

# 11.5 RISE IN US RATES OF RETURN FOR MEDICAL EDUCATION\*

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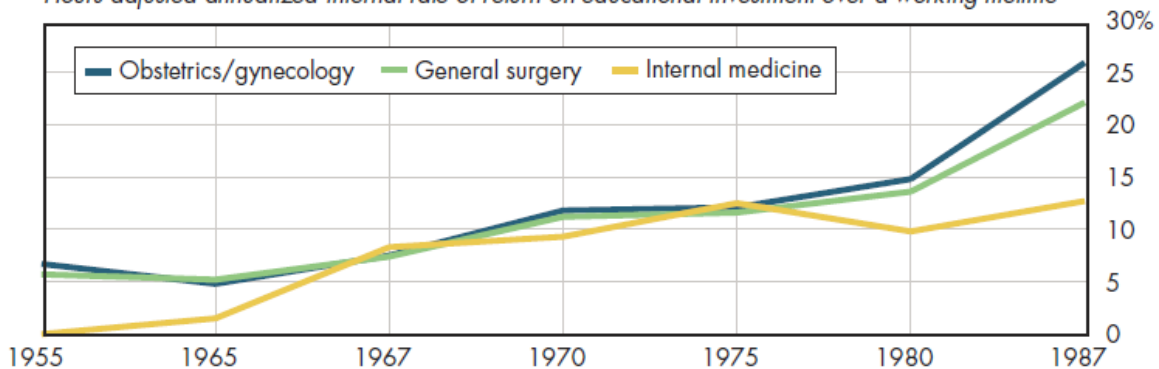
## Abstract

Physicians in the United States enjoyed rising rates of return for medical education for decades. Although such returns might have fallen recently, they appear to be similar for those who pursue careers in law or business.

The annual rate of return to investment in physician education currently is at double-digit levels. Approximately 50 years ago, earlier studies found that such rates of return were much less than 10 percent (figure 11.5a). The numbers represent the hours-adjusted annualized rate of return on medical education over a doctor’s working lifetime. The investment in medical education includes direct costs (tuition, books, and so forth) and indirect costs, that is, the income foregone by attending school/ residency rather than working.

### 11.5a The annual rate of return for medical education appears for some specialists to have increased over many decades

*Hours-adjusted annualized internal rate of return on educational investment over a working lifetime*



Note: The interval between years is not equal. Each year represents a different study. These studies have similar but not identical methodologies.

The return on this investment is the higher annual compensation physicians receive relative to what similar individuals receive on average during each year of their career. The hourly adjustment is important

\*Version 1.1: Sep 26, 2013 2:15 pm -0500

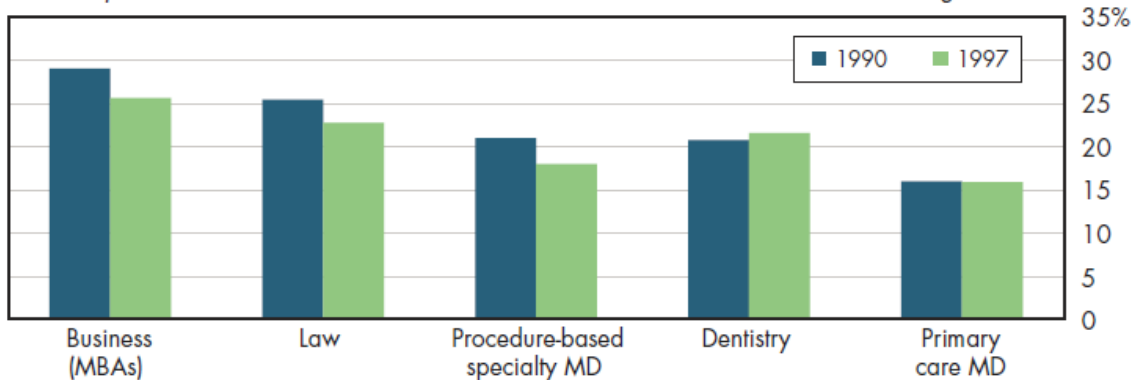
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because physicians work longer hours than the average worker does. The rate of return is annualized to make it the same as other investments. For example, from 1900-2009, the total rate of return for the Dow Jones Industrial Average (DJIA) was 9.4 percent.

These data are approximations because such information for every category of physician is not available. Each of the studies that constitute the data displayed in figure 1.5b differs in its methodological details. However, they suggest that a typical physician earns a healthy rate of return compared with investing comparable resources in the stock market. These sizable rates of return appear somewhat less than for other professional degrees such as MBA or law degrees (figure 11.5b). Dentists and physician specialists have comparable rates of return, but primary care doctors have lower—albeit still impressive—rates of return. This is consistent with the general impression that primary care doctors are "underpaid" relative to specialists. The study shown defined procedure-based medicine as surgery, obstetrics, radiology, anesthesiology, and medical subspecialties. Trends for these other professions are not available, but CEO compensation has increased considerably, relative to that of average workers (figure 11.5c).

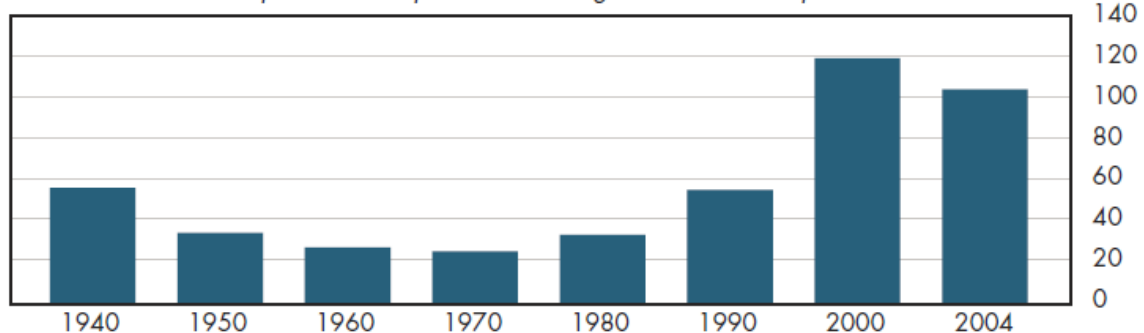
**11.5b Physician specialists have higher educational rates of return than primary care doctors have, but these rates are lower than those for lawyers or for those who have MBA degrees**

*Hours-adjusted annualized internal rate of return on educational investment over a working lifetime*



**11.5c Increasing returns for physician education have occurred during a period in which CEO compensation also has been rapidly rising**

*Ratio: median CEO compensation compared with average U.S. worker compensation*



These comparisons suggest that high prices for health labor in the United States might simply reflect higher returns to skilled labor across the board. If doctors were paid much less, more people might get MBAs or law degrees instead. This might reduce health spending, but reasonable people might disagree on whether it would improve social welfare.

## 1 Downloads

Download PowerPoint versions of all figures.

- Figure 11.5a Image Slide (as it appears above)<sup>1</sup>
- Figure 11.5a Editable Slide (can be formatted as desired)<sup>2</sup>
- Figure 11.5b Image Slide (as it appears above)<sup>3</sup>
- Figure 11.5b Editable Slide (can be formatted as desired)<sup>4</sup>
- Figure 11.5c Image Slide (as it appears above)<sup>5</sup>
- Figure 11.5c Editable Slide (can be formatted as desired)<sup>6</sup>

## 2 References

- A. New York Times. The Wide Divide. April 6, 2006. <http://www.nytimes.com/imagepages/2006/04/09/business/business.html?ref=executivepay> (accessed November 12, 2010).
- B. Phelps CE. Health Economics. HarperCollins Publishers. 1992.
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- D. Weeks WB and AE Wallace. The More Things Change: Revisiting a Comparison of Educational Costs and Incomes of Physicians and Other Professionals. *Academic Medicine* 2002; 77(4):312-19.

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<sup>1</sup><http://https://hub.mili.csom.umn.edu/content/m10108/latest/11.5aIMG.ppt>

<sup>2</sup><http://https://hub.mili.csom.umn.edu/content/m10108/latest/11.5aData.ppt>

<sup>3</sup><http://https://hub.mili.csom.umn.edu/content/m10108/latest/11.5bIMG.ppt>

<sup>4</sup><http://https://hub.mili.csom.umn.edu/content/m10108/latest/11.5bDATA.ppt>

<sup>5</sup><http://https://hub.mili.csom.umn.edu/content/m10108/latest/11.5cIMG.ppt>

<sup>6</sup><http://https://hub.mili.csom.umn.edu/content/m10108/latest/11.5cDATA.ppt>