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
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 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 60<sup>th</sup> percentile on salary surveys, base compensation would be set at the 60<sup>th</sup> 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.
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
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
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)
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
Hire an experienced attorney and/or consultant to advise you