



The Cost of a Physician Vacancy

Introduction

A resource provided by Merritt Hawkins, the nation's leading physician search and consulting firm and a company of AMN Healthcare (NYSE: AMN), the largest healthcare workforce solutions company in the United States.

Merritt Hawkins is the nation's leading physician search and consulting firm and is a company of AMN Healthcare (NYSE: AMN) the largest healthcare staffing organization in the country and the innovator of healthcare workforce solutions.

As the thought leader in its field, Merritt Hawkins produces a series of surveys, white papers, speaking presentations and other resources intended to provide insight into physician supply and demand, physician compensation, practice patterns, recruiting strategies and related trends.

This white paper examines the direct and indirect costs of a physician vacancy and demonstrates the importance of an effective physician retention program.

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Assessing Costs

What is the cost of a physician vacancy to a healthcare facility or to a community?

At first glance, the answer to this question may seem obvious. Interview expenses, the cost of on-staff recruiting personnel and/or a physician search firm, and patients that are lost during the transition are some of the consequences of a physician vacancy that immediately come to mind.

However, several implications of physician vacancies are frequently overlooked, and often the total impact of a physician vacancy can be difficult to quantify.

Will quality of care suffer as a result of the vacancy? What is the specific specialty worth to your organization? How much is being invested to recruit each position? What effect do vacancies have on the ability of an organization to form an ACO, a medical home or other integrated delivery models? What does each physician bring to the local economy? These and other factors also may contribute to the net cost of a physician vacancy.

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The Impact on Quality

Quality can be the most costly consequence of a physician vacancy and is of primary importance when considering the potential effects of a physician deficit. Continuity of care is the first thing to suffer when a physician is not in place and the clinical team is without its "quarterback."

When a medical staff is short just one physician, everyone on the delivery team may feel increased pressure.

Pressure to see more patients in less time, while continuing to maintain quality. Pressure to retain patients. Pressure to cover call more frequently. Pressure to maintain financial viability. Increased family pressure because more time is being spent at work and work is more stressful. Referral patterns also may be interrupted causing a ripple effect throughout the medical community that may extend to mid-level providers and other clinicians.

Patients are often on the receiving end of the pressure that providers are feeling. They can quickly become frustrated and question the quality of the care that they were provided when they feel they are not getting sufficient physician time or attention.

Even the perception of a decline in quality can cause patients to migrate to competitors, influencing long-term referral patterns and ultimately impacting the specialty in question as well as other service lines and ancillary revenue streams. With revenues impacted, reinvestment into the practice or the organization can become difficult and patients may move to practices that are offering more innovation and newer technology. In many cases, patients feel that they are receiving higher quality care when their physicians spend more time with them and a physician vacancy can make managing this perception nearly impossible. This downside of physician vacancies will become more important as reimbursement shifts to quality/patient satisfaction-based metrics.

Physician Generated Revenue

As has been frequently observed, without physicians to generate referrals/admissions, hospitals are little more than empty hotels. Physicians are the catalyst for the majority of revenue brought into hospitals, medical groups and other facilities. The most powerful tool in healthcare may be the physician's pen, as just about everything in healthcare delivery, from patient admissions, tests, treatments, prescriptions, procedures and discharges begins or ends with a physician's signature.

The financial impact of one physician vacancy does not lie solely within the department that is experiencing the vacancy – it is often felt across many different departments and teams. As noted in Merritt Hawkins' **2019 Physician Inpatient/Outpatient Revenue Survey**, physicians generate an average of over \$2.4 million in annual net inpatient and outpatient revenue for their affiliated hospitals. The figures cited in this report reflect both technical and professional charges, including a combination of net inpatient and outpatient revenue generated through procedures performed at the hospital, tests and treatments ordered, etc., and do not include indirect revenue that may have been generated from patient referrals to other specialists utilizing the hospital.

Below are listed five of the 19 specialties included in Merritt Hawkins' *2019 Physician Inpatient/Outpatient Revenue Survey* showing annual, monthly, and daily net revenue generated by specialty



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Specialty	Annual Revenue	Monthly Revenue	Daily Revenue
Orthopedic Surgery	\$3,286,764	\$273,897	\$9,004
Neurosurgery	\$3,437,500	\$286,458	\$9,417
General Surgery	\$2,707,317	\$225,609	\$7,417
Cardiology (Invasive)	\$3,484,375	\$290,364	\$9,546
Internal Medicine	\$2,675,387	\$222,948	\$7,329

Source: Merritt Hawkins 2019 Physician Inpatient/Outpatient Revenue Survey

As these numbers illustrate, one physician vacancy equates to thousands of dollars of missed revenue (both direct and indirect) every day the position goes unfilled.

For a complete copy of the 2019 *Physician Inpatient/Outpatient Revenue Survey* contact Merritt Hawkins at 800-876-0500 or access www.merrithawkins.com.

The Cost of Physician Recruiting

When considering the cost of physician recruitment itself, many factors contribute to the overall expense associated with each search. Staff physician recruiters have become common throughout the healthcare system and generally are very effective in understanding and presenting to physician candidates the individual strengths and weaknesses of the facilities they represent. If you have dedicated staff recruiting personnel, there are the direct costs for those personnel (salary and benefits), the cost of advertisements, fees for a search firm in some cases, fees for locum tenens, candidate interview expenses, and time invested by everyone involved with the search.

The Association of Staff Physician Recruiters (ASPR) released a benchmarking study entitled *ASPR In-House Physician Recruitment Benchmarking Report* which notes an average total compensation of \$74,549 for staff physician recruiters (average base salary of \$71,123 and average bonus of \$3,426). Calculating benefits for a staff recruiting professional at 20-25% of their salary, the average total annual investment for this resource is somewhere between \$85,000-\$90,000.

If the assistance of a recruitment firm is needed for a search, placement fees typically range from \$18,000 to \$30,000. For critical and unexpected vacancies, locum tenens physicians are often utilized until a permanent solution is found. Locum tenens physicians can help with managing your patients' perceptions and keep them within the practice, but this service comes at an expense. Staff Care, the nation's leader in locum tenens staffing and a company of AMN Healthcare, periodically completes its *Survey of Temporary Physician Staffing Trends* addressing the current locum tenens market. The report indicates that healthcare organizations pay a daily rate for locum tenens physicians that can exceed \$2,000, depending on the specialty being utilized.



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The chart below illustrates the hypothetical cost to recruit a one family medicine physician:

Potential Cost to Recruit A Family Medicine Physician

Physician salary	\$241,000*
Benefits/perks	\$50,000
Recruiter cost (in-house or agency)	\$25,000
Candidate sourcing	\$10,000
Candidate/spouse interview	\$3,000
Physician relocation	\$10,000
Practice marketing/incidental	\$3,000
Total	\$342,000

*Source: Merritt Hawkins 2018 Review of Physician and Advanced Practitioner Recruiting Incentives

One of the largest hidden costs of recruiting physicians is excess or wasted interviews. The investment associated with interviewing candidates depends largely on how well screened, vetted, and prepared the candidate is prior to interview, and where the candidate’s family is coming from. If the proper work has not been done before the interview takes place, multiple interviews are often required. However, this cost can be minimized and controlled with proper due diligence in early conversations.

The Time Factor

Additionally, there is significant time associated with each search. Time is arguably the most costly component of an interview since expenses multiply as the search process lengthens. Staff physicians involved in the interviews often are blocking time during patient visits and may be investing personal time for dinners and events on the weekends. If their significant others are participating in social events, they are investing time as well. Total time invested in a search can range from 100-200 hours, based on Merritt Hawkins’ 27 years of experience working with directly on search assignments and in conjunction with hospital based recruiting personnel – a substantial investment when considering how busy our providers’ schedules are in this environment.

Facilities with multiple, ongoing physician vacancies (or “rolling searches”) can lose track of the time invested per search as the search process has no defined beginning or end. The chart below suggests how much personnel time is needed to accomplish multiple search assignments.

Personnel Time vs. Search Completion Time

One FTE recruiter (staff or outside firm)
Hours available: 40 per week x 50 weeks= 2000
Average hours required per search: 100-200
Total searches "average" FTE recruiter can complete annually: 10 to 20

As these numbers indicate, facilities that have multiple openings to fill need to employ multiple recruiters in an ongoing process where costs are not always easy to quantify.



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The Local Community is Impacted as Well

Each physician drives revenue for far more than just the practices that they serve. In January 2018, the American Medical Association released a report entitled *The National Economic Impact of Physicians*, which it updates on a regular basis.

The report estimates the total economic impact of patient care physicians in each of the 50 states, the District of Columbia at in the nation as a whole, using as barometers physician output, jobs, wages and benefits and state and local tax revenue. Highlights of physician economic contributions from the 2018 report, which is based on 2015 data, include:

Total economic output: The combined economic output of office-based physicians in the United States is \$2.3 trillion, up from \$1.6 trillion in 2012.

Per capita economic output: Each physician supports a per capita economic output of \$3.1 million, up from \$2.2 million in 2012.

Jobs: On average, each physician supports 17 jobs, up from 14 jobs in 2012.

Wages and benefits: On average, each physician supports a total of \$1.4 million in wages and benefits, up from \$1.1 million in 2012.

Tax revenues: On average, each physician supports \$126,129 in local and state tax revenues, up from \$90,449 in 2012.

Revenue generated by physician practices has a profound impact on each state's economy. The Association of American Medical Colleges (AAMC) commissioned a report completed by the Robert Graham Center to determine the economic impact on a community of one family physician. The report includes a breakdown of the average contribution to the local economy of a family physician by state. The chart below shows numbers from several states.

Financial Impact on Community of Family Physicians Per Year

	One Family Physician	Total for State
Alabama	\$776,585	\$779,691,000
Iowa	\$931,341	\$837,275,000
Texas	\$1,114,000	\$5,370,000,000
California	\$985,881	\$8,286,000,000
Florida	\$940,606	\$3,530,000,000
Massachusetts	\$959,812	\$900,300,000

Source: Association of American Medical Colleges



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In addition to the goods and services that a practice purchases directly, growing practices employ more personnel who, in turn, spend more money in the local economy. While metropolitan areas certainly feel the pressure of a physician vacancy, such shortages can be devastating to small communities and their economies.

The Value of a Strong Retention Program

To forestall a diminishing quality of care, patient outmigration, revenue loss, and a weakened local economy, a robust physician retention program should be a part of every healthcare organization's culture. In an era of growing physician shortages, recruitment is becoming increasingly challenging and can consume significant time and resources. What specifically is your team doing to ensure that your physicians are satisfied with their professional lives?

A culture that fosters retention and job satisfaction is a tremendous recruiting tool. Candidates that interview will see that their input matters when meeting with their future colleagues. Organizations that are recruiting are more likely to secure candidates in less time when candidates see the commitment to physician relations and ultimately retention. Interestingly, physicians rarely leave their practices because another practice entices them to do so. In most cases, physicians leave because they are not happy where they are – in a sense, they feel pushed out of their former practice. A strong retention program can minimize an organization's exposure related to a physician vacancy by reducing unnecessary attrition and speeding the recruitment process along.

Health facilities can use a variety of methods to spur physician retention, enhancing relations with physicians through satisfaction surveys, new physician socials, community sponsored events, periodic "tent check" and related measures. Merritt Hawkins recently released a white paper entitled *Ten Keys to Enhancing Physician/Hospital Relations and Reducing Physician Burnout and Turnover* which provides guidelines for promoting positive physician relations and retention, and is available upon request.

Many factors contribute to the total and true cost of a physician vacancy. Through rigorous and dedicated focus on retention, healthcare facilities can minimize their exposure and reduce the resources that are often consumed by recruitment.

About Merritt Hawkins

Established in 1987, Merritt Hawkins is the leading physician search and consulting firm in the United States and is a company of AMN Healthcare (NYSE: AMN), the largest healthcare workforce solutions organization in the nation. Merritt Hawkins' provides physician and advanced practitioner recruiting services to hospitals, medical groups, community health centers, telehealth providers and many other types of entities nationwide.

The thought leader in our industry, Merritt Hawkins produces a series of surveys, white papers, books, and speaking presentations internally and also produces research and thought leadership for third parties. Organizations for which Merritt Hawkins has completed research and analysis projects include **The Physicians Foundation, The Indian Health Service, Trinity University, The American Academy of Physician Assistants, The Association of Academic Surgical Administrators, The Maryland State Medical Society, the Society for Vascular Surgery, and the North Texas Regional Extension Center.**



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This is one in a series of Merritt Hawkins' white papers examining a variety of topics directly or indirectly affecting the recruitment and retention of physicians and advanced practice professionals, including physician assistants (PAs) and nurse practitioner (NPs).

Additional Merritt Hawkins' white papers include:

- ❖ Psychiatry: "The Silent Shortage"
- ❖ Family Medicine: Supply, Demand and Recruiting Trends
- ❖ Internal Medicine: Supply, Demand and Recruiting Trends
- ❖ The Aging Physician Workforce: A Demographic Dilemma
- ❖ Nurse Practitioners and Physician Assistants: Supply, Distribution, and Scope of Practice Considerations
- ❖ The Physician Shortage: Data Points and State Rankings
- ❖ Physician Supply Considerations: The Emerging Shortage of Medical Specialists
- ❖ RVU FAQ: Understanding RVU Compensation in Physician Employment Agreements
- ❖ The Economic Impact of Physicians
- ❖ Ten Keys to Physician Retention
- ❖ Trends in Incentive-Based Physician Compensation

For additional information about Merritt Hawkins' services, white papers, speaking presentations or related matters, contact:

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