

# PHYSICIAN COMPENSATION & RECRUITMENT

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## Stagnant housing market keeps physicians at home

The housing market continues to make physician recruitment more difficult.

Reports of problems began appearing in 2007. In early 2008, Dallas-based Delta Physician Placement confirmed the trend in its quarterly publication, *The Physician Recruiting Standard*—and that was based on research from before the worst of the credit crisis.

“If anything, it’s gotten worse,” says **William Scott Hurst, MBA**, principal marketing consultant at Delta. “It continues to be an issue for all of our recruiters.”

Asking about the current status of housing has become a standard part of screening physicians at Delta. Being upside down in a mortgage loan may not be a deal breaker, but it’s something Hurst and his colleagues discuss before connecting the physician with a practice or health system.

St. Louis-based Cejka Search reports similar concerns. “In my experience, the current economy is having a dramatic impact” on recruitment of practicing physicians, says **Kathy Murray**, senior director of key accounts in the physician search division at Cejka Search. “The fear of not being able to sell a home has resulted in physicians making the decision to stay where they are until the housing market improves. It seems that unless the physician’s current situation is untenable, they may decide it is better to wait.”

“Yes, yes, yes, it is causing major headaches,” agrees **Fredrick T. Horton**, president and CEO of Horton, Smith & Associates in Overland Park, KS.

**Tatyana Soloveva**, director of physician recruitment at John Muir Medical Center in Walnut Creek, CA, also reports that recruiting has become more challenging as physicians, stuck with large

mortgages, are unwilling or unable to move. *AMGA and Cejka Search 2008 Physician Retention Survey*, released in March, reveals one positive side of declining home values. Of systems and practices surveyed, 54% said the ability of a candidate to buy a home in the new community had a positive effect on recruitment. But the same percentage indicated that the inability of candidates to sell a current home in order to relocate had a negative effect.

“In my experience, the current economy is having a **dramatic impact**” on recruitment of practicing physicians.

—Kathy Murray

### A dissenting view

Not everyone agrees about the severity of the problem. **Jim Stone**, managing partner and cofounder of Dallas-based Medicus Partners, says he believes that a physician who seriously wants to make a move will, regardless of the housing situation. “It really boils down to the physician’s situation. If they are truly motivated to improve their current practice situation, difficulty selling the house isn’t going to keep them from doing something about it, except in rare cases.”

He recounts the story of a surgeon who wanted to move from his small town. The surgeon realized that his million-dollar home, in a town where no other house cost more than \$300,000, was priced out of the market. “His choice was to

## Housing market

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take a bath on the house and move to a better situation or to stay put. He chose to pick up stakes and move on, taking a bath on the house.”

Not every physician is that motivated, so hospitals, health systems, and practices are looking for ways to make moves more feasible.

### Standard bonuses redeployed

For the most part, organizations aren't throwing a lot more money at physicians to help dislodge them from their houses. Often, it's a matter of transforming the signing bonus. For example, the recruiting facility, instead of a bonus, agrees to pay the mortgage on the original house for 6–12 months, says Hurst. The amount may be the same, but it's directed—at least in part—at house payments.

That parallels Stone's experience. “Most hospitals realize they are going to need to pay a signing bonus and, at times, it is used to get an ‘upside-down’ physician out of that situation,” he says. “The beauty of the signing bonus is that it can be used for whatever the candidate's needs are.”

Some organizations are increasing their signing bonuses to help with housing, Horton says.

But the need for relocation bonuses is driving expectations—even among those not facing a crisis. “Residents and fellows may not have a home to sell and they are able to relocate, but they still expect a significant signing bonus and money for relocation,” says Murray.

In the AGMA/Cejka survey, 96% of respondents indicated they offer relocation assistance. Approximately 53% offer an average of \$10,000–\$15,000 to relocate a physician, while 26% spend within the range of \$7,500–\$9,900. The most common types of assistance were covering moving company and transportation expenses. It breaks down as follows:

- » Moving company expenses: 92%
- » Transportation expenses: 66%
- » Realtor fees: 10%
- » Other: 8%
- » Low-cost home loan: 6%
- » Housing subsidy: 4%

Other tactics under consideration include:

- » **Temporary housing.** Some organizations have bought houses (often at foreclosure prices) to provide temporary housing for newly recruited physicians who are trying to sell their houses, says Hurst. Murray reports that some clients are providing temporary housing until a home sells, and Horton is seeing an increase in temporary housing allowances.
- » **Loans.** Some facilities provide home loans to physicians. (According to the AMGA/Cejka survey, about 6% do.) What's more common—and more prudent—is for hospitals to coordinate with existing lenders, says Hurst.

### Unexpected consequences: Is the housing crisis creating more locums?

The housing crisis appears to be contributing to another trend, says **William Scott Hurst, MBA**, principal marketing consultant at Delta Physician Placement in Dallas. Physicians, discontented with their current situations, but unable to relocate, are turning to locum tenens work. At this point, Hurst says, the data are still anecdotal, but he says he hopes to quantify it soon. If physicians end up leaving their practices and turning to locum work, it could drive up costs even more, he says.

**Mike Beckman**, director of recruiting at Delta Locum Tenens in Dallas, first alerted Hurst to the fact that more physicians were moving into locum tenens because they couldn't sell their homes and relocate. But that's not the only way the housing crisis is affecting locum tenens, Beckman says.

“With home equity being a big part of many physicians' retirement nest eggs—much of which has been wiped out with the recent declines in home prices—more physicians are turning to locum tenens as a way to rebuild their retirement accounts,” he says. Increasingly, he's seeing physicians use their allotted vacation time (and weekends, when not on call) to do locum work. It's a trend he expects to grow during 2009 and beyond.

#### PCR sources

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But this is all new territory and things may change depending on the economy, Horton says. He says he is seeing some systems help with bridge loan underwriting; it's still rare, but he expects to see more in the coming months. (John Muir offered loans, but no longer does, says Soloveva.)

» **Working with relocation companies.** Some clients are referring the physician to relocation companies that may be able to assist in marketing the home, says Murray. The practice is becoming increasingly common, Horton says.

One tactic that hasn't emerged is purchasing the physician's house. When Hurst first looked into this issue last year, he heard "rumblings" about that approach. But organizations soon realized "it doesn't do them much good to buy a home in a different state," he says.

So far, hospitals and health systems are not paying points or taking on the risk of homes. "And I don't see them going in that direction," Horton says. "Typically, those actions are taken when recruiting execs, but they only do that once or twice a year. When they have to recruit 20 physicians a year, they just can't take on that expense."

### Looking ahead

For now, it may make sense to focus on those unencumbered by a house. "We recommend focusing on new grads and recently graduated, early careerists, since [they are less]

likely to have a McMansion at that point," says Horton. He's also advising clients to offer flexible starting dates. Waiting a few extra months can make the difference between filling a position and having it go unfilled for a much longer period.

How flexible organizations will be depends on how motivated—or desperate—they are. That varies by specialty and facility. A small hospital in a rural community that loses a family practitioner may be more flexible and generous than a health system in a large metropolitan area, Hurst says.

Health systems want to help, but they will not take steps that dramatically increase risk or unsustainable costs, says Horton. "Systems are fighting to make profit and keep their bond ratings intact as the number of uninsured increases," he says. "They incur more bad debt, their investment earnings are plummeting, and elective procedure volume is down. There is only so much they can do." ■

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### PCR sources

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## Accurate comp calculations crucial to fair market value

Increasingly, health systems are acquiring private practices. Accordingly, it's more important than ever for physicians to understand what their practice is worth. That means they must understand the concept of fair market value (FMV).

Valuations are crucial to crafting buy-sell agreements, mergers, and regulatory compliance. But given how widespread the trend is, this article will focus on FMV as it relates to practice acquisitions, with emphasis on compensation and retention and recruitment-related issues.

### The basics

If physicians are regularly buying and selling interests in a practice, FMV should be assessed every 2–3 years, says

**Martin D. Brown, CPA**, a shareholder at Pershing Yoakley & Associates in Knoxville, TN.

At its most basic, FMV is the amount at which property would change hands between a willing seller and a willing buyer when neither is under compulsion and both have reasonable knowledge of the relevant facts. Especially for OIG and Stark purposes, it must be an arm's-length transaction consistent with the general market value.

It's obvious, but bears repeating: Hospitals often seek to purchase physician practices as a means to retain existing referrals or to attract new referrals of patients to the hospital. But

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