable estimates of:

- The per patient overhead (PPO) as defined in Section 5; and
- The cost per full time equivalent (FTE) ophthalmologist.

Practices were asked to report consolidated data for:

- the practice itself;
- any related entities (service companies, trusts, etc); and
- professional costs met by individual ophthalmologists from their remuneration (typically medical indemnity insurance premia, association memberships and subscriptions).

Practices were asked to report costs in four broad categories:

- Staff costs;
- Premises costs;
- Equipment costs; and
- All other costs not elsewhere included.

Practices were asked also to report:

- the number of FTE ophthalmologists working in the practice;
- leased and owned premises;
- leased and owned equipment; and
- activity levels for 26 MBS items which account for the vast bulk of MBS billings by ophthalmologists.

4 Survey responses

There were useable responses from 83 ophthalmology practices representing 164 FTE ophthalmologists.

The population of ophthalmologists in private practice in Australia is estimated at 750. The response rate ensured a statistically significant estimate. At the 95% confidence level, the confidence interval is 6.6%.

A series of internal consistency and cross checks were undertaken to verify that the data from the survey was robust.

5 Methodology

The estimates are strongly founded in the financial data provided by the practices. To ensure robust estimates:

- Some survey results were trimmed (by excluding the first and tenth deciles);
- Practice costs were measured on an “economic” basis, in particular to take account properly of sunk costs (the cost of capital) when premises and equipment are owned (rather than leased); and
- All costs were measured on an “arm’s length” basis.

The “economic” measure of practice costs aims to measure costs consistently in every circumstance without regard to the method of financing (purchase or lease).

The Per Patient Overhead (PPO) is an ASO-developed method for relating practice costs to the volume of ‘patient encounters’. Each of the following counts as one ‘patient encounter’:

- a consultation (eg, MBS item 104, 105 or 109);
- a consultation combined with any in-rooms diagnostic or therapeutic procedure conducted in the same visit;
- any single operating theatre case (which would typically involve a single procedure such as MBS item 42702 but, in some situations, may involve two or more MBS items).

It follows that the number of patient encounters is not the same as the number of MBS items (consultations and procedures) that are billed.

A reliable short-hand method for estimating the number of ‘patient encounters’ is the total of the number of consultations (MBS items 104, 105 and 109) plus the number of episodes of MBS item 42702 times 1.4.

6 Survey results

In 2008-09, ophthalmology practice costs are estimated at:

- \$115 per patient overhead (PPO); and
- \$506,000 per FTE ophthalmologist.

It can also be inferred from the survey responses that:

- There is a significant role for high-technology equipment in modern ophthalmology practices;
- Super-specialisation within ophthalmology is giving rise to considerable diversity in models and styles of practice with implications for the amount of specialized equipment used in each practice;
- Larger practices can have millions of dollars invested in specialised ophthalmology equipment;
- The replacement value of equipment (owned and/or leased) averaged \$840,000 per practice and \$430,000 per FTE.

The cost mix is as follows:

Staff costs	40.7%
Premises costs	12.7%
Equipment costs	20.0%
All other costs	26.6%
Total	100.0%