

OFFICE OF FISCAL ANALYSIS

Legislative Office Building, Room 5200
Hartford, CT 06106 ◊ (860) 240-0200
<http://www.cga.ct.gov/ofa>

SB-377

AN ACT PROHIBITING THE USE OF NONCOMPETE CLAUSES IN
PHYSICIAN EMPLOYMENT CONTRACTS.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 20 \$	FY 21 \$
UConn Health Ctr.	Various - Net Revenue Loss	Potential Significant	Potential Significant

Note: Various=Various

Municipal Impact: None

Explanation

The bill, which prohibits physician non-compete clauses in employment contracts, results in a potentially significant revenue loss to the University of Connecticut Health Center beginning in FY 20.

The Health Center currently uses non-compete clauses to aid in physician retention. The Health Center estimates that such clauses are included in the contracts of more than 200 of its physicians. A physician who leaves for another system or private practice nearby, as allowed under the bill, may take with them their patients and the associated revenue. The Health Center then would incur a cost to recruit a replacement physician and could potentially experience a net revenue loss for the first two years of a new physician's employment. In recent years, each new physician has had a net cost to the Health Center of approximately \$300,000 for each of the first two years. It is possible the bill would enable the Health Center to attract new physicians from other nearby systems or practices, but as the Health Center is a large employer with numerous smaller medical groups

Primary Analyst: JS
Contributing Analyst(s):

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nearby, it is more likely the Health Center will experience net physician losses.

The bill's revenue loss to the Health Center is potentially significant as national data indicate that each physician affiliated with a hospital generates on average nearly \$2.4 million in net revenue annually. Net revenue per physician varies, with certain specialists netting a hospital \$3 million and above, while primary care physicians net approximately \$2 million. If only four established physicians with average net revenue leave the Health Center as they will no longer be bound by non-compete clauses, the annual revenue loss totals \$9.6 million. The extent of the Health Center's annual revenue loss associated with the bill is dependent on: (1) the number of established physicians who depart the Health Center, (2) the net revenue of each departing physician, and (3) the Health Center's ability to offset revenue losses through recruitment of established physicians from nearby hospitals or practices.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Sources: "Docs Generate an Average \$2.4M a Year Per Hospital," John Commins, *Health Leaders Media*, Feb. 25, 2019, <https://www.healthleadersmedia.com/finance/docs-generate-average-24m-year-hospital>