

## features

THE CONTRACTS &  
COMPENSATION ISSUE



# How physicians get paid

“It’s pretty clear: If you don’t ask,  
you usually don’t get what you deserve.”  
—Suze Orman

BRUCE ARMON


**T**HERE ARE MANY IMPORTANT elements in a physician’s employment agreement. For many, the most important (and most misunderstood) is compensation.

The stage of your career can shape your priorities. Similarly, your specialty and supply and demand issues in the geographical area where you’re working can also impact compensation.

### Looking beyond compensation

Importantly, compensation is not only comprised of salary. Two employment agreements could pay the exact same annual salary but could be very different in terms of the overall compensation received.

An employment agreement that is rich in benefits can be very valuable economically. Family health insurance, for instance, can cost

A woman with long brown hair, wearing glasses and a white lab coat over a yellow scarf and dark pants, stands outdoors with her hands in her pockets. The background is a blurred green forest.

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in excess of \$20,000 to \$25,000 annually. If an employer pays that expense or a significant portion of the health insurance premiums, that provides real value to you and your family.

Similarly, a retirement plan that provides an employer match and vesting is a value-added benefit. Adding short-term and long-term disability and life insurance to protect against the unexpected is also valuable.

These are examples of elements that are differentiators in an overall compensation package that goes above and beyond the physician's salary.

## Understanding the models

There are three primary models for determining a physician's compensation.

### Base salary

This is fairly straightforward. The employer will identify how much you'll be paid annually and the frequency of payment. As a follow up, confirm when and if your base salary will be adjusted (up or down), and in what circumstances.

### Productivity model

There are two main types of productivity models: cash and work Relative Value Units (wRVUs).

In a cash productivity model, the cash generated by the physician's personally performed services is calculated, less an overhead factor that includes the physician's base salary for the measurement period. The assignment of patients

without respect to third-party payor arrangements can be a critical factor in ensuring fairness for a physician's compensation. For instance, a physician who treats mostly underinsured and uninsured patients will likely have significantly less cash collections than a physician who treats all commercial insurance patients.

The wRVU model is premised upon calculations by the Centers for Medicare & Medicaid Services that measures a physician's work effort irrespective of the patient's third-party payor. Oftentimes, an employer will only count a physician's wRVU effort if the service uses an established CPT code; is determined to be medically necessary and personally performed by the physician; is determined by the employer to be appropriately documented and coded in accordance with the patient's payor's requirements; and otherwise complies with fraud and abuse statutes, including the so-called Stark law.

### Bonus formula

The third typical physician compensation model is a bonus formula that is accompanied by a base salary or a productivity formula. There can be multiple different components to the bonus calculation and payment terms and timing.

Max Reiboldt, CPA, chairman of national health care consulting firm Coker, notes that "fair market value in determining compensation is and remains very important in setting a physician's compensation." Health systems will be acutely aware of ensuring a physician's compensation is within the fair market value.

## Understanding the market

For most physicians finishing training and embarking on their professional careers, it's the first opportunity to make a salary figure that will be life-changing.

According to DemandSage, the average annual income in the United States is \$61,984 in 2025. That is the approximate salary of PGY4 in many jurisdictions. Many physicians—regardless of specialty or geography—will have their first job's starting salary three to six times that average annual income.

According to Laurel Kelley, M.D., a pediatric and adult neuroimmunologist, "the definition of a salary and ancillary benefits are rarely discussed during medical school, residency or fellowship." Kelley adds, "There is similarly little to no discussion of these same topics in depth on online forums or other online mediums or books about the next major step after training."

Gaining this knowledge is essential, however, to ensuring a fair employment agreement. "By utilizing the expertise of a lawyer, I was able to understand what was expected in the contract and what benefits could be reasonable," Kelley says.

Multiple factors were important to Kelley as she interviewed for her first employment post-training. Given her specialty and subspecialty, she knew she had a unique skill set. She had to identify an employer that would provide her fair value for the clinical excellence she would be providing to her patients.

Her experience with contract negotiations was very positive. "By working with a contract lawyer, I was able to get a much better

contract than initially offered, and I am moving forward into what I believe to be a career that has an upward trajectory for both my own ongoing learning, financial benefits and having time for life outside of medicine as well,” Kelley says.

## Understanding your goals

In the very beginning stages of your career, it’s critical to confirm your short- and long-term priorities and understand how salary will affect those goals.

Many physicians have significant student loan repayment obligations and expectations for the standard of living they believe is essential.

Hand surgeon Matt Nguyen, M.D., was most focused in his initial job search on “earning compensation that is fair to a new physician.” Nguyen was interested in the business aspects of his employer’s opportunity and knew it was important to understand compensation trends and its correlation to collections.

He worked with an attorney who “could break down the terms in the employment agreement and allow me to better understand provisions that were fair and to prioritize the items which required additional conversations and negotiations.”

## Embracing change

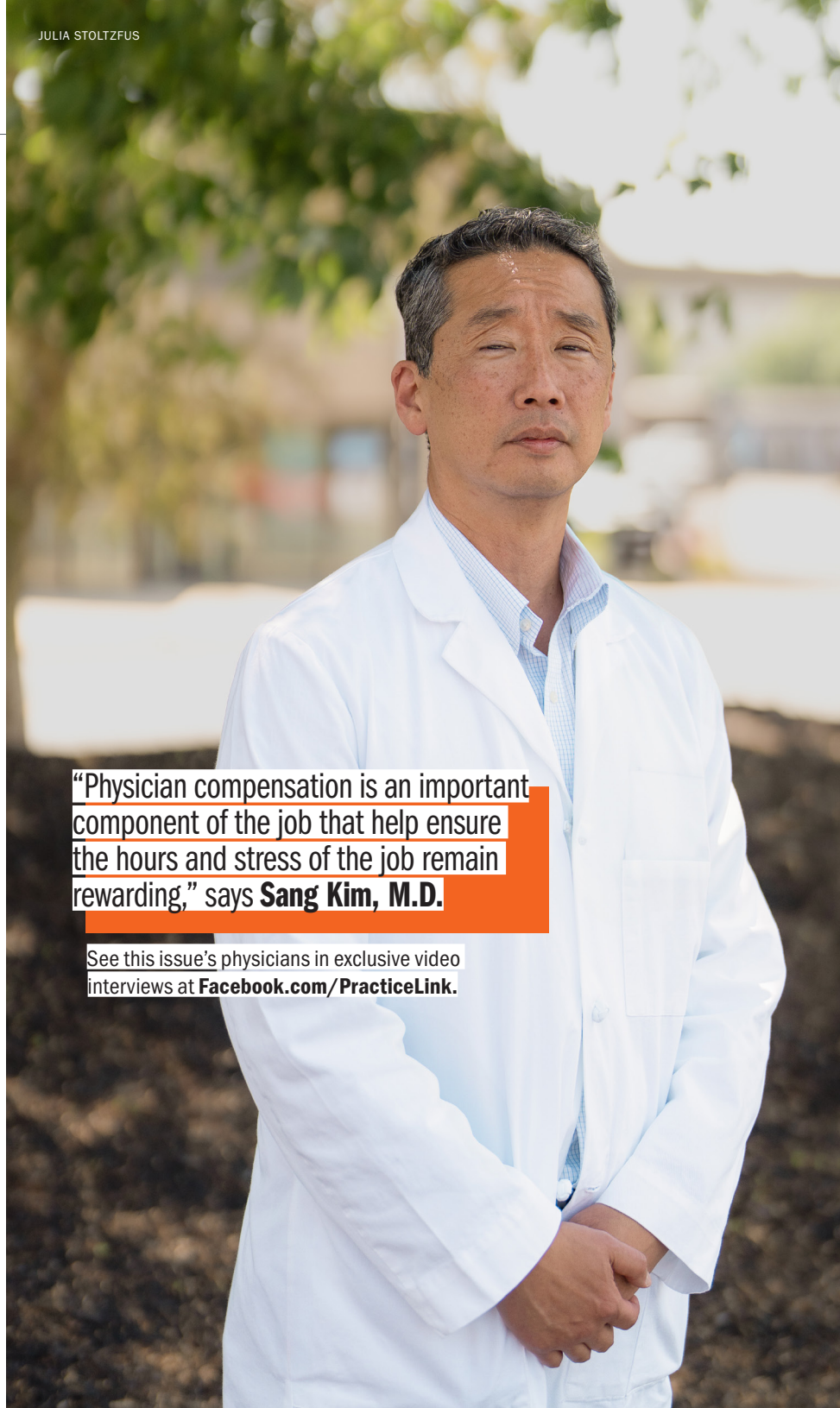
Compensation calculations may evolve depending on the stage of your career. And it is important to understand the realities of the health care delivery system in your community and the opportunities and challenges that may present.

For cardiologist Sang Kim, M.D., “it is increasingly important for a

physician to find opportunities to receive fair compensation and retain the ability to provide appropriate patient care. This often requires changes unfamiliar and uncomfortable to physicians.”

As health systems grow, hospitals

consolidate and private practice opportunities become more uncommon, Kim notes, “physician compensation is an important component of the job that help ensure the hours and stress of the job remain rewarding.”



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As health systems generally confront smaller operating margins and systemic challenges, be cognizant of these changes and work with your employer to find the appropriate balance that provides adequate compensation for the work provided.

Health care is a very complicated business. Physician executives can play a critical role in ensuring clear communication between providers and administration and ensuring the highest quality of patient care.

Determining compensation for a physician executive can be tricky. This can be especially true for a physician who remains clinically active.

Practicing radiologist and physician administrator Eric Rubin, M.D., notes: “As a physician leader, as is the case with all leadership positions, it is important to be an active listener to the concerns of your team. To not do so, and to not respond to those needs, will likely leave you in a suboptimal position when it comes to your ability to maintain a successful patient care team.”

Competing demands of the physician and the administrator and the health system generally can result in challenges, especially in a practice area where physician supply and demand are unequal.

“In a radiologist workforce shortage environment, especially at a time when imaging volume is continuously increasing and has become an irreplaceable element of medical care, the economics of supply and demand relevant to radiologists’ salaries has put increasing stress on those seeking to hire radiologists,” says Rubin. “There is a clear disconnect between

practice revenue and salary demands. We may get to a point where only those practices who have access to capital beyond the revenue generated by procedures and imaging interpretation are able to survive.”

## Understanding the benefits

Salary is one (important) element of a physician’s compensation structure. It is important to measure the value of other benefits provided by an employer: health insurance, short- and long-term disability insurance, professional liability insurance and other non-cash benefits. Depending on your needs, supply and demand and fair market value considerations, you may be in position to receive student loan repayments, a signing bonus, a moving bonus and a retention bonus. Each of these items has real value and is part of your negotiation toolkit.

The employer-employee relationship can be confounding, complex—and extremely satisfying and rewarding. •

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