

2007 Physician Inpatient/Outpatient Revenue Survey

INTRODUCTION:

Merritt, Hawkins & Associates is a national physician search and consulting firm specializing in the recruitment of physicians in all medical specialties. Established in 1987, Merritt, Hawkins & Associates is a division of AMN Healthcare, the largest health care staffing organization in the United States.

As part of our effort to monitor trends in health care staffing, we conduct an ongoing series of surveys covering a range of staffing issues, including physician recruiting incentives, physician practice patterns, hospital recruiting patterns, and related topics. This report summarizes Merritt, Hawkins & Associates' third survey of the revenue physicians in various specialties generate for their affiliated hospitals. This periodic survey was conducted previously by Merritt, Hawkins & Associates in 2002 and in 2004.

The survey is intended to provide benchmark data hospitals can use to develop a “quantitative analysis” of their physician recruiting programs. A quantitative analysis as defined by the U.S. Internal Revenue Service (IRS) establishes the financial benefits that newly recruited physicians will bring to a hospital. These benefits may support the hospital's mission of providing quality care to the community by creating revenue streams necessary to its continued or its enhanced operation. A quantitative analysis therefore may serve as part of a hospital's physician recruiting plan by demonstrating the financial benefits to the hospital of physician recruitment. It should be noted, however, that a physician recruiting plan also should include a “qualitative analysis” demonstrating how newly recruited physicians will enhance quality of care in the community.

Survey data also may be used in setting physician compensation levels or recruiting incentives through a cost/benefit analysis comparing the aggregate expense of recruiting physicians to the average revenue generated by physicians in various specialties.

METHODOLOGY

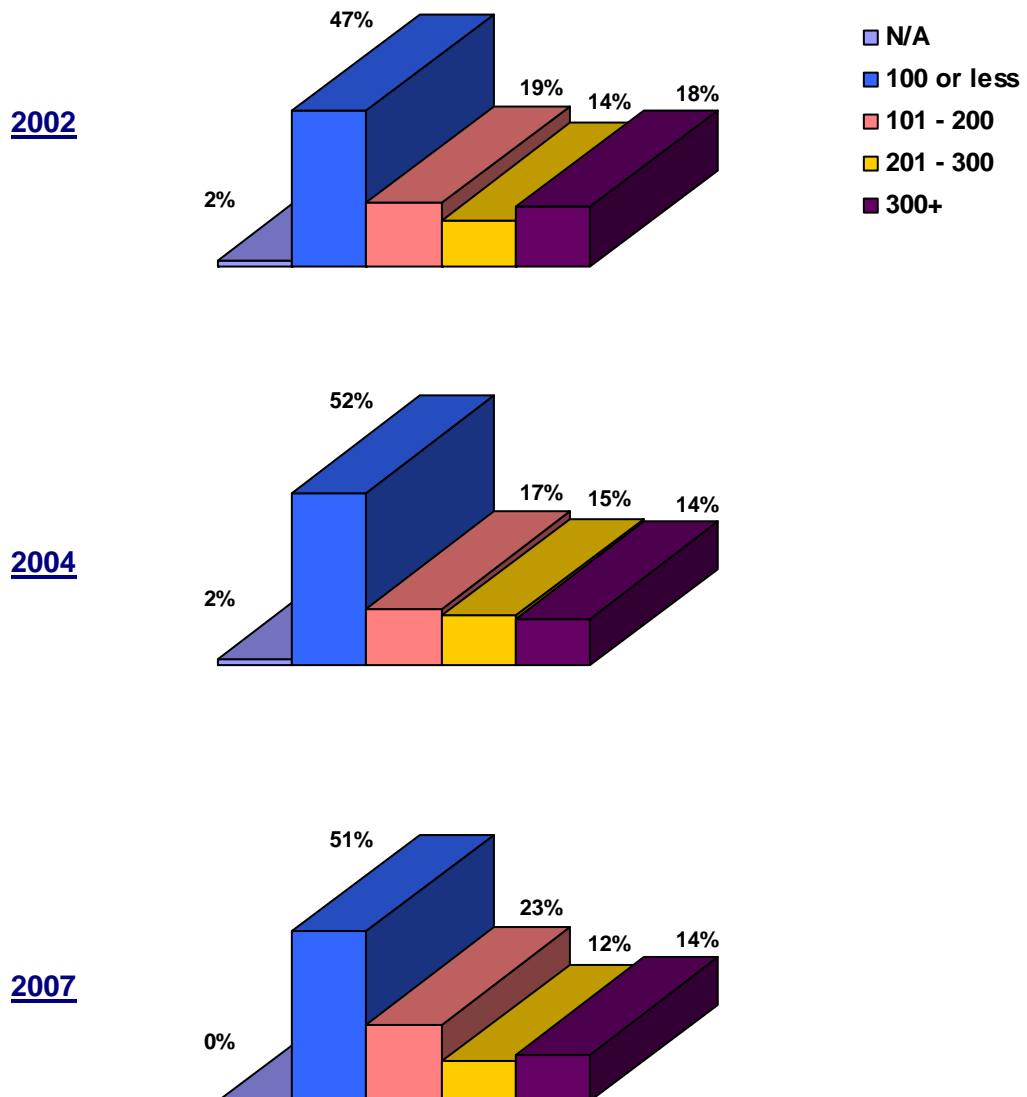
Merritt, Hawkins & Associates mailed the Physician Inpatient/Outpatient Revenue Survey to 5,000 hospital chief financial officers (CFOs) nationwide. The survey form was mailed once in October, 2006 and again in February, 2007. The survey could be taken anonymously or those CFOs requesting survey results could identify themselves and their facilities. The survey asked hospital CFOs to indicate the combined **net** inpatient and outpatient revenue generated annually for their facilities by a single, full time equivalent (FTE) physician in a variety of specialties. In the case of primary care physicians (defined as family practitioners, general internists, and pediatricians), survey respondents were asked to determine revenue from direct admissions, lab tests, etc., not indirect revenue primary care physicians may have generated from patient referrals to specialists utilizing the hospital.

The survey provided various revenue ranges and allowed CFOs to select the most appropriate range for each specialty. In lieu of indicating a range, CFOs also had the option of indicating on the survey form the specific amount of revenue generated annually for their hospital per a single physician in various specialties.

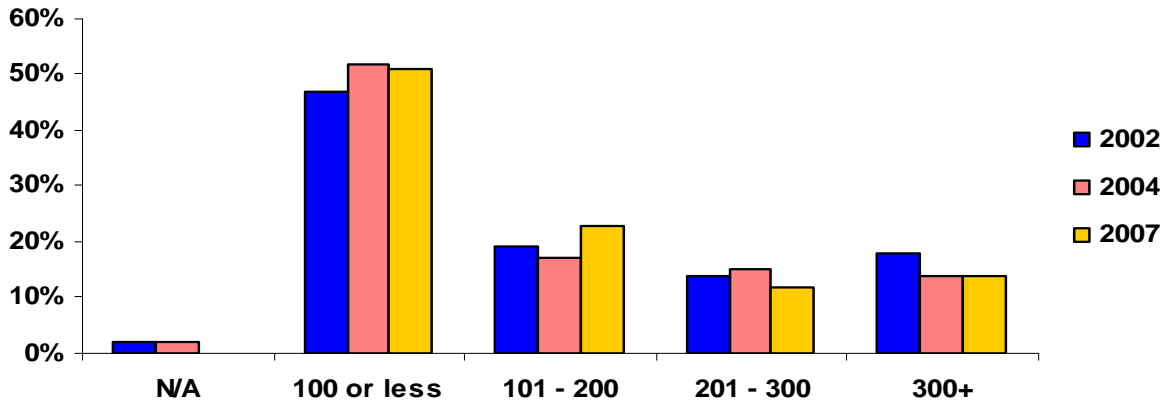
In cases where a range was indicated, the survey takes the midpoint of this range to determine a weighted average for each specialty. A total of 119 completed surveys were received. It should be noted that the volume of categorical responses varied by specialty. Not all returned survey forms included data for all specialties. In addition, the survey was self-selecting. Given these factors, figures for average revenue generated per medical specialty cannot be expected to reflect the experiences of all hospitals.

RESPONDING HOSPITALS BY NUMBER OF BEDS

Questionnaires were mailed to 5,000 chief financial officers (CFOs) at acute care hospitals throughout the country, once in October, 2006 and once in February, 2007. Responding hospitals by number of beds are indicated below, with comparisons to the surveys conducted in 2002 and 2004.

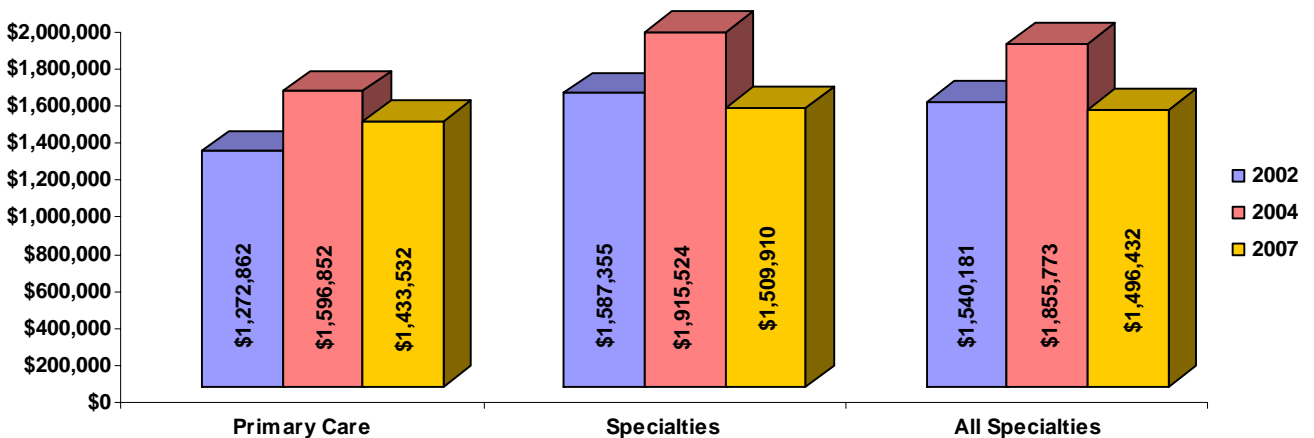


RESPONDING HOSPITALS BY NUMBER OF BEDS (YEAR TO YEAR COMPARISON)



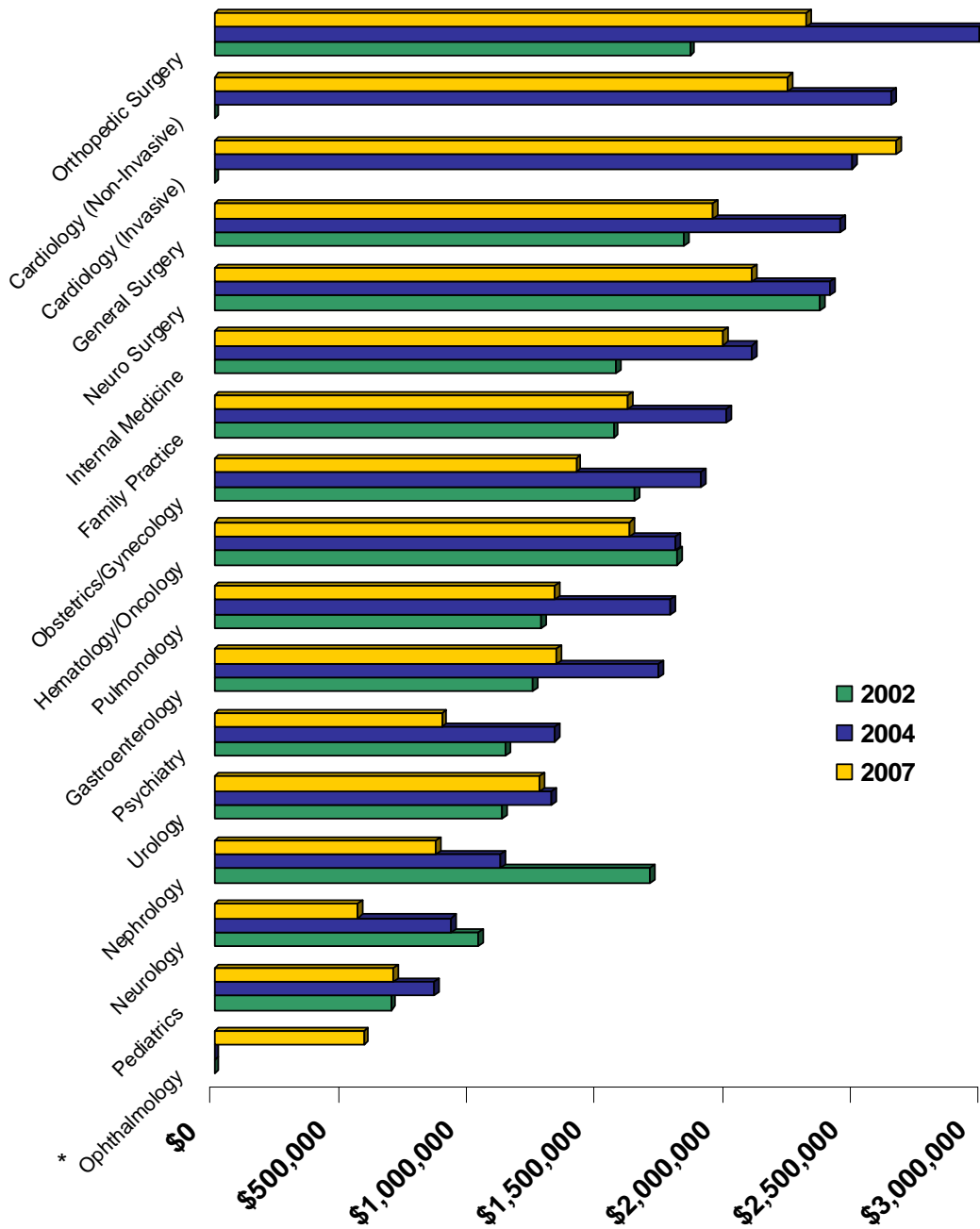
AVERAGE REVENUE GENERATED BY PRIMARY CARE PHYSICIANS, SPECIALISTS, AND ALL PHYSICIANS

(Primary care is defined in this survey as family practice, general internal medicine, and pediatrics. 2007 numbers for “Specialties” and “All Specialties” include average revenue generated by ophthalmologists, a specialty not included in the 2002 and 2004 surveys)



REVENUE GENERATED BY SPECIALTY

The graph below indicates average annual inpatient/outpatient revenue generated for hospitals by physicians in various medical specialties.

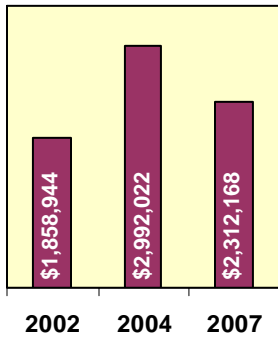


*Ophthalmology included for the first time in 2007

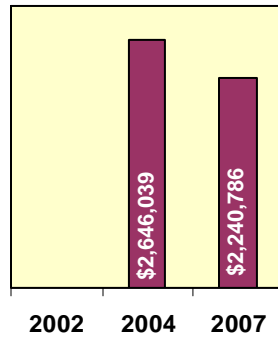
SPECIALTY REVENUE COMPARISON

Average annual inpatient/outpatient revenue generated by physicians for their affiliated hospitals by specialty, 2007 figures compared to 2004 and 2002

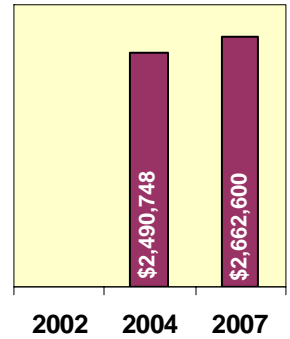
Orthopedic Surgery



Cardiology (Non-Invasive)*



Cardiology (Invasive)*

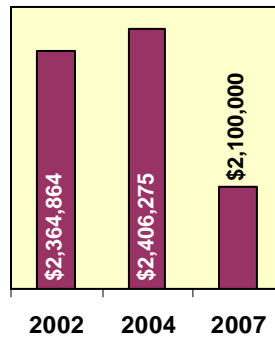


*Invasive and Non-Invasive Cardiology were not surveyed independently in 2002

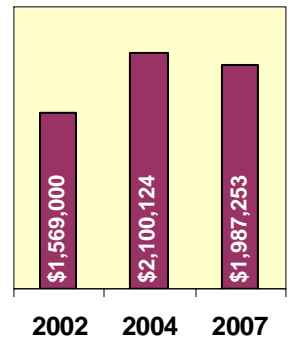
General Surgery



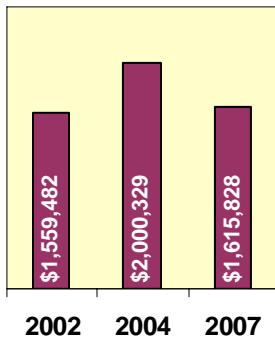
Neuro Surgery



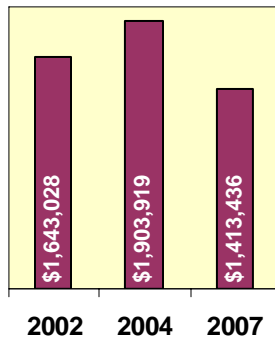
Internal Medicine



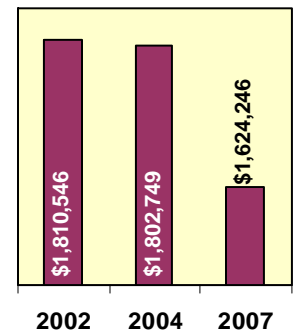
Family Practice



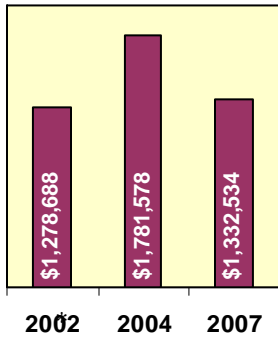
Obstetrics/Gynecology



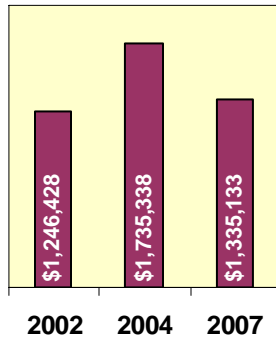
Hematology/Oncology



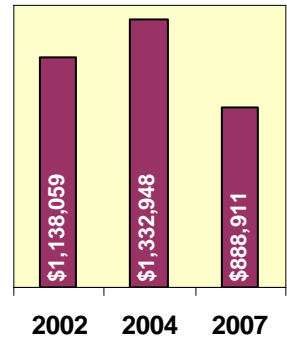
Pulmonology



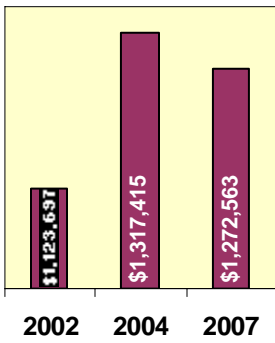
Gastroenterology



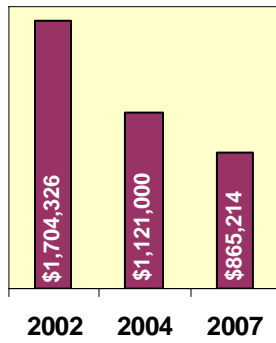
Psychiatry



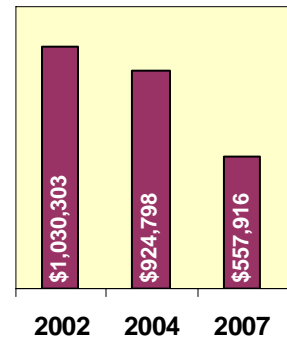
Urology



Nephrology



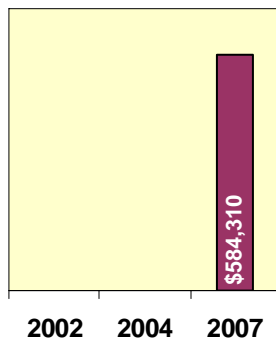
Neurology



Pediatrics



Ophthalmology *



*Ophthalmology not included in 2002/2004

COST/BENEFIT ANALYSIS

The numbers below contrast the average annual inpatient/outpatient revenue generated by physicians in various specialties for their affiliated hospitals with average salaries or income guarantees offered to recruit physicians. Average salaries and income guarantee figures are derived from Merritt, Hawkins & Associates' 2006 Review of Physician Recruiting Incentives and indicate the financial incentives offered to physicians in some 2,800 physician search assignments Merritt, Hawkins & Associates conducted from March 31, 2005 to April 1, 2006. The numbers below may be used as part of a "quantitative" physician recruiting cost/benefit analysis. A "qualitative" analysis also will factor in the quality of care benefits that new physician services may bring to a given community.

| <u>Specialty</u> | <u>Revenue</u> | <u>Avg. Starting Salary*</u> |
|-------------------------|-----------------------|-------------------------------------|
| Cardiology (Invasive) | \$2,662,600 | \$342,000 |
| Orthopedic Surgery | \$2,312,168 | \$370,000 |
| Cardiology/Non-Inv. | \$2,240,286 | \$342,000 |
| Neurosurgery | \$2,100,000 | \$489,000 |
| Internal Medicine | \$1,987,253 | \$162,000 |
| General Surgery | \$1,947,934 | \$272,000 |
| Hematology/Oncology | \$1,624,246 | \$275,000 |
| Family Practice | \$1,615,828 | \$145,000 |
| OB/GYN | \$1,413,436 | \$234,000 |
| Gastroenterology | \$1,336,133 | \$315,000 |
| Pulmonology | \$1,332,534 | \$248,000 |
| Urology | \$1,272,563 | \$320,000 |
| Psychiatry | \$888,911 | \$174,000 |
| Nephrology | \$865,214 | \$225,000 |
| Pediatrics | \$697,516 | \$151,000 |
| Ophthalmology | \$584,310 | N/A |
| Neurology | \$557,916 | \$210,000 |

*2006 MHA Recruitment Incentives Survey

TRENDS AND OBSERVATIONS

Merritt, Hawkins & Associates' 2007 Physician Inpatient/Outpatient Revenue Survey marks the third time we have collected data regarding the net revenue physicians in various specialties generate for their affiliated hospitals through patient referrals, admissions, treatments and procedures.

The 2007 Survey indicates that average net inpatient/outpatient revenue generated by physicians for their affiliated hospitals decreased by specialty relative to 2004 in most cases. Average revenue generated by primary care physicians declined from \$1,586,852 in 2004 to \$1,433,532 in 2007. However, revenue generated by primary care physicians in 2007 was up compared to the 2002 figure (\$1,272,882).

Average revenue generated by specialist physicians declined from \$1,915,524 in 2004 to \$1,509,910 in 2007. Revenue generated by medical specialists in 2007 also was down compared to the 2002 figure (\$1,540,181). A partial explanation for this is that ophthalmology, a specialty that generates relatively little revenue for most hospitals, was included in the survey for the first time in 2007, bringing down the overall average for specialists and for all physicians (primary care and specialists.)

Average revenue generated by all physicians, primary care and specialists, declined from \$1,885,773 in 2004 to \$1,496,432 in 2007. Revenue generated by all physicians also was down compared to the 2002 figure (\$1,540,181).

The survey did not ask respondents to provide any reasons for increases or decreases in annual revenue generated for their hospitals by physicians. It is possible that hospitals surveyed in 2007 may be seeing fewer patient admissions or experiencing declines in reimbursement for treatments and procedures. In some cases, hospitals may be losing well reimbursing elective and other procedures to free standing surgery centers and other competitors

Despite relative declines, the survey indicates that physicians continue to generate a significant level of revenue for their affiliated hospitals, close to \$1.5 million on average per physician. As the drivers of admissions, tests, and procedures, physicians are essential to the economic well being of hospitals and also are critical to the quality of care hospitals provide for their communities.

For further information about this survey, please contact:



"The Leader in Physician Staffing"

5001 Statesman Drive

Irving, Texas 75063

www.merrithawkins.com

(800) 876-0500