

Physician Compensation in Rural Areas

Denise Palencik, Sr. Associate, Veralon

Stuart J. Schaff, Manager, Veralon



When rural healthcare organizations ask us to review physician compensation from a fair market value (FMV) perspective, management often makes the case that they need to pay more to attract physicians. They cite a smattering of studies¹ showing that rural physicians have higher average compensation than their urban counterparts, with one January 2005 study showing a “rural premium” of 12.7 percent. Sometimes such a premium is valid, but it shouldn’t be an automatic assumption.

Developing a fair market value analysis for physician compensation in rural markets requires considering factors that could potentially justify a premium on compensation relative to benchmarks, as well as some factors that might justify a discount. Just as in other types of markets, there are a myriad of components to consider, and each circumstance is different.

It *is* notoriously difficult to attract physicians to rural areas, especially for specialties that are in high demand nationwide.



- Many physicians simply aren’t attracted to a rural lifestyle, with limited cultural opportunities, fewer peers with which to interact, and restricted opportunities for professional development.
- Physicians may be concerned about a lack of potential for research or teaching activity.
- Some physicians may be averse to working in facilities that are less than “state of the art,” or to “losing” patients who have to be transferred to more urban hospitals for specialized care.
- Physicians may be concerned about call burdens, knowing that there will be fewer physicians in the rotation.

- Specialists may not want to compete with established primary care physicians who, out of necessity, have historically offered specialized testing and treatment for patients that would otherwise be provided by specialists.
- Physicians may be concerned that rural patients may be sicker, due to care delays caused by distance or insurance coverage issues, and require more intense attention.

At the same time, there may be factors that can reduce the challenges these factors pose, such as:

- The cost of living for rural areas can be significantly less than that in major urban areas, so the effective buying power of a given amount of compensation is higher in rural areas.²
- Telemedicine programs may be reducing the demand for specialists in rural areas, so those hospitals that want specialists on staff may have less competition in recruiting them.
- The payer mix in many rural areas results in a low rate of physician collections that could raise regulatory questions about the “commercial reasonableness” of higher compensation.

In reviewing specific compensation situations, it is vital to look at how all of the factors above, and others specific to the market and each physician, play out in that situation. For example, there may be unusual clusters of health conditions that would support higher compensation to attract a type of specialist that a rural area might not otherwise be able to justify. Likewise, an organization that wants to attract a physician with a clinical research orientation to study a rural health issue could have a case for higher compensation. Finally, hospitals have certain baseline coverage requirements in certain specialties; these requirements often necessitate paying compensation levels that may not correlate with productivity.

It may well be possible to support higher than average compensation for physicians in a rural area; the only way to be certain is by meticulous analysis that will assure that the resulting fair market value compensation opinion will hold up to regulatory scrutiny. ●

¹ <http://www.physicianspractice.com/blog/do-rural-doctors-make-more-money-have-higher-job-satisfaction>

² https://www.statsamerica.org/innovation/reports/sections/appendix_IV.pdf