Community-Based Physician Need: How Many Physicians are Enough?
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Today, we have a widening gap between the supply and demand of physician services. On the supply side, an increasing proportion of physicians are reaching retirement age, and younger physicians are impacting productivity standards as they seek balanced lifestyles. On the demand side, an aging and diversifying population will continue to strain physician resources as more services are required. Implementation of the Patient Protection and Affordable Care Act ("PPACA") is expected to worsen the physician shortage because of the expansion of health care coverage to millions of uninsured Americans.

Because one-third of today's practicing physicians are age 55 and over, a shortfall of over 100,000 physicians is currently projected by 2025.[1] As Medicare and other third party payers continue to streamline reimbursement mechanisms of hospitals and physicians, providers will continue to pursue physician alignment strategies, including physician recruitment efforts that will undoubtedly include compensation guarantees and other monetary incentives. The expected shortage of physicians will likely be exacerbated by healthcare systems as these systems compete for a limited number of physicians needed to serve an aging and increasing population.

This paper provides you with a framework to objectively and quantitatively evaluate your community's need for physician specialties. As detailed below, a community-based physician need analysis ("PNA") should be an integral part of your organization's physician development planning.

Medical Staff Development 101: Should we employ physicians or recruit with remuneration?

In its simplest form, physician recruitment can be separated into two broad categories: (a) physicians are employed by the hospital or health system to meet the community's needs, or (b) physicians are recruited into the community as independent contractors, but with remuneration provided to the physician by the health system in order to increase the physician's likelihood of success in starting in private practice.

As you are no doubt aware, the "Stark laws" that govern physician self-referrals also provide physician recruitment guidelines. When physician recruitment with remuneration (versus employment of a physician) is the goal, the health system must ensure that its recruitment is based on statistically valid, objective data and a consistent methodology across years and physician specialties.

[1] Michael J. Dill and Edward S. Salsberg, Center for Workforce Studies, Association of American Medical Colleges, *The Complexities of Physician Supply and Demand: Projections Through 2025*, November 2008.

Market Assessment: Begin by defining the geographic area

In this paper we assume that your organization will recruit physicians with some type of remuneration, so our focus is on a Stark-compliant PNA. Before focusing on the details of a Stark-compliant, community-based physician need analysis, we will discuss a key distinction between a regulatory-compliant PNA and a "market-based", strategic PNA: the distinction is how the geographic area for analyses is defined.

Stark laws attempt to put a wall between the recruitment of physicians and a health system's benefits from recruitment. In order to comply with Stark regulations, the hospital must focus on community-need vs. hospital-based need. The current Stark law (known as Stark II, Phase III and finalized in 2007) defines the PNA geographic area as the smallest number of contiguous ZIP Codes comprising at least 75% of inpatient volume for a hospital. Thus, a Stark-compliant PNA will be based on the *geographic area* for an individual hospital using the most recent 12 months of inpatient origin data. A Stark-compliant PNA must begin by defining the Stark-compliant geographic area for the hospital.

The Stark-compliant geographic area definition may or may not be consistent with the hospital's typical *strategic service area* definition. Developing a sound methodology for the physician need analysis allows the PNA framework to be applied to a Stark-compliant geographic area or a strategic, market-based service area.

Regulatory Compliance: Develop an objective, analytical framework

Once the geographic area for the analyses is defined, the next step is to determine the physician need by specialty within the area. There are a variety of methodologies that can be applied to the geographic area population to determine the number of physician specialties needed. Common methodologies can be grouped into two basic types: physician-to-population ratios and visit-based approaches. Either approach will provide a calculation of physician specialties needed to serve the geographic area population.

Physician-to-population ratios may provide a starting point for analysis, but are generally considered to be too broad in their results and typically overstate projected physician need. Some of the shortcomings of physician-to-population methodologies include the inability to account for population age distribution in a defined geographic area, lack of consideration of changing physician practice patterns, and the oftentimes outdated data used in the forecasts. Common sources of physician-to-population ratios include Graduate Medical Education National Advisory Committee ("GMENAC"), Hicks and Glen, and proprietary models such as Solucient.

Visit-based approaches consider physician office practice locations and apply physician productivity measures to population needs. These methodologies go beyond the very basic physician-to-population statistic to project the number of patients that can be treated by each physician specialty with an office location within the geographic area.

The visit-based approach that we utilize considers population growth and the age distribution of the population, community need for office-based physicians, and pending retirements of existing physicians. The methodology is a demand-based analysis, using expected visits per person to project the total office visits by specialty that the population within the defined geographic area will generate. The number of physician full-time equivalents is used to predict total physician office visit capacity by specialty. The projected patient office visits by physician specialty is then compared to the capacity of office visits by physician specialty to determine the need for each physician specialty in the defined geographic area.

Regardless of the methodology used, the PNA should consider the following variables:

- Population characteristics and distribution;
- Availability and aging of physicians by specialty;
- Productivity level of physicians and changing work habits;
- Relationships between primary and specialty physicians.

A PNA should match your community's physician needs to existing physician specialties and assist your hospital in identifying service gaps that will be the starting point for aligning physician recruitment plans with community health needs. Given the recent regulatory changes requiring nonprofit organizations to conduct community health needs assessments ("CHNA"), your hospital's PNA will not only meet your organization's physician development goals but may also simultaneously address some of the CHNA implementation requirements.

Implementation & Monitoring of the PNA

Once the community's physician needs are identified, the next step is to create an operational plan that addresses the identified needs in a manner that is consistent with your organization's strategic plans. The successful PNA operational plan will answer the following key questions:

- What is the intended purpose of the PNA?
- Who are the stakeholders?
- How will the PNA be linked to the organization's strategic objectives?
- How will PNA results be communicated?
- How will the PNA findings be implemented?
- What are the appropriate metrics to evaluate successful implementation of the PNA?
- How may the PNA address the findings of the Community Health Needs Assessment?

A successful PNA operational plan will also incorporate discussions at a high level within the organization and will limit the distribution of detailed analysis.

The second step in the successful implementation of a PNA is to address necessary financial issues such as budgeting for the PNA and the resulting physician recruitment. Key costs should be quantified, including completing the PNA, legal fees, recruitment fees, physician relocation, and other physician

commitments. Board presentation and approval is typically needed for annual recruitment goals and budgets.

A PNA should be completed periodically to update the analysis for changes in geographic area definition, population and age distribution changes, and physician inventory. Since the PNA is the basis for your organization's physician recruitment activities, we recommend that organizations update the PNA at least every two years. The update can be designed to cover as many physician specialties as necessary to meet your organization's market strategies.