



Insight and Perspective

Preparing to Change Physician Compensation: 10 Practical Steps

Why Change?

There is an adage that describes three physician compensation plans – “the plan you were on, the plan you are on, and the plan you will be on.” The point is that physician compensation is always under pressure due to constant changes in organizational dynamics and environmental conditions. While many physicians and organizations resist changing compensation plans, the need to do so often becomes inevitable for a variety of reasons.

Today the expected shift from volume to value in reimbursement is driving many organizations to evaluate and reset their compensation programs. However, there are many reasons that can propel change, including, but not limited to:

- Implementation of new services, arrangements or relationships
- Better align compensation with market rates
- Respond to reductions (or just changes) in reimbursement
- Addition of new physicians or practice acquisitions
- Address compliance concerns (Stark, AKS, etc.)
- Improve clinical productivity or quality
- Minimize negative financial performance
- Redirect physician behaviors or conflicts
- Promote better recruitment and retention
- Support organizational missions and strategies



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Preparing for Change

Regardless of the factors necessitating change in your organization, starting with an internal process of gathering and organizing essential information will create a number of valuable benefits -- the chief of which are time and cost savings. Additionally, the process will help uncover and define critical issues earlier so that they do not delay or derail the change initiative. Before engaging a consultant or attorney to help devise a new compensation program, performing the following ten actions will assist in organizing your thinking and informing your decisions.

The Practical Steps



1. Identify Your Objectives

- Why is change necessary?
- What do you hope to achieve in making changes?
- What environmental factors are affecting physician compensation?
- What is your organization's philosophy toward physician compensation?



2. Gather Baseline Data and Know the Benchmarks

- Make sure you understand the current compensation program, how it works and why it was designed the way it was
 - Be sure to identify any unique arrangements held by individuals or sub-groups of physicians
- Identify the Variables Influencing Compensation
 - Clinical Production – WRVUs, Professional Collections, Shifts, Hours, etc.
 - Formal administrative functions
 - Extraordinary call obligations
 - Quality
 - Outreach
 - Supervision
 - Special payment arrangements including sign-on bonuses, etc.
- Assess Individual Physician Performance and Compensation
 - Measure performance against a blended benchmark to reduce bias in your comparisons

- **Note:** Consult with legal counsel before initiating this assessment if you are concerned that the results may raise potential compliance issues



3. Review Your Benefit and Recruitment Incentives

- Assess their value in the context of total compensation
- Are your benefit offerings competitive?



4. Educate Yourself/Team on Compensation Model Options

- Review the most common compensation models / methods
- Research emerging models and those employed by leading organizations
- Evaluate whether one model or multiple models may be necessary to meet the needs of your organization
- Be wary of untested methods



5. Take a Poll

- Assess how well physicians understand their current compensation
- Determine how satisfied physicians are with their current compensation
- Understand physician preferences if a new compensation model is to be adopted
- Identify potential landmines / political issues
- Engage physicians to gain buy-in and support



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The Steps...



6. Advise, Educate and Engage Your Board about the Need for Change

- Depending on organizational dynamics and governance requirements as well as compliance standards, Board level involvement may be necessary in the process



7. Identify Administrative and Physician Leaders who may Best Contribute as Compensation Committee or Task Force Members

- Consider Designating Physician and Administrative Co-Chairs
- Draft expectations for the committee



8. Establish Your Timeline, but be Realistic

- Getting compensation right is a detail-intensive endeavor
- Depending on the number of physicians / sub-groups, the process will take a minimum of 6 months, and up to 2 years



9. Assess your Operational and IT Capabilities both Systems and People

- Ensure your organization has the resources and capacity to operationalize a new compensation program. Key functional areas include:
 - Revenue cycle
 - Coding
 - Finance / payroll
 - Information services
 - Practice management reporting



10. Activate Legal Counsel and Engage a Facilitator

- Address legal impediments early
- Deal with compliance challenges
- Expedite contract matters
- Utilize a qualified third-party to help navigate the process

In Summary

The mere idea of changing physician compensation will immediately be threatening to many physicians. They will naturally fear a reduction in pay or more scrutiny over their clinical effort. Those are both fair concerns, but they also reflect the reality that any physician enterprise must face. Thus, it is best to engage physicians in the process and be transparent about your objectives and constraints.

While there is no perfect compensation plan, there is also no perfect process for implementing a new compensation model. However, taking a few practical steps before initiating the change process will help create efficiencies, reduce project costs and minimize surprises along the way.

About

Carnahan Group provides physicians, hospitals and other health care providers with compensation, valuation, compliance, research and planning services rooted in the principles of simplification, efficiency and care advancement.

Dan Stech, Senior Director, has over 30 years of success in fields ranging from health policy and management to physician performance improvement and regulatory compliance. He seeks complex client challenges with the mission of creating practical and sustainable solutions.

Contact Dan by phone at 813.289.2588 or email at Dan.Stech@CarnahanGroup.com.