“Why Can’t We Pay Locum Rates to Our Physicians?” 3 Things Leaders Should Know

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In Latin, *locum tenens* means “holding the place.”[1] The term was first used in medieval times to describe the use of clergy to temporarily staff Catholic churches when priests weren’t available. In healthcare, locum tenens emerged in the 1970s as a way to describe the use of temporary physicians in rural markets where local physicians didn’t exist.

Today, health systems use locum tenens to fill temporary gaps in the demand for patient care and pay premium rates to locum tenens staffing companies to provide these physicians. Such resources are invaluable in ensuring uninterrupted clinical care when unexpected staffing shortages arise.

But the question arises: Why can’t health systems pay their employed providers at the same rate they pay for locum tenens companies for the same service? The simple answer is:

> *Although the time and services provided by employed providers versus their locum tenens counterparts may be comparable, the premium paid for locum tenens services reflects the unique situation and convenience offered under the locum tenens model.*

To better understand what drives the difference in compensation between locum tenens and employed physicians, it’s important to consider the following:

- **Locum tenens physicians typically face higher expenses than employed physicians**. The services of locum tenens physicians are provided under an independent contractor relationship, whether directly with the physician or with a staffing agency. Unlike employed providers who receive certain benefits paid by the

[1] Merriam-Webster Dictionary.

employer, all independent contractors—including locum tenens providers—must pay the independent contractor tax (i.e., the employer portion of Social Security and Medicare taxes). They (or the company) must also pay for malpractice insurance, which, for employed physicians, is typically covered by an employer. These expenses are incorporated into the rate paid to the independent contractor (i.e., the locum tenens provider).

Locum tenens providers also tend to face higher out-of-pocket expenses, such as incremental living expenses when taking on new assignments that vary in length. These may include housing expenses, transportation, meals, and legal fees. In some instances, the staffing agency will cover a portion of these costs, but when this happens, the fees are then passed on to the healthcare entity in the form of a mark-up on compensation rates. When they are not covered as a pass-through reimbursable expense, these costs may be incorporated into the rate paid to the locum tenens provider. It is important to note that premium compensation in instances where a locum tenens physician must pay for housing is not solely a reflection of the cost of housing, it's also an incentive to temporarily relocate to a new location to provide needed care.

- **Temporary assignments merit premium pay.** Because the work is temporary, locum tenens must accept a series of positions throughout the year to earn the level of compensation they would otherwise earn as full-time employees. However, the nature of the work and the timing of future opportunities causes locum tenens providers to run the risk that they will not have an income for some undetermined period. The next job may not start immediately after the existing assignment ends or because they may face challenges lining up their next opportunity. The risk associated with non-productive periods requires higher compensation during productive periods.
- **Staffing agency companies have operating expenses, too!** Staffing agencies are constantly recruiting healthcare providers to maintain a roster of practitioners readily available to meet fluctuating demand for patient care services. They essentially play the role of "matchmaker" between healthcare entities and providers. As a result, they incur recruitment and marketing costs to attract providers and develop client contacts. There are also significant costs associated with operating a staffing company. It's appropriate that they cover these costs and also earn a margin for the services that they provide.

  Staffing agencies will typically charge healthcare entities a percentage of the locum tenens provider's salary to cover their expenses and achieve an expected profit margin. Note that this fee is incremental to the salary and expenses directly associated with the locum tenens provider.

SUMMARY

When the need for temporary staff arises, the focus often strays from managing costs to filling an immediate staffing need. Locum tenens providers offer one option—but at a premium price. That price, however, reflects the unique service offering and cost structure of a locum tenens relationship. While sometimes difficult to communicate, locum tenens fees cannot be paid to any provider regardless of the circumstances.

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