

# Rethinking Physician Compensation

INCREASE PHYSICIAN ENGAGEMENT, OPTIMIZE PERFORMANCE WHILE TRANSFORMING TO VALUE-BASED CARE

By Kritiya Gee

As reform moves toward value over volume and healthcare leaders take on increasingly complex payment and reimbursement plans, they struggle to align the physicians within their organizations to their system's financial and quality goals, while balancing the ever increasing demands and stresses on physicians and their patient care teams.

Physicians and advanced practice providers are crucial to every performance, quality, safety, care utilization and patient satisfaction goals. These factors significantly affect an organization's financial viability, which is why providers' compensation must

be aligned with them. In addition, our research shows that providers are less likely to burn out when mutual goals have been established between them and their health systems. But, that is just part of the story when it comes to compensation planning.

## Compensation Structure Versus Organizational Culture

The right compensation plan framework is an important component to becoming a high performing physician organization. It provides a tangible and aligned structure for a winning patient-provider-system-payer strategy. Creating a unified plan also helps integrate providers with each other and with the system—culturally, financially and clinically—via a common core that functions across multiple departments, yet, is flexible enough to contain specific departmental metrics, variables and incentives. Ultimately, this framework should facilitate a bridge to more risk-based population healthcare delivery as you gradually realign measures, metrics and compensation to suit shifting value-based care models.

Yet, a compensation structure is also dependent on a physician organization's group culture and dynamics. Given a group's current status and infrastructure, where does it fall on the organizational maturity spectrum? Are the physicians ready and motivated to

When physicians team up with their health system leaders to pursue mutual goals, they are far less likely to burn out.”

— Quint Studer  
Founder, Studer Group

## Keys to a Successful Plan

### Transparency achieves buy-in

- Build trusting relationships with physicians.
- Bridge gaps between providers and management.

### Efficient education and testing streamlines implementation

- Educate providers on plan nuances; address questions and concerns.
- Test the new model for consistency with guiding principles and efficiencies.
- Provide for confidential feedback; assure results align with expectations.

### Accountability leads to sustainable high performance

- Offer real-time individual, department performance metrics.
- Gauge performance; project annual compensation for each provider.
- Maintain accountability and visibility.

### Simplicity helps facilitate understanding and discussion, tracks key variables

- Develop discussion tools to help stakeholders model and make key decisions.
- Factor in key variables—patient satisfaction, quality, industry benchmarks, clinical FTE levels, productivity, and research—and make them easy to track and report consistently.

move to a unified and aligned compensation plan? Can this plan evolve and be repeated with other physician groups, or will you need to tailor the structure for each group you employ, thus defeating the implementation of a unified plan? A unified compensation structure with common principles and guardrails is important and should be pursued, but does not insinuate that a one-size-fits-all approach is effective or even feasible. Rather, successful physician organizations should develop common principles that will apply broadly to all providers, but with specialty or group specific

components that give leaders flexibility to meet the needs of providers and the physician organization. For example, common principles may be rewarding for patient satisfaction or a range of fixed and variable compensation.

## Alignment Among Many Sectors

Compensation plans must be financially sustainable, reward physicians for meeting and exceeding clinical and non-clinical goals and balance physician efforts with a variety of leadership responsibilities. Above all, approach compensation planning with transparency and accountability and keep things simple and efficient.

Keep in mind that successful compensation plans are works in progress and should continually strike a balance among these sectors that impact alignment:

- **Patients, consumers, the community** — Encompassing population health, which determines what the prevalent chronic and acute illnesses in your market are, the rise of consumerism, emerging patient access channels (for example, telehealth and retail clinics), and the impact of self-payers.
- **Health Systems** — Representing the continuum of care across the delivery system, from hospitals, academic medical centers, ambulatory practices and post-acute environments.
- **Government** — Including federal, state, and local laws and policies that regulate your organization's operation.
- **Payers** — With the Medicare Access and CHIP Reauthorization Act of 2015, reimbursement will continue to progress on the path to value; it is anticipated that commercial plans will follow suit.

## Overall Market Dynamics

There has been a marked shift of independent medical groups to hospital-employed/owned

physician organizations in the last decade and a half, and the trend continues. Mergers and acquisitions also create their own compensation dynamics. Often these deals are done one at a time, without a complete evaluation of the strategic goals and return on investment of all parties.

Physician organizations acquired in this way are promised autonomy, but since their legacy compensation plans often come with them, they are less inclined to embrace the parent health system compensation structure. The misalignment perpetuates itself as systems grow and acquire more medical groups. Though hospitals no longer employ physicians to increase admissions and gain favorable reimbursement rates for hospital-based services, the shift in focus from fee-for-service to value-based care is just that—still in transition. For compensation planning, there is a compelling need to recognize the impact that an evolving organizational structure has on staff and continue to develop models that reward quality and cost reductions. Many healthcare organizations, however, are at varying points organizationally and strategically in compensation planning.

## Impact of Physician Burnout

Relentless changes and the uncertainties of industry reform are driving these providers to join hospital environments because they no longer want the administrative details of owning a practice and they prefer medicine to business.<sup>1</sup> But, when they make the move, they discover that they are needed as leaders on the business side of healthcare after all. They discover that it is about more than compensation.

When physicians, who are intrinsically driven and committed professionals, experience these disconnects, disillusionment can evolve into burnout. Quint Studer, founder of Studer Group, knows firsthand from his work with physicians around the country that these burnout factors generally can be grouped under the factors of healthcare environment, practical hurdles, psychological and training challenges, and organizational structure

changes. Crossover occurs, as practical hurdles lead to psychological concerns and training is related to organizational change. He stresses, though, that burnout is not happening only because physicians feel personally overwhelmed or stressed, which would imply a lot of self-interest. Rather, this dedicated group experiences burnout because “they perceive that their most powerful driver—the ability to provide the best possible patient care—is being challenged.” When physicians team up with their health system leaders to pursue mutual goals, they are far less likely to burn out.<sup>2</sup>

Healthcare system leaders are realizing that getting physicians to align strategically with goals to improve key performance areas such as revenue, care redesign, and efficiency, but ignoring burnout, limits any physician engagement.<sup>3</sup> A variety of strategies can combat the problem, such as addressing the problem through education and onboarding activities, working on patient care teams with non-physician providers to help spread out work and documentation. Additionally, training physicians to become team leaders and helping physician organizations become more successful in lowering costs and improving quality of care.

Also critical to understanding the relationship between performance expectations/compensation and how physician organizations can become disconnected from the health system is the financial affordability concept outlined in Figure 1 below. Although health systems recruit, retain and incentivize physicians for any number of clinical or strategic reasons, it is important to continuously evaluate the relationship between productivity and compensation.

Huron's leading practice for financial sustainability and affordability is no more than a 20 percent variance (positive or negative) in the respective percentiles for productivity and compensation. Misalignment greater than 20 percent puts physician organizations at risk for either losing providers or overpaying for them. Strategic or coverage needs may occasionally call for variances outside of this leading practice but should be the exception rather than the rule.

# Alignment with Highperforming Groups

Physicians who belong to high performing organizations have significant impact on their health systems—operationally and clinically— making for strong partnerships and improved financial performance. In our definition, high performing physician organizations must have sustainable performance as it relates to compensation across these key dimensions:

## Organizational Effectiveness

- Effective governance and management tructure to successfully develop and implement a leading practice compensation model
- Strong group culture and ethos to buy into market-driven models and incentives

## Practice Efficiency

- Highly efficient and appropriately staffed operations
- Able to respond to and track changes driven by new provider incentives

## Financial Sustainability of Plan

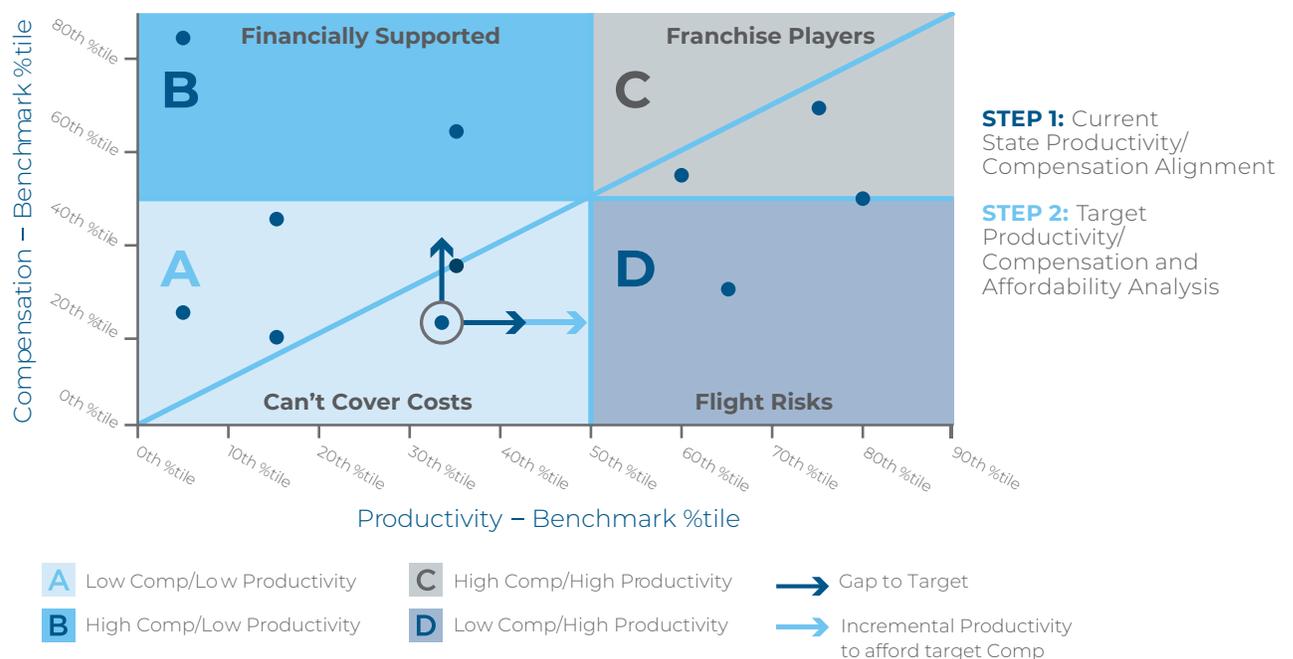
- Financially viable to health system
- Funded consistently and fairly
- Reporting and transparency for compensation model changes

## Provider Alignment

- Compensation is aligned between provider performance and organizational goals which includes volume, outcomes and cost

Figure 1: Compensation Plan Affordability Analysis Concepts

## CURRENT TOTAL COMPENSATION AND PRODUCTIVITY



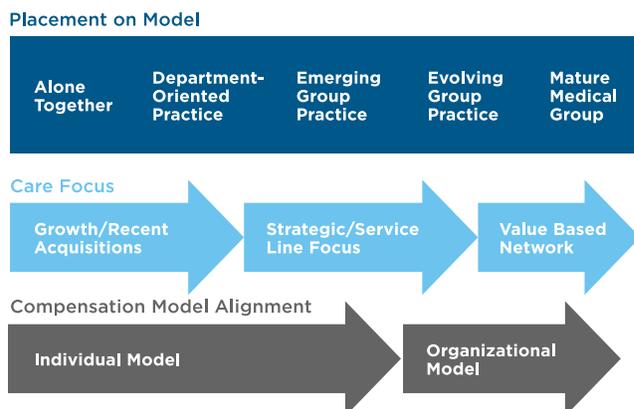
### Clinical Alignment

- Effective compensation model addressing primary care, specialty care, hospital services
- Incentives aligned with desired system and payer outcomes (performance, quality, utilization, safety, patient satisfaction)

However, where a physician organization may be at various points on the journey toward high performance can limit the ability to design and implement a compensation plan for its members. For example, an organization could be an emerging group practice, but its clinical, operational, and financial infrastructures are not in line with its culture, values, strategy, leadership and management.

An organization’s place on the development model (Figure 2) determines its focus and goals of care delivery. A provider group that is further developed and integrated is better positioned for strategic decisions and is better able to implement compensation plans that are in line with new payment models the health system is pursuing. In turn, health systems considering a new compensation model should examine what they currently have, what their competitors use, and what benefits they need to offer to attract and retain talent. Tying compensation to productivity and performance, however, can stretch an organization’s tolerance for risk. For example, overhead and fund allocation may be difficult to plan for and the model may be tricky to implement fairly and consistently.

**Figure 2: Development Model and Care Focus**



The attempt to tie compensation to productivity and performance may result in an unproductive and competitive environment among practitioners.

## Compensation Approaches

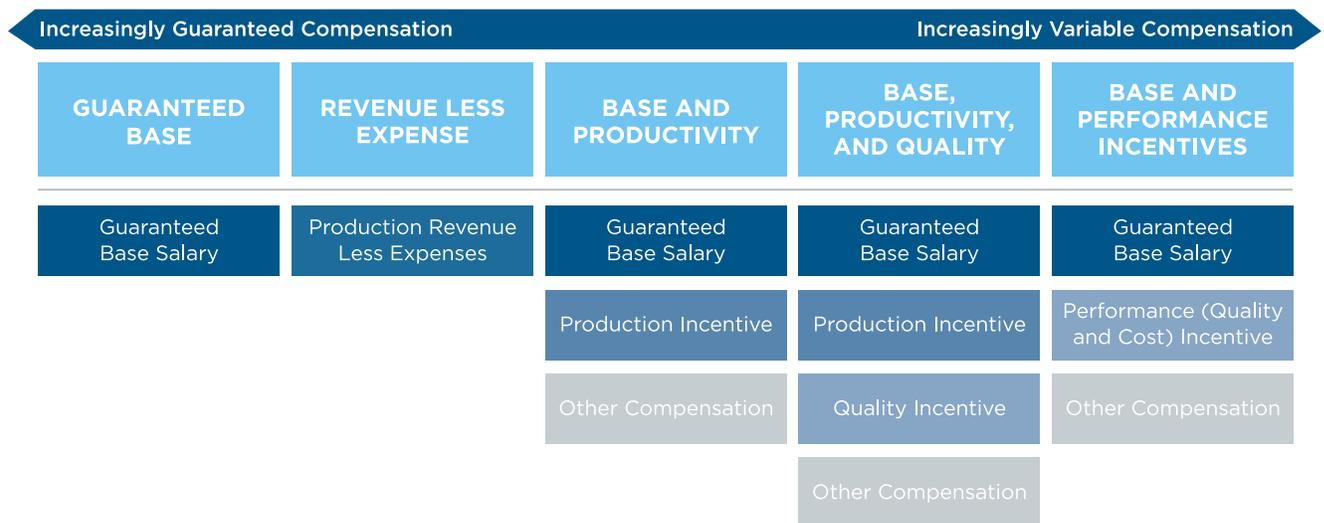
With that in mind, Figure 3 charts several approaches that cover the range from increasingly guaranteed compensation to increasingly variable compensation.

Leading practice suggests a model whereby no more than 80-85 percent of a provider’s total cash compensation target (e.g. 50th percentile Medical Group Management Association) should be fixed or guaranteed (with potential exceptions for new providers during the 1–2 year ramp-up period). The remaining variable, or “at risk” compensation, should be earned based on achieving and/or exceeding minimum work standards/threshold for productivity, quality, and engagement/citizenship. Incentive compensation can then be structured for providers going above and beyond the minimum work standards, giving high achievers the ability to earn more than the total cash compensation target.

Quality and citizenship requirements should always be part of any physician leadership onboarding and/or training so physicians know exactly how your organizational culture translates into care delivery performance. There should be minimum expectations for citizenship goals, both within the physician group and the hospital/ system. Examples include engaging in leadership opportunities, getting along with peers, having good charting habits, minimizing compliance risks.

Other compensation considerations include physician roles in administrative, management, leadership, and other variable pay that should be part of performance metrics. Be sure to make physicians aware of all the quality, citizenship, and leadership opportunities your organization offers. For specialty physician organizations, compensation plan components and incentive metrics should be tailored to the specific group and provider

Figure 3: Spectrum of Compensation Plan types



environment and should ultimately coincide with the goals of each individual practitioner along with those of the department/division and organization.

**Key compensation metric guidelines include:**

- Basing compensation on organizational priorities—physician engagement, quality, service line performance—and setting minimum standards for eligibility.
- Calibrating performance expectations per clinical, administrative, or other work effort criterion.
- Establishing metrics across specialties based on panel size, wRVUs, collections, shift, service line, and call coverage, etc.
- Using external benchmarking data (e.g., Medical Group Management Association) as needed.
- Establishing a component for not meeting performance expectations.
- Always recognizing performance—both quantitatively and qualitatively

## Compensation Design, Planning, and Alignment

Begin compensation planning by examining current provider models. Complete the four-step process depicted in Figure 4 before starting to develop the goals and key objectives of any new or future compensation plan models.

### Kickoff/Data Collection/Business Case

- Gather data and policies around provider compensation and productivity.
- Form a compensation plan work group consisting of key physician and administrative leaders.
- Communicate the need/business case for change with the provider organization and expectations for input, timing, and roll out of potential new plan(s).

**Figure 4: Provider Compensation Current-State Analysis**



**Current State Assessment, Development of Guiding Principles, and Analysis**

- Conduct interviews with physician and administrative leaders to understand what works within the current compensation plan and, more importantly, what does not work.
- Perform a benchmarking analysis, comparing current compensation models and affordability.
- Define and develop guiding principles for eligibility, minimum work standards, base salary, incentive compensation and funding.

**Compensation Model Design, Testing and Implementation**

- Use agreed upon guiding principles to develop department/specialty specific compensation plans.
- Thoroughly “shadow test” by running concurrent calculations of compensation under old and new plans using actual performance data for several months to determine the financial impact (to providers and to the physician organization/health system) of each option.
- Finalize compensation model components.
- Develop policies and documents.

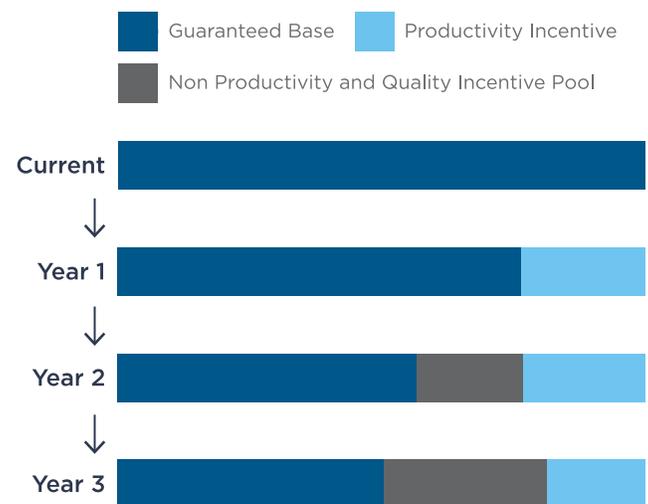
The best laid physician compensation plans are meaningless without proper execution of the implementation.

- Establish a communications plan and frequency with providers, e.g. monthly newsletters, email updates, surveys, etc.
- Create an implementation work team, work plan, and key milestones. Work teams are typically made up of key operations directors and financial analysts.
- Develop and schedule provider education sessions/town hall meetings and model working sessions with the work team.

Figure 5 shows what a multi-year transition plan looks like to move from a volume and guaranteed base compensation model to a value based scenario. While this road map example spans three to four years, it is important to note that the sectors from Year 2 to Year 3 stay the same. Only the weighting of each planning year changes based on revenues, incentives, alignment with contracts and other key factors.

While much is involved with physician compensation planning, bringing physicians into the planning process promotes the kind of engagement that encourages participation, reduces burnout and disenchantment with reform mandates, and creates the kind of leadership that allows them to appreciate

**Figure 5: Evolution of Compensation Structures**



the importance of linking their performance and what they earn with the health system’s financial, clinical, and quality goals.

### Key Takeaways

- Evolving provider compensation plans must strike a strong balance in aligning performance (production, quality, citizenship/engagement), variable and at-risk components, incentives, affordability, operational efficiency, and provider satisfaction and reduction of burnout.
- Systems and plans that simply incentivize providers to work harder without simultaneously engaging and enabling them to be more efficient and effective is a strategy destined to fail.
- Alternatively, a plan that focuses on organizational effectiveness, practice efficiency, financial

sustainability, and provider and clinical system alignment will create the desired culture of accountability, performance, and long term organizational success.

- Developing new patient access channels, optimizing performance, reducing physician burnout, and aligning interests at the provider AND system level is paramount to creating a winning environment for patients, physician organizations, and health care systems.

Leading practices in designing aligned compensation plans and enabling a high performing physician organization include:

- Development of a common framework compensation plan for a unified plan, allowing for flexibility to meet the needs of various specialties and stages of alignment.

## Compensation Planning Methodology Overview And Tools

Leading Practice Compensation Plan Development and Implementation Should Include:	Components of Compensation	Incentive Payments	Compliance
<ul style="list-style-type: none"> <li>• Physician work effort definition and time allocation (clinical, research, teaching, etc.) analysis and calibration</li> <li>• Explicitly stated minimum performance standards by specialty (productivity thresholds, clinical work week expectations, call coverage requirements, quality metrics, engagement/citizenship targets, etc.) to earn base salary and be eligible for incentives</li> <li>• Variable/at risk levels of total cash compensation, set at a minimum of 15 to 20 percent of the total</li> <li>• Competitive but financially sustainable and affordable compensation: productivity and compensation percentile variance 20 percent or less</li> <li>• Revision/updates to the plan annually or bi-annually based on current market, metrics, and expectations                             <ul style="list-style-type: none"> <li>- Base salary adjustments</li> <li>- Incentive thresholds</li> <li>- Quality and engagement citizenship metrics</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Base Salary—marketbased, adjusted for FTE</li> <li>• Productivity Incentive—based on applicable minimum work standard for personally performed services</li> <li>• Qualitative Incentive—quality, citizenship, discretionary</li> <li>• Administrative stipends</li> <li>• Other, as specifically defined</li> </ul>	<ul style="list-style-type: none"> <li>• Incentive alignment with mission work effort standards and targets</li> <li>• Consideration for individual and group incentive goals/targets</li> <li>• Determination of qualifying factors for incentive payments (e.g. positive actualbudget variance, financially affordable, aligned with payer incentive programs)</li> </ul>	<p>Annual review of total compensation paid to ensure compliance with regulatory standards; including:</p> <ul style="list-style-type: none"> <li>• Risk assessor tool (inclusive of fair market value and commercial reasonableness checklist)</li> <li>• Consideration for recent Office of Inspector General case settlements</li> <li>• Analysis of investment per provider to ensure consistency with physician compensation arrangements</li> </ul>

- Designing elements in the plan that address shifting reimbursement models.
- Aligning the framework with health system strategies and goals.
- Ensuring the plan is both financial affordable and sustainable.
- Implementation of the plan in conjunction with operational improvements (e.g. revenue cycle enhancements, productivity/ access/throughput standards, and expense management) to enable physicians to succeed.

While marketplace and regulatory demands continue to put pressure on the healthcare delivery system, a carefully considered physician compensation plan can be used to leverage most of the relationships in the care continuum. It not only incentivizes a high performing physician organization but provides an aligned structure for a winning patient-provider-system-payer strategy.

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