Sustainable Compensation Models that Incentivize: Trends and Examples

Anders Health Care Webinar Series
September 18, 2013
Jessica A. Johnson, CPA
Brian M. McCook, CPA

Agenda

- Introduce and Analyze Trends in Physician Compensation
- Examine Compensation Plan Goals and Design
- Review Basic Models
- Identify and Assess Key Benchmark Data
INTRODUCTION AND TRENDS IN PHYSICIAN COMPENSATION

Lessons Learned

- Engage physicians
- Invest in the model
- Develop clear expectations and goals
- Dedicate sufficient management resources
Current Industry Environment

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fragmented care</td>
<td>Coordinated/Integrated</td>
</tr>
<tr>
<td></td>
<td>care</td>
</tr>
<tr>
<td>Volume-based payments</td>
<td>Value-based payments</td>
</tr>
<tr>
<td>Only treating individuals</td>
<td>Caring for a population</td>
</tr>
<tr>
<td>Payer-driven managed care</td>
<td>Provider-driven</td>
</tr>
<tr>
<td></td>
<td>accountable care</td>
</tr>
</tbody>
</table>

Compensation Trends

- In 2011, the average mix for physician compensation was 81% guaranteed salary and 19% incentives
- What to expect going forward?
  - Physician compensation tied to more complicated incentives
  - Technology advancements enable sophisticated data tracking
  - Quality plays a greater role for incentive compensation as over half of physicians have quality metrics included in compensation model
COMPENSATION PLAN GOALS AND DESIGN

Effective Compensation Model Elements

- Flexible
- Transparent and objective
- Economically fair
- Comprehensible
- Consistent with philosophy and mission statement
- Promote provider accountability and responsibility
Incentives for Physicians

<table>
<thead>
<tr>
<th>Compensation Model</th>
<th>Productivity</th>
<th>Payer Mix</th>
<th>Billing &amp; Collections</th>
<th>Practice Expenses</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Salary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RVUs/Visits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple Incentives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Physician has no incentive to manage
- Physician has incentive to manage
- Physician may have incentive to manage

Compensation Model Elements

- Base Guaranteed Compensation
- Production Incentives
- Quality and Performance Incentives
- Expense Management Incentive
- Compensation for Administrative Responsibilities
Production Incentives

- RVUs (Work and Total)
- Gross charges
- Total collections
- Number of new patients
- Number of patient encounters
- Surgical cases
- Procedural volume

Shift in Metrics

Volume

↓

Value
Quality Incentives

- Clinical quality measures
- Patient satisfaction scores
- On-time starts
- Turn-around time
- EHR utilization
- Strategic and goal achievement
- Coding and charting

Management of the Bottom Line

- Staff management
- Operational management
- Financial management

- Practice management
  - +/- 10% of practice operating budget
  - Sharing of net profit of practice profit/loss
Is the model too complicated?

Design Process

- Assess current compensation model
  - Do you understand current methodology?
  - Review compensation and production levels
Design Process

- Design model
  - Involve physicians
  - Understand priorities
  - Develop options
  - Identify special situations
  - Request feedback

Design Process

- Transition to new model
  - Develop timeline
  - Explain new model and provide case scenarios
REVIEW BASIC MODELS

Types of Compensation Models

- Equal sharing
- Fixed salary
- Base salary plus bonus
- Productivity and quality models
Composition of 2012 MGMA Physician Compensation Survey

<table>
<thead>
<tr>
<th>Compensation Plan – Medical Practices</th>
<th>Count</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% Salary</td>
<td>172</td>
<td>12.68%</td>
</tr>
<tr>
<td>100% Equal Share</td>
<td>34</td>
<td>2.51%</td>
</tr>
<tr>
<td>100% Productivity</td>
<td>680</td>
<td>50.15%</td>
</tr>
<tr>
<td>50% or More Salary Plus Incentive</td>
<td>331</td>
<td>24.41%</td>
</tr>
<tr>
<td>50% or More Production Plus Incentive</td>
<td>139</td>
<td>10.25%</td>
</tr>
<tr>
<td>Total</td>
<td>1,356</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Intro to RVUs

- Measure of provider productivity
- Relative Value Unit – a measure of the resources required to provide various services
  - Time
  - Level of skill required
  - Resources needed
- Assigned to each encounter, test, procedure, or surgery based on CPT codes
Total RVU Components

- Physician work – time, skill, training, and intensity (work RVUs)
  - Compensation agreements tied to work RVUs

- Practice expense – costs of delivering services and maintaining a practice (pe RVUs)

- Malpractice – professional liability (mp RVUs)

Conversion Factor

- Conversion Factor (CF)
  - Translates RVUs into dollar value
  - Updated annually
  - Wide range in rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Conversion Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>36.6137</td>
</tr>
<tr>
<td>2010</td>
<td>36.8729</td>
</tr>
<tr>
<td>2011</td>
<td>33.9769</td>
</tr>
<tr>
<td>2012</td>
<td>34.0376</td>
</tr>
<tr>
<td>2013</td>
<td>34.0230</td>
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</tbody>
</table>
Work RVU Compensation Model

- Can have various models and criteria – as complex and creative as you want it to be
- Some sample models:
  - wRVU straight model
  - wRVU tiered model
- Consider tying into individual P&Ls
  - Direct expenses
  - Allocated share of overhead

RVU Model Sample #1

<table>
<thead>
<tr>
<th>Sample Clinic</th>
<th>Physician Compensation Model</th>
<th>Productivity Model</th>
</tr>
</thead>
</table>

Proposed Conversion Factor: $32.00

<table>
<thead>
<tr>
<th>Proposed Model</th>
<th>Physician A</th>
<th>Physician B</th>
<th>Physician C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Pay</td>
<td>$175,000</td>
<td>$175,000</td>
<td>$175,000</td>
<td>$525,000</td>
</tr>
</tbody>
</table>

Calculation of Bonus:
- Total Work RVUs: 6,437.21, 5,928.03, 4,023.76, 16,489.00
- wRVUs for level of compensation: 4,550.00, 4,550.00, 4,550.00, 13,650.00
- wRVUs in excess of required expectation: -1,887.21, -1,378.03, -516.24, -2,739.00
- Conversion Factor: $32.00, $32.00, $32.00, $32.00
- Total expected bonus based on production: $60,330.72, $44,956.36, $-516.24, $104,877.88
- Total Expected Compensation: $215,391, $218,097, $175,000, $618,488

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<thead>
<tr>
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## RVU Model Sample #2

**Proposed Conversion Factor**

<table>
<thead>
<tr>
<th>Physician</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Pay</td>
<td>$175,000</td>
<td>$175,000</td>
<td>$175,000</td>
<td>$525,000</td>
</tr>
<tr>
<td>Less: Holdback Payable (10%)</td>
<td>($17,500)</td>
<td>($17,500)</td>
<td>($17,500)</td>
<td>($52,500)</td>
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<tr>
<td>Base Pay Distribution During Year</td>
<td>$157,500</td>
<td>$157,500</td>
<td>$157,500</td>
<td>$472,500</td>
</tr>
</tbody>
</table>

**Calculation of Productivity Bonus:**

- **Total Work RVUs:**
  - All RVUs for level of compensation: 6,437.21
  - RVUs in excess of required expectation: 1,887.21
- **Conversion Factor:** 0.52
- **Total expected bonus based on production:** $60,390.72

| Quality Measures Payable | $17,500 | $14,000 | $8,750 | $40,250 |
| Total Expected Compensation | $235,391 | $215,597 | $166,250 | $617,238 |

## RVU Model Sample #3

**Proposed Conversion Factor**

<table>
<thead>
<tr>
<th>Physician</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Pay</td>
<td>$175,000</td>
<td>$175,000</td>
<td>$175,000</td>
<td>$525,000</td>
</tr>
</tbody>
</table>

**Calculation of Bonus:**

- **Total Work RVUs:**
  - All RVUs for level of compensation: 6,457.21
  - RVUs in excess of required expectation: 1,887.21
- **Conversion Factor:** 0.52
- **Total expected bonus based on production:** $60,390.72

| Individual Physician Profit (Loss) | $61,500 | ($10,000) | ($25,000) | $26,500 |
| Total Physician Bonus | $60,390.72 | - | - | $60,390.72 |
| Total Expected Compensation | $235,391 | $175,000 | $175,000 | $585,391 |
## New Provider – First Year Model

<table>
<thead>
<tr>
<th>Sample Clinic</th>
<th>Physician Compensation Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1 - New Physician</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proposed Conversion Factor</th>
<th>$39.00</th>
</tr>
</thead>
</table>

**Physician A**

<table>
<thead>
<tr>
<th>Prior Year Compensation</th>
<th>$725,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At-Risk Compensation - 30%</td>
<td>$(217,500)</td>
</tr>
<tr>
<td>Base Salary</td>
<td>$507,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Compensation Conversion Factor with RVU Threshold</th>
<th>$39.00</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Calculation of Productivity Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total RVUs</td>
</tr>
<tr>
<td>RVU Threshold</td>
</tr>
<tr>
<td>RVUs in excess of threshold</td>
</tr>
<tr>
<td>Conversion Factor</td>
</tr>
<tr>
<td>Productivity Compensation</td>
</tr>
</tbody>
</table>

| On-call Coverage | $14,000.00 |
| Sign-on Bonus    | $25,000.00 |

| Total Expected Compensation | $858,000 |

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**Identify and Assess Key Benchmark Data**
Benchmark Elements

- Assess
- Observe
- Analyze
- Conclude
- Change

Importance of Benchmark Process

- Improvement of the practice
- Make educated decisions
- Advancement in the industry
**Benchmark Data Sources**

- **Internal**
- **External**
  - Several national surveys are conducted annually
    - MGMA
    - Sullivan, Cotter and Associates
    - Regional and specialty-specific surveys

**Using Benchmark Data**

- Understand how the data was derived
  - Type of respondents
  - Number of respondents
- May consider blending multiple sources of data
- Be aware of potential inconsistencies that exist in data
  - RVU data using different fee schedules
Components of a Sustainable Model

- Expectations that must be established for a long-term sustainable model
  - Financial viability
  - Allow for reinvestment
  - Must be a win-win for parties involved

Questions
What does all this mean?

- Develop a compensation plan that balances effort and quality.
- Identify the metrics that are important to your practice and build around them.
- Be transparent.
- Try to keep it as simple as possible.
- Make the physician compensation model a recruiting tool for your practice.

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Jessica A. Johnson, CPA
314-655-5556
jjohnson@anderscpa.com

Brian M. McCook, CPA
314-655-5564
bmccook@anderscpa.com
Anders Health Care Services

John McGuire  jmcguire@anderscpa.com
Brian Meyers  bmeyers@anderscpa.com
Jerrie Weith  jweith@anderscpa.com
Chastity Werner  cwerner@anderscpa.com

314-655-5500
www.andershealthcare.com