

# Research Brief: Government payments and labor market fundamentals combine to drive physicians' high earnings\*

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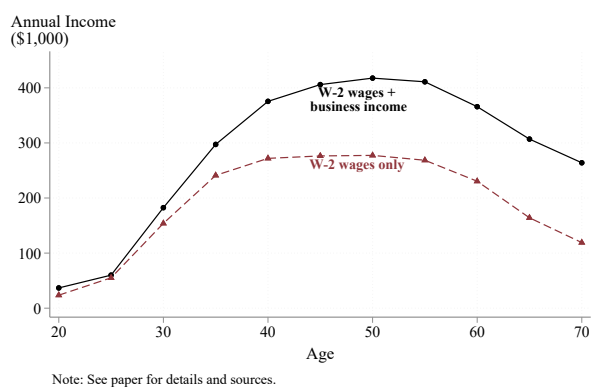
Physicians are the most common occupation among the top one percent of income earners, and their billings comprise one-fifth of healthcare spending. Many physician services are either sold directly to the government or have prices influenced by the government. Despite their clear importance, we do not have a good understanding of how much physicians earn or how government payments influence their earnings. To address these questions, we link administrative data that identify physicians to tax records.

We find that physicians' earnings average \$343,600 in 2017 (median \$255,200). The right tail of the distribution is long; the top one percent of physicians earn \$3.9 million on average, more than 11 times as much as the average physician. Over one quarter of physicians are in the top one percent of all income earners, and half are in the top two percent. Only about 13 percent of physicians are below the 90th percentile of adjusted gross income.

Physicians' careers begin with an extended training period during which earnings are relatively low (see Figure 1). Earnings then increase rapidly during their 30s, grow more slowly during their 40s, and peak at around \$400,000 on average for physicians in their 50s in 2017. This final increase is driven by business income; growth in average wage and salary income is minimal after the mid-30s. Geographically, earnings

\*This brief summarizes "Who Values Human Capitalists' Human Capital? Healthcare Spending and Physician Earnings." For more details, including complete methodology and references, see the full paper [here](#). Any views expressed herein are those of the authors and not those of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed. The statistical summaries reported in this paper have been cleared by the Census Bureau's Disclosure Review Board, release authorization numbers CBDRB-FY2020-CES005-015, CBDRB-FY20-177, CBDRB-FY2020-CES005-035, and CBDRB-FY20-349. Data on mean physician earnings by commuting zone and specialty are available [here](#).

Figure 1: Physician Age Profiles



are highest in the Great Plains and Deep South, while high-income states on the coasts have low to average physician earnings.

Earnings also differ across specialties. The average primary care physician (PCP) earned \$243,400 in 2017. The average surgeon earned \$521,600. Some differences across specialties are associated with length of training and work hours (see Figure 2.) Income differences beyond those predicted by these variables are associated with a specialty being more attractive to U.S. medical school graduates.

Figure 2: Earnings vs. Training Duration

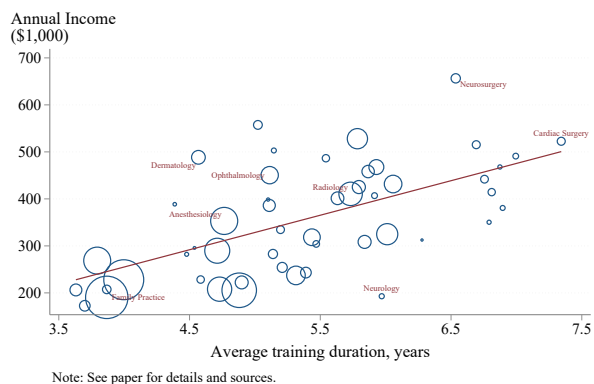
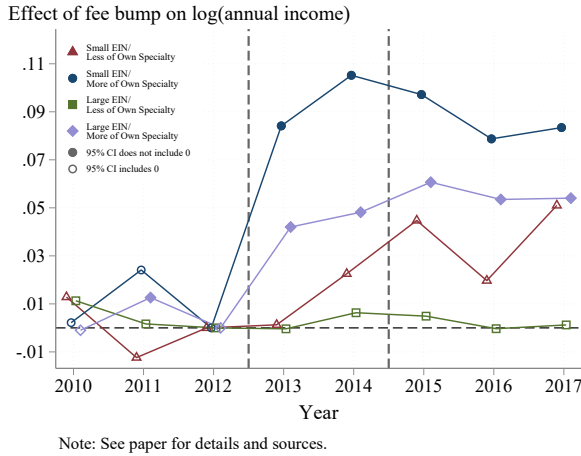


Figure 3: Medicaid Fee Bump Heterogeneity



We also find that government payments for physicians’ services have dramatic influence on their earnings. About half of the money spent on a 2013 increase in Medicaid reimbursement rates for PCPs passed through into their earnings, which increased by about five percent as a result of the change. Self-employed PCPs and those who practice largely with other PCPs saw especially large increases in earnings. In particular, PCPs working with few other physicians, most of whom were also PCPs, saw their earnings increase by ten percent in 2014 due to higher reimbursement rates (see Figure 3).

This “fee bump” also moved 1.7 percent of PCPs into the top percentile of adjusted gross income (a 12 percent increase in the share of PCPs in that group), illustrating the power of healthcare payments to influence the top of the income distribution. If one were to try to use tax changes to have a similar effect on physicians’ incomes, the magnitudes of the changes required would be historically large.

Given how influential government payments are on physicians’ earnings, physicians’ place at the top of the income distribution, and the share of national health expenditures (NHE) that goes to purchasing their services, one might wonder to what extent the government could use reimbursement cuts to address two public concerns simultaneously: high health spending and top income inequality. We consider various scenar-

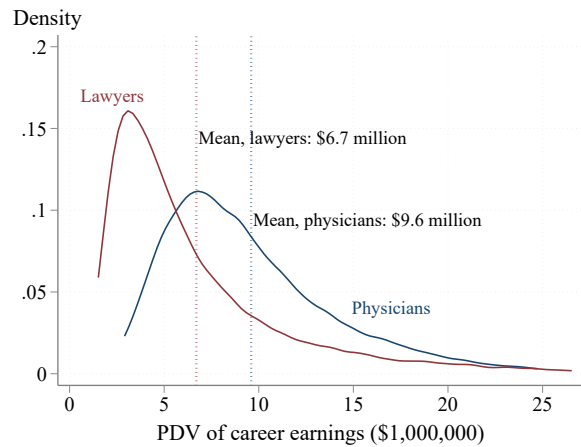
ios to quantify potential savings.

We compare physicians’ lifetime earnings to those of lawyers, another occupation with high human capital investments, and one that represents a reasonable estimate of physicians’ outside option. Mean physician lifetime earnings, discounted to age 20, are \$9.6 million, compared to \$6.7 million for lawyers (see Figure 4). After adjusting for differences in training costs and hours worked, physicians earn 25 percent more than lawyers over their careers. Cutting physicians’ earnings to match lawyers’ would save \$59 billion (about two percent of NHE).

More targeted cuts to specialties that earn more than predicted by their training duration and hours worked would save less money. Paying physicians in radiology, ophthalmology, anesthesiology, and dermatology (the so-called “ROAD” specialties) on par with PCPs would save \$19 billion (0.6 percent of NHE).

Broader cuts based on international comparisons could save more. Matching the within-country income distribution of Swedish physicians (who are top earners about as often as U.S. PCPs) would save \$90 billion. Matching the earnings levels of German physicians would save a similar amount. However, such cuts may prove more difficult to implement given the availability of other lucrative employment options in the U.S.

Figure 4: Distribution of Career Earnings



Note: Career earnings discounted to age 20 using a 3% discount rate. See paper for additional details and sources.