Physician Compensation Plan

As medical practices begin participating in value-based reimbursement initiatives such as Patient-Centered Medical Homes and accountable care organizations, physician compensation plans must change.

"There needs to be direct alignment between the underlying compensation model and the current reimbursement model," says Justin Chamblee, a senior manager at The Coker Group, a hospital and physician practice consulting company. "In my opinion as the reimbursement methodology changes, health systems, in order to be successful, will need to adjust their compensation methodologies as well."

Here are some tips for modifying your physician compensation plan:

**Follow your payer market.** Be smart about how and when to alter your plans. For instance, if you're not yet being reimbursed for value, don't jump the gun and tie a significant amount of physician compensation to it.

"Usually when I'm working with groups, the first thing I try to get them to do is step back from the actual calculating of the compensation plan and identify what are the important goals and objectives of the group and the plan," says MGMA consultant Jeffrey B. Milburn.

For instance, if productivity is a key reimbursement driver, it should also be a key element of the compensation plan. "Depending on how the model is set up, you want the physicians to be tuned in to what the objectives of the practice are," says Milburn.

At the same time, if value-based reimbursement is starting to play a role, slowly build it into your plan.

Health systems that are already doing so typically put a percentage of physician compensation at risk depending on a physician's ability to meet certain quality measures or patient satisfaction targets. Or, the physician receives a bonus if he meets certain targets, says Mary Witt, senior vice president at The Camden Group, a national healthcare management and consulting services company.

**Don't move too fast, or too slow.** If you do want to start incorporating nonproductivity incentives into physician pay, do so gradually.

Right now, for instance, fewer than 25 percent of practices have tied more than 5 percent of physician pay to nonproductivity incentives, says William Reiser, vice president of product development and decision support for Halley Consulting Group, a national physician-practice management and consulting firm.

One reason is that it can be difficult to fairly measure such incentives.

Another reason is funding issues, says Chamblee. Without third-party funding from a payer or larger hospital, for instance, it can be hard for practices to pay for nonproductivity-based incentives.

Still, be careful not to start too small when incorporating such incentives, says Witt. "The thing to keep in
mind is that if it's going to be effective and it's really going to impact physician behavior, [that percentage or bonus] has to be large enough to get their attention."

**What to measure.** When incorporating nonproductivity incentives into pay, practices typically start with patient satisfaction, says Milburn, noting that this is easiest to measure. Typically, they measure it using formal patient satisfaction surveys, says Witt.

For quality incentives, practices tend to use measures their payers already have in place, such as following treatment protocols for certain patient populations, according Reiser.

Though it seems like a no-brainer, make sure that you can fairly measure the incentives, says Chamblee. Then, develop a "scorecard" to show physicians. For example, if they perform at "x" level for this incentive, then they get "x" portion of the incentive dollars, he says.

Also, make sure the measures are meaningful to your physicians, says Milburn. They need to match up to their particular specialties, for starters. And institute a variety of incentives, he says. "I like to see them have two, three, four, five different incentives so if they don't make it on one of them, they have a good chance of making it on others."

Still, Milburn says, "There's always the danger of having too many incentives. You could have 10 payers out there and they all have their incentive plans or goals and objectives and the physician is going to be inundated with all kinds of different metrics they're supposed to track, and they're going to lose interest."

**Do your homework.** Once you determine what incentives and measures to use, track each physician's performance for each metric prior to implementing the new compensation plan, says nonpracticing general internist Peter Geiss, president of ProHealth Care Clinic Division in Waukesha, Wis., which recently incorporated nonproductivity incentives into physician pay.

That way, physicians know where they are starting out and what they need to do to fulfill the metrics.

Also, be "very transparent" with physicians about the incentives, says nonpracticing cardiologist Arthur McDowell, chief medical officer at Middlesex Hospital in Middletown, Conn., which also recently modified its compensation plans.

"It's one thing to say we're going to incentivize you for quality, but it's another to say what the measures are going to be and how the physician can influence those measures."

**Invite physician input.** Ensure physicians (or at least a group of physician representatives) are directly involved in the compensation modification discussions, says Reiser.

"We always recommend that ... a representative sample of the physician base in that group provides feedback to that design process to make sure that those who administratively are setting it up really understand what the constraints may be facing physicians from a practice perspective, from a market perspective — what are they hearing out there in the market from other hospitals, other systems, other practice opportunities — and what are the competitive constraints that they're facing."

**Be flexible.** The healthcare reimbursement environment is in flux — and it's likely to remain in flux for some time. That means your physician compensation plan should adjust over time to align with changing reimbursement.

"I don't think you can create a compensation plan for today and think, 'I don't need to look at it again for years,'" says Witt. "I think that's often what we've said in the past, but with the market changing so dramatically it's going to be important that on a regular basis physicians and medical groups step back and take a look at their existing plan, their goals, and their objectives, and make sure that they're incentivizing their goals and objectives and responding appropriately to the market."