Academic Practice Plan Directors 2018 Spring Roundtable

Part I: An Overview of Compensation Approaches for Academic and Community Physicians

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Speaker Introduction

MEET THE PRESENTER

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He leads ECG's Provider Financial Services division.

Josh has specific expertise in physician organization development, compensation planning and incentive design, and service line/physician organization management.

Josh holds master's degrees in healthcare administration and public health from the University of Minnesota Carlson School of Management and School of Public Health, with concentrations in financial management and quantitative methods.

ECG is a national healthcare consulting firm providing strategic, financial, and operational advisory services to leading hospitals, health systems, academic medical centers, and group practices.
PATIENT

Agenda

General Industry Trends

Imperatives for Faculty Compensation

"First-Order" Questions

Elements of Compensation

General Industry Trends

Industry Trends

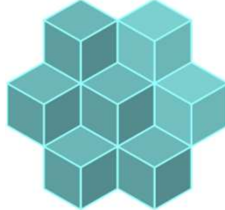
Demand + Cost Structure = Unsustainability

1 A growth market with unsustainable spending exists; **cost per unit of service must decrease.**

Demographics (population growth and aging) alone indicate that **healthcare in the United States will still be a growth industry,** with **ambulatory services seeing two or three times the growth of "bedded" (inpatient and observation) services**; ***however*, overall rates of growth are slowing.**

Patients will increasingly seek care in the least-costly environments, **requiring hospital-based providers to be competitive on price—particularly for outpatient ancillary services**.

Changing governmental and commercial payor dynamics will result in **decreasing reimbursements to providers**, requiring them to **focus on reducing their cost per unit of service** in order to be positioned for ongoing viability.



Revenue and profit margins per patient will inevitably decrease, **raising the stakes for securing incremental market share**.

Industry Trends

Consumerism from All Stakeholders

2 Despite regulatory uncertainty, patients, government, and insurers will demand better access, quality, and convenience.

Consumers and patients, faced with a greater share of their healthcare financial responsibility, **will demand better access, clinical results, and convenience—and “provider of choice” will take on real meaning**.

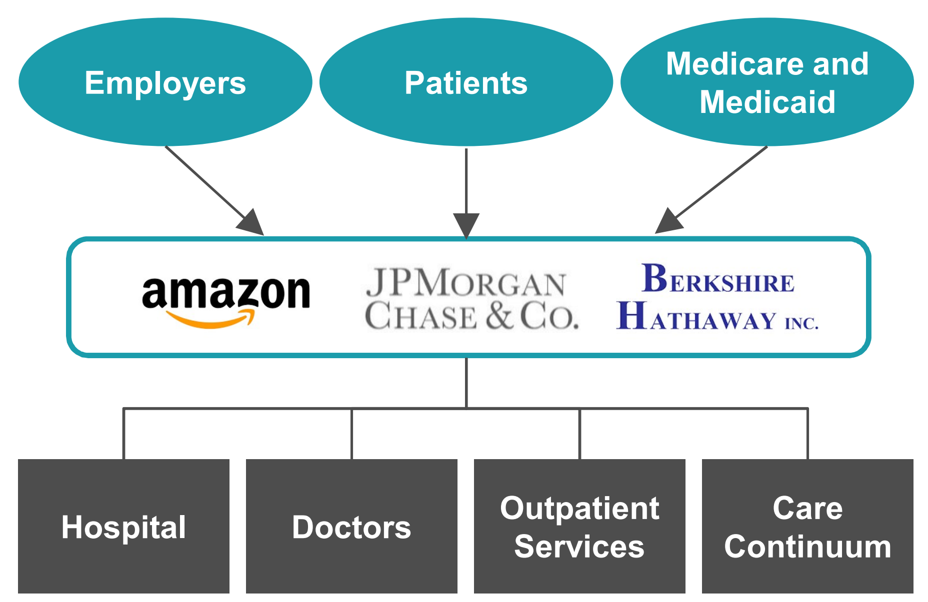
1940s–Today (provider centric)

Hospitals

Doctors

Patients

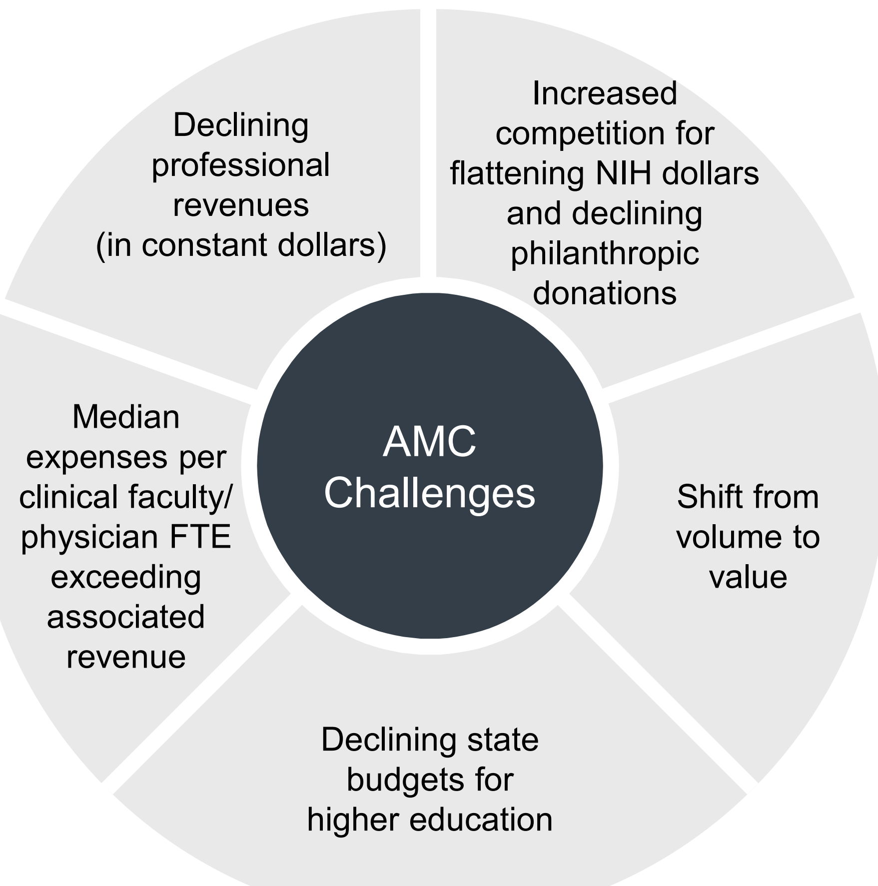
Future (buyer centric)



Industry Trends

Challenges Unique to Academic Medical Centers

There is an unprecedented amount of pressure on faculty practice plans (FPPs) and schools of medicine (SOMs) to maximize clinical revenue and find new sources of funds to sustain the tripartite mission.

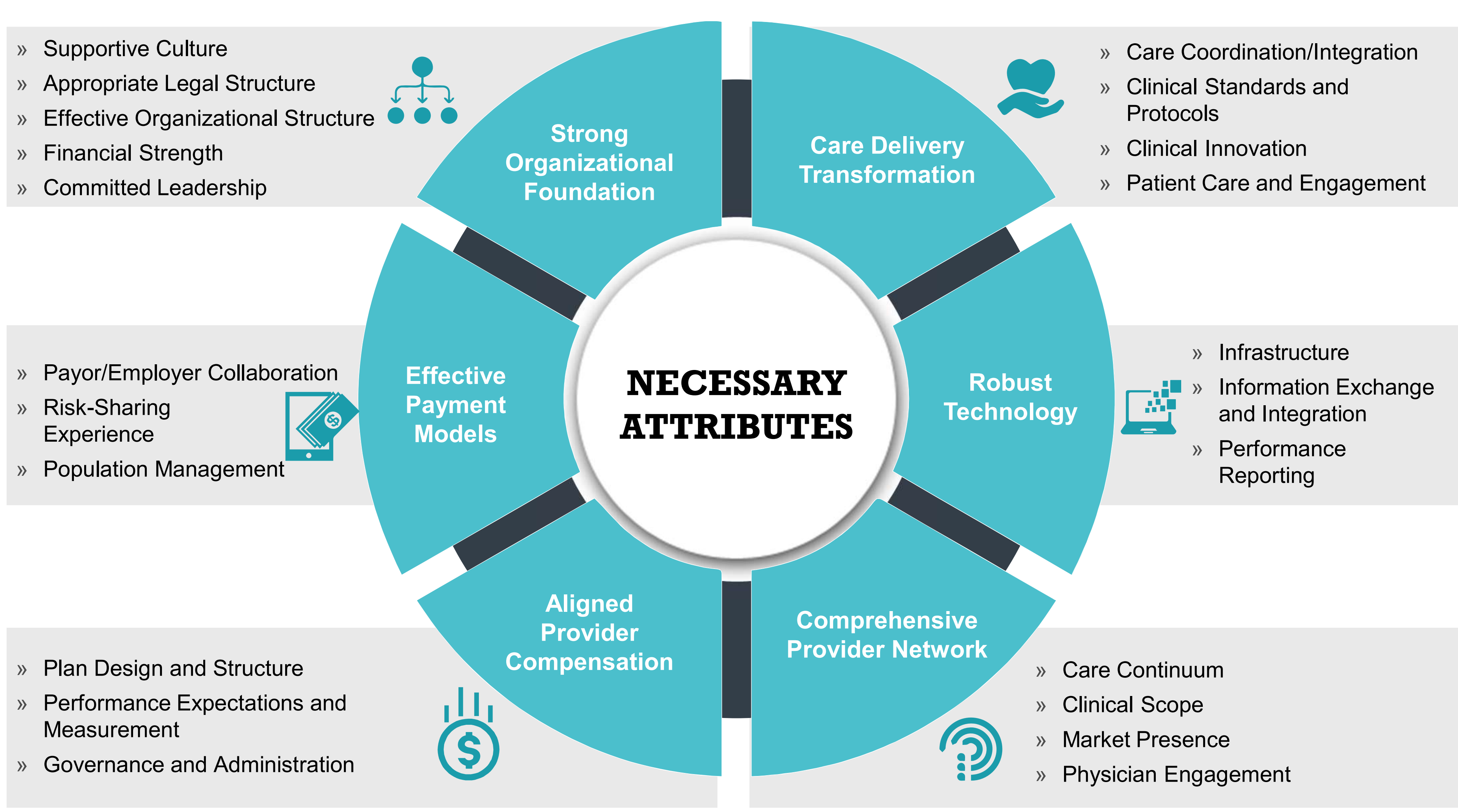


- Downward pressure on reimbursement.
- Deteriorating payor mix.
- Fierce competition for market share.
- Pressure to reduce ancillary services utilization

- High “carrying costs” for super-subspecialized clinical programs and academic activities.
- Compensation

Industry Trends

Required Attributes for Success – ***How Do You Stack Up?***

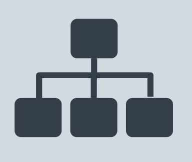


Imperatives for Faculty Compensation

Summary of Imperatives

There are three imperatives driving organizations to evaluate faculty compensation arrangements:

Imperative One: Financial Sustainability



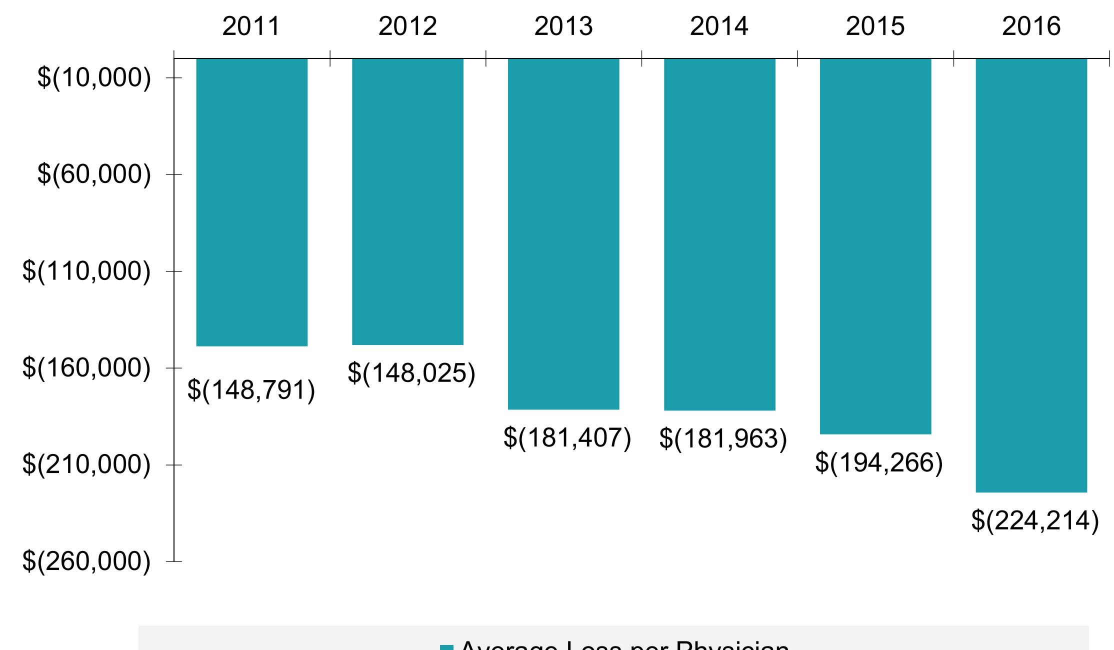
Imperative Two: Organizational Configuration

Imperative Three: Reimbursement Changes (Volume to Value)

Imperative 1: Financial Sustainability

Factors Impacting Metric

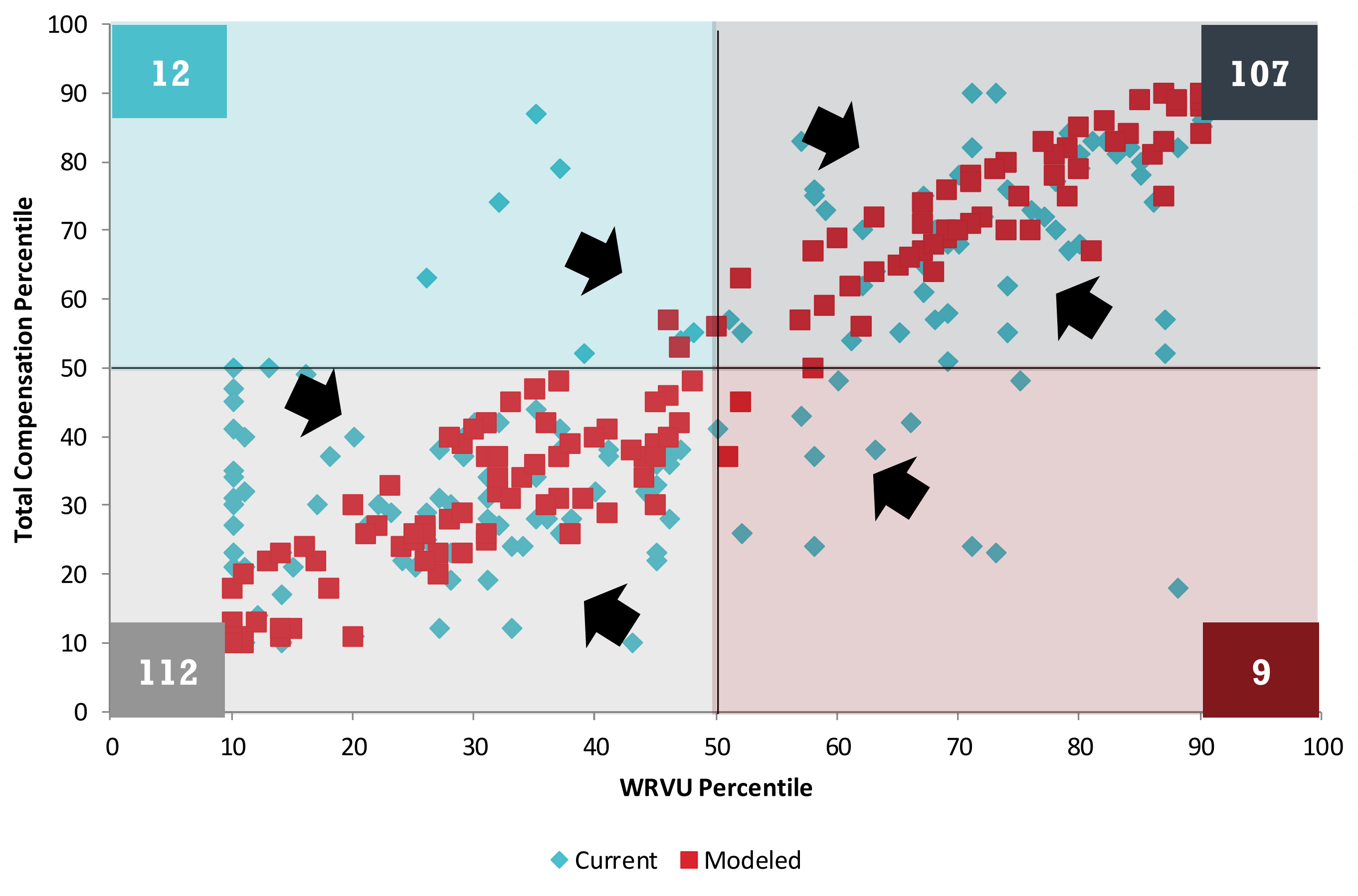
- Payor mix
- Specialty mix
- Accounting practices
- Allocation of overhead
- Relocation of ancillary services
- Billing status (freestanding or hospital outpatient department)



Source: ECG *2011* to *2016 Physician Compensation Survey*s.

Imperative 1: Financial Sustainability

Many academic organizations are seeing to align compensation with performance to rationalize the investment in faculty.



Imperative 2: Faculty Configuration

Healthcare organizations are increasingly seeking to develop more consistency with their compensation plans.

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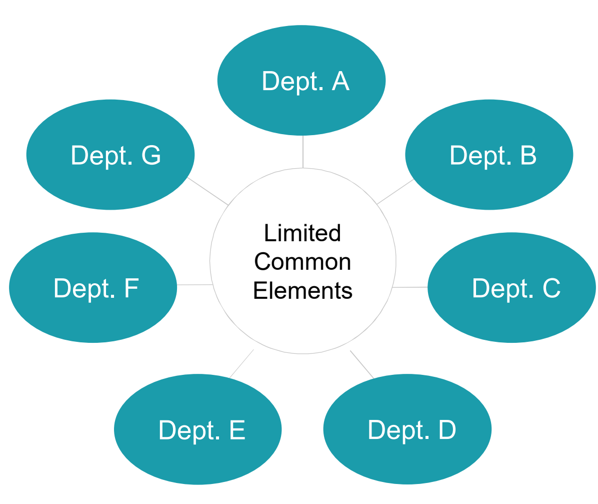
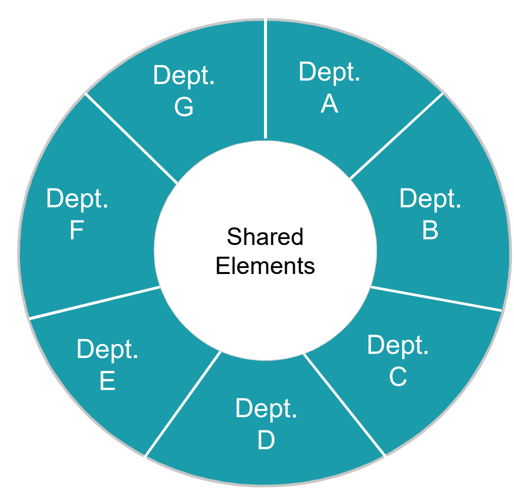


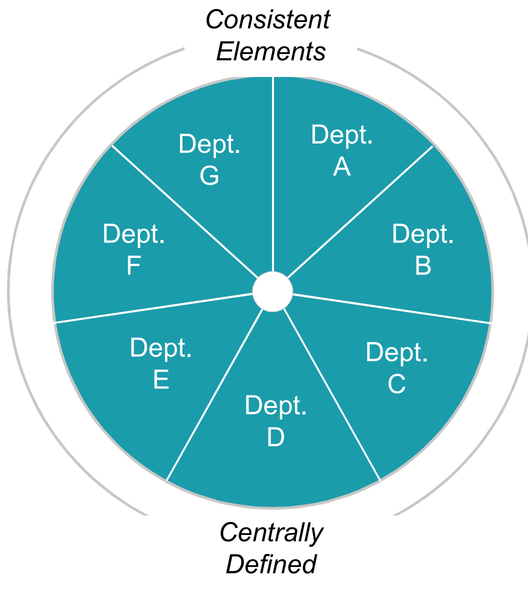
LIMITED CENTRAL GOVERNANCE AND MANAGEMENT

PARTIALLY INTEGRATED



STRONG CENTRAL GOVERNANCE AND MANAGEMENT

FULLY INTEGRATED

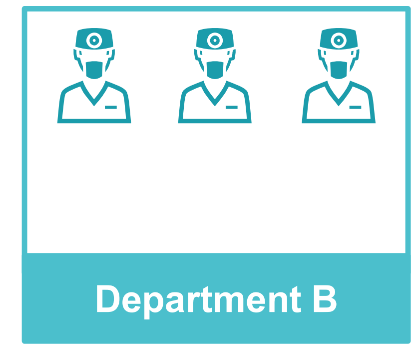


COMMON GOVERNANCE, MANAGEMENT, AND FINANCES

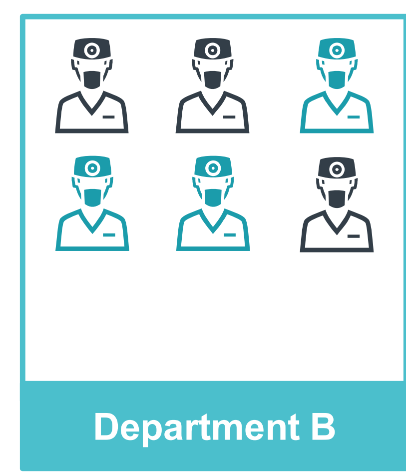
Imperative 2: Faculty Configuration

Blended Faculty and Community Physician Models

APPROACH 1
Separate Entity Model



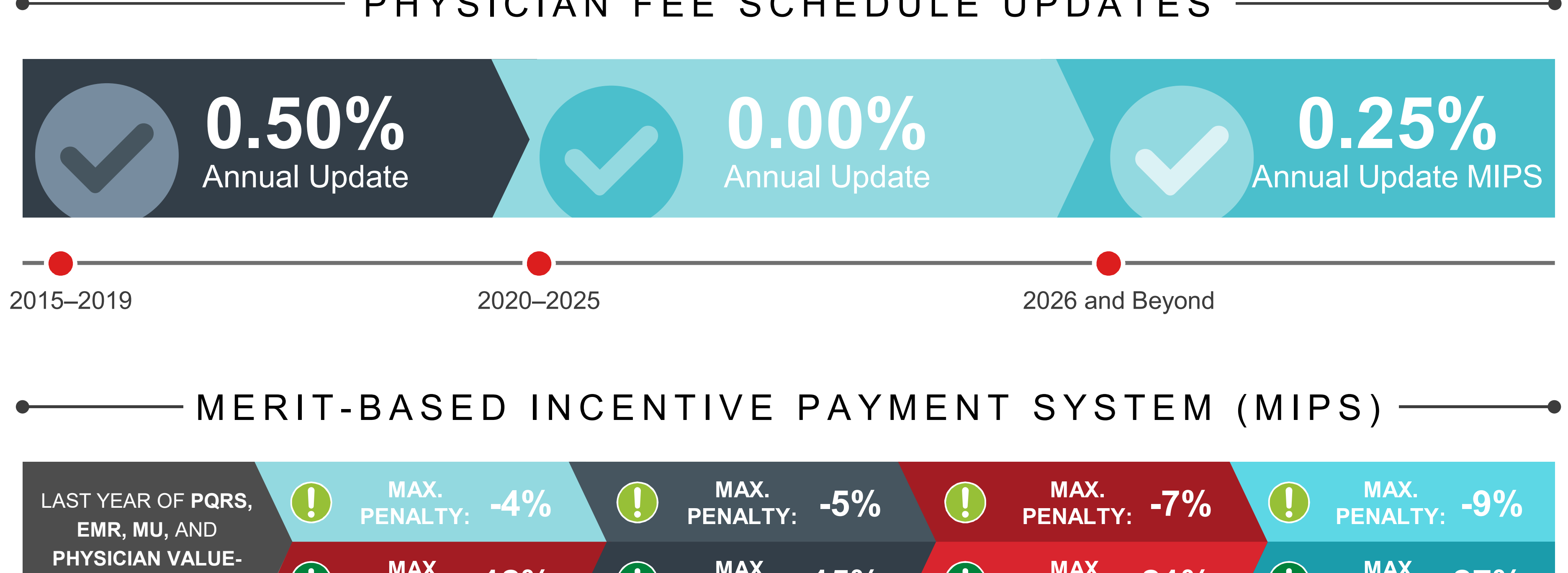
APPROACH 2
Integrated Model



What are the implications of faculty compensation?

Imperative 3: Reimbursement Changes

Regardless of uncertainty, physician reimbursement is expanding the definition of performance.



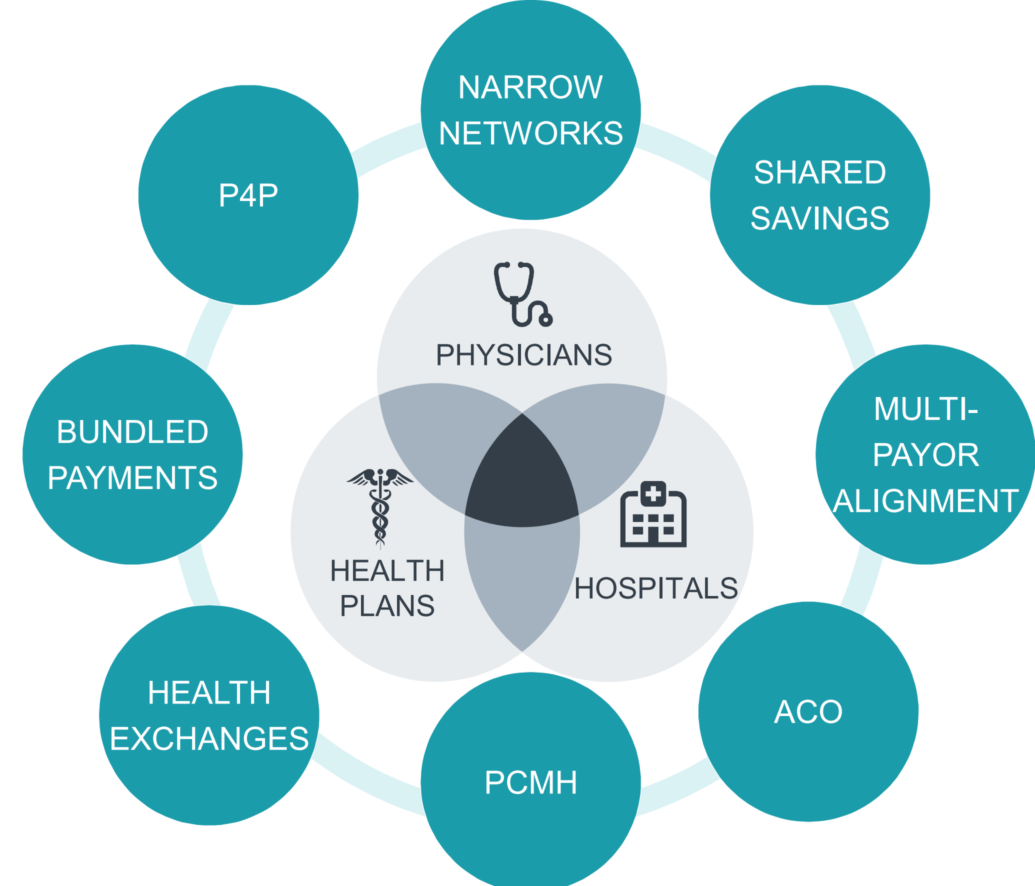
Imperative 3: Reimbursement Changes

Reimbursement from health plans to hospitals and physicians is shifting to value-based methods; however, the pace of the transition and the payment methodologies used are variable.

Healthcare Payment Innovation Within Public and Private Sectors

- The federal government and many states have started—or expressed their intent to start—the process of establishing programs to distribute a material amount of payments to providers through alternative models.
- Health systems are taking steps to transition from volume- to value-based payment methods.
- The Health Care Transformation Task Force, composed of large U.S. health systems, insurance companies, and employer groups, announced a goal of shifting 75% of its business to performance-based contracts.[1]

[1] *Modern Healthcare*, January 28, 2015.

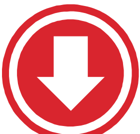
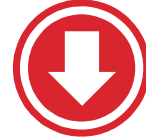


Government and commercial payors are expanding reimbursement models to include care coordination and management.

“First-Order” Questions

Decision Rights in Compensation

Who makes decisions regarding faculty compensation funding, design, administration and oversight?

Department Autonomy	Department Flexibility	Enterprise Standard
	Common Elements	
Dept. 1	Dept. 1	
Dept. 2	Dept. 2	
Dept. 3	Dept. 3	
Dept. 4	Dept. 4	
		
Each department can design its own plan(s) without limitation.	Each department is free to design its own plan(s) within certain parameters.	Emory Medicine determines the plan for all departments.
Customized	**Consistent**	**Identical**

Funding Faculty Compensation

How is faculty compensation funded?

Funding Sources:
- Clinical
- Research
- Teaching
- Strategic support

LESS

Uses:
- Department expenses
- SOM/FPP Overhead
- Other

Funds Available for Faculty Compensation

» Funding is divorced from department economics.

» Market proxies are used to value and fund faculty activity:
  - » AAMC/Vizient
  - » MGMA Academic
  - » Other physician compensation and production surveys

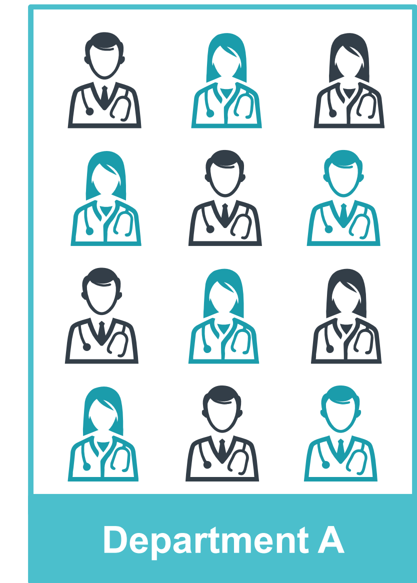
» Market rates often used to fund faculty activities:
  - » Clinical effort is funded at a community or academic rates per FTE/WRVU
  - » Academic activities at an academic rate per FTE (e.g., NIH salary cap, basic science rate)

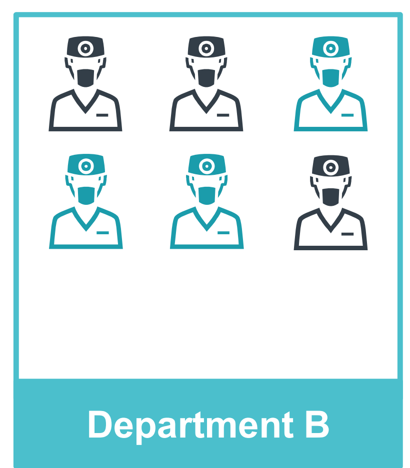
Faculty vs Community

How are physicians organized? What is the philosophical approach for valuing activities?

APPROACH 1
Separate Entity Model

APPROACH 2
Integrated Model





Fixed to Variable Compensation

What is the ratio of fixed to variable compensation?

Fixed Compensation ⟷ **Variable Compensation**

On one hand . . .

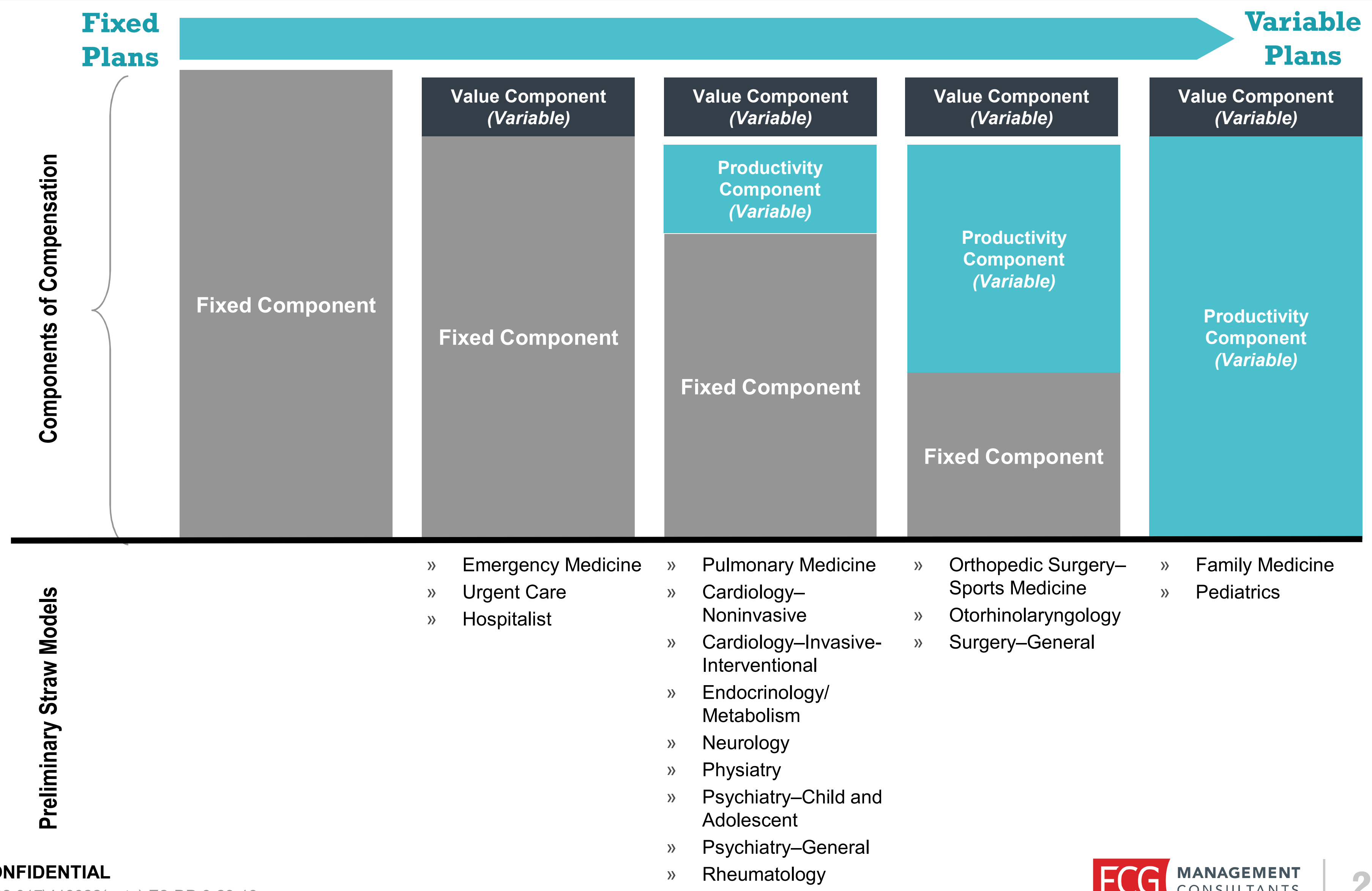
- Fixed compensation helps mitigate the negative incentives of overproduction and “churning.”
- Fixed plans often simplify the compensation methodology and reduce the complexity associated with compensation calculations.
- Many providers(particularly those who are newly trained) crave stable compensation systems that are understandable and minimize downside risk.
- Research indicates that professional workers do not require specific incentives to be motivated.

On the other hand . . .

- Fixed plans can result in significant misalignment between individual compensation and economic and other contributions.
- Providers maintain a keen sense of equity, and any actual or perceived variance between compensation and contribution creates issues.
- Fixed compensation plans require a strong organizational culture and highly effective governance and management, which are often not present.
- Relative to highly fixed plans, variable compensation elements are more “self correcting.”

Fixed to Variable Compensation

Sample Framework Application



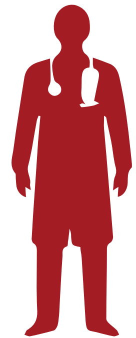
Group and Individual Performance

At what level is performance measured?

Group Performance

- Important to recognize team-based care approaches and subspecialization
- Mitigates internal competition
- Creates positive peer pressure
- May be applied to both volume- and value-based incentives

Individual Performance



- Important to align compensation with individual efforts
- Recognizes individual contributions and emphasizes personal control
- Mitigates the “free rider” effect

Elements of Compensation

Traditional Academic Models

Elements of Compensation

Historically, academic compensation plans utilized a base, supplement, and incentive payment structure.

Incentive

Supplement

Base

Base	Supplement	Incentive
» Represents day-to-day administrative and teaching activities » Is typically determined by university or institutional policy » Is based on academic rank, tenure, appointment, or track » Is supported by institutional funds (e.g., tuition, state funds)	» Represents payment for elements such as the following: › Clinical guarantee › Above-and-beyond administrative › Research (i.e., grant or bridge funding) › Above-and-beyond teaching › Strategic (e.g., start-up, outreach) » Provides means to ensure market-based compensation » Is funded from multiple sources	» Consists of payment based on individual, division, department, and/or institutional performance » Focuses typically on clinical productivity with some research or teaching metrics » Is funded primarily from clinical margins

The traditional model is limited in its ability to segment and value the different contributions providers bring to the organization.

Evolution Toward Performance

Approaches

The industry is at a crossroads regarding provider compensation plan design. Some organizations are contemplating static plans while other organizations are moving across the continuum toward performance-based plans.

Static/"Bundled" Plans

» Are highly fixed and result in little variation based on performance.

» Imply an understanding of performance expectations.

» Require a greater degree of leadership and management of provider activity.

Segmented/ Performance-Based Plans

» Align funds flow with compensation.

» Create clear "lines of sight" between funding and compensation.

» Define performance and create incentives that reward desired behavior and outcomes.

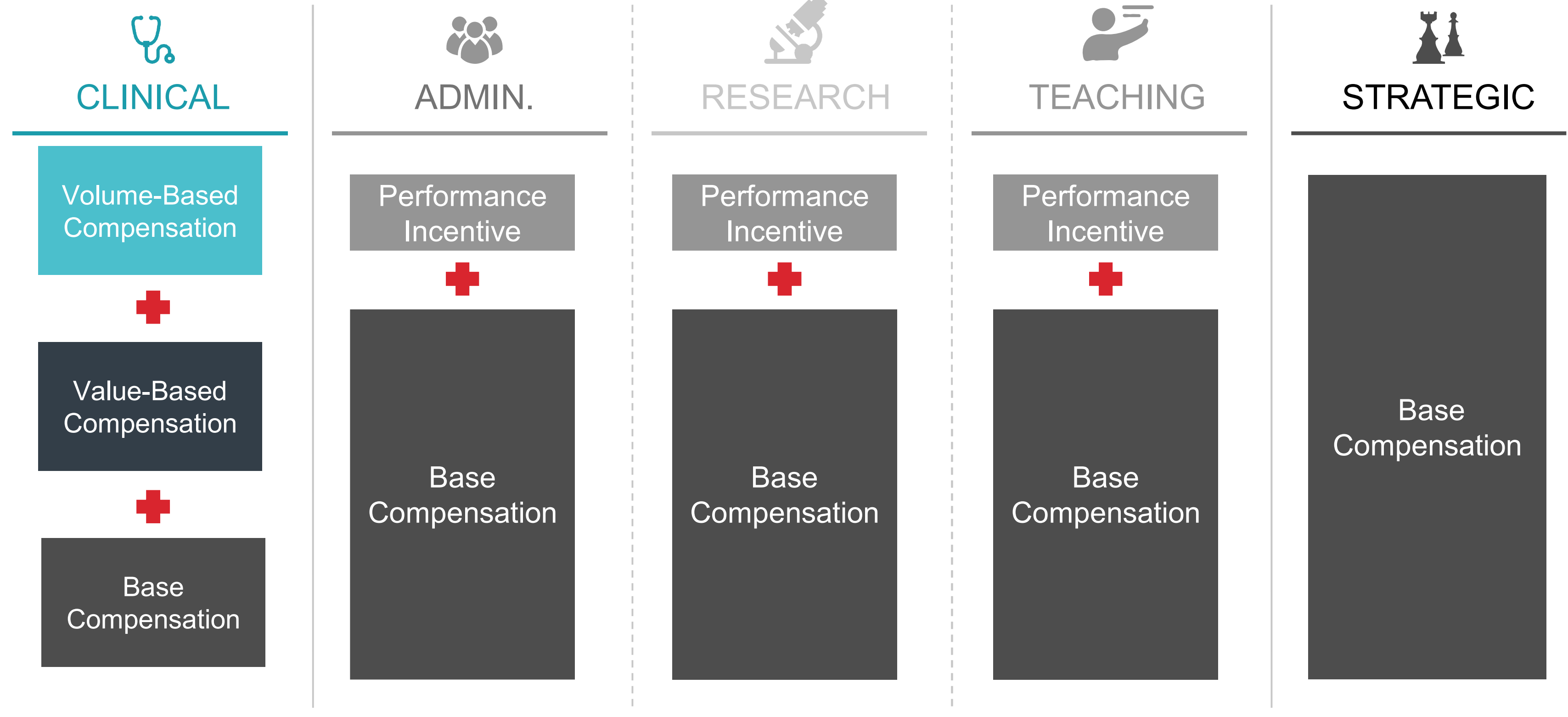
» Incorporate broader definitions of performance across mission categories.

» Acknowledge changing reimbursement reality (from fee-for-service [FFS] to value).

Elements of Segmentation

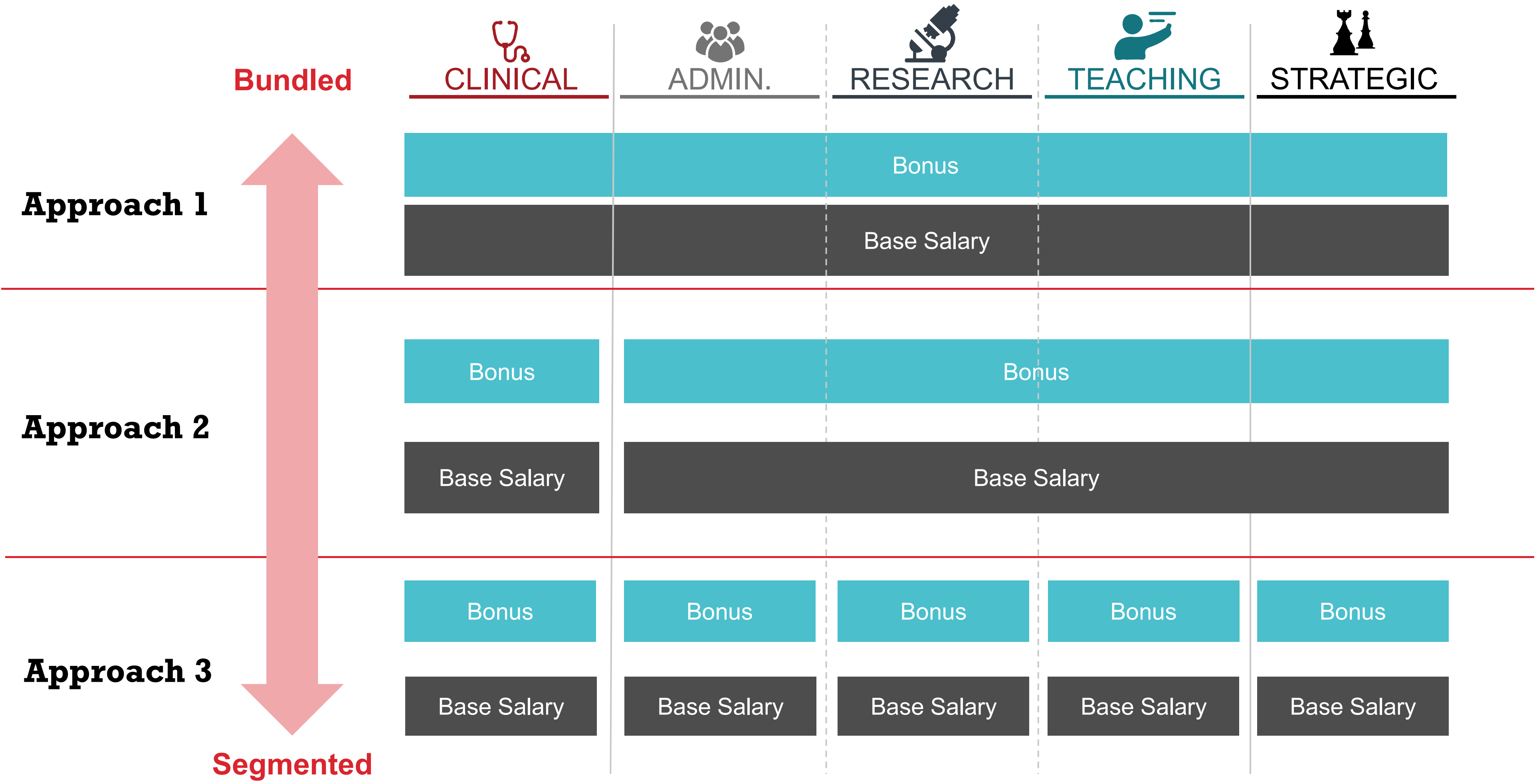
CARTS Framework

The CARTS framework is a common approach to segment funds flow and compensation.



Activity-Based Compensation

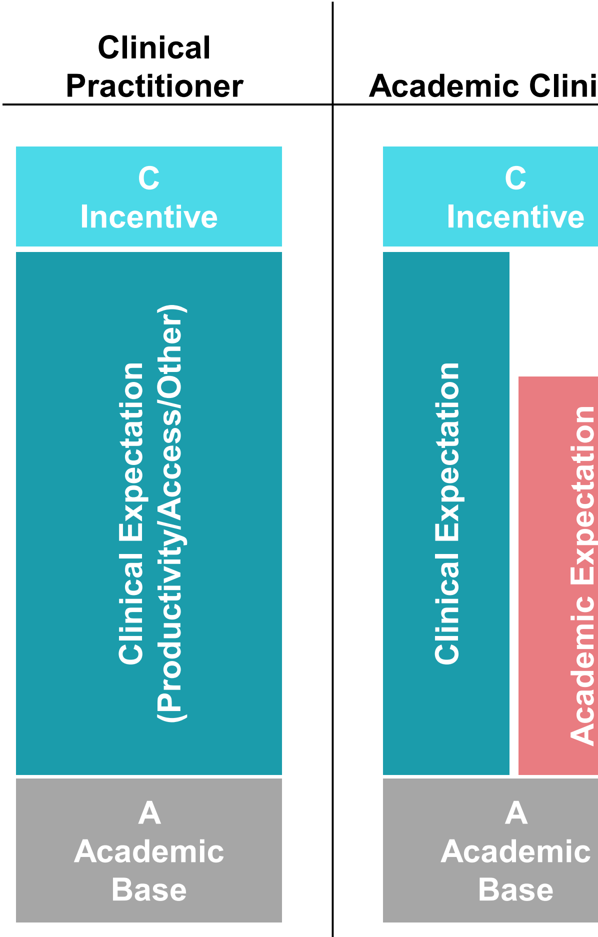
Bundled and Segmented Approaches

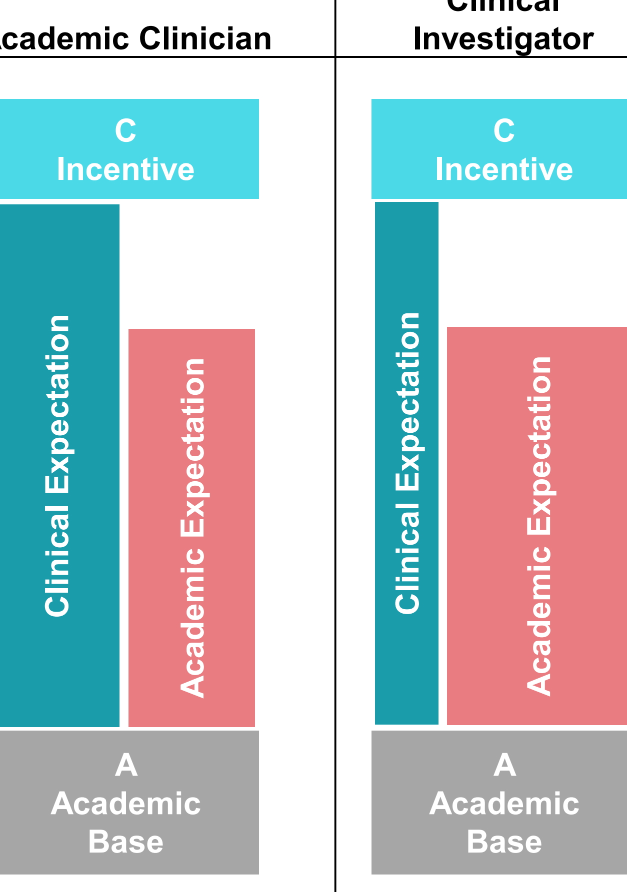


Activity-Based Compensation

Application to "ABC Models"

Activity-Based Segmentation





Questions and Discussion

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