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PHYSICIAN WORKFORCE SUPPLY: SHORTAGE LIKELY TO WORSEN IN FUTURE

After years of reports heralding an excess supply of physicians, current literature suggests that the United States now faces a *shortage* of physicians that will grow over at least the next two decades. Many factors contribute to these estimates:

- § The US population is aging, and the elderly use more physician services.
- § The physician workforce is also aging.
- § Per capita medical school enrollment in the US has declined since 1980.
- § Younger physicians have different lifestyle expectations and are, on average, less productive than older physicians.
- § Shortages in some specialties are driven by physicians seeking to practice in specialties more conducive to a balanced lifestyle.
- § A smaller percentage of physicians are selecting clinical practice upon graduation, opting for less traditional career paths.

CHALLENGES TO INCREASING SUPPLY

Our work across the country has demonstrated that California's physician recruitment and retention issues differ from other states:

- § California's population is growing faster than the US, requiring large numbers of physicians to meet future needs.
- § Physician compensation in California is typically lower than in other states.
- § Most California markets rank low on indicators of housing affordability and education spending, ranking 41st across the 50 states in funding of K-12 education.
- § The Kaiser Permanente Medical Group has been aggressively recruiting physicians, and is the major source of competition for physicians in many hospital markets.

The overall shortage has repercussions across the country, with reports of increasing recruitment difficulty even in highly desirable markets. Recruiting and retaining physicians requires a dedicated team, resources, and successful practices to support new physicians.

WHY DOES YOUR HOSPITAL NEED A PHYSICIAN WORKFORCE PLAN?

- ü *To identify the requirements to replace aging medical staff members.*
- ü *To meet the community's need for physician services driven by growth and aging.*
- ü *To capture opportunities to serve new population bases in markets adjacent to current service areas.*
- ü *To enhance market position in specific hospital programs or services.*
- ü *To assure compliance with Stark regulations regarding physician recruitment assistance and placement.*
- ü *To plan for medical office buildings.*
- ü *To define the number and types of physicians most needed for affiliated physician groups, recruitment plans and associated budgets.*

PHYSICIAN PLAN ELEMENTS

A physician workforce requirement plan provides documentation of community need to justify recruitment of physicians and helps to set priorities for recruitment assistance and budgeting. Typically, a plan provides a three to five year horizon. The plan should detail:

- § Hospital patient origin, market share, and patient migration patterns and trends, including service line specific trends.
- § Current and future population estimates and forecasts, including data by age cohorts.
- § Identification of unique market area or population characteristics.
- § Socioeconomic and health coverage indicators including insurance coverage, Medi-Cal and HMO enrollment, income and educational characteristics.
- § Qualitative and quantitative factors affecting physician need based upon interviews with physicians in the community and hospital leadership, to include issues such as:

- Call coverage, wait times to appointments, and/ or other access issues.
- Competitor dynamics.
- Referral patterns outside the service area.
- Practice patterns and use of extenders.
- Known physician retirement plans.

§ Current inventory of physician providers by specialty, location, age, full-time equivalency status and anticipated retirement plans.

§ Estimates of the shortage (or excess) of physicians by specialty for the current year.

§ Projections of the anticipated shortage (or excess) of physicians by specialty three to five years forward.

CATTANEO & STROUD'S RECENTLY UPDATED PHYSICIAN WORKFORCE PLANNING MODEL INCORPORATES NEW INDICATORS OF PHYSICIAN NEED

Cattaneo & Stroud, Inc. has a well established practice in physician resource planning and continually updates our proprietary method for calculating physician need. Our population-based benchmarks are based on research that includes over 400 articles, including 42 published in 2006.

§ Recent articles indicate increases in the required number of physicians per 100,000 population that reflects an aging population, changing medical practice patterns, and rising demand for physician services.

§ Our model employs age-adjustment to account for markets serving more elderly.

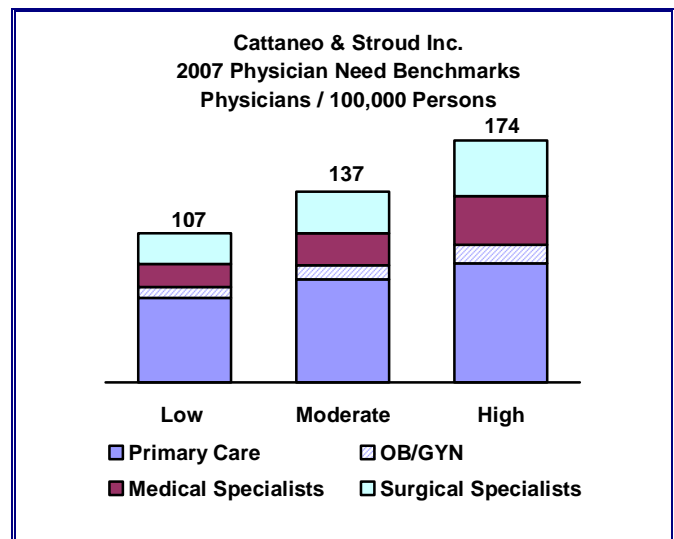
§ Our methodology is used by major hospitals and health systems across the country, lending credibility and objectivity to a hospital's community need assessment.

§ Our ratios include 26 specialties as well as 22 pediatric subspecialties.

REQUIREMENTS VARY ACROSS MARKETS

Our experience has found that the need for physician services varies significantly across communities based upon a number of qualitative and quantitative factors. For this reason our approach provides a range of physician need, based on unique market characteristics. Through our assessment of a service area, we quantify the most appropriate physician need benchmarks, or range of need,

by specialty for that market. Benchmarks for most California hospital markets fall between the low to moderate range. Our experience also tells us that the majority of hospital clients are surprised at the magnitude of need for physicians in their markets over the next five years, a result of aging medical staffs and fewer new physicians joining existing groups or setting up practice.



IDENTIFICATION OF FUTURE PHYSICIAN REQUIREMENTS OFTEN LEADS TO OTHER STRATEGIC QUESTIONS

- § What organizational structure(s) are needed to support the number of new physicians our market requires?
- § When should recruitments occur given practice ramp-up time and total recruitment budgets?
- § Are there sufficient resources and the political will to build a hospital-sponsored group?
- § Are current physicians interested and capable of adding associates, and in what specialties?
- § In what communities and locations do we place physicians to meet our organization's strategic objectives?
- § What other services, in addition to medical practices, could be supported in satellite sites?

For additional assistance regarding physician strategy issues, please call us at 650/692-8884 or visit our website at www.cattaneostroud.com.