

SUMMARY REPORT

2006 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 health professionals. Established in 1987, Merritt, Hawkins & Associates® is part of AMN Healthcare®, the nation's largest health care staffing organization. AMN Healthcare® is comprised of 11 distinct health care staffing companies and employs over 1,700 associates in 12 domestic and seven international offices.

This report marks Merritt, Hawkins & Associates®' 13th annual review of the physician search and consulting assignments we conduct on behalf of our clients.

The 2006 Review is based on 2,840 physician and certified registered nurse anesthetist (CRNA) search and consulting assignments Merritt, Hawkins & Associates® represented from April 1, 2005 to March 31, 2006.

The intent of the Review is to quantify financial and other recruitment incentives offered by our clients to physician and CRNA candidates in recruiting situations. 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 and CRNA 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 and CRNA Search Assignments Represented:

<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>
2,840	2,687	2,594	2,405

Medical Settings of Physician Search Assignments

	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>
Group	1,136 (40%)	1,290 (48%)	1,089 (42%)	938 (39%)
Partnership	454 (16%)	242 (9%)	571 (22%)	529 (22%)
Solo	483 (17%)	492 (18%)	519 (20%)	433 (18%)
Hospital	654 (23%)	510 (19%)	285 (11%)	313 (13%)
Association	28 (1%)	48 (2%)	78 (3%)	96 (4%)
HMO	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Other	85 (3%)	105 (4%)	52 (2%)	96 (4%)

50 States Where Search Assignments Were Conducted

AK, AL, AR, AZ, CA, CO, CT, DE, FL, GA, 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, RI, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV, WY

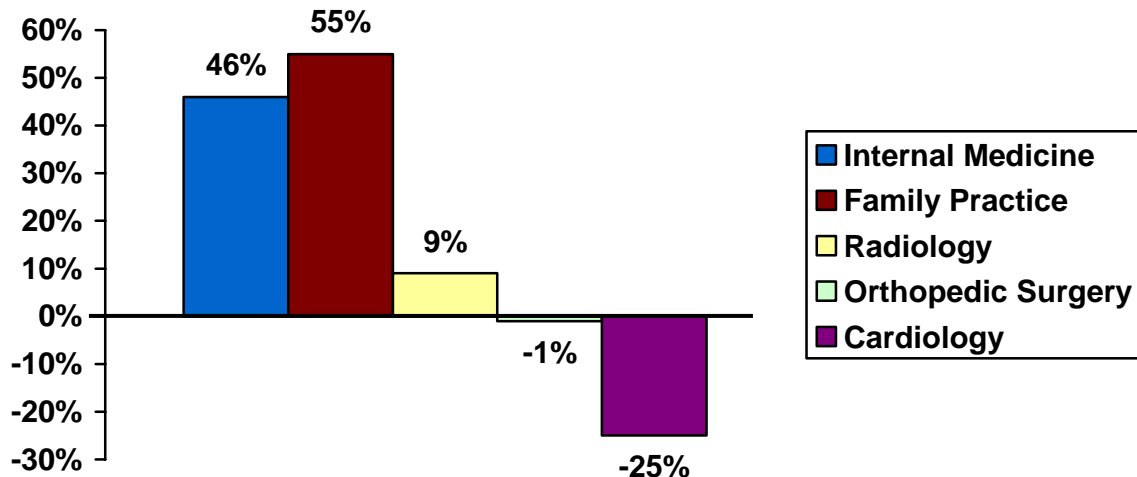
Number of Searches by Community Size

	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>
0-25,000	769 (27%)	806 (30%)	622 (24%)	625 (26%)
25,001-100,000	935 (33%)	860 (32%)	960 (37%)	866 (36%)
100,001+	1,136 (40%)	1,021 (38%)	1,012 (39%)	914 (38%)

Top Fifteen Physician Searches By Medical Specialty and CRNA Searches

	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>
Internal Medicine	274	188	124	113
Family Practice	257	166	165	122
Radiology	237	218	202	230
Orthopedic Surgery	207	210	210	191
Cardiology	174	231	181	188
General Surgery	165	116	112	84
CRNA	117	102	82	N/A
Hospitalist	112	62	82	55
OB/GYN	111	83	103	110
Gastroenterology	105	94	105	69
Emergency Medicine	91	47	42	40
Urology	75	59	94	56
Anesthesiology	70	64	98	134
Psychiatry	69	80	54	59
Neurology	69	56	60	44
Otolaryngology	57	54	52	42

Comparison of Top 5 Searches: 2005/06 to 2004/05 by % of change



Other Specialty Recruitment Assignments

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

Income Offered to Top 15 Recruited Specialties

	<u>Low</u>	<u>Average</u>	<u>High</u>
Internal Medicine			
2005/06	\$130,000	\$162,000	\$250,000
2004/05	\$130,000	\$161,000	\$210,000
2003/04	\$125,000	\$152,000	\$200,000
2002/03	\$125,000	\$150,000	\$200,000
Family Practice			
2005/06	\$115,000	\$145,000	\$220,000
2004/05	\$125,000	\$150,000	\$200,000
2003/04	\$120,000	\$146,000	\$195,000
2002/03	\$120,000	\$146,000	\$190,000
Family Practice with Obstetrics			
2005/06	\$140,000	\$158,000	\$180,000
Radiology			
2005/06	\$240,000	\$351,000	\$500,000
2004/05	\$250,000	\$355,000	\$500,000
2003/04	\$240,000	\$336,000	\$450,000
2002/03	\$230,000	\$317,000	\$500,000

	<u>Low</u>	<u>Average</u>	<u>High</u>
Orthopedic Surgery			
2005/06	\$250,000	\$370,000	\$515,000
2004/05	\$250,000	\$361,000	\$650,000
2003/04	\$240,000	\$330,000	\$500,000
2002/03	\$230,000	\$315,000	\$450,000
Cardiology			
2005/06	\$175,000	\$342,000	\$500,000
2004/05	\$234,000	\$320,000	\$525,000
2003/04	\$230,000	\$292,000	\$500,000
2002/03	\$230,000	\$280,000	\$475,000
General Surgery			
2005/06	\$150,000	\$272,000	\$350,000
2004/05	\$220,000	\$255,000	\$310,000
2003/04	\$210,000	\$248,000	\$300,000
2002/03	\$200,000	\$242,000	\$275,000
CRNA			
2005/06	\$87,000	\$156,000	\$210,000
2004/05	\$75,000	\$150,000	\$190,000
2003/04	\$70,000	\$145,000	\$190,000
2003/03	N/A	N/A	N/A
Hospitalist			
2005/06	\$140,000	\$175,000	\$190,000
2004/05	\$150,000	\$171,000	\$210,000
2003/04	\$140,000	\$162,000	\$200,000
2002/03	\$135,000	\$155,000	\$180,000
OB/GYN			
2005/06	\$175,000	\$234,000	\$450,000
2004/05	\$200,000	\$247,000	\$320,000
2003/04	\$185,000	\$242,000	\$325,000
2002/03	\$190,000	\$237,000	\$325,000
Gastroenterology			
2005/06	\$175,000	\$315,000	\$500,000
2004/05	\$230,000	\$298,000	\$340,000
2003/04	\$210,000	\$250,000	\$325,000
2002/03	\$200,000	\$240,000	\$325,000
Emergency Medicine			
2005/06	\$130,000	\$230,000	\$270,000
2004/05	\$140,000	\$246,000	\$270,000
2003/04	\$120,000	\$218,000	\$260,000
2002/03	\$120,000	\$210,000	\$255,000

	<u>Low</u>	<u>Average</u>	<u>High</u>
Urology			
2005/06	\$250,000	\$320,000	\$375,000
2004/05	\$250,000	\$329,000	\$340,000
2003/04	\$220,000	\$294,000	\$325,000
2002/03	\$210,000	\$277,000	\$325,000
Anesthesiology			
2005/06	\$275,000	\$306,000	\$375,000
2004/05	\$240,000	\$303,000	\$340,000
2003/04	\$220,000	\$300,000	\$325,000
2002/03	\$225,000	\$290,000	\$325,000
Psychiatry			
2005/06	\$130,000	\$174,000	\$230,000
2004/05	\$140,000	\$176,000	\$250,000
2003/04	\$130,000	\$164,000	\$260,000
2002/03	\$130,000	\$162,000	\$250,000
Neurology			
2005/06	\$150,000	\$210,000	\$250,000
2004/05	\$155,000	\$209,000	\$230,000
2003/04	\$145,000	\$191,000	\$220,000
2002/03	\$150,000	\$180,000	\$215,000
Otolaryngology			
2005/06	\$175,000	\$272,000	\$350,000
2004/05	\$235,000	\$304,000	\$350,000
2003/04	\$230,000	\$278,000	\$350,000
2002/03	\$225,000	\$270,000	\$375,000

Type of Incentive Offered

	<u>Salary</u>	<u>Salary w/ Bonus</u>	<u>Income Guarantee</u>
2005/06	426 (15%)	1505 (53%)	909 (32%)
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%)

Type of Guarantee (of 909 Searches Offering Guarantees)

	<u>Net Collections Guarantee</u>	<u>Gross Collections Guarantee</u>
2005/06	736 (81%)	173 (19%)
2004/05	827 (88%)	113 (12%)
2003/04	916 (86%)	149 (14%)
2002/03	749 (82%)	165 (18%)

Term of Guarantee (of 909 Searches Offering Guarantees)

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>
2005/06	591 (65%)	315 (35%)	3 (<1%)
2004/05	708 (76%)	220 (23%)	8 (1%)
2003/04	852 (80%)	203 (19%)	10 (1%)
2002/03	713 (78%)	192 (21%)	9 (1%)

Searches Offering “Forgiveness” of Guarantee (of 909 Searches Offering Guarantees)

	<u>Forgiveness</u>	<u>No Forgiveness</u>
2005/06	827 (91%)	82 (9%)
2004/05	884 (94%)	56 (6%)
2003/04	1,012 (95%)	53 (5%)
2002/03	859 (94%)	55 (6%)

Time Period of Forgiveness (of 827 Searches Offering Forgiveness)

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>Other / N/A</u>
2005/06	9 (1%)	298 (36%)	504 (61%)	16 (2%)
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%)

Paying Relocation

	<u>Yes</u>	<u>No</u>
2005/06	2,815 (99%)	25 (1%)
2004/05	2,677 (99%)	10 (1%)
2003/04	2,578 (99%)	16 (1%)
2002/03	2,379 (99%)	26 (1%)

Amount of Relocation Allowance

	<u>Low</u>	<u>Average</u>	<u>High</u>
2005/06	\$3,000	\$10,060	\$20,000
2004/05	\$3,500	\$8,850	\$20,000
2003/04	\$2,000	\$9,250	\$22,000
2002/03	\$2,000	\$9,000	\$20,000

Signing Bonus Offered

	<u>Yes</u>	<u>No</u>
2005/06	1,650 (58%)	1190 (42%)
2004/05	1,236 (46%)	1,451 (54%)
2003/04	1,290 (50%)	1,304 (50%)
2002/03	866 (36%)	1,539 (64%)

Amount of Bonus

	<u>Low</u>	<u>Average</u>	<u>High</u>
2005/06	\$5,000	\$20,480	\$75,000
2004/05	\$5,000	\$14,030	\$50,000
2003/04	\$5,000	\$15,500	\$45,000
2002/03	\$4,500	\$15,000	\$50,000

Paying Continuing Medical Education (CME)

	<u>Yes</u>	<u>No</u>
2005/06	2,558 (90%)	282 (10%)
2004/05	2,498 (93%)	189 (7%)
2003/04	2,412 (93%)	182 (7%)
2002/03	2,212 (92%)	193 (8%)

Amount of CME

	<u>Low</u>	<u>Average</u>	<u>High</u>
2005/06	\$1,500	\$3,830	\$10,000
2004/05	\$1,000	\$3,350	\$15,000
2003/04	\$1,500	\$3,250	\$10,000
2002/03	\$1,500	\$3,100	\$10,000

Paying Additional Benefits

	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>
Health Insurance	91%	92%	96%	96%
Malpractice	92%	93%	90%	91%
Retirement	70%	72%	70%	72%
Disability	70%	74%	70%	72%
Educational Loan Forgiveness	34%	14%	16%	12%

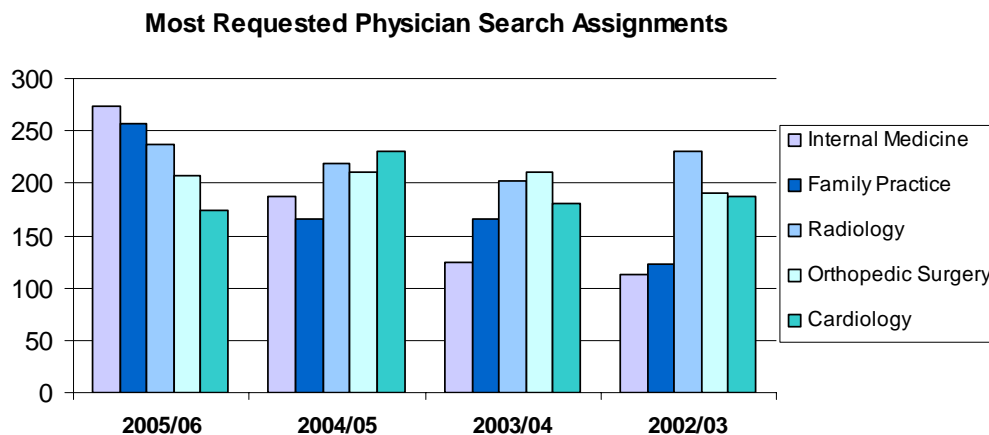
TRENDS AND OBSERVATIONS

Merritt, Hawkins & Associates®' **2006 Review of Physician Recruiting Incentives** underlines both the cyclical nature of physician recruiting and demonstrates ways in which physician recruiting continues to evolve in new directions.

To borrow Yogi Berra's phrase, the 2006 Review is, in part, a case of "déjà vu all over again." The review indicates that two areas of primary care – internal medicine and family practice – are back at the forefront of physician recruiting. This marks a hiatus from the recruiting "limelight" that for primary care physicians has lasted over six years.

A decade ago, as noted in our 1996 Review, demand for primary care physicians began to plateau. Prior to 1996, the great majority of the searches Merritt, Hawkins & Associates® conducted were for family practitioners, general internists and pediatricians. With the decline of the primary care "gatekeeper" concept in the late 1990s, the market shifted dramatically toward the recruitment of surgical and diagnostic specialists. That pattern held until last year, when Merritt, Hawkins & Associates® observed an upswing in demand for primary care.

The cycle is completed in 2006, as internal medicine and family practice represented Merritt, Hawkins & Associates®' number one and number two most requested physician search assignments.



Primary care is enjoying a comeback for several reasons. While many medical school graduates gravitated toward primary care residencies in the 1990s, creating a bulge in supply, medical graduates are largely avoiding primary care today. Many residency programs, particularly in family practice, do not come near to filling their available positions. This dip in supply coincides with a renewed focus that hospitals and medical groups are putting on primary care after several years of neglect. In the case on internal medicine, population aging is driving demand, as is a general shortage of internal medicine sub-specialists. Unable to find an adequate number of gastroenterologists, cardiologists, and other IM sub-specialists, some facilities are recruiting general internists to pick up the slack.

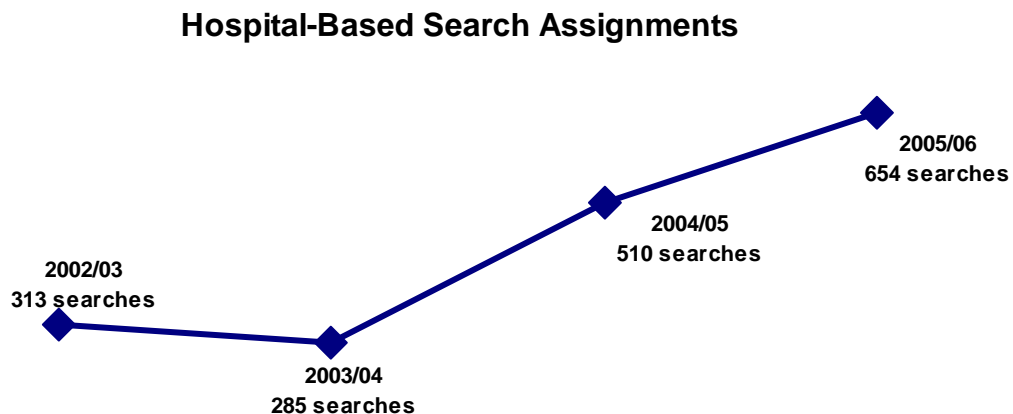
The renewed interest in primary care physicians does not extend to pediatricians, however. A general decline in birth rates (with the exception of some high immigration areas) and an adequate supply of residents have combined to reduce the number of physician search assignments Merritt, Hawkins, & Associates® conducts for pediatricians. Pediatric sub-specialists, by contrast, are in increasing demand and the number of searches Merritt, Hawkins & Associates® has conducted for pediatric sub-specialists has increased over the last several years.

The strong comeback of primary care does not necessarily indicate that interest in specialty areas has declined. The 2006 Review reflects a continued strong demand for radiologists, cardiologists, orthopedic surgeons, general surgeons, gastroenterologists, neurologists, otolaryngologists, and other specialists. Due to a variety of factors, including a fixed supply of U.S. trained physicians, changing physician practice styles, population aging, and technological innovation; the United States is in the midst of a physician shortage that is projected to last for at least the next decade. Both specialists and primary care physicians are likely to be in short supply for years to come, for reasons discussed in more detail in Merritt, Hawkins & Associates® book *Will the Last Physician in America Please Turn Out the Lights?*

It should be noted that for the first time the Review includes information on Certified Registered Nurse Anesthetists (CRNAs.) These advanced practice nurses provide the majority of anesthesia services in the United States and are in great demand due to rising surgery rates. However, the Review only tracks “income offered” to CRNAs. The other incentives detailed in the Review apply to physicians only.

Hospitals Employing More Physicians

Another cyclical pattern indicated by the survey is that hospital employment of physicians appears to be on the rise. Direct employment of physicians by hospitals was one hallmark of managed care in the 1990s, but the practice was largely dropped as hospitals found the physician employment model problematic. The 2006 Review shows that 23% of the physician search assignments Merritt, Hawkins & Associates® represented in 2005/06 were for hospital settings, up from 19% in 2004/05, 11% in 2003/04, and 13% in 2002/03.



In a new wrinkle, however, it is typically physicians who are approaching hospitals about employment opportunities rather than the reverse. Many physicians, specialists in particular, are “throwing in the towel” when it comes to sustaining the high malpractice rates, reimbursement hassles, and administrative duties of private practice. Hospital employment relieves the burdens of private practice and, in today’s market, offering an employed position generally gives a hospital a recruiting advantage.

The 2006 Review includes another new physician recruitment market indicator. For the first time, Merritt, Hawkins & Associates® represented physician search assignments in all 50 states during the time-frame covered by the Review. Hospitals, medical groups, and other organizations in literally every state now at least occasionally find it necessary to retain the services of physician search firms such as Merritt, Hawkins & Associates® – even in traditionally physician-rich states such as Hawaii, Connecticut, New York, and Massachusetts.

The general shortage of physicians also is underlined by the fact that the plurality of the searches Merritt, Hawkins & Associates® conducted in 2005/06 were located in cities of 100,000 or more. Medical organizations in communities of all sizes now require the services of physician search firms such as Merritt, Hawkins & Associates®, including resort communities that are traditionally popular with physicians.

Incentives Still Lag in Primary Care

The increased demand for family practitioners has yet to translate into appreciably higher recruiting offers. Indeed, the 2006 Review indicates that the average salary or income guarantee offered to family practitioners declined relative to last year. This is in part because for the first time the 2006 Review separates offers made to family physicians from those made to family physicians doing obstetrics/gynecology. In addition, it is a fairly common occurrence for a lag to take place between increased demand for a particular type of physician and increased financial offers. The market has yet to adjust to new conditions and is still operating under the assumption that the supply and demand of primary care physicians is still in relative balance. Merritt, Hawkins & Associates®’ 2007 Review will better illustrate if the market price for family practitioners will follow the demand curve.

Indeed, it is interesting to observe that the average offer made to CRNAs (\$156,000) was higher than the average offer made to family practitioners (\$145,000.)

The case is somewhat different for internists, who have been in rising demand for several years. Average salary and income guarantee offers made to internists have increased from \$150,000 in 2002/03 to \$162,000 in 2005/06.

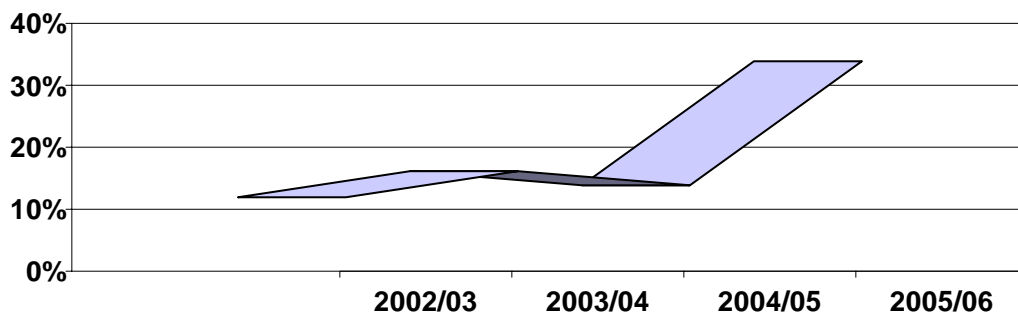
Average income offers continue to rise for most specialists, with offers to cardiologists showing a particularly significant increase, from \$320,000 in 2004/05 to \$342,000 this year. Reflecting the increased employment of physicians, the majority of financial incentives offered were in the form of salaries or salaries with a production bonus. Only about one-third of searches offered a financial incentive in the form of an income guarantee, which is typically offered to physicians in private practice.

Also noteworthy in the area of recruiting incentives is the increased use of those incentives which tend to “close” physician recruiting negotiations. Signing bonuses

often are used to help persuade physicians to accept recruiting contracts. The 2006 Review indicates that signing bonuses were offered in 58% of the searches Merritt, Hawkins & Associates® represented, up from 46% the previous year. In addition, the average amount of bonuses offered increased from \$14,000 in 2004/05 to \$20,480 in 2005/06.

Educational loan forgiveness also can be an attractive deal sweetener, particularly to younger physicians, many of whom may owe well over \$100,000 in student loans. Educational loan forgiveness was offered in 34% of the recruiting assignments Merritt, Hawkins & Associates® represented in 2005/06, up from 14% the previous year.

Searches Offering Educational Loan Forgiveness



Certain incentives, such as paid relocation, CME, health and malpractice insurance are standard in the majority of physician search assignments Merritt, Hawkins & Associates® represents. The average relocation allowance offered showed an increase over last year, rising from \$8,800 in 2004/05 to \$10,000 in 2005/06.

Summary

Merritt, Hawkins & Associates®' 2006 Review of Physician Recruiting Incentives underscores the fact that the demand for primary care physicians has returned while demand for specialists remains strong. Hospital employment of physicians also appears to be increasing as many physicians seek the security and relative simplicity of an employed position. Incentives used to bring physician recruiting negotiations to a successful close, such as signing bonuses and educational loan forgiveness, are being used with increasing frequency. The 2006 Review also indicates that physician recruitment is a truly national challenge, as Merritt, Hawkins & Associates® conducted search assignments in all 50 states in 2005/06.

The MHA Group® / Additional Surveys

Merritt, Hawkins & Associates® is part of **The MHA Group®**, a division of AMN Healthcare®, the nation's largest healthcare staffing firm. The MHA Group® includes:

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

Staff Care®: Locum tenens (temporary) physician staffing

Med TravelersSM: Temporary imaging technologist and therapy 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

Books written by The MHA Group® executives:

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

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