

Revising a Compensation Plan for Primary Care Physicians Based on the New Medicare Fee Schedule

Client Profile: A regional health system in the mid-Atlantic that employs several hundred providers including over 100 primary care physicians.

Challenge:

To help the client recalibrate its compensation model for primary care physicians reflecting the 2020 federal overhaul of the Medicare Physician Fee Schedule (MPFS).

Like many health systems, the client's compensation model is based on wRVUs, which were all revalued as a result of the 2020 MPFS changes. While from a federal viewpoint increases in reimbursement for "cognitive" specialists (predominantly medical) would be offset by decreases in reimbursement for "procedural" (predominantly surgical) specialists, the ripple effect on compensation models that rely on wRVUs could not be ignored.

Our client temporarily suspended use of the new fee schedule; adoption would have cost approximately \$6 million per year for the physicians on this particular compensation plan. System management recognized, however, the need to:

- move onto the current fee schedule as soon as possible, from a practical perspective, and
- respond to the expectations of the "cognitive" specialists (i.e. primary care physicians, endocrinologists, rheumatologists, etc) who were looking for recognition of the change adopted by CMS.

Solution and results:

Making a decision on a new compensation plan was a matter of both philosophy and mathematics. With our client, we explored their views about the intentions of the MPFS changes, and to what extent they wanted to mirror those intentions, mindful that the reimbursement impact was limited to Medicare (at least for now).

To develop the new compensation model, we tested various base compensation, wRVU thresholds, and conversion factors to develop a model that achieved overall increases in compensation consistent with the desired result.

We tested the resulting compensation from a fair market value perspective by comparing it to market data. However, the most recent market data available predated these fee schedule changes. As a result, Veralon studied historical data and the 2021 MPFS as compared to prior fee schedules.

Considering the many uncertainties related to the impact on compensation across the market, including health system leadership decision making, how commercial payers react to the CMS changes, hospital specific contractual arrangements and the temporary one year increase in Medicare reimbursement for 2021, we utilized adjusted market data that attempted to predict the impending market changes in compensation and productivity starting in 2021.

Results

The client chose a compensation model that provides primary care physicians the opportunity for increased compensation and the new compensation plan was approved by the system's compensation committee.

