



Examining topics affecting the recruitment and retention of physicians and advanced practice professionals

## The Cost of a Physician Vacancy

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

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### Introduction

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 Medical Group Management Association (MGMA) releases a report annually which quantifies the revenue-generating impact of physicians in medical groups per specialty. Daily collections vary from slightly over \$600 for psychiatry to about \$2,500 for orthopedic surgery. These figures do not include technical charges or non-physician provider charges – they represent just the collections generated directly by various specialists.



*Examining topics affecting the recruitment and retention of physicians and advanced practice professionals*

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’ **2016 Physician Inpatient/Outpatient Revenue Survey**, physicians generate an average of over \$1.5 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.

Specialty	Annual Revenue	Monthly Revenue	Daily Revenue
Orthopedic Surgery	\$2,746,605	\$228,884	\$7,525
Neurosurgery	\$2,445,810	\$203,818	\$6,701
General Surgery	\$2,169,673	\$180,806	\$5,944
Cardiology (Invasive)	\$2,169,643	\$180,804	\$5,944
Internal Medicine	\$1,830,200	\$152,517	\$5,014
Hematology/Oncology	\$1,688,056	\$140,671	\$4,625
OB/GYN	\$1,583,209	\$131,934	\$4,338
Family Practice	\$1,493,518	\$124,460	\$4,092
Gastroenterology	\$1,422,677	\$118,556	\$3,898
Urology	\$1,405,659	\$117,138	\$3,851
Cardiology/Non-Inv.	\$1,260,971	\$105,081	\$3,455
Psychiatry	\$1,210,586	\$100,882	\$3,317
Pulmonology	\$1,190,870	\$99,239	\$3,263
Otolaryngology	\$1,066,221	\$88,852	\$2,921
Ophthalmology	\$1,035,577	\$86,298	\$2,837
Neurology	\$1,025,536	\$85,461	\$2,810
Nephrology	\$712,054	\$59,338	\$1,951
Pediatrics	\$665,972	\$55,498	\$1,825

*Source: Merritt Hawkins 2016 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.



*Examining topics affecting the recruitment and retention of physicians and advanced practice professionals*

## 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 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, recently released its "2017 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.

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

### Potential Cost to Recruit A Family Medicine Physician

Physician salary	\$225,000
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
<b>Total</b>	<b>\$326,000</b>

Source: Merritt Hawkins 2017 Review of Physician and Advanced Practitioner Recruiting Incentives



## Examining topics affecting the recruitment and retention of physicians and advanced practice professionals

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.

### The Local Community is Impacted as Well

Each physician drives revenue for far more than just the practices that they serve. In March 2014, the American Medical Association sponsored a report entitled *The National Economic Impact of Physicians*, which was prepared by IMS Health.

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 include:

*Examining topics affecting the recruitment and retention of physicians and advanced practice professionals*

**Total economic output:** The combined economic output of patient care physicians in the United States is \$1.6 trillion.

**Per capita economic output:** Each physician supports a per capita economic output of \$2.2 million.

**Jobs:** On average, each physician supports about 14 jobs.

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

**Tax revenues:** On average, each physician supports \$90,449 in local and state tax revenues.

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*

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



## *Examining topics affecting the recruitment and retention of physicians and advanced practice professionals*

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 actually 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 Physician Retention" which provides guidelines for promoting positive physician relations and retention, which 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.



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## 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: AHS), 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, and the North Texas Regional Extension Center.**

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"
- ❖ Physician Supply Comparisons: Physicians by Select Specialties Practicing in Each State and Licensed in Each State but Practicing Elsewhere
- ❖ 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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