

2004 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 has conducted over 25,000 search assignments and has worked in all 50 states.

As part of our effort to monitor trends in health care, we conduct an ongoing series of surveys covering a range of staffing issues, including physician compensation, physician practice patterns, hospital recruiting patterns and patient access to physician services. This report summarizes Merritt, Hawkins & Associates' second survey of the inpatient and outpatient revenue generated by physicians in various specialties for their affiliated hospitals. The survey is conducted by Merritt, Hawkins & Associates every other year and was last conducted in 2002.

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 compliance plan by demonstrating the financial benefits to the hospital of physician recruitment. It should be noted, however, that a compliance 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 costs/benefits analysis comparing the aggregate expense of recruiting physicians to the average revenue generated by physicians in various specialties.

METHODOLOGY

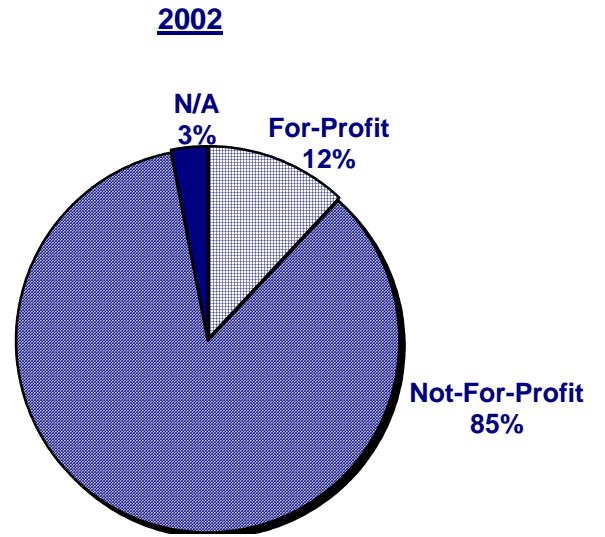
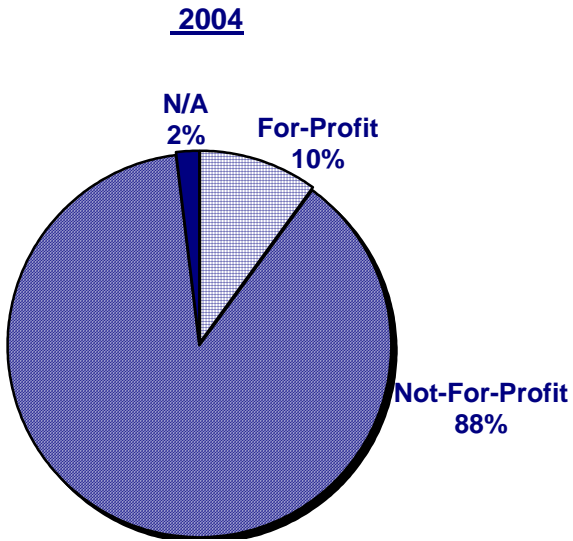
Merritt, Hawkins & Associates developed a survey that was mailed to 4,000 hospital chief financial officers (CFOs) nationally during the month of March, 2004. The survey could be taken anonymously or CFOs could identify themselves and their facilities. The survey asked hospital CFOs to indicate the combined **net** inpatient and outpatient revenue generated for their facilities by full time equivalent (FTE) physicians in a variety of specialties. The survey provided various revenue ranges and CFOs selected the most appropriate range for each specialty.

Using the midpoint of this range, a weighted average was determined for each specialty. A total of 146 surveys were received. Volume of responses varied by specialty and the survey was self-selecting. Revenue ranges therefore cannot be expected to reflect the experience of all hospitals.

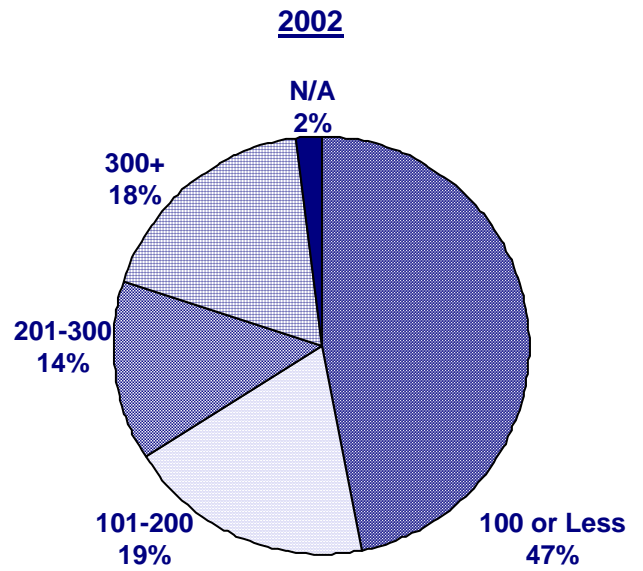
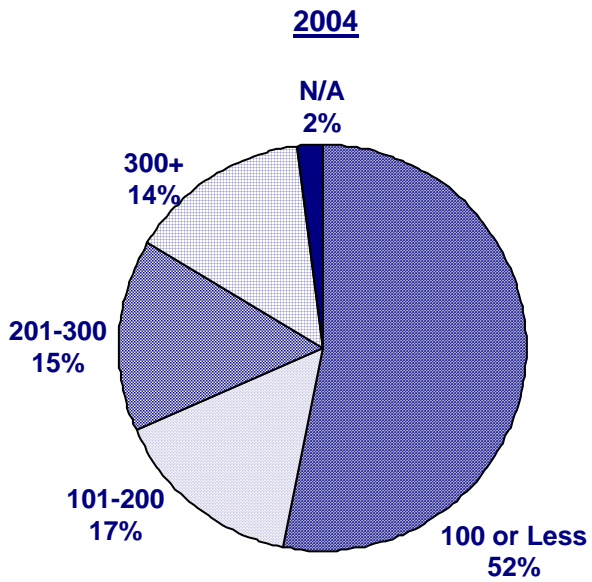
CHARACTERISTICS OF RESPONDING HOSPITALS:

Questionnaires were mailed to 4,000 chief financial officers at acute care hospitals throughout the country. Over 1,000 categorical responses were generated by CFOs at 146 hospitals participating in the survey.

Hospital Type

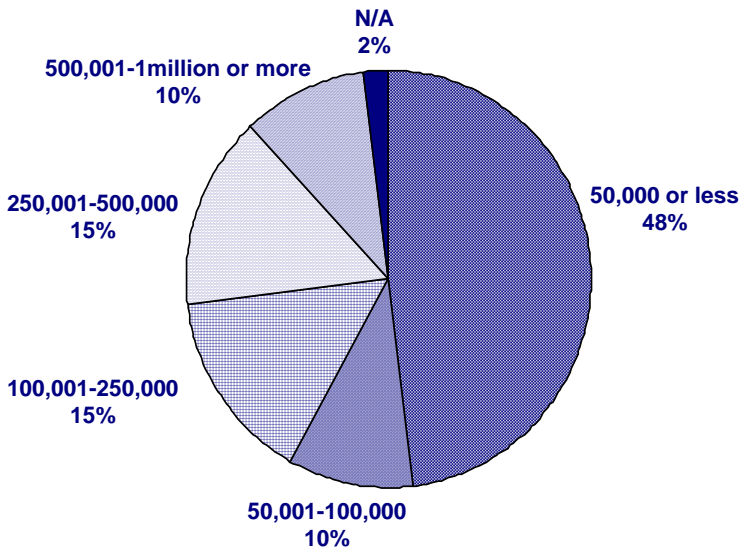


HOSPITALS BY NUMBER OF BEDS

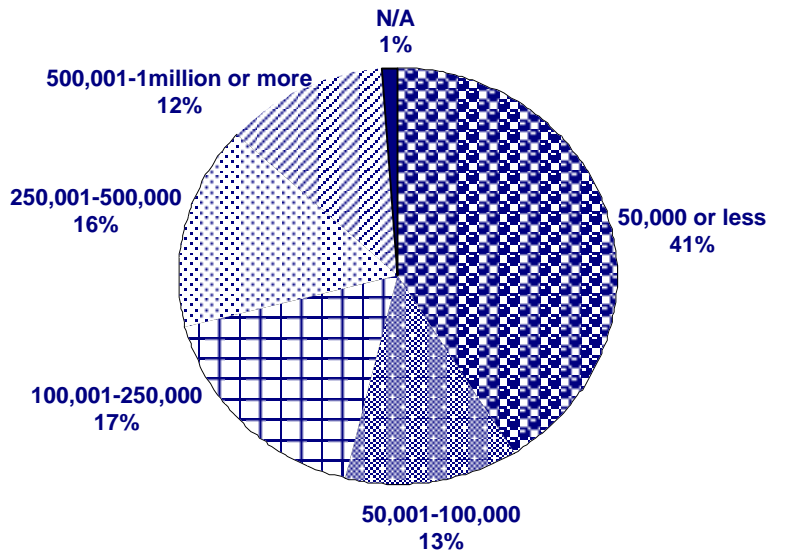


HOSPITALS BY SERVICE AREA

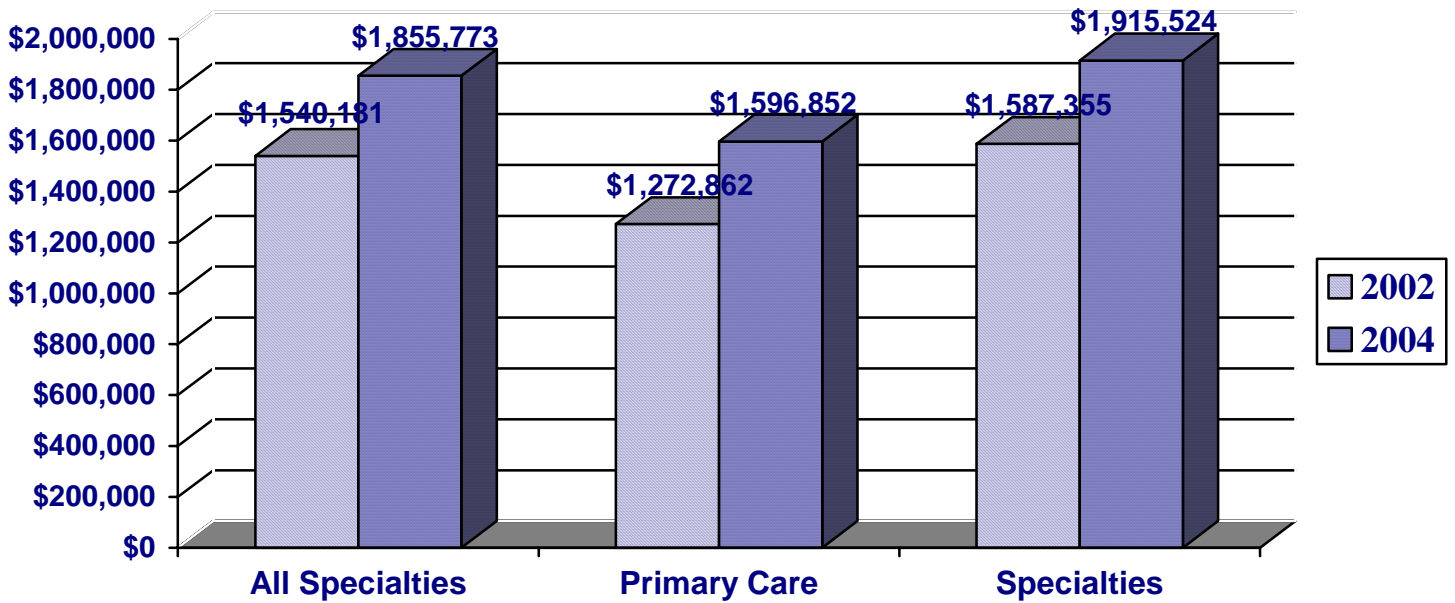
2004



2002

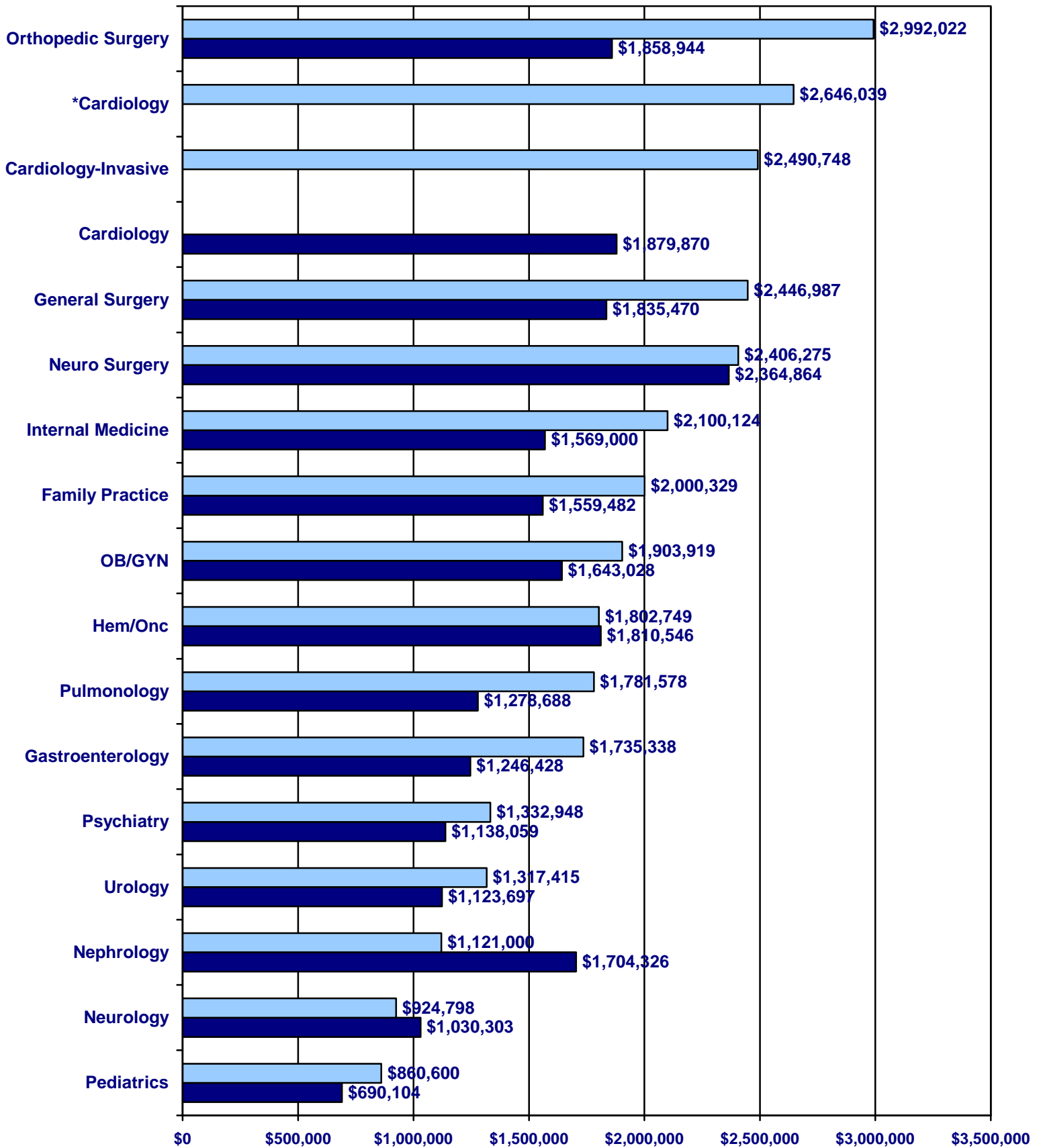


AVERAGE REVENUE OF ALL SPECIALTIES: PRIMARY CARE VS. SPECIALTIES



REVENUE BY SPECIALTY

2004
2002



*General Cardiology not distinguished by invasive/non-invasive in the 2002 Survey

COST ANALYSIS

<u>Specialty</u>	<u>Revenue</u>	<u>Avg. Starting Salary*</u>
Cardiology	N/A	\$292,000
Cardiology / Invasive	\$ 2,490,748	N/A
Cardiology / Non-Invasive	\$2,646,039	N/A
Family Practice	\$2,000,329	\$146,000
Gastroenterology	\$1,735,338	\$250,000
General Surgery	\$2,446,987	\$248,000
Hematology/Oncology	\$1,802,749	N/A
Internal Medicine	\$2,100,124	\$152,000
Nephrology	\$1,121,000	N/A
Neurology	\$924,798	\$191,000
Neuro Surgery	\$2,406,275	N/A
OB/GYN	\$1,903,919	\$242,000
Orthopedic Surgery	\$2,992,022	\$330,000
Pediatrics	\$860,600	\$144,000
Psychiatry	\$1,332,948	\$164,000
Pulmonology	\$1,781,578	\$236,000
Urology	\$1,317,415	\$294,000

*2004 MHA Recruitment Incentives Survey

TRENDS AND OBSERVATIONS

Merritt, Hawkins & Associates' 2004 Physician Inpatient/Outpatient Revenue Survey marks the second time we have collected data regarding the net revenue physicians in various specialties generate for their affiliated hospitals through patient referrals and admissions. We now are in a position to compare current information to past data in order to identify trends or changes.

The 2004 Survey indicates that average net inpatient/outpatient revenue generated by physicians increased by 32% or more over the last two years in seven medical specialties, including:

<u>Specialty</u>	<u>Increase 2002-2004</u>
Orthopedic Surgery	61.0%
Cardiology (non-invasive)	40.8%
Pulmonology	39.3%
Gastroenterology	39.2%
Internal Medicine	33.9%
General Surgery	33.3%
Cardiology (invasive)	32.5%

The 2004 survey indicates that average inpatient/outpatient revenue generated by physicians increased by 28.3% or less over the last two years in six medical specialties, including:

<u>Specialty</u>	<u>Increase 2002-2004</u>
Family Practice	28.3%
Pediatrics	24.7%
Urology	17.2%
Psychiatry	17.1%
OB/GYN	15.9%

Neurosurgery 1.8%

The 2004 survey indicates that average annual inpatient/outpatient revenue generated by physicians for their affiliated hospitals decreased in three specialties, including:

<u>Specialty</u>	<u>Decrease 2002-2004</u>
Nephrology	-34.2%
Neurology	-10.2%
Hematology/Oncology	-0.4%

Merritt, Hawkins & Associates believes that increases were to be expected in most specialties based on rising volumes of surgery (inpatient and outpatient), the rising number of hospital admissions, and the increased acuity of hospital inpatients. These trends are being driven both by population growth and by population aging. Senior citizens represent a rapidly growing segment of the population which utilizes medical services at a proportionally higher rate than the general population. The Center for Disease Control (CDC) reports that in 2001, 53% of physician visits were generated by people 45 years old or older, up from 26% of visits in 1992. The National Center for Health Statistics reports that the rate of inpatient surgery for people 65 or older is three times higher than for the general population. Higher utilization rates of specialty services among older patients can be expected to increase revenues generated per physician specialist, while higher levels of acuity among older patients can be expected to increase revenues generated by primary care physicians admitting patients to hospitals.

Lifestyle choices also play a role, as an increasing number of people are undergoing elective procedures for cosmetic purposes, to manage obesity, etc. With Medicare recently agreeing to cover obesity related treatments and procedures, utilization of such services can be expected to further rise. In addition, increases may be attributable to greater hospital efficiency in obtaining reimbursement from patients and third party payors, through electronic filing systems or other efficiency producing measures.

Decreases in revenue generated in hematology/oncology, neurology, and nephrology are less readily explained and are possibly the result of declines in reimbursement rates for these services or may be due to the survey sample which is 52% composed of hospitals of 100 beds or less. Many of these hospitals do not offer these three services, reducing the overall sample size (in 2002, 47% of hospitals surveyed had 100 beds or less.)

The 2004 Survey indicates that the average annual net inpatient/outpatient revenue generated by physicians in all specialties examined was \$1,855,773, compared to \$1,540,181 in 2002. The average annual net inpatient/outpatient revenue generated by primary care physicians (defined as family practitioners, general internists and pediatricians) was \$1,596,852, compared to \$1,272,862 in 2002. The average annual net inpatient/outpatient revenue generated by all specialists was \$1,915,524, compared to \$1,587,355 in 2004.

Of the 15 medical specialties examined, all but two (neurology and pediatrics) generated at least one million dollars or more in annual net inpatient/outpatient revenue for their affiliated hospitals.

The majority of survey responses were received from hospitals of 200 beds or less serving areas of 250,000 people or less. A possible reason for this is the relative ease with which CFOs at smaller hospitals may be able to calculate physician generated revenue compared to CFOs at larger hospitals. Physicians in smaller communities tend to affiliate with one hospital, whereas physicians in larger communities often affiliate with multiple hospitals. It therefore may be more difficult for CFOs at larger hospitals to determine revenue generated by full-time-equivalent physicians. Average revenue figures in primary care may be particularly affected by the relatively high response rate from hospitals serving communities of 250,000 or less given the broad practice scope primary care physicians often enjoy in smaller communities.

For More Information Please Contact:



www.merrithawkins.com

