

SUMMARY REPORT
2005 Review of Physician Recruitment Incentives

OVERVIEW

Merritt, Hawkins & Associates is a national health care search and consulting firm specializing in the recruitment of physicians in all medical specialties and advanced practice allied professionals. Established in 1987, Merritt, Hawkins & Associates has conducted over 25,000 physician search assignments and has worked in all 50 states.

This report marks Merritt, Hawkins & Associates' twelfth annual review of the physician search and consulting assignments we conduct on behalf of our clients.

The 2005 Review is based on the combined 2,687 physician search and consulting assignments Merritt, Hawkins & Associates represented from April 1, 2004 to March 31, 2005.

The intent of the Review is to quantify financial and other recruitment incentives offered by our clients to physician candidates during the course of a 12-month period. The range of incentives detailed in the Review may be used as one benchmark for evaluating which recruitment incentives are customary and competitive in today's physician recruiting market. In addition, the Review, which is based on a national sample of physician search assignments, provides an indication of which medical specialties are currently in the greatest demand.

All of the following numbers are rounded to the nearest full digit.

Total Number of Physician Search Assignments Reviewed

<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
2,687	2,594	2,405	2,220

Medical Settings of Physician Search Assignments

	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
Group	1,290 (48%)	1,089 (42%)	938 (39%)	910 (41%)
Partnership	242 (9%)	571 (22%)	529 (22%)	488 (22%)
Solo	492 (18%)	519 (20%)	433 (18%)	365 (16%)
Hospital	510 (19%)	285 (11%)	313 (13%)	310 (14%)
Association	48 (2%)	78 (3%)	96 (4%)	67 (3%)
HMO	0 (0%)	0 (0%)	0 (0%)	15 (1%)
Other	105 (4%)	52 (2%)	96 (4%)	65 (3%)

49 States Where Search Assignments Were Conducted

AK, AL, AR, AZ, CA, CO, CT, DE, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MO, MN, MS, MT, NC, ND, NE, NH, NJ, NM, NY, NV, OH, OK, OR, PA, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV, WY

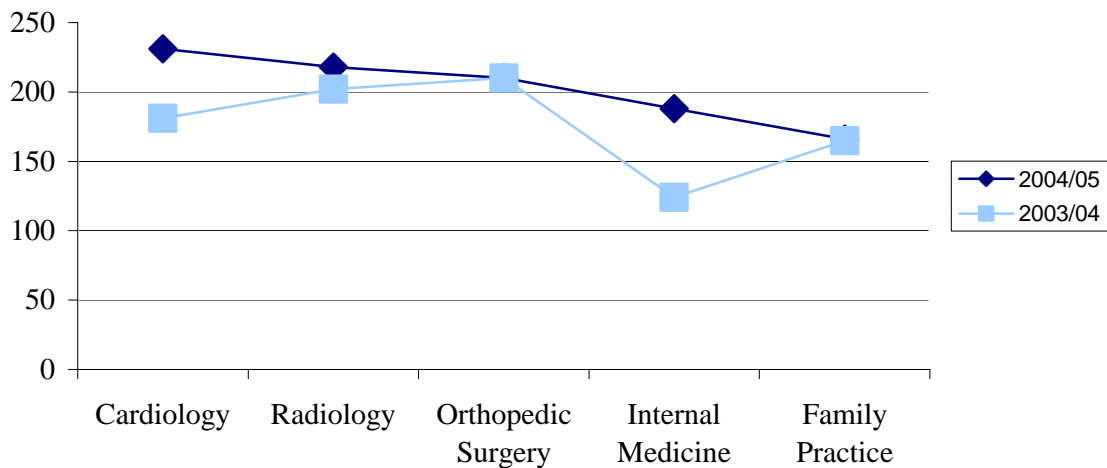
Number of Searches by Community Size

	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
0-25,000	806 (30%)	622 (24%)	625 (26%)	621 (28%)
25,001-100,000	860 (32%)	960 (37%)	866 (36%)	777 (35%)
100,001+	1,021 (38%)	1,012 (39%)	914 (38%)	822 (37%)

Top Fifteen Searches By Medical Specialty (total of 1,743 searches)

	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
Cardiology	231	181	188	226
Radiology	218	202	230	252
Orthopedic Surgery	210	210	191	172
Internal Medicine	188	124	113	152
Family Practice	166	165	122	135
General Surgery	116	112	84	90
Gastroenterology	94	105	69	102
OB/GYN	83	103	110	112
Psychiatry	80	54	59	49
Anesthesiology	64	98	134	131
Hospitalist	62	82	55	41
Neurosurgery	62	52	58	48
Urology	59	94	56	61
Neurology	56	60	44	30
Otolaryngology	54	52	42	32

Comparison of Top 5 Searches: 2004/05 to 2003/04



Other Specialty Recruitment Assignments (944 total searches)

Allergy	Bariatric Surgery	Cardiothoracic Surgery
Cardiovascular Surgery	Child Psychiatry	Colon/Rectal Surgery
Critical Care/Pediatrics	Critical Care/Pulmonology	CRNA
Dermatology	Endocrinology	Endovascular Surgery
Geriatrics	Gynecology	Gynecology/Oncology
Hand Surgery	Hematology/Oncology	Hospitalist
Infectious Disease	Maternal/Fetal Medicine	Nephrology
Neonatology	Neurological Surgery	Neuroradiology
Occupational Medicine	Ophthalmology	Oral Maxillofacial Surgery
Orthopedic Foot & Ankle Surgery	Orthopedic Spine Surgery	Orthopedic Trauma Surgery
Pain Management	Pathology	Pediatric/Anesthesiology
Pediatric/Cardiology	Pediatric Emergency Medicine	Pediatric/Endocrinology
Pediatric/Intensivist	Pediatric/Nephrology	Pediatric/Ophthalmology
Pediatric/Orthopedic Surgery	Pediatric/Radiology	Pediatric/Surgery
Pediatric Urology	Perinatology	Pharmacy
Physiatry	Plastic Surgery	Podiatry
Reproductive Endocrinology	Radiation Oncology	Rheumatology
Trauma Surgery	Urgent Care	Vascular Surgery

Income Offered to Top 15 Recruited Specialties

	<u>Low</u>	<u>Average</u>	<u>High</u>
Cardiology			
2004/05	\$234,000	\$320,000	\$525,000
2003/04	\$230,000	\$292,000	\$500,000
2002/03	\$230,000	\$280,000	\$475,000
2001/02	\$220,000	\$273,000	\$500,000
Radiology			
2004/05	\$250,000	\$355,000	\$500,000
2003/04	\$240,000	\$336,000	\$450,000
2002/03	\$230,000	\$317,000	\$500,000
2001/02	\$240,000	\$286,000	\$600,000
Orthopedic Surgery			
2004/05	\$250,000	\$361,000	\$650,000
2003/04	\$240,000	\$330,000	\$500,000
2002/03	\$230,000	\$315,000	\$450,000
2001/02	\$220,000	\$295,000	\$450,000
Internal Medicine			
2004/05	\$130,000	\$161,000	\$210,000
2003/04	\$125,000	\$152,000	\$200,000
2002/03	\$125,000	\$150,000	\$200,000
2001/02	\$120,000	\$148,000	\$180,000

	<u>Low</u>	<u>Average</u>	<u>High</u>
Family Practice			
2004/05	\$125,000	\$150,000	\$200,000
2003/04	\$120,000	\$146,000	\$195,000
2002/03	\$120,000	\$146,000	\$190,000
2001/02	\$110,000	\$144,000	\$195,000
General Surgery			
2004/05	\$220,000	\$255,000	\$310,000
2003/04	\$210,000	\$248,000	\$300,000
2002/03	\$200,000	\$242,000	\$275,000
2001/02	\$185,000	\$221,000	\$280,000
Gastroenterology			
2004/05	\$230,000	\$298,000	\$340,000
2003/04	\$210,000	\$250,000	\$325,000
2002/03	\$200,000	\$240,000	\$325,000
2001/02	\$190,000	\$226,000	\$350,000
OB/GYN			
2004/05	\$200,000	\$247,000	\$320,000
2003/04	\$185,000	\$242,000	\$325,000
2002/03	\$190,000	\$237,000	\$325,000
2001/02	\$180,000	\$219,000	\$325,000
Psychiatry			
2004/05	\$140,000	\$176,000	\$250,000
2003/04	\$130,000	\$164,000	\$260,000
2002/03	\$130,000	\$162,000	\$250,000
2001/02	\$120,000	\$153,000	\$240,000
Anesthesiology			
2004/05	\$240,000	\$303,000	\$340,000
2003/04	\$220,000	\$300,000	\$325,000
2002/03	\$225,000	\$290,000	\$325,000
2001/02	\$200,000	\$278,000	\$325,000
Hospitalist			
2004/05	\$150,000	\$171,000	\$210,000
2003/04	\$140,000	\$162,000	\$200,000
2002/03	\$135,000	\$155,000	\$180,000
2001/02	\$130,000	\$149,000	\$170,000
Neurosurgery			
2004/05	\$350,000	\$424,000	\$575,000
2003/04	\$350,000	\$420,000	\$550,000
2002/03	\$300,000	\$390,000	\$550,000
2001/02	\$300,000	\$370,000	\$545,000

	<u>Low</u>	<u>Average</u>	<u>High</u>
Urology			
2004/05	\$250,000	\$329,000	\$340,000
2003/04	\$220,000	\$294,000	\$325,000
2002/03	\$210,000	\$277,000	\$325,000
2001/02	\$200,000	\$245,000	\$325,000
Neurology			
2004/05	\$155,000	\$209,000	\$230,000
2003/04	\$145,000	\$191,000	\$220,000
2002/03	\$150,000	\$180,000	\$215,000
2001/02	\$150,000	\$170,000	\$210,000
Otolaryngology			
2004/05	\$235,000	\$304,000	\$350,000
2003/04	\$230,000	\$278,000	\$350,000
2002/03	\$225,000	\$270,000	\$375,000
2001/02	\$215,000	\$255,000	\$300,000

Average Income Offers by Geographic Region

Geographic regions are defined as follows:

Northeast	Southeast	Midwest	West
Maine	Virginia	Texas	New Mexico
New Hampshire	West Virginia	Oklahoma	Arizona
Vermont	Tennessee	Missouri	Colorado
Rhode Island	Kentucky	Illinois	Nevada
Massachusetts	North Carolina	Indiana	Wyoming
Pennsylvania	South Carolina	Ohio	Montana
Connecticut	Florida	Michigan	Idaho
New Jersey	Georgia	Wisconsin	California
New York	Alabama	Minnesota	Utah
Delaware	Mississippi	Kansas	Oregon
Maryland	Louisiana	Nebraska	Washington
	Arkansas	Iowa	Hawaii
		North Dakota	
		South Dakota	

(Not included: Alaska)

Average Income Offers by Geographic Region

	<u>Northeast</u>	<u>Southeast</u>	<u>Midwest</u>	<u>West</u>
Cardiology	\$310,000	\$330,000	\$330,000	\$312,000
Radiology	\$340,000	\$360,000	\$362,000	\$310,000
Orthopedic Surgery	\$351,000	\$370,000	\$370,000	\$345,000
Internal Medicine	\$155,000	\$164,000	\$164,000	\$164,000
Family Practice	\$145,000	\$152,000	\$151,000	\$144,000
General Surgery	\$245,000	\$260,000	\$262,000	\$248,000
Gastroenterology	\$290,000	\$300,000	\$302,000	\$285,000
OB/GYN	\$245,000	\$250,000	\$250,000	\$240,000
Psychiatry	\$170,000	\$178,000	\$178,000	\$172,000
Anesthesiology	\$295,000	\$310,000	\$305,000	\$294,000
Hospitalist	\$165,000	\$175,000	\$174,000	\$165,000
Neurosurgery	\$170,000	\$178,000	\$178,000	\$172,000
Urology	\$320,000	\$334,000	\$335,000	\$320,000
Neurology	\$202,000	\$212,000	\$215,000	\$200,000
Otolaryngology	\$280,000	\$295,000	\$290,000	\$280,000

Type of Incentive Offered

	<u>Salary</u>	<u>Salary w/ Bonus</u>	<u>Income Guarantee</u>
2004/05	269 (10%)	1,478 (55%)	940 (35%)
2003/04	233 (9%)	1,296 (50%)	1,065 (41%)
2002/03	289 (12%)	1,202 (50%)	914 (38%)
2001/02	355 (16%)	1,110 (50%)	755 (34%)

Type of Guarantee (of 940 Searches Offering Guarantees)

	<u>Net Collections Guarantee</u>	<u>Gross Collections Guarantee</u>
2004/05	827 (88%)	113 (12%)
2003/04	916 (86%)	149 (14%)
2002/03	749 (82%)	165 (18%)
2001/02	589 (78%)	166 (22%)

Term of Guarantee (of 940 Searches Offering Guarantees)

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>Other</u>
2004/05	708 (75%)	220 (23%)	8 (1%)	4 (1%)
2003/04	852 (80%)	203 (19%)	10 (1%)	0 (0%)
2002/03	713 (78%)	192 (21%)	9 (1%)	0 (0%)
2001/02	568 (75%)	176 (23%)	6 (1%)	5 (2%)

Searches Offering “Forgiveness” of Guarantee (of 940 Searches Offering Guarantees)

	<u>Forgiveness</u>	<u>No Forgiveness</u>
2004/05	884 (94%)	56 (6%)
2003/04	1,012 (95%)	53 (5%)
2002/03	859 (94%)	55 (6%)
2001/02	672 (89%)	83 (11%)

Time Period of Forgiveness (of 884 Searches Offering Forgiveness)

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>Other / N/A</u>
2004/05	38 (4%)	547 (58%)	303 (32%)	52 (6%)
2003/04	30 (3%)	516 (51%)	405 (40%)	61 (6%)
2002/03	26 (3%)	310 (36%)	429 (50%)	94 (11%)
2001/02	5 (1%)	229 (34%)	319 (47%)	119 (18%)

Paying Relocation

	<u>Yes</u>	<u>No</u>
2004/05	2,677 (99%)	10 (1%)
2003/04	2,578 (99%)	16 (1%)
2002/03	2,379 (99%)	26 (1%)
2001/02	2,181 (98%)	39 (2%)

Amount of Relocation Allowance

	<u>Low</u>	<u>Average</u>	<u>High</u>
2004/05	\$3,500	\$8,850	\$20,000
2003/04	\$2,000	\$9,250	\$22,000
2002/03	\$2,000	\$9,000	\$20,000
2001/02	\$2,000	\$9,066	\$20,000

Signing Bonus Offered

	<u>Yes</u>	<u>No</u>
2004/05	1,236 (46%)	1,451 (54%)
2003/04	1,290 (50%)	1,304 (50%)
2002/03	866 (36%)	1,539 (64%)
2001/02	777 (35%)	1,443 (65%)

Amount of Bonus

	<u>Low</u>	<u>Average</u>	<u>High</u>
2004/05	\$5,000	\$14,030	\$50,000
2003/04	\$5,000	\$15,500	\$45,000
2002/03	\$4,500	\$15,000	\$50,000
2001/02	\$5,000	\$14,270	\$50,000

Paying Continuing Medical Education

	<u>Yes</u>	<u>No</u>
2004/05	2,498 (93%)	189 (7%)
2003/04	2,412 (93%)	182 (7%)
2002/03	2,212 (92%)	193 (8%)
2001/02	2,022 (92%)	198 (8%)

Amount of CME

	<u>Low</u>	<u>Average</u>	<u>High</u>
2004/05	\$1,000	\$3,350	\$15,000
2003/04	\$1,500	\$3,250	\$10,000
2002/03	\$1,500	\$3,100	\$10,000
2001/02	\$1,000	\$3,097	\$10,000

Paying Additional Benefits

	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
Health Insurance	92%	96%	96%	93%
Malpractice	93%	90%	91%	94%
Retirement	72%	70%	72%	74%
Disability	74%	70%	72%	75%
Educational Loan Forgiveness	14%	16%	12%	11%

TRENDS AND OBSERVATIONS

Merritt, Hawkins & Associates' annual **Review of Physician Recruiting Incentives** tracks data derived from the national physician recruitment assignments that the firm conducts over the 12 month period ranging from April 1 of one year to March 31 of the next.

The types of physician recruiting assignments Merritt, Hawkins & Associates conducts, and the incentives its client offer to recruit physicians, may be of interest to health care administrators, physician recruiters and others who follow developments in the areas of physician staffing, physician compensation and physician supply and demand.

The 2005 Review reflects a variety of ongoing and emerging physician recruiting trends. In the 12 month period covered by the 2005 Review, Merritt, Hawkins & Associates conducted search assignments in all 50 states, with the exception of Rhode Island. This suggests that at least some hospitals, medical groups and other health care organizations in all parts of the country have found physician recruitment to be a challenge and require outside assistance.

From 1987, when Merritt, Hawkins & Associates was established, to 2000, the plurality of searches the firm conducted were in communities of 25,000 people or less. Since 2000, however, the plurality of searches we have conducted have been in communities of 100,001 or more. For example, in the 12 month period covered by the 2005 Review, Merritt, Hawkins & Associates conducted 30% of its searches in communities of 25,000 or less, 32% of its searches in communities of 25,001 to 100,000, and 38% of its searches in communities of 100,001 or more.

The locations of our recruiting assignments indicate that physician recruiting challenges are no longer regionalized but are prevalent in communities of all sizes in all areas of the country. Indeed, Merritt, Hawkins & Associates now conducts recruiting assignments on behalf of health care facilities in highly desirable coastal and mountain resort areas; facilities which in the past did not require physician recruiting assistance due to their favorable locations. In addition, we now conduct physician recruiting assignments on behalf of some of the most recognizable health care institutions in the world, institutions which in previous years had little trouble attracting physician candidates on their own.

The steady growth in the number of search assignments we conduct, which has doubled from 1,352 in 1995/96 to 2,687 in 2004/05, further reflects the growing demand for physicians and the diminishing supply of candidates nationally.

The Top 15

Merritt, Hawkins & Associates' top 15 search assignments in the 12 month period covered by the annual Review indicates to some extent which medical specialties are in the greatest demand. More specifically, these assignments reflect which specialties are both in demand and difficult to recruit. According to Merritt, Hawkins & Associates' 2005 Survey of Hospital Physician Recruiting Trends, more hospitals are actively engaged in recruiting family physicians than any other type of physician. However, cardiology, not family practice, was our number one search assignment in 2004/05. This apparent dichotomy is due to the fact that family practitioners are generally not as difficult to recruit as cardiologists. Some facilities today can recruit family physicians on their own but may require the assistance of an outside firm to recruit cardiologists and other specialists.

While cardiology, radiology and orthopedic surgery have topped the list of our most frequently conducted search assignments for the last five years, two areas of primary care, internal medicine and family practice showed continued or renewed prominence in the 2005 Review. The number of internal medicine search assignments Merritt, Hawkins & Associates conducted increased from 124 in 2003/04 to 188 in 2004/05, a growth rate of 51%. This growth can be attributed in part to the enhanced need for

internists among a growing population of elderly patients. In addition, some facilities that are unable to recruit a sufficient number of internal medicine sub-specialists turn to general internists to address their needs.

The number of family practice search assignments Merritt, Hawkins & Associates conducted dropped from 694 in 1996/97 to 122 in 2002/04. However, in 2003/04, the number of family practice searches we conducted increased to 165. This increase held steady at 166 family practice search assignments in 2004/05. These increases indicate a steady resurgence in two areas of primary care recruitment as hospitals and other health care providers seek to meet the needs of changing demographics and/or maintain patient referral networks. However, a third area of primary care (pediatrics) dropped out of our top 15 search assignments for the first time since we began compiling data.

Also noteworthy among the top 15 searches is the growth in psychiatry. The number of psychiatry searches Merritt, Hawkins & Associates conducted increased from 54 in 2003/04 to 80 in 2004/05, a growth rate of 48%. In last year's Review, we anticipated this growth due to both a growing demand for behavioral health services and a diminishing supply of psychiatrists. Psychiatrists are, on average, one of the oldest medical specialists and the number of medical students choosing to specialize in psychiatry is declining. A growing number of facilities, many of them state funded mental health facilities or correctional facilities, are unable to recruit the psychiatrists they need and are reliant on temporary (i.e., *locum tenens*) practitioners to fill gaps in their staffs. We project that psychiatrists will become increasingly difficult to recruit and that the need for additional psychiatrists will become acute in the next five to 10 years.

Neurosurgery is another specialty that is becoming increasingly difficult to recruit. Neurosurgery was among Merritt, Hawkins & Associates' top 15 most recruited specialties in 2004/05, the first time it has been on the list. The supply of neurosurgeons has traditionally been limited, while population growth is fueling demand. Even those hospitals with a sufficient number of neurosurgeons are finding it difficult to persuade these specialists to cover their emergency departments, causing a growing number of patient transfers from one facility to another.

By contrast, demand for both obstetrician/gynecologists and anesthesiologists showed declines in this year's Review. Falling birthrates in many areas may explain the dwindling demand for OB/GYNs, while a number of facilities addressed their needs in anesthesiology in the previous four to five years, during which time the volume of search assignments Merritt, Hawkins & Associates conducted in anesthesiology sharply increased. In addition, anesthesiology is one of the few medical specialties where a significant amount of care can be provided by non-physicians, and in many cases health care organizations are recruiting certified registered nurse anesthetists (CRNAs) in lieu of anesthesiologists.

Income Offers Reflect Growing Demand

The 2005 Review indicates that the base income offered to recruit physicians continues to spike as the demand for medical services outpaces the supply of available physicians.

The average income offered to recruit cardiologists increased from \$292,000 last year to \$320,000 this year, the average offer to orthopedic surgeons increased from \$330,000 last year to \$361,000 this year, and the average offer to radiologists increased from \$336,000 last year to \$355,000 this year. By contrast, in the 1998/99 Review, the average income offer to cardiologists was \$206,000, the average offer to orthopedic surgeons was \$245,000 and the average offer to radiologists was \$197,000.

Other areas showing significant increases over last year include gastroenterology, up from \$250,000 last year to \$298,000 this year, otolaryngology, up from \$278,000 last year to \$304,000 this year, urology, up from \$294,000 last year to \$329,000 this year and internal medicine, up from \$152,000 last year to \$161,000 this year.

The 2005 Review marks the second year we have tracked income offers by geographic region. As in last year's Review, the 2005 Review indicates that average income offers are generally higher in the Southeast and Midwest than they are in the Northeast and the West. The variations generally are not pronounced, however, because the physician recruitment market is national in scope and offers generally have to be competitive on a national rather than a regional basis.

In addition to the base financial offer, other incentives are used to recruit physicians. Relocation is a standard incentive and was paid for in virtually all of the assignments Merritt, Hawkins & Associates conducted in 2004/05. The average relocation allowance provided by our clients dipped slightly from \$9,250 in 2003/04 to \$8,550 this year. Signing bonuses were offered in 46% of search assignments conducted in 2004/05, down from 50% last year but up from 36% and 35% the two previous years. The average signing bonus offered by Merritt, Hawkins & Associates' clients was \$14,030 in 2004/05, compared to \$15,500 last year.

Continuing medical education is a standard incentive, offered in 93% of searches conducted in 2004/05, with no change from last year. The average CME allowance offered grew marginally from \$3,250 in 2003/04 to \$3,350 in 2004/05. Health insurance, malpractice insurance, retirement and disability are increasingly common incentives, each of them offered in 80% or more of the searches Merritt, Hawkins & Associates conducted in 2004/05

Summary

Merritt, Hawkins & Associates' 2005 Review of Physician Recruiting Incentives underscores the fact that the demand for physicians is national and that communities in all areas of the country require some outside assistance in physician recruitment. Demand for cardiologists, radiologists and orthopedic surgeons remains high, while demand for psychiatrists and neurosurgeons is spiking. The 2005 Review shows a steady increase in demand in two areas of primary care (internal medicine and family practice) while demand in obstetrics/gynecology and anesthesiology appears to be diminishing. Financial incentives reflect the growing demand for physicians and are up significantly for many specialists. The 2005 Review indicates that financial incentives offered to recruit physicians are generally higher in the Southeast and Midwest than they

are in the Northeast and the Northwest and that certain incentives such as relocation and continuing medical education are standard in the industry.

The MHA Group / Additional Surveys

Merritt, Hawkins & Associates is part of **The MHA Group**, a national organization of healthcare staffing firms. The MHA Group includes:

Merritt, Hawkins & Associates: Permanent physician and allied healthcare professional placement

Staff Care, Inc.: Locum tenens (temporary) physician staffing

Med Travelers: Temporary allied healthcare professional staffing

MTI Staffing: Temporary therapy professional staffing

RN Demand: Temporary registered nurses staffing

Other surveys conducted by The MHA Group:

- Survey of Physician Appointment Wait Times
- Survey of Physicians 50 to 65 Years Old
- Physician Inpatient / Outpatient Revenue Survey
- Survey of Final Year Medical Residents
- Hospital Physician Recruitment Trends Survey
- Review of Temporary Healthcare Staffing Trends & Incentives
- Review of Temporary Healthcare Staffing Trends & Incentives (Mid-level Providers)
- Review of Temporary CRNA Staffing Trends
- Review of Temporary Healthcare Staffing Trends in Psychiatry

Books written by MHA Group executives:

Will the Last Physician in America Please Turn Off the Lights? A Look at America's Looming Physician Shortage

For additional information about this survey or other information generated by The MHA Group, please contact:



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