



The 3Rs and Beyond – Physician Recruitment Incentive Insights

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While hiring incentives have long been common practice and are often part of compensation packages hospitals and health systems offer physicians, the current and impending shortage of physicians, the COVID-19 pandemic, and the desire for work/life balance have elevated their impact. As in other industries experiencing similar challenges, recruitment incentives may provide opportunities to attract and retain physicians when it is otherwise difficult to do so. Revisiting an existing or developing a new incentive compensation philosophy that is creative yet compliant from a regulatory perspective could greatly contribute to the pursuit of an organization’s strategic and financial goals.

The U.S. Office of Personnel Management (OPM), which serves as the chief human resources agency and personnel policy for the federal government, describes recruitment, relocation, and retention incentives (3Rs) as “compensation flexibilities available to help Federal agencies recruit and retain a world-class workforce.” Specifically, the OPM notes an agency may pay a recruitment incentive to a new employee if the agency has determined the position is likely to be difficult to fill in the absence of an incentive.[1] The 3Rs are subject to various conditions, including but not limited to:

- Written determination and documentation the position is difficult to fill in the absence of such an incentive.
- The amount and timing of the incentive.
- The length of time the individual is obligated to provide the identified services.
- Payment caps (e.g., recruitment and relocation may not exceed 25% of the employee’s annual rate of “basic” pay, multiplied by the number of years in the service period, which is not to exceed four years).

This is similar to incentives non-governmental hospitals and health systems, whether nonprofit or for-profit, provide based on the review of market conditions, multiple benchmark data sources, and various market comparables. A discussion of representative physician recruitment incentives follows.

Recruitment or Signing Bonus

Perhaps one of the most common incentives offered, a signing bonus is a lump sum (or “one time”) amount paid up front to a new employee as an incentive to join the organization. Per SullivanCotter, Inc. (SullivanCotter), in 2021, 85.6% of 222 respondents were offered a signing bonus, the mean amount ranging from \$10,000 at the 25th percentile to \$25,000 at the 75th percentile.[2] Merritt Hawkins cites a signing bonus range from low (\$5,000) to high (\$400,000), with an average of \$31,000.[3] Further, the Medical Group Management Association approximates the average median and mean signing bonuses for 78 physician specialties at \$25,000 and \$30,000, respectively.[4] Based on a review of other market

comparables gathered over a five-year period, signing bonus amounts ranged from \$5,000 to \$100,000. When used as a part of a compensation package, a physician's agreement may contractually require repayment of a pro-rated signing bonus amount should the physician leave prior to the stated contract service terms.

Relocation Incentive

When a governmental agency determines a position will likely be difficult to fill, the OPM also allows payment to offset costs involved when an individual moves to accept a position in a different area. It is also commonplace for nongovernmental companies, including hospitals and health systems, to offer a relocation incentive to attract the best talent. Per SullivanCotter, approximately 77% of 222 survey respondents indicated they offered staff physicians relocation assistance ranging from approximately \$10,000 at the median to \$11,462 at the mean.[5] Similarly, per Merritt Hawkins, 78% of searches offered relocation assistance in 2021/2022, which was up four percentage points from 2020/2021.[6] It is important to note that moving or relocation expenses must be included in a physician's wages (i.e., considered taxable income per the IRS).[7] Further, it is common to include in the employment agreement a required repayment of a pro-rated relocation amount should the physician leave prior to the stated contract service terms.

Retention Bonus

Retention bonuses, though less common than signing bonuses, are sometimes offered when an organization determines a physician has unusual or unique qualifications that make it essential to retain him or her, and/or the individual may leave employment in the absence of the incentive. Per SullivanCotter, the annual mean value of retention bonuses for staff physicians and physician leaders was approximately \$15,000 and \$20,000, respectively. Approximately 69% of the survey respondents were required to pay the bonus back upon departure from the organization, and the majority were made to repay it within one to two years. Based on a review of other market comparables gathered over the last seven years, retention bonus amounts ranged from \$10,000 to \$30,000.

In the event an organization seeks to utilize the Stark Law exception for retention payments, where applicable, there are certain requirements it must meet with respect to the retention payment.[8] For example, a physician must have a written offer of employment from another organization, and the recruiting organization should have from the physician a written certification of the offer from the other employer, inclusive of offer details. Finally, the retention payment should not exceed 25% of the physician's current annual income.

Beyond the 3Rs

Educational Loan

With the ever-increasing cost of medical education, many organizations offer educational loan repayment in return for the promise of employment. In addition to loan forgiveness for medical school, residents who sign a contract to join an organization may receive assistance in the form of a monthly stipend structured as a loan that would be forgiven in return for employment for a defined period of time post-training (i.e., 24 or 36 months). This is a particularly appealing recruitment incentive for organizations located in, or trying to recruit to, rural communities. According to Merritt Hawkins, for years 2021/2022, educational loans ranged from \$10,000 to \$400,000 with an average of approximately \$102,000.[9] The majority of such loans

(77%) had a term of three or more years. Further, per SullivanCotter, the annual loan payment per physician approximated \$31,000 and was provided for 3.8 years at the mean .[10]

Housing Allowance

Geographic location, the state of the housing market (e.g., mortgage rates), and other factors may warrant the consideration of a housing allowance. Either in the form of a monthly stipend for housing lease payments or a lump sum for a mortgage down payment, this incentive can mitigate what otherwise could be a barrier to meeting an identified community need. Allowances may have time limits, such as a stipend for a certain number of months initially upon employment, or be tied to the purchase of housing within an identified time period (e.g., six months).

Conclusion

As the demand for many physician specialties outpaces supply, hospitals and health systems will continue to be challenged with providing competitive compensation packages inclusive of recruitment incentives to meet the healthcare needs of their communities. While it perhaps goes without saying, the caveat is any incentive offered must be based on specific facts and circumstances and be consistent with fair market value and commercial reasonableness (both individually and in the context of compensation “stacking”). Finally, consideration of compensation parity is important to ensure that a newly recruited physician’s compensation plus the 3Rs (and beyond) does not inadvertently create an imbalance with currently employed physician compensation once the recruitment incentives are effectively paid off.

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[1] <https://www.opm.gov/policy-data-oversight/pay-leave/recruitment-relocation-retention-incentives/fact-sheets/recruitment-incentives/>

[2] SullivanCotter, Inc. 2021 Physician Compensation and Productivity Survey Reports

[3] Merritt Hawkins 2021 Review of Physician and Advanced Practitioner Recruiting Incentives

[4] Medical Group Management Association 2022 DataDive Provider Placement Starting Salary Survey

[5] SullivanCotter, Inc. 2021 Physician Compensation and Productivity Survey Reports

[6] Merritt Hawkins 2021 Review of Physician and Advanced Practitioner Recruiting Incentives

[7] <https://www.irs.gov/newsroom/employer-update>

[8] 42 CFR 411.357(t)(1)

[9] Merritt Hawkins 2021 Review of Physician and Advanced Practitioner Recruiting Incentives

[10] American Medical Group Association Medical Group Compensation and Productivity Survey: 2021 Report Based on 2020 Data