

**by George Williams - Director, NAS Insights**

## **The Physician Shortage**

### **Introduction**

There has been an ongoing debate about a physician shortage. During the 1960s as medical schools were expanding, Federal health agencies and certain advisory bodies warned of a coming surplus of physicians. Studies were consistent in making confident predictions that we faced a troubling surplus of physicians. For years, only a few experts were waving a red flag. Few healthcare experts were willing to admit that a shortage of doctors was coming, despite the growing difficulty hospital administrators and physician recruiters were experiencing recruiting physicians, and the increasing number of published surveys showing an increased demand for physicians.

However, recent studies have brought the surplus theory under closer scrutiny and a growing number of experts are concerned that we may be facing a physician shortage that will continue to get worse over the next 15 years. One influential study, published by lead author, Richard Cooper, MD, director of the Health Policy Institute, Medical College of Wisconsin, Milwaukee, Wisconsin, concludes that the U.S. will be facing a shortage of 200,000 physicians by the year 2020 if current trends continue. Another important study prepared by Edward Salsberg, a respected specialist in issues related to the physician workforce, concludes that the nation will face a shortage of 85,000 physicians by the year 2020. Predictions of a surplus were shortsighted because previous projections overestimated the effects of managed care and underestimated the effects of an aging population on the need for physicians.

These studies ended the complacency of many who believed we had a comfortable surplus of doctors. The Council on Graduate Medical Education (COGME), a panel of healthcare experts charged with periodically reporting to Congress on the state of physician manpower in the U.S., endorsed the Salsberg report in July 2003. This marks a significant reversal from its long-standing position in earlier COGME reports that there was a surplus of physicians. In December 2003, an American Medical Association (AMA) advisory council advised the AMA to abandon its long-standing position that there is a physician surplus. As a result, the American Medical Association, which for many years supported predictions of a physician surplus, has changed its viewpoint and conceding that physician shortages exist. With COGME and the AMA reversing their previous stance, there is a growing consensus among healthcare organizations and hospital administrators that there is a shortage of physicians.

### **The Current Shortage**

The physician shortage has come more quickly than many anticipated. Hospitals and healthcare systems now face significant challenges in physician recruitment and it has become a top priority for most medical facilities. Hospitals are constantly searching for physicians. In a recent study, "2003 Survey of Hospital Physician Recruitment Trends," 85% of the hospitals surveyed are actively recruiting physicians. Of those not actively recruiting physicians, 56% plan to do so within the next six months. Physician recruitment has become one of the top two priorities of 60% of hospitals surveyed and a majority responded (53%) that physician recruitment has become more difficult and time-consuming in the past 12 months.

Physician specialists are in greater demand than primary care physicians. A recent survey of medical school deans and officials of state medical societies in the U.S. found that 85% of respondents said there were shortages of physicians, usually in specialty areas. Another recent survey of hospital administrators found that the most difficult physician specialties to recruit were radiologists (63%), orthopedic surgeons (58%), family physicians, anesthesiologists (49%), cardiologists (47%). By contrast, only 13% rated family practitioners and internists as very difficult to recruit.

However, a shortage of primary care physicians may develop because there has been a recent decrease in the percentage of U.S. medical student graduates choosing a primary care career. The percentage of students becoming primary care specialists peaked at 53.2% in 1998 and declined to 44.2% in 2002. Also, data from the Association of American Medical Colleges show a decrease in medical student interest in primary care careers from 35.6% in 1999 to 21.5% in 2002.

While the shortage of physicians is national in scope, the demand in rural areas has traditionally been stronger. Fifty-one million people, or about one-fifth of the population, live in non-metropolitan areas, according to the U.S. Census Bureau. Twenty million of these live in Federally-designated Health Professional Shortage Areas (HPSAs), a number that increases every year. Put another way, while 20% of the population lives in non-metropolitan areas, only 11% of physicians practice in such areas.

# Why Is There a Shortage?

## Growing Demand

The shortage of doctors is a result in changes on the demand side. Demand for physicians is being driven in part by demographic and cultural changes as the population is grows and ages. Changes in the economy have also increased demand for physician services.

### 1. Population Growth

The U.S. population continues to grow. The U.S. Census Bureau projects that the total U.S. population will grow from 286 million people in 2000 to 325 million people in 2010. Should the average number of physician visits per person per year remain constant at 2.5, population growth will account for 97 million more physician visits per year in 2010 than occurred in 2000.

### 2. Aging Population

The population is also rapidly aging as 78 million baby boomers are reaching the age when they are likely to need more medical care. The U.S. Census Bureau projects that the number of people age 65 and older will grow 53% by 2020. The National Ambulatory Health Care Administration found that persons 66 or older visited a physician over three times as often as persons age 25 or younger. Also, older patients require a higher volume of specialty services. The American College of Cardiology predicted that the need for cardiologists will increase 66% by 2030, while the number of cardiologists will only increase by one percent a year. The Journal of the American Medical Association recently predicted the demand for pulmonary and critical care services will increase by 66% by 2030, while the number of pulmonologists will decline.

### 3. Economic Factors

Demand for health services is also driven by the economic ability of patients to pay for such services. The historical resilience of the economy suggests that millions of consumers will continue to have the ability to pay for specialty care in the future. Average annual per-person visits to physicians have consistently increased in recent years, according to the National Ambulatory Health Care Administration. Also, the economic boom of the 1990s helped to undermine the managed care system, in which access to medical specialists was restricted. A highly employed and prosperous workforce wanted more direct access to specialty services. Consequently, direct access to specialists through PPOs, as opposed to restrictive HMOs, is now much more common. An increasing number of breakthroughs in drug therapy, diagnostic testing, surgery and other medical innovations have also created a growing demand for physician services. Medical innovations have made disorders more treatable and have allowed people to live longer, which requires additional ongoing treatment.

## A Diminishing Supply

The shortage of doctors is also a result of changes on the supply side. The supply of physicians is not keeping pace with the increased demand, as more doctors are leaving medicine and fewer new doctors are coming in. MGT of America, a higher education consulting group, predicts that if the medical education system does not change, over 23,000 physicians will retire or die each year, while the number of physicians entering the work force will remain constant at around 16,000 to 17,000. At present, there is no significant effort to increase the number of medical graduates. Also, changes in medical education take time to implement. It takes a long time to train a physician. Even if the number of persons entering medical schools were increased today, the impact wouldn't be felt for 10 years. As a result, the physician shortage can only be expected to accelerate in the coming years because the factors driving the shortage are accelerating.

### 1. Physician Aging and Attrition

Physicians are becoming older, and more are retiring, decreasing their hours, or moving away from direct patient care. According to the American Medical Association, 38% of all physicians are 50 years old or older. A recent survey by Merritt Hawkins & Associates shows that frustrations with the practice of medicine are leading many doctors in the 50-65 age bracket to reconsider their careers. Over 60% said they were making a change because of a "general dissatisfaction" with the profession. Physicians are becoming more dissatisfied with their profession because of rising malpractice insurance rates, the frustration of managed-care restraints, increasing government interference in health care, declining reimbursement, and the pressures of running a business. Over half (51%) plan to take steps that would either take them out of a patient care setting or reduce the number of patients they see. The survey found that 8% of doctors in that age group said they plan to retire in three years. Another 10% said they would seek non-clinical work, 6% said they would work on a temporary basis, 17% said they planned to close their practices to new patients or to significantly reduce their workloads, and 7% would opt for another career.

### 2. Fewer New Entrants

The number of U.S.-trained physicians and the number of U.S. medical schools have remained constant for the last 20 years. From 1980 until 2003, the number of new physicians graduating from U.S. medical schools remained stable at 15,000-16,000. With no plans to increase the number of U.S. medical schools significantly, and with the government looking to cut Medicare-related funding of residency programs, the supply of new U.S.-trained physicians is expected to remain static in coming years. Though there is a shortage of medical school teachers, funding is a greater challenge. Money needs to be found for new medical schools because most schools have little or no capacity for expansion.

However, that will be difficult without widespread public support. Public support will grow as access to physicians diminishes and wait-times increase. In addition, health leaders must influence medical education policy. A belief still exists by many that 50% of physicians should be trained in primary care, when, in fact, an aging population and advancing technology is driving the need for specialists.

Although International medical graduates (IMGs) have accounted for most of the increases of new U.S. physician entrants over the last two decades, their numbers have decreased significantly in the last several years. This is due in part to the imposition in 1998 of the Clinical Skills Assessment Test (CSAT), which IMGs must take to obtain Educational Commission for Foreign Medical Graduates (ECFMG) certification. The test is expensive for many foreign physicians, and they must travel to Philadelphia to take it. In addition, the events of 9/11 have inhibited access to foreign physicians and fewer are given visas because of security concerns. It has also made it more difficult for IMGs training in the U.S. on J-1 visas to remain here when their residencies are over. However, the J-1 Visa Program has recently been extended and allows foreign doctors who are trained in the United States to remain in the United States if they agree to work in rural or urban health-shortage areas for three years. Although recruiting foreign physicians is not a long-term answer, many health facilities would be at a total loss without them.

Throughout most of the 1990s, the message of many in medical, academic and government establishments is that we need more primary care physicians and fewer specialists. Medical students heeded this message in the 1990s and entered primary care residencies in greater numbers, while neglecting many specialty areas. However, medical school graduates are now selecting specialty residencies in greater numbers. Lifestyle may be an increasingly important factor in career decision-making for new entrants. U.S. senior medical students show increasing preference for specialties with a controllable lifestyle such as Anesthesiology, Dermatology, Ophthalmology, and Radiology, and less preference for practices with uncontrollable lifestyle such as Internal Medicine, Family Practice, Pediatrics, General Surgery, and Urology. These trends should continue to reduce the number of openings for some primary care physicians in parts of the country, while holding steady or substantially increasing the number of opportunities for specialists. However, the extended time required for medical training ensures a shortage in many specialty areas for years to come.

### **3. Changing Practice Styles**

Changes in physician practice are also contributing to the physician shortage. Younger physicians spend less time working than older ones and spend more time per patient, the AMA reports. Young physicians are working about 10% fewer hours. Younger Generation X physicians put a greater premium on personal and family time than older physicians and they often seek set hours, regular vacations, and other benefits that limit the time spent on the job.

### **4. More Female Physicians**

The number of female physicians has grown dramatically in the last 20 years and is contributing to the physician shortage. The American Medical Colleges reports that for the first time, the majority of people applying to medical school are women. The Journal of the American Medical Association reports that women now make up 50% of the U.S. medical resident pool. Female physicians seek practice options allowing them to balance professional and personal needs. According to the AMA, female physicians work 18% fewer hours per week than male physicians. This greatly reduces the overall number of physician man-hours available and the overall physician supply.

### **5. More Temporary Physicians**

The increasing number of physicians opting for part-time or locum tenens work is also contributing to the physician shortage. Over half of America's hospitals, clinics, and other healthcare practices are in need of temporary assistance at any given moment. Temporary physicians are often used to rescue a facility. According to the report, 2004 Review of Temporary Healthcare Staffing Trends, the temporary physician or locum tenens market leaped 25% in 2003 to about \$2.6 billion in revenue and continued very strong in 2004. Spending on locum tenens services has more than quadrupled over the past five years. This increase in demand for locum tenens services is due in large part to increasing numbers of women in the physician work force, an increasing emphasis on career/lifestyle balance, the increasing number of practitioners seeking early retirement, and the continued increases in demand for specialists, particularly surgeons.

## **Recruiting Physicians in the Shortage**

The next 15 years are likely to present ongoing challenges in physician recruitment. There's no immediate fix, but health leaders can at least alleviate some of the difficulties by becoming more educated on ways to improve their facility's recruitment strategy, while remaining aware of the things they cannot change. Following are important steps to consider when developing a physician recruitment strategy.

### **1. Prepare for the Long-Term**

Don't rely solely on current needs and short-term solutions to the shortage. Instead, try to project future physician needs three to five years out. Have a long-term plan for replacing doctors likely to leave your community or retire and know what types of physician specialists your service area is likely to need.

### **2. Be Competitive In Compensation**

Good recruiting cannot overcome a bad offer. Review your compensation package to see if you are competitive with the current market.

### 3. Know Your Community Demographics

What characteristics does your community have to attract physicians? Positive community features that affect a physician's decision to accept a job offer include close proximity to big-city amenities, low medicare/medicaid population, large hospitals with state-of-the-art technology, and high income areas with high population growth. Although these are important, they are not the only factors to consider. If a community does not have these major attractions, it should identify the cultural, social, economic, and recreational amenities it may have to draw physicians.

### 4. Know the Psychographics of Targeted Groups

One size does not fit all, when recruiting physicians. Physicians coming out of residency today are different than their predecessors. Many are Generation X physicians that often exhibit different values and behaviors than Baby Boom doctors. Understanding these differences and knowing how to deal with them is important when developing recruitment plans. Three recurrent characterizations of Generation X physicians are a desire for flexible schedules, a preference for the latest technology, and a cynicism about organizations. Each of these areas has particular implications for recruiting and retention that staffing professionals should consider. Recruiting programs that appeal to Generation X physicians will use the web, emphasize the organization's vision for the future, stress the availability of job sharing, flexible schedules and part-time positions, and address call schedules.

### 5. Get Local Physician and Community Support

Practices compete with other practices. Therefore, it is important for a medical facility to gain the support of its physicians and local community. This can be done by actively getting doctors involved in the physician recruitment process.

### 6. Focus on Retention

It is important to hold on to the physicians you have because recruiting new physicians will become more difficult in the coming years. Find out what your doctors need. Interview or survey staff physicians to determine what they like about your facility and what they would like to see enhanced.

### 7. Out-Recruit the Competition

Physician recruitment is very competitive. In most cases, the physicians you recruit will be pulled from someone else's medical staff and will contribute to someone else's shortage. Health leaders must do what it takes to create incentives that are most attractive to recruit physicians, while remaining within federal physician recruiting guidelines.

## How Far Can You Go to Recruit Physicians?

Although it is essential to offer incentives in today's competitive market, you must be careful what you are offering. To recruit physicians without catching the attention of government officials and igniting an investigation, you should be familiar with the laws governing physician recruitment. Although, the interpretation of complex physician recruiting laws should be left to lawyers, a basic knowledge of the rules by the physician recruiter can save time, as well as decrease the chances of being investigated. Following are highlights of laws that monitor physician recruiting:

**Stark Law.** The Stark Law prohibits a physician who has a financial relationship with an organization from making a referral to the organization for the furnishing of designated health services, which Medicare or Medicaid would pay. If a financial arrangement between a physician and an organization does not meet all of the requirements of one of the exceptions, then the financial arrangement violates the statute. The second phase of the updated Stark II laws became effective July 26, 2004. Physician recruiters should become familiar with these new Stark II regulations.

**IRS.** Tax-exempt healthcare providers must pay careful attention to their physician-recruiting efforts and incentives. The IRS is concerned with individuals who unjustly profit from a tax-exempt organization. An example is that no part of a tax exempt entity's earnings may inure to the benefit of any private individual. Both the facility and the physician can be penalized for this.

**The Anti-Kickback Statute.** Monitored by Human Health Services, this statute prohibits offering anything of value to any person or entity to induce or reward referrals of items or services paid for by a federal health care program. When it comes to physician recruiting, the government is concerned about several things. The Stark Laws seek to limit financial relationships between physicians and hospitals. The Internal Revenue Service does not want individuals such as physicians to profit unduly through a financial relationship with a not-for-profit entity such as a hospital. The Department of Health and Human Services does not want hospitals to recruit physicians merely to capture patient referrals, particularly referrals of Medicare or Medicaid patients.

## Why Physicians Change Jobs

Successful physician recruitment and retention requires an understanding of the dynamics of job changes among physicians and the reasons why physicians change jobs. A recent survey of young physicians who completed their training in the last five years by the New England Journal of Medicine found that many respondents have recently looked for a job. More than one-half have looked for a position within the last two years (57%) and more than one in five have looked for a job in the past year (23%).

The Pinnacle Health Group conducted a recent survey to find out why physicians leave. They found that 50% of physicians surveyed anticipated leaving within the next two years. Here are the reasons physicians anticipated leaving their job, listed in rank order.

- 1. Salary.** The need for better compensation including better benefits, incentives, bonuses, more vacation time, and more compensation for extended hours and loan repayment.
- 2. High Malpractice Premiums.** Many physicians are taking dramatic steps for relief, including relocation.
- 3. Underutilized Medical Skills.** Need for Upward Advancement. Long Hours and Busy Call Schedule. These three tied for third place. Positions are not challenging and did not use available skills. Upward advancement is also important and physicians felt bogged down by long hours and high call schedules.
- 4. Lack of Autonomy/Appreciation.** Physicians asked for more control and they want more respect in their practices. They want to be appreciated and have their concerns taken seriously.
- 5. No Choice Due to Restructuring/Declining Practice.** For example, physicians feel they have no choice when a practice is forced to close shop as a result of decreased revenue, or when a practice is restructured.
- 6. Proximity of Work to Family.** Physicians will look for career opportunities that are closer to family and friends. Over time, this distance could compel the doctor to move closer to relatives.
- 7. Poor Relationships with Hospital Administration.** Administration does not allow for discussions on how to improve a practice and make the office atmosphere more patient-friendly.
- 8. Poor Relationships with Medical Faculty/Colleagues.** Politics with partners and the way power or influence is handled can create problems.
- 9. Desires Another Climate.** Not much can be done when a doctor requires a warmer climate. This does not mean that all physicians seek warmer climates.
- 10. Family Uncomfortable in the Community.** If a physician's spouse and children are unhappy, chances are the physician will not stay long, regardless of whether they are offered a good compensation, and state-of-the-art technologies and advancements.

## How Physicians Search For Jobs

Successful recruitment requires an understanding of how physicians search for jobs. What job hunting tools do physicians use and which do they find most effective? A recent survey by the New England Journal of Medicine found that respondents use a wide variety of sources for job leads.

Personal and professional referrals (50%) ranked as the source physicians use most often, followed by the use of physician recruiters (43%), online job sites (42%), recruitment ads in print journals (40%), and mailings to physicians (34%).

Personal and professional referrals were not only the most-used recruitment source, but they also were the most helpful source in finding jobs and were mentioned by 57% of physicians surveyed. The next most helpful sources were recruitment ads in print (26%) and online job sources (22%).

## Recruiting On the Internet

The Internet as an important source of job leads for physicians warrants a closer look as a recruiting tool. In a recent survey by the New England Journal of Medicine almost one in two respondents (45%) said they would use online job search sites if they began a search today. Though the Internet will not replace traditional methods of physician recruiting, it does provide unique advantages in recruiting. According to the survey, physicians favor sites that offer quality listings, have excellent reputations, are secure, and are easy to use. Two-thirds of respondents (66%) rate quality of job listings as important in looking for a job online. More than half said the site's reputation (52%) and ease of use (52%) were important qualities.

In addition to the usual information regarding minimum qualifications and compensation, physicians want details including a clear job description, details about work environment, who they will be working with, a description of the facility, how busy he/she will be, and community information. Physicians also like to easily request additional information they may need via email or Web contact form. Additionally, physicians want relevant, fine-tuned search results. Physicians cited inaccurate search results as their primary dissatisfaction.

## The Cost of Recruiting Physicians

The cost of recruiting physicians is often not fully understood or accurately quantified. How much money does it take to attract and retain a doctor? By answering this question, hospital administrators can better understand the physician recruiting process and help ensure that their hospitals are using the most effective and cost-efficient recruiting methods. The cost for one search generally falls in the range of \$20,000 to \$40,000 depending on the specialty, region of the country, and methods used for sourcing candidates. The average cost is about \$30,000. Here is a breakdown of the major costs associated with physician recruitment.

**1. Staff or recruiter time and fees.** Salaries and fees associated with recruiter time can vary greatly. A recent Medical Group Management Association study found that it takes about 350 man-hours for the recruiting process. In-house recruiters often earn a base salary of \$35,000 to \$65,000 and may receive bonuses based on the number of placements they make. If the salary is \$50,000 and the 350 man-hours mentioned above are used, that's \$8,400 per recruited doctor. Recruiter fees of contingent and/or retained physician search firms can range from \$15,000 to more than \$25,000 per placement.

**2. Recruiting sources.** Thousands of hospitals and medical groups are vying for a limited number of physicians, increasing the difficulty and cost of finding candidates. A wide net should be cast to ensure a job opportunity attracts the largest number of potential candidates. This means collaborating with residency programs, networking among existing staff and administration, advertising in medical journals and on physician Web sites, sending recruiting letters and direct mail pieces, and exhibiting at physician conventions. The expense can range from \$2,500 to more than \$10,000 per search.

**3. Interviewing.** The higher the number of candidates you see, the higher the costs, and not only in terms of airfare and hotel suites, but in terms of the man-hours of busy administrators and medical staff getting together however many times. Hospitals generally pay all the costs associated with a physician interview such as travel, accommodations and entertainment. These costs usually range from \$1,500 to \$3,000 per interview.

**4. Relocation.** This is another variable cost based on where the physician is coming from. The average relocation allowance is \$7,800.

**5. Practice marketing.** Hospitals often pay to announce a new physician's practice and help introduce him or her to the community. Marketing costs can range from a few hundred dollars to several thousand.

**6. Set-up Costs.** Although not normally considered a part of the recruitment cost, they may contribute to your hesitation in moving as quickly as you should in recruiting. The costs to help the doctor set up practice, plus whatever signing incentives are offered, can be from \$150,000-\$200,000.

**7. Salary Guarantee.** Salary guarantees and incentives should be factored in as part of the recruitment investment/return equation. Recruiters should take into account not only new doctors' salaries but also signing incentives and loan repayments. These costs vary widely and can range from \$150,000 to \$600,000.

**8. Time-to-Fill.** If you move slowly or your recruiting techniques are ineffective, the cost of recruiting a physician will be much higher. Administrators need to look at the time it takes to fill a position and then consider the revenue lost during this time. Intuition might suggest that you are saving money on the salary and benefits until you hire the doctor. However, every month without a physician in place equals revenue lost. Merritt, Hawkins & Associates recently conducted a survey of hospital CFOs and found that physicians generate an average of more than \$1.5 million a year in patient revenue. Therefore, each month a needed physician is not on staff can cost a hospital \$100,000 or more. The revenue lost can be much greater when recruiting some specialties such as cardiovascular surgery (\$3,134,615 annual revenue), neurological surgery (\$2,364,864 annual revenue), and vascular surgery (\$2,216,463 annual revenue). A healthcare facility will recover the cost of recruitment, salary and set-up in a short time. In the long run, it's the cost of inaction that's highest.

## How Can Recruitment Costs be Minimized?

While the expense of identifying, interviewing and relocating candidates can be considerable, a healthcare facility's greatest financial cost is tied to physician salaries and benefits. Should a newly recruited physician prove unsuccessful in their practice and be unable to sustain a patient base or a meaningful level of referrals, the facility may be unable to recoup the physician's salary or income guarantee. This most often happens when there is not a sufficient need for the physician in the hospital's service area. Therefore, a key to minimizing financial exposure is to accurately assess the need for a given medical service in the community prior to recruiting a physician. This can often be done through a medical staff plan that looks at population growth in the service area, the incidence of disease, accessibility of medical services and practice patterns of current physicians. Once a need has been established and a search initiated, it is important that the search be conducted efficiently. Poor search methodologies are costly and waste time.