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Tips for Successfully Handling Physician Compensation During Practice Acquisition

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Compensation is often a make-or-break deal point in a hospital's acquisition of a physician practice. Prospective physician employees will naturally compare what they will earn post-acquisition to what they currently earn as practice owners, partners, or employees.

From the hospital employer's perspective, discussions around physician compensation provide important opportunities to win physicians over *and* to communicate go-forward expectations around access, productivity, quality, and other important aspects of the physician enterprise.

FOUR KEY CONSIDERATIONS

Ideally, the hospital already has a framework in place to guide compensation for all employed physicians. This is easier to manage than an ad hoc approach, where each physician has his or her own compensation model, and it helps to foster a sense of equitability among them. When standard compensation plans that incorporate the nuances of each specialty have already been created and approved, the focus can change from negotiation to education.

In contrast, if a framework is not in place, then hospital leaders need to work together with physicians to design a satisfactory compensation plan during negotiations.[1] The following four factors are key to ensuring that these sensitive discussions are successful:

Setting guiding principles. Eventually, every compensation discussion will turn to numbers. But it's important to first seek agreement around the principles that will guide the compensation model, such as:

- The model will be simple and transparent.
- The model will be flexible.
- The model will incentivize quality in patient care
- The model will be financially sustainable.

Once established, guiding principles can serve as touchstones for any specific decisions around formulas or specific numbers. They can also help reinforce cultural and operational expectations for physicians as they prepare to transition to employment.

Make the most of due diligence. It's important to establish the "full picture" of what physicians are currently doing, as well as what and how they are currently paid. For example, in addition to payments from patients and payers, physicians may be getting medical directorship stipends from local hospitals, consulting fees from drug companies, teaching salaries, or distributions from clinically integrated networks or accountable care organizations.

Fortunately, much of the information needed for successful compensation design is typically uncovered during the due diligence period prior to an acquisition, as my colleague Jessica Stack explains in a related blog. For example, due diligence will identify:

- The various services that physicians are providing, both within their practice and to outside organizations
- Personally performed volume and professional collections and the extent to which they are impacted by other physicians or advanced practice providers
- Current salaries and other financial distributions

Developing a full understanding of physicians' workloads, responsibilities, and incomes allows hospital leaders to anticipate and address questions that physicians are likely to raise (e.g., "Are my consulting fees factored in?"). Finally, using data gathered during the due diligence period has the added benefits of creating a more efficient process and demonstrating the hospital's respect for the physicians' valuable time.

Comparing future and current compensation. Before sharing any compensation proposal with physicians, it is critical to conduct a detailed simulation to measure the impact a new model will have on each physicians' total pay, assuming nothing else (e.g., volume, revenue, quality, etc.) changes. If future pay is much higher or much lower than current pay, adjustments may need to be made to the model.

By simulating the new model, hospital management can also ensure that compensation paid will be consistent with the fair market value of the services provided by the physicians and that the arrangement will be commercially reasonable. The government has questioned, for example, whether it is reasonable for physicians to have a windfall when becoming a hospital employee.

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Discussing onboarding issues. Physician compensation models can provide employed physicians with an incentive to increase their productivity, control costs, improve quality, or participate in other important hospital initiatives. However, the compensation must be supplemented by a management infrastructure that includes onboarding, operational controls, and regular performance report cards.

My colleague Rudd Kierstead recommends involving an onboarding team during negotiations to discuss key operational issues and practice expectations — from physician appointment schedules to clinical quality expectations. His blog provides a checklist of onboarding topics to discuss prior to closing a deal.

A BEGINNING, NOT AN END

As pressure builds during acquisition discussions between a hospital and a practice, it can be easy to forget that closing the deal marks a beginning, not just an end. The long game is to create a team of clinicians and other staff working together to achieve a shared vision. How hospital leaders engage physicians in compensation discussions will set the tone for how well they work together well into the future.

[1] For more on how to design a compensation plan, see "Value-Based Physician Compensation: Tackling the Complexities", by Karin Chernoff Kaplan, Idette Elizondo, and Stuart J. Schaff, in December 2013's *HFM*.

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