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Covid-19: Provider Compensation Considerations and Financial Viability

At the height of the COVID-19 pandemic, the Centers for Medicare & Medicaid Services (CMS), the U.S. surgeon general and the American College of Surgeons (ACS) urged hospitals to delay elective procedures and nonessential health visits. Though these services are slowly coming back as the industry shifts into the recovery phase of the crisis, elective procedures make up a substantial portion of a hospital's revenue. The gap in these services, however brief, presents many financial challenges as healthcare organizations strive to manage expenses while providing the care their communities need.

There are various prudent financial actions organizations can take to maintain financial stability during difficult times, including carefully deferring costs, quickly moving to access available lines of credit, negotiating with vendors and suppliers, accelerating cash flow and leveraging payor-provider relationships. Organizations should be exhausting all possible grant and loan programs tied to federal stimulus money and other resources.

In some cases, employee compensation is an area that organizations tend to turn to for reducing expenses and controlling costs. However, leaders must consider their organization's unique environment and specific communities when determining whether provider compensation cuts are prudent. Additionally, it is imperative that the organization consult its legal department prior to making any changes. Below are considerations for how to reduce compensation in the short term and then ramp it back up as soon as the crisis abates.

Compensation in Crisis Response

If organizations make the decision to use compensation changes as a cost-cutting measure, there are two ways in which healthcare compensation is typically modified: reduced compensation and furloughing.

Considerations for Amending Compensation

- **If compensation must be reduced, consider introducing percentage reductions for physician and advanced practice provider (APP) compensation.**
  - Evaluate if reductions, regardless of productivity or current patient volume, will be applied across all provider types, including front-line providers.

  - Identify and align the reductions to current market trends. If possible, do not exceed the market trends, as this may negatively impact provider culture and retention.
  - Utilize a tiered model that may be phased in when expense reduction requirements increase.

- **Consider how productivity and compensation are aligned.**
  - Align total compensation to a benchmark ceiling.
  - Enforce a benchmark threshold of compensation to productivity.

- **Take the time to reevaluate medical directorships.**
  - Consider aligning medical directorships to those required by regulations and what is needed to operate in the current environment.
  - Ensure medical directorship compensation aligns fairly to benchmarks based on requirement versus a provider's specialty.

- **Consider potential and temporary deferment of bonus pay and pay increases.**
  - Determine if holding incentives and bonus pay until a future quarter is necessary to maintain required cash flow.
  - Temporarily delay compensation increases.

Considerations for Furloughing

- **Compare current and historical volumes.**
  - Identify clinics or other facilities that have had major reductions (50% or more) in volume and determine appropriate staffing needs.
  - Consider team-based specialties (e.g., cardiology, orthopedics, etc.) and whether all provider types are needed.

- **Review productivity.**
  - Evaluate furloughing tenured physicians with historically lower productivity.
  - Be sure to consider multiple factors when reviewing provider productivity, as their contribution may not be readily apparent. While they may see fewer patients, they may also have uncommon surgical specialties, for example.

Restoring Compensation During Crisis Recovery

As the pandemic begins to recede and the industry transitions into the recovery phase, volume and mix of services will change significantly. It is at this point that healthcare organizations must begin ramping up provider compensation to reflect the changes in demand.

Increase Compensation by Specialty and Volume

- **Determine where the organization is seeing the fastest and largest increases in demand.**
  - Increase compensation as specialty services approach previous volumes and productivity.
  - Develop a thoughtful and strategic plan to bring back previously furloughed providers based on the increase in patient demand.
  - Prioritize bringing back providers for strategic specialties that drive future growth.

Determine How to Calculate Compensation Increases

- **Anticipate how crisis-related revenue losses will impact the coming fiscal year.**
  - Consider how to align base compensation to expected volume for the upcoming year with the intent to increase during the year if revenue stabilizes and grows.

- **Introduce a compensation payout schedule.**
  - Create a timeline that enables the organization to maintain cash flows while delivering on compensation promises to providers (e.g., quarterly bonuses, incremental paycheck increases).

- **Consider adjusting contracts as needed.**
  - Evaluate new and existing contract language to determine what might allow for compensation changes in the case of extenuating circumstances such as a pandemic.
  - Determine if the contract renewal process should change as a result of effects of the crisis.
- **Establish the compensation model for telehealth visits.**
  - Consider both individual compensation for physicians as well as compensation rates for those who supervise multiple providers performing telehealth visits.

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