Physician compensation considerations

How compensation and employment agreements reflect an organization's values—and yours.

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Compensation can be a tricky topic. Many physicians don't feel they are paid adequately for their years of education, the loans they are still repaying and the financial security they seek. Many employers believe they are fairly paying physician employees, particularly in light of rising non-physician staff compensation, increased supply and overhead costs and relatively flat reimbursement rates.

Whether you're joining an employer or renegotiating a contract, these tips can help.

Do your homework

You probably don't have an MBA and aren't a CPA. You are likely too busy seeing patients, charting, advocating for patients and trying to find some semblance of work/life balance to also become a financial expert. Being a busy professional should not, however, result in financial naiveté.

If you're considering joining a nonprofit health system, search online for the system's IRS Form 990, which is the health system's tax return. This annual report identifies many key financial metrics: annual revenue, annual expenses and change in revenue and expenses year over year. In many respects, the 990 is the health system's report card. After reviewing the system's 990, ask your accountant to weigh in and answer questions regarding the financial strength of the organization.

If you're considering joining a publicly traded, for-profit health system, you can learn more about the financial well-being of the employer by reviewing financial and tax information filed with the Federal Securities and Exchange Commission. Many of the same key

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issues in a nonprofit health system's Form 990 is included in the for-profit system's tax returns: revenue, net income and net assets.

If you're joining a private practice, consider asking for revenue, expenses and net income. If you'll be paid on a productivity basis, understand how other physicians in the group are doing under the same formula.

Understand the other side

The employment agreement stage is a negotiation, not litigation. As important as it is for you to do your homework—and that is very important—it is equally important to understand the physician employer's objectives.

Alyson M. Leone, Esq., assistant general counsel for physician alignment for RWJBarnabas Health, says, "In order to recruit and retain the best physicians, our compensation needs to be fair, transparent and flexible."

In many respects, fair is in the eyes of the beholder. There is always the ability to agree to disagree. Independent data, such as from Medical Group Management Association (MGMA), can be very useful. Your state or county medical society or specialty society may have compensation data as well.

Understand the opportunity

A transparent employment agreement enables you to understand what needs to occur within a particular time frame (and whether it's realistic). No outcome or result can be guaranteed, but transparency can provide clarity for you and your potential employer.

Flexibility is also in the eyes of the beholder and the leverage that each party brings to the negotiation. The employer's preference likely is that every physician get the same agreement with no changes. The reality is not so simple.

If you can effectively communicate critical items needing revision, the employer may offer some flexibility. Most employers prefer the stability of securing or retaining a qualified physician rather than losing a physician over an arbitrary line item.

The goal for both you and the employer is a win-win: You accept the employment contract, and the employer locks you in for a period of time.

Understand the value proposition

Over the past decade, there has been a meaningful shift from fee-for-service reimbursement for a physician toward a compensation philosophy that includes some iteration of value-based care. The qualification of what is considered "value" has evolved but often includes some combination of clinical quality measurements, patient outcomes, preventive care, chronic disease management and/or reduced avoidable utilization.

"Compensation models reflect the philosophy, priorities and economics of the employer," says Rich Chasinoff, a managing director at VMG Health specializing in professional service agreements within the compensation valuation practice. "Productivity-based models continue to be the most common in the marketplace, reflecting that most reimbursement continues to be structured on a fee-for-service basis. Employers may include value-based incentives—particularly when those incentives are tied to reimbursement."

Because each employer attributes a different level of priority to compensation based on productivity versus value, carefully assess the risks of the various components in evaluating a compensation proposal.

"For health system employers, the productivity-based structure is typically based on work relative value units (wRVUs)—offering a base compensation that is often predicated on a percentage of expected production plus incentives for wRVUs produced above a certain threshold," Chasinoff says. "Many health system employers are also incorporating quality-based incentive opportunities allocating a certain amount to the physician's performance on specified metrics."

Sometimes an employer may combine the two theories. Physician compensation may be based on achieving a certain level of productivity, such as cash collections or wRVU thresholds, provided the physician achieves a certain level of the delineated quality metrics.

In essence, productivity in and of itself is important, but it can't be exclusive of the importance and relevance of providing quality care. Of course, the devil is in the details in what is considered quality care and the metrics for determining if care is provided in a quality manner.

A private practice may not be as fixated on quality thresholds in the employment contract because they may not have the staffing depth to measure quality provisions or are not facing pressures from their third-party payers.

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Size matters when assessing compensation trends and priorities in an employment contract. "Private practices must assure compensation paid is supported within the revenue and expense structure of the practice. As such, a productivity-based compensation model may incorporate a base compensation plus an incentive opportunity from a pool of money set aside based on an amount available after expenses are paid," Chasinoff says

Being paid fairly in these circumstances is driven almost entirely by internal concerns. The private practice pays what it can afford to pay. Basic economics. Assess top-side revenue less the expenses and determine what is fair to be paid after the owner achieves the level of profit they expect.

One potential wild card you must assess is whether the practice has an external management company involved in shaping its financial decisions. A management company may place less emphasis on value determinations and more on a healthy profit and loss statement, making compensation decisions driven by the bottom-line success of the practice.

Understand the mission's role

Health systems and physician employers typically have mission statements focused on the communities they serve. The mission is integral to the employer's decisions, including those concerning compensation. Leone notes that her hospital system "values not only productivity, but also a commitment to our mission, vision and values."

You'll want to see how the organization's mission, vision and values equate to your expected or anticipated productivity. When these goals are aligned and in sync, you can truly understand the guiding principles of the employer, share the same commitment and judge one another accordingly.

There are at least two methods for how these mission goals can be recognized through your compensation. First, an employer can empower you with an administrative role or responsibility, such as "medical director" or "quality outcomes director," and provide compensation for undertaking the responsibility. Another way employers can incentivize you to

fulfill the mission is by incorporating "more risk-based compensation that is rewarding quality and outcomes," says Leone.

This is the "carrot" approach, offering additional compensation opportunities if your hard work reflects the necessary commitment to quality of care as reasonably determined by the employer.

Your earning potential could also be increased with telemedicine. For some specialties, telemedicine is changing the practice of medicine. You could be financially rewarded for taking on this accessible healthcare channel.

What's next?

There is no perfect employment agreement. It is still about a job, and there are likely going to be things that you like more or less about your job. As physician contracting models evolve, compensation should reflect both productivity and quality outcomes. That is a win for the patient, the employer and you. •

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