

Rewarding Physicians Under New Revenue Models

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Many new revenue models—including accountable care organizations, bundled payments, and pay for performance—are intended to generate a pool of surplus/incentive funds. Often, this pool will be split between a hospital or hospitals and physicians, and then the physicians' pool will be allocated among participating physicians.

Part of developing a program under any new revenue model is hammering out the agreement with the physicians on how those surplus funds will be divided. This can be perilous territory—you don't want to look petty or endanger your relationships with physicians. Rather, you want your physicians to say, "That allocation seems fair." Getting this response requires a little planning.

The first question is whether any surplus or incentive funds will be used to cover start-up investments and operating costs. Although the hospital may perceive this approach as reasonable if it is investing to get additional revenue, the physicians may see this investment as part of what the hospital ought to do anyway (e.g., have good IT to support its contracting efforts).

It also is important to consider who bears the risk for losses if there are any. This consideration may be tied to how the surplus is split between hospitals and physicians—if the physicians are willing to bear risk, they may merit a higher percent of any surplus.

Once you've determined the split between hospital and physicians, you have to tackle how to divide the physician surplus pool among physicians. Hospitals should adhere to five key principles in designing incentive distribution models:



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- Fairness
- Transparency
- Simplicity
- Frequency of distribution
- Physician performance on the measures that determine how well the pool is funded

These principles are best addressed through engaging in thoughtful discussions with physicians, comparing options, and agreeing on approaches that can be easily explained throughout the physician community. A commitment to these efforts not only will yield trust and support of your physicians, but also may help you distinguish your organization from competitors. ●

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