

Four Ways to Simplify — and Strengthen — Your Physician Compensation Plan

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Can your physicians easily project their compensation for the next year with reasonable accuracy, or do they need to have their accountants build elaborate Excel models to do so?

Many hospitals and medical practices have made their physician compensation plans more intricate as healthcare has become more complex. However, compensation plans that are too complicated create unnecessary administrative burden and may lead to physician dissatisfaction, ultimately resulting in issues with recruitment or retention. Physicians

often complain about a lack of transparency in compensation, and complex plans exacerbate these complaints. They prevent physicians from easily understanding how their compensation is determined.

A physician should know the guiding principles are behind the compensation plan, what behavior is being incented, what metrics they are measured against, and how these factors translate to compensation. And they should be able to concisely explain how they and their colleagues are paid, say, in the time it takes to make a 30-60 second elevator trip.

It is quite possible to create innovative, effective, affordable, and straightforward compensation plans that reward physicians for specific activities that help move the organization toward successful outcomes. Some plans miss the mark due to well-intentioned but excessive complexity, which often has unexpected consequences.

The table below presents four examples of compensation plans and potential approaches to simplification and strengthening, drawn from our experience as consultants to various hospital and other employers of physicians.



<p>Scenario 1: Too many “priorities”</p> <p>A hospital’s compensation plan for primary care providers included a total potential annual bonus of \$30,000 per physician for performance in 15 “key” areas. Faced with a distractingly large number of incentive metrics and the relatively low dollars tied to achievement of the goals (an average of \$2,000 per metric), the hospital’s physician employees ultimately ignored the incentive plan and there was negligible performance improvement.</p>	<p>We advised the hospital to reduce the number of metrics to the three or four most important, selected by key physician stakeholders from a list of metrics approved by hospital management. This is about the maximum physicians can focus on.</p> <p>Physicians need an incentive of about \$10,000 per metric to provide the attention needed to change performance.¹</p>
<p>Scenario 2: Blindly following payer metrics</p> <p>One employer based its incentive plan entirely on a complex set of performance metrics used by its largest payer. While, in many cases, organizations aim to align compensation with revenue, there were three problems:</p> <ul style="list-style-type: none"> • The payer updated its metrics on a quarterly basis. The employer followed suit, resulting in physicians not having enough time to adjust their behavior before the ground shifted below their feet. • Some of the payer’s metrics were not being properly tracked by the employer before the plan was implemented. • For other metrics, payer targets were set below the level most physicians were already achieving, which did little from the employer’s perspective beyond draining its accounts. 	<p>While it seems that using the same metrics reported to payers would be simpler than using separate metrics, that’s not always the case.</p> <p>We advised the employer to be selective in choosing metrics, taking care to make sure that they are:</p> <ul style="list-style-type: none"> • Targeted at areas that need improvement from the employer’s perspective, not just the payer’s viewpoint • Currently being measured by the organization, with reliable data that physicians trust • Left in place long enough to have a measurable impact • A reach for most physicians
<p>Scenario 3: Perpetuating “add-ons”</p> <p>A critical access hospital had a compensation plan that started with a focus on WRVUs to incentivize higher volume, but over time, built in additional compensation components as new needs arose, such as ED call coverage, various administrative duties, midlevel supervision, etc. Over time, the physicians came to expect additional compensation every time their hospital employer asked them to do anything new.</p>	<p>A critical, but often-overlooked, component of a successful physician compensation plan is setting clear work expectations. The physicians are employees, after all, and need to understand that employees may be asked to undertake additional tasks.</p> <p>If this hospital could start from scratch, we would want to see a base salary with a WRVU-driven upside and clarity around what is “part of the job” and what is “beyond the call of duty.”</p>

¹ For more on this topic, see “Value-Based Physician Compensation: Tackling the Complexities”, by Karin Chernoff Kaplan, Idette Elizondo, and Stuart J. Schaff, in December 2013’s *HFM*.

Scenario 4: Unintended incentives

A Midwestern hospital had a physician compensation plan structured as follows:

- For each personally performed WRVU up to 8,000 WRVUs per year, a physician would receive \$60 per WRVU
- Between 8,000 and 10,000 WRVUs per year, he or she received \$70 per WRVU for all of their WRVUs
- Above 10,000 WRVUs per year, they received \$80 per WRVU for all WRVUs.

The hospital intended to create strong incentives for increased productivity but instead created huge windfalls of \$80,000 and \$100,000 just for crossing the thresholds—and in this case, a physician who took the rest of the year off right after hitting the highest level.

We advise our clients to think through the incentives carefully, examining them from multiple angles to find potential trouble sources.

The likelihood of “gaming” the system increases with the degree of complexity in the compensation plan. In this case, implementing a higher flat WRVU rate was sufficient to achieve the hospital’s growth objectives, and potentially harmful gaming was eliminated.

Ultimately, a successful compensation plan incentivizes physician employees to take certain actions, based on a clear understanding that they will be compensated for doing so. When it comes to designing such plans, it is almost always better to aim for the simpler end of the spectrum. ●