



Healthcare Consulting | Valuation

Partner Insight Series:

*The Impact of Geographic Location on Physician Compensation*

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# *The Impact of Geographic Location on Physician Compensation*

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As the healthcare labor market continues to tighten, health systems across the nation are re-evaluating their recruitment and retention strategies to remain competitive. This sentiment may be felt deepest among organizations located in CMS-defined rural areas as well as geographically isolated and often undesirable areas (collectively referred to herein as “non-metropolitan”) where the disparity between the supply of physician labor and the demand for patient services is widening at an unprecedented rate. According to an AAMC article, *Attracting the Next Generation of Physicians to Rural Medicine*, only 11% of physicians practice in rural communities<sup>i</sup>. This number is projected to decrease as rural physicians approach retirement and medical school students from rural areas, who are the most likely candidates to ultimately choose to practice in rural communities, declined by 28% from 2002 to 2017<sup>ii</sup>.

ONLY **11%** OF PHYSICIANS  
PRACTICE IN RURAL COMMUNITIES

While the situation may appear bleak, there is still hope for rural organizations. Jackson Physician Search and LocumTenens.com surveyed physicians, administrators, and advanced practice providers in October 2021 to better understand their needs and desires in regard to choosing to practice in a rural setting. Their findings, published in the *Rural Physician Recruitment and Staffing Survey*, indicate that 90% of physicians currently practicing in urban or suburban areas are open to the idea of practicing in a rural setting if presented with the right opportunity<sup>iii</sup>.

For most physicians, the right opportunity begins with compensation. National survey benchmarks continue to show an increase in total compensation for most physician specialties. As health systems across the nation compete for limited skilled clinical labor, non-metropolitan organizations may be faced with greater challenges when attempting to develop offers that achieve a similar level of compensation to those offered by their urban counterparts. In fact, non-metropolitan markets often require higher compensation offers to attract talent away from metropolitan areas. Therefore, diligent documentation of the facts and circumstances that support higher levels of compensation is imperative when deriving compensation packages that are both competitive and compliant.

## *Physician Supply and Demand in an Organization’s Service Area*

Deficits in physician supply as compared to demand are more common in non-metropolitan areas. Healthcare organizations in these areas should document the current and projected physician deficit within their community by commissioning a provider needs assessment. These assessments evaluate significant qualitative and quantitative physician supply and demand drivers such as physician specialty, age, practice location, national physician-to-population ratios, third next available appointment metrics, and other statistics that measure the adequacy of

provider resources in a given market. While these assessments are not performed solely for the purpose of supporting specific compensation levels, they are tremendously helpful to valuers. Documentation of an organization's designation as a health professional shortage area ("HPSA") or a provider needs assessment documenting a demonstrated shortage of physician labor necessary to meet the healthcare needs of the community can help validate the necessity of offering higher compensation to incentivize physicians to relocate and provide professional services to these underserved patient populations.

## *Recruitment History*

Organizations in non-metropolitan areas face challenges recruiting and retaining physicians, often due to their geographic location. Documenting physician recruitment efforts is helpful to reveal market realities. Specifically, documentation should include the number of qualified candidates that have applied to an open position, the compensation package offered to each candidate, reasons candidates have declined offers, the length of time between candidate applications, and the overall amount of time the open position has gone unfilled. Documented compensation offers that have been unsuccessful in attracting talent, and whether the compensation package was a stated reason for declining, are valuable facts to consider when assessing an offer package from a fair market value perspective. This information may warrant higher compensation offers in future recruiting and retention efforts if appropriate based on other facts and circumstances.

## *Scope of Physician Services*

An organization's difficulty in recruiting physicians to their market may result in a need for existing or successfully recruited physicians to perform a wider array of services to support the strategic and operational initiatives. The increased responsibilities and/or required hours of service compared to their metropolitan counterparts have a direct impact on the level of compensation that may be appropriate. As examples:

- Physicians may be required to provide more frequent call coverage due to fewer physicians participating in the call panel. In addition, 24/7/365 coverage may be needed for certain specialties to satisfy hospital bylaws and requirements for maintaining the hospital's trauma designation, despite potentially low volumes.
- Physicians may have increased advanced practice provider ("APP") supervision responsibilities if an organization's strategic plan relies heavily on APPs for the provision of patient care to meet the demands in the community in light of limited physician availability.
- Physicians may have higher clinical and surgical service volumes due to provider deficits and patient access issues.
- Primary care physicians may be responsible for hospital rounding services in addition to clinic responsibilities, whereas in a metropolitan market most primary care providers provide only outpatient services. They may also address patient needs that would potentially be referred to a specialist in a metropolitan market where specialists are more readily available.

The totality of the contemplated services should be well documented, as a physician's work efforts in a non-metropolitan market may exceed the standard 1.0 full-time equivalent ("FTE"). A physician's willingness to "wear different hats" and fill gaps in services that are crucial to the

function of the organization and the needs of the patients in the community may also justify compensation at the higher end of national market norms.

## Alternative Coverage Options

Alternative costs for needed physicians can be very high during the recruitment of full-time physicians. AMN Healthcare's *2022 Survey of Locum Tenens Staffing Trends* reports that 70% percent of responding organizations currently use or would use locum tenens providers to maintain services while they seek to fill openings.<sup>iv</sup>

ALTERNATIVE METHODS FOR  
SECURING PHYSICIAN SERVICES  
ARE OFTEN MORE EXPENSIVE  
THAN PHYSICIAN EMPLOYMENT

While it may be necessary for an organization to enter into arrangements with physicians or staffing companies to help mitigate physician turnover and ensure service line coverage, the goal is for such arrangements to be temporary given the financial burden it places on an organization. In our experience, the cost of locum tenens coverage typically reflects a premium of 25-40% as compared to securing the same

services through an employment arrangement. However, in non-metropolitan areas, the dependence on these arrangements can persist when recruiting and retention challenges result in positions remaining open for an extended period of time.

It is usually a better strategic decision for an organization to employ a physician rather than utilizing locum tenens or independent contractors as a band-aid solution. This is true from both a financial perspective as well as for the quality and continuity of patient care, given that contractors and locums often travel into the community from elsewhere. Documentation of an organization's historical or expected spend on locum tenens coverage or independent contractor arrangements is another factor that may help support higher levels of compensation for employed physicians. While the compensation offered to a physician recruit may benchmark at the higher end of national market norms, securing coverage through an employment arrangement helps reduce the organization's reliance on more costly alternatives.

## Conclusion

Geographic location significantly impacts physician compensation. At first glance it may seem that since the cost of living in smaller markets is generally lower than metropolitan areas, compensation should follow. However, the reality is that many factors actually point to the opposite and the specific facts and circumstances must be balanced and considered. Compensation must be sufficient to attract and retain a qualified candidate, but it cannot be so high that the financial package is not compliant or is economically unsustainable for the organization long-term. Organizations should invest the time and money to effectively document the physician labor needs within their community, the difficulty surrounding previous recruitment efforts, the scope of services they expect the physician to provide, and any alternative costs they have incurred (or will incur) to continue providing services in the absence of adequate coverage secured through an employment arrangement. Finally, an organization must assess whether compensation is the only reason recruiting efforts have been unsuccessful.

MANY FACTORS MUST BE CONSIDERED  
WHEN DETERMINING FAIR MARKET  
VALUE OF PHYSICIAN COMPENSATION

Factors other than compensation may lead physicians to find an offer attractive, such as an organization's culture and leadership opportunities, the family-friendly environment of a community, or the flexibility and work-life balance a well-structured arrangement can offer a physician. While the door to attracting a physician to practice in a non-metropolitan setting may be a competitive compensation offer, organizations must also showcase the compelling, non-monetary features of their community and organization.



### **Haley Adams, CVA**

**Partner – Consulting Services**

817.546.7039 | [hadams@jtaylor.com](mailto:hadams@jtaylor.com)

Haley leads the firm's physician advisory service line where she serves clients in the areas of compensation valuation, compensation plan design, provider practice valuations, physician transaction related due diligence and general consulting related to hospital / physician arrangements. Her clients include large multi-hospital health systems, rural hospitals, critical access hospitals, physician-owned hospitals, and physician practices. Haley is passionate about helping her clients recruit and retain talented providers by ensuring provider compensation is competitive and compliant with applicable regulations such as the Stark Law and Anti-Kickback Statute.



### **Katelyn Deibert**

**Manager – Consulting Services**

682.207.3312 | [kdeibert@jtaylor.com](mailto:kdeibert@jtaylor.com)

Katelyn joined JTaylor in 2021 and provides consulting and valuation services. She has gained experience in various practice areas with an emphasis in the healthcare industry. Her fields of expertise include compensation valuation, compensation plan design, provider practice valuations, wRVU calculations, financial due diligence related to changes in the MPFS, and general consulting related to hospital / physician arrangements with Stark and/or Anti-Kickback implications. Her clients include large multi-hospital health systems, physician-owned hospitals, rural hospitals with FQHC and/or RHC designations, and both multi-specialty and single-specialty physician practices.

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<sup>i</sup> Jaret P. (2020, February 3.) *Attracting the next generation of physicians to rural medicine*. Association of American Medical Colleges. <https://www.aamc.org/news/attracting-next-generation-physicians-rural-medicine>

<sup>ii</sup> Ibid.

<sup>iii</sup> Jackson Physician Search and LocumTenens.com. (2022, February 23.) *Rural Physician Recruitment and Staffing Survey Results*. Jackson Physician Search. [www.jacksonphysiciansearch.com/white-papers/white-paper-rural-physician-recruitment-and-staffing-survey-results/](http://www.jacksonphysiciansearch.com/white-papers/white-paper-rural-physician-recruitment-and-staffing-survey-results/)

<sup>iv</sup> AMN Healthcare. (2022.) *2022 Survey of Locum Tenens Staffing Trends: Moving Toward a More Flexible Physician Workforce*. <https://www.amnhealthcare.com/siteassets/amn-insights/surveys/amn-survey-locum-tenens-2022.pdf>