PHYSICIAN EMPLOYMENT COMPENSATION MODELS

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BASIC TERMINOLOGY AND CONCEPTS

- “wRVUs”
- Salary Survey Data
- Salary Caps

“wRVUs” = work relative value units

- Amount Medicare pays for physician services depends upon the number of “relative value units” assigned to the service
- Service is assigned number of RVUs based on resources used to perform the service
  - Physician’s work effort
  - Physician’s practice expenses associated with producing the service
  - Professional liability insurance expense
- Medicare fee for the service = RVUs x dollar conversion factor
- wRVUs = the number of RVUs assigned to the physician work effort component of the service

Salary Survey Data

- Certain associations and companies conduct annual surveys of physician compensation and productivity
- Three commonly used, "government endorsed" surveys
  - MGMA
  - AMGA
  - Sullivan Cotter
- Survey data is “specialty specific”

Salary Survey Data

- Hospitals and health systems, particularly tax-exempt organizations, use this data for several purposes
  - To set compensation for employed physicians
  - To provide objective legal support and justification for for reasonableness and FMV of amounts paid to employed physicians

Salary Survey Data

- Important that you understand
  - How survey data are used (and misused)
  - How to interpret survey data

Key Items Surveyed for Physician Compensation and Productivity

- Total annual cash compensation (“TCC”)
- Productivity (measured by wRVUs)
- Professional collections
- Compensation per wRVU
- Compensation per hour
- Other aspects of physician compensation and productivity

Salary Caps

- Relevant mostly to tax-exempt organizations ("TEO's") like non-profit hospitals or their subsidiaries
- IRS has deemed certain compensation models structurally problematic because they result in impermissible sharing of charitable assets
  - E.g., payment to physicians of unlimited upside
    - Akin to shareholder distribution
    - Identical to for-profit private practice
- Penalties for violation
  - Excise taxes levied against hospital management and physicians
  - Loss of tax-exempt status

Salary Caps

- Caps on physician TCC eliminate unlimited upside and protect hospital, management, and physicians
- Caps also help to ensure reasonableness and FMV of TCC for tax, Stark, anti-kickback law purposes
- Salary survey data is used to set these caps

CURRENT MODELS BEING OFFERED TO PHYSICIANS

- Two basic models with variations
  - Base + Bonus
  - Pure Productivity

- Guaranteed total salary is rare
  - Government positions
  - Kaiser, etc.

BASE + BONUS COMPENSATION MODEL

- Base
- Bonus
- Annual Cap

Base Amount

- Usually set at one of the following:
  - Amount physician earned in private practice
  - Third party salary survey benchmark level based on historical productivity
    - E.g., if historical productivity measured by wRVUs was at the 60th percentile on salary surveys, base compensation would be set at the 60th percentile TCC on the same surveys
  - (In private practices) "going rate" in that market for that specialty, or the practice's historic salary levels

Base Guarantee

- If any guarantee, usually only for 1-2 years
- Guarantee of base amount sometimes dependent upon physician's maintaining some minimum level of production as measured by professional collections or wRVUs
  - If threshold not met, base is lowered in current or subsequent year
  - Sometimes, there is repayment of the “excess salary” (not really a guarantee)

Bonus

- Types of bonuses:
  - Productivity, as measured by wRVUs or cash collections
  - Quality/citizenship, as measured by
    - Patient satisfaction
    - Score on quality metrics (e.g., for primary care physician, number of patients receiving annual flu shots)
    - Charity care
    - ED call
    - Service on committees, etc.
  - Share of quality/utilization bonuses paid by third party payors

Bonus

- Productivity bonus earned only after some minimum productivity level is reached, as measured by wRVUs or cash collections

- Various bonus methodologies have different advantages and disadvantages

Annual Cap

- Physician's TCC usually subject to an annual cap (e.g., 90th percentile TCC in salary survey data)

PURE PRODUCTIVITY COMPENSATION MODEL

- wRVU Model
- Revenues Minus Expenses Model
- % of Collections Model

wRVU Model

- Individual physician TCC = total annual wRVUs x dollar wRVU payout rate
  - Important to know your historical productivity and compensation per wRVU
  - Also important to be familiar with the most current salary survey data for your specialty

Advantages of wRVU Model

- Not dependent upon effectiveness of employers' billing and collection department
- Not dependent upon payor mix
  - Important where employer is hospital with large amount of Medicaid and charity care

Disadvantages of wRVU Model

- Private physician practices often do not track wRVUs so difficult to know how much you will earn in such a model
- Doesn’t take into account negative effect of EMR implementation
  - Sometimes possible to negotiate temporary “hold harmless” provision

Disadvantages of wRVU Model

- Encourages "every man for himself" behavior with physicians competing for wRVUs rather than sharing patients
  - Can hurt junior physicians with no patient or referral source "following"
  - Can hurt senior physicians when new physician is brought on to grow the practice before there is sufficient volume to support him/her

Revenues Minus Expenses Model

- Individual physician TCC = physician's share of total allocated practice revenue MINUS physician's share of total allocated practice expenses
  - Common model in private practice
- Important to understand how revenues and expenses measured and allocated
- Important to have some say over expense decisions
  - Staff costs usually increase under hospital employment because of higher benefit costs – can't control this

Advantages and Disadvantages of Revenues Minus Expenses Model

- Advantages
  - Depending upon how revenue is allocated, may encourage more group-like behavior
  - Rewards cost efficient physician
- Disadvantages
  - Dependent upon effective employer's billing office
  - Dependent upon payor mix
  - Dependent upon overhead
    - Physician may have little control over this in hospital employment
    - Physician cannot avoid higher hospital benefit costs

% of Collections Model

- Individual physician TCC = % of professional collections received by the employer for personally performed professional services
  - Common model in private practice
- Stark law prohibits paying % of collections for certain ancillary services ordered by the physician
  - Lab
  - X-ray
  - PT
  - DME

Advantages and Disadvantages of % of Collections Model

- Advantages
  - Easy to track
  - Rewards highly productive physicians
- Disadvantages
  - Dependent upon effective employer's billing office
  - Dependent upon payor mix
  - Encourages "every man for himself" behavior
  - Doesn't take into account negative effect of EMR implementation
    - Sometimes possible to negotiate temporary "hold harmless" provision

ADMINISTRATIVE STIPENDS

- For physicians performing substantial administrative services, there should be (and usually will be) separate administrative stipend in addition to compensation paid under the above models
  - Usually determined based on hourly data from Survey Data
  - Will likely require you to fill out monthly time logs documenting services and hours

RECOMMENDATIONS

- **Know Your Own Historical Data**
  - wRVUs
    - May need to determine this retroactively if your billing system does not track this
  - TCC
  - Compensation per wRVU
  - Practice overhead

RECOMMENDATIONS

- **Obtain Most Recent Salary and Productivity Survey Data for Your Specialty**
  - Get it from a consultant or from hospital
  - Understand nuances
    - Differences in data based on geographical area
    - Differences in data based on functions/position (Medical Director, Chief, Department Chair)

RECOMMENDATIONS

- **Make sure you completely understand the proposed compensation formula**
  - What factors are within your control
  - What factors are not

RECOMMENDATIONS

- **Find out what types of regular (monthly) reports you will get on your earned bonus or productivity compensation**
  - There should be no surprises at the end of the year

RECOMMENDATIONS

- **Talk to other, similarly situated, physicians who have worked under the proposed formula**

RECOMMENDATIONS

- **Hire an experienced attorney and/or consultant to advise you**