



INTEGRATED HEALTHCARE
STRATEGIES™

Options for Structuring a Physician Compensation Model

Presented To:
Southern Thoracic Surgical Association

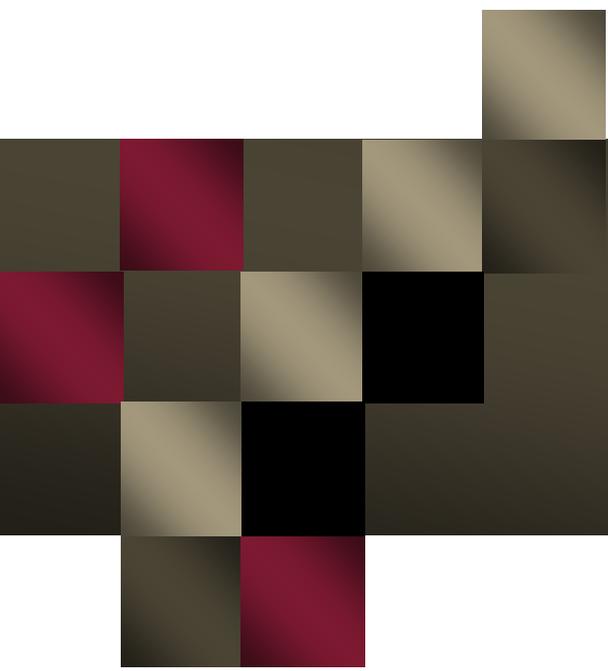
Presented By:
Mary Heymans, Senior Vice President

November 2010

Presentation Topics

- I. IHStrategies' Background**
- II. Reasonable Compensation Guidelines**
- III. Key Process Steps to Model Design**
- IV. Hypothetical Market Analysis**
- V. Other Items for Discussion**





IHStrategies' Background



IHStrategies' Physician Services Division

- Our Focus
 - All aspects of physician compensation in non-profit health care organizations
- Our Team
 - Lead by five Senior Vice Presidents, all with previous healthcare operations experience, who remain intimately involved in every engagement
- Our client base
 - Encompasses the full spectrum of healthcare organizations nationwide from the small community access hospital to large, integrated multi-hospital systems:
 - Brigham and Women's
 - Catholic Health Initiatives
 - Cedars Sinai Medical Center
 - Covenant Health System
 - Fletcher Allen Health Care
 - Heartland Health
 - Hospital Sisters Health System
 - Jackson Health System
 - OhioHealth
 - Shannon Health
 - Texas Children's Hospital
 - The Methodist Hospital
 - The Mount Sinai Hospital and School of Medicine



Scope of Experience

- Evaluation and/or development of:
 - Employed physician networks
 - Includes small, stand-alone facilities to large, integrated health systems
 - Compensation model design and implementation
 - Focus on simple, effective, proven design
 - Experience includes all types of models (e.g., revenue less expense, WRVUs, professional collections, group models, etc.)
 - Clinical arrangements
 - All specialties from primary care to sub-specialized areas (e.g., vitrol retinal surgery, robotics, hyperbaric medicine, sports medicine, etc.)
 - Call agreements across many specialties
 - Administrative positions
 - Medical directorships
 - Top physician administrators (e.g., Chief Medical Officers, etc.)
 - Academic administrative positions (e.g., Chairs, Chiefs, etc.)



Scope of Experience (cont'd)

- Evaluation and/or development of:
 - Professional Service Agreements/Management Service Agreements
 - Agreements containing both clinical and administrative functions
 - Includes reviews of all major service lines (e.g., cardiac, orthopedics, etc.)
 - Recruitment agreements
 - For new as well as established physicians
 - Includes market trends on signing bonuses, relocation expense reimbursement, education loan forgiveness, tail coverage, etc.
 - Joint Venture agreements
 - Breadth of experience spans from specific service lines (e.g., radiation oncology) to equipment



How We Serve Our Clients

- Typically, we serve our clients in two capacities
 - Work with and/or for the Compensation Committee of the Board of Trustees to ensure that physician compensation arrangements pass regulatory scrutiny
 - Work with operational entities within an organization to assist in compensation model design and implementation
- Other roles
 - Our reasonableness reviews (and compensation plans) have been reviewed, and passed scrutiny, by federal/state agencies as part of organizational audits, including:
 - OIG
 - Attorney Generals
 - DOJ
 - We have been retained by organizations as well as external legal counsel to serve as expert witnesses to review agreements that were part of a federal investigation
 - Our work product has been reviewed by some of the most prominent law firms in the country (e.g., Bricker & Eckler; Fulbright & Jaworski; Gardner Carton; Hall, Render, Killian, Heath & Lyman; McDermott Will & Emory; Squire/Sanders, Vinson & Elkins)





Reasonable Compensation Guidelines



Reasonable Compensation Guidelines

- Our primary focus
 - To provide our clients assurance that when there exists a financial relationship between the hospital and a physician, any compensation paid to that physician is both commercially reasonable and consistent with fair market value

- Our experience dictates that the individual facts and circumstances associated with each transaction/evaluation have a significant influence on the assessment of reasonableness
 - What is driving the transaction?
 - What type of compensation model is currently in place?
 - What level of compensation is the current model delivering?
 - At what level are the physicians producing? (e.g., professional charges, professional collections, WRVUs)
 - What factors are at play in the local and/or regional market? (e.g., supply, demand, community need, reimbursement, etc.)
 - What is happening on the national level relative to this specialty?



We rely on the following terms in conducting our FMV assessments:

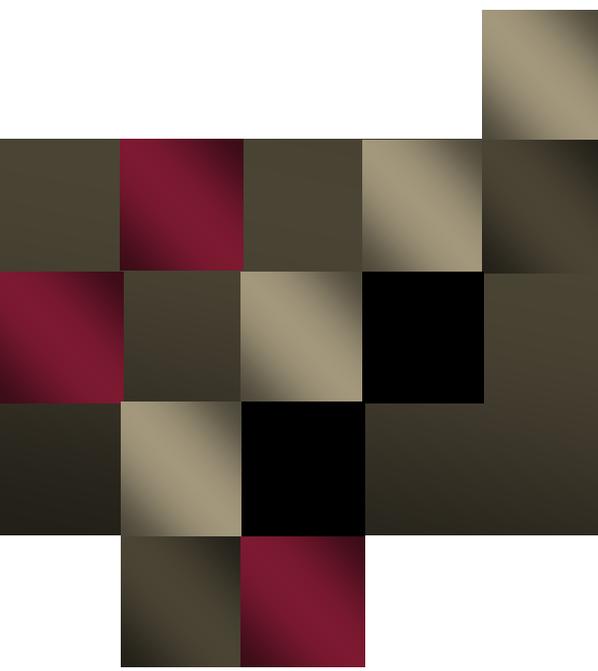
- **Fair market value:** is defined as the value in arms-length transactions consistent with the general market value. General market value means the price an asset would bring as a result of bona fide bargaining between well-informed buyers and sellers who are not otherwise in a position to generate business for the other party, or the compensation that would be included in a service agreement as the result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party on the date of acquisition of the asset or at the time of the service agreement. Usually the fair market value is the compensation that has been included in bona fide service agreements with comparable terms at the time of the agreement, where the price or compensation has not been determined in any manner that takes into account the volume or value of anticipated or actual referrals



We rely on the following terms in conducting our FMV assessments:

- ❑ **Commercial Reasonableness:** is defined as an arrangement that would make commercial sense if entered into by a reasonable entity of similar type and size and a reasonable physician of similar scope and specialty, even if there were no potential designated health services referrals
- ❑ **Reasonable Compensation:** as described in Section 162 the Internal Revenue Service (IRS), reasonable compensation is generally considered to be "...only such amount as would ordinarily be paid for like services by like enterprises under like circumstances."





Key Process Steps to Model Design



Best Practice Compensation Models

Model Goals:

- ❑ To be competitive with similar healthcare organizations in the market
- ❑ To recognize the value of individual physician performance and overall organizational performance
- ❑ To reward physicians for being engaged in the business by having a compensation model that is tied, as directly as possible, to actual physician productivity/work effort
- ❑ To recognize the value of “non-productive” factors, such as quality
- ❑ To be fluid, allowing the model to evolve over time to better fit market conditions and organizational goals
- ❑ To be easy to understand, communicate, and administer



Best Practice Compensation Models (cont'd)

Key Issues:

- ❑ What metric (work RVUs, professional collections, financial performance, etc.) is the most appropriate to measure productivity and determine compensation?
- ❑ How might a pay-for-performance compensation program be used to better support the goals and mission of the org
- ❑ What is the appropriate balance between base salary and variable pay?
- ❑ Should the rate of pay increase with higher levels of production?
- ❑ Should the rate of pay be linked to survey data or adjusted based on local market reimbursement conditions?
- ❑ Should non-production criteria be considered in linking pay to performance?
- ❑ Given variations in specific provider's contributions, to what degree should individual versus group performance drive compensation strategy?
- ❑ What are the most appropriate methods to migrate providers to a new compensation program? What is the financial impact of each of these strategies?



Accountable Care Organizations (“ACOs”)

- ❑ The implementation of ACOs over the next few years will require organizations to place a greater emphasis on:
 - Accountability
 - Quality of Care
 - Effective Cost Management
 - Reliable Performance Measures
- ❑ Specifically, compensation issues that will require attention include:
 - Rewarding providers for high-quality care
 - Allowing physicians the flexibility to determine which combination of services is most appropriate for an individual patient
 - Shifting to a more predictable payment structure as hospitals receive more predictable revenues
 - Rewarding physicians for reducing total healthcare and utilization costs
 - Providing physicians with the appropriate time and resources to implement and comply with new payment systems
 - Accounting for the first few transition years where data and capital may be more difficult to access



Accountable Care Organizations (“ACOs”) (cont’d)

- ❑ Physician compensation will likely be a combination of the following four models:
 - Compensation based on the physician’s own performance utilizing the factors used by the payer to determine the organization’s payment
 - Compensation based on how the organization as a whole performs utilizing the factors which determine the organization’s payment
 - Compensation based on factors that do not directly affect the organization’s payment
 - Salary based compensation
- ❑ Actual combination will be a function of the payment structure of ACOs, which has not yet been determined
- ❑ First shared savings program does not start until 2012
- ❑ Changes to legislation are likely in the next couple of years making it difficult to plan



Study Approach For Compensation Model Design

□ *Initial Fact Finding*

○ Stakeholder interviews

- Provides essential background information and optimal understanding, outlines strategic objectives, and establishes the foundation for the study
- Leadership and physician participation are seen as critical to the development and implementation of a successful compensation model

○ Review relevant background material

- Strategic/business plan(s), individual physician contracts, position descriptions, individual compensation formulas, compensation and production reports (e.g., professional/net charges, WRVUs, etc.), etc.

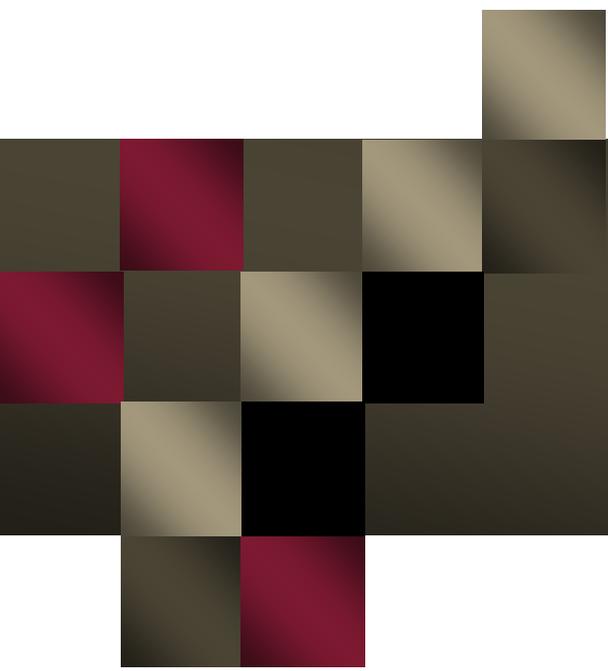
□ *Market Comparisons & Model Design*

○ Compare total cash compensation and production/work effort (e.g., charges, professional collections, WRVUs, etc.) to national and regional market norms in order to establish fair market value parameters

- Consider changes to benefit plan design, if any
- Value other work effort (e.g., administrative roles, call pay, outreach, teaching, research, etc.)

○ Design a compensation model tailored to the objectives and information gathered and test financial impact, commercial reasonableness, and FMV





Hypothetical Market Analysis



Market Analysis

Methodology – Market Benchmarks

- ❑ Clinical Market Data
 - American Medical Group Association (AMGA), 2010 Medical Group Compensation & Financial Survey
 - Medical Group Management Association (MGMA), 2010 Physician Compensation & Production Survey
 - Medical Group Management Association (MGMA), 2010 Medical Directorship and On-Call Compensation Survey
- ❑ Custom Surveys/Research
- ❑ IHStrategies' Proprietary Database
- ❑ Other Surveys
 - Association of American Medical Colleges (AAMC), 2008 – 2009 Report on Medical School Faculty Salaries
 - IHStrategies, 2010 Medical Director Survey
 - Sullivan, Cotter & Associates (SCA), 2009 Physician Compensation & Productivity Report; SCA On-Call Pay Survey Report



Market Analysis (cont'd)

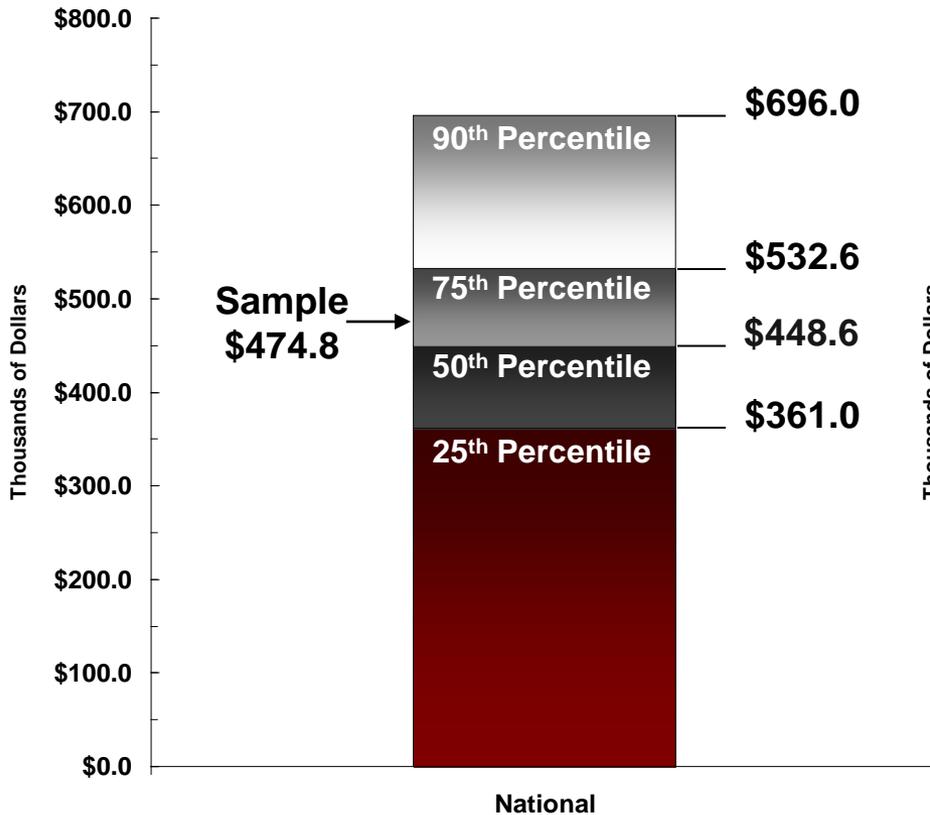
Methodology – Clinical Cash Market Comparisons

- Scatter Graphs
 - Compares individual physician actual compensation to productivity using national market data
- Bar Graphs
 - Compares specialty median compensation and productivity to national and regional market data
 - Physician data is adjusted to 1.0 Clinical FTE
 - New physicians (hired during the timeframe reviewed) are excluded from the specialty median calculations

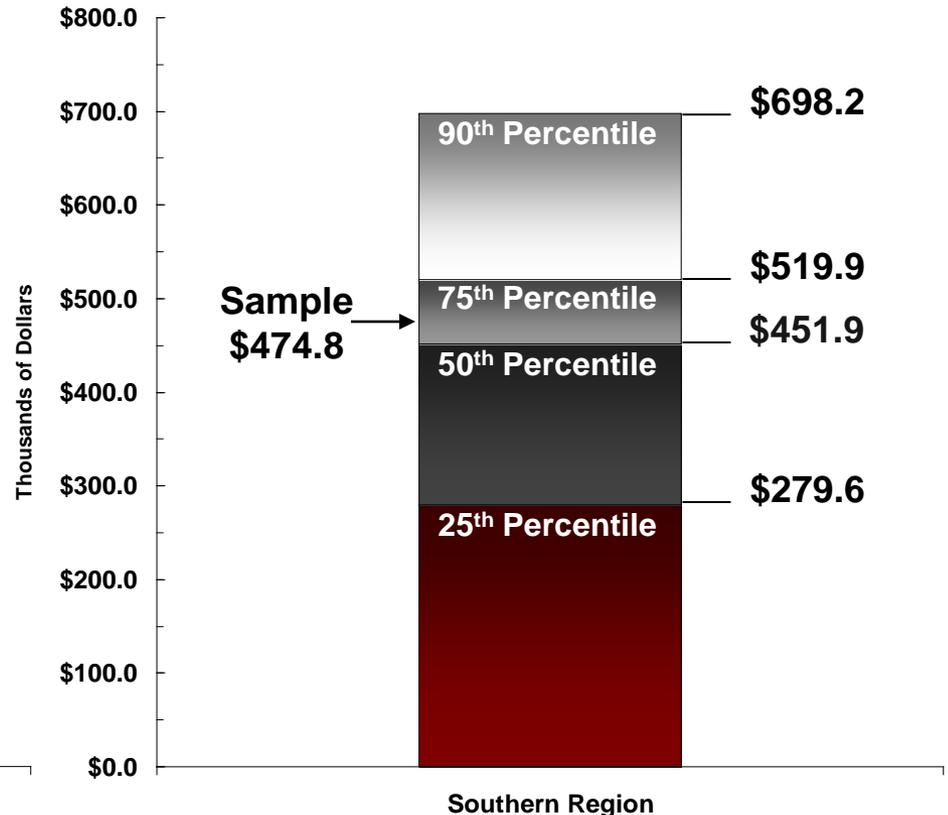


SURGERY: THORACIC NATIONAL AND REGIONAL MARKET DATA MEDIAN CLINICAL CASH COMPENSATION

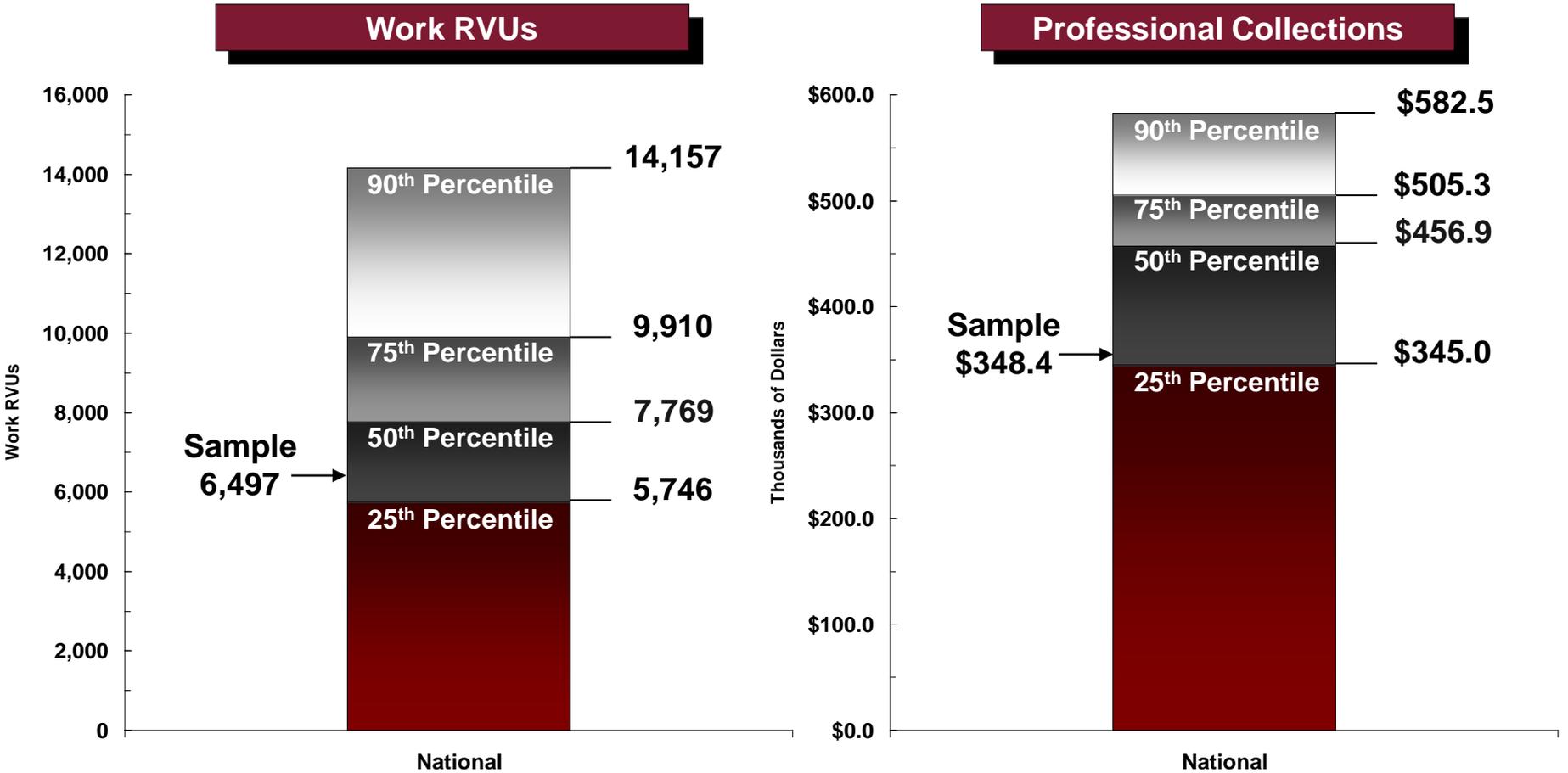
Clinical Cash Compensation



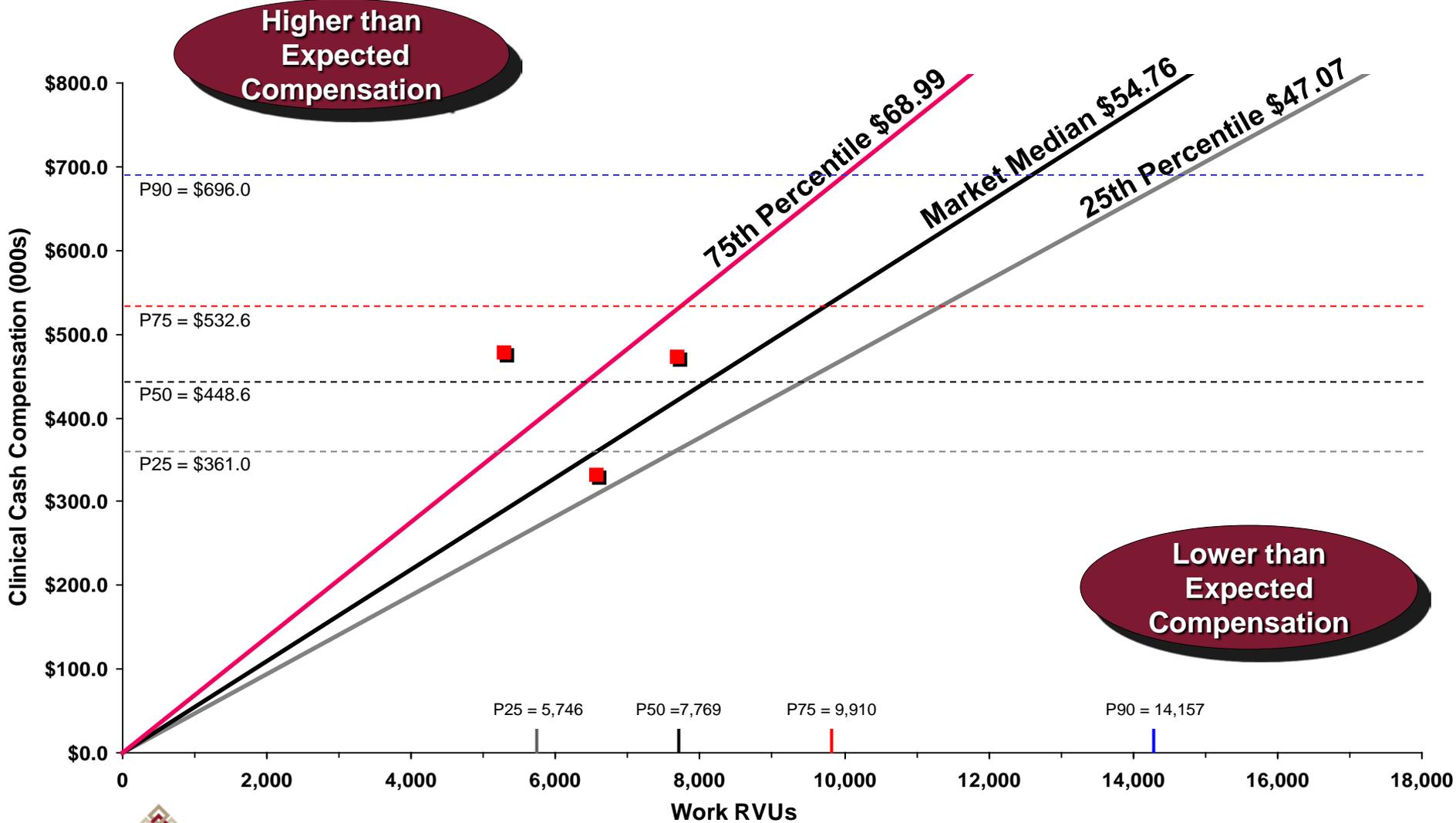
Clinical Cash Compensation



SURGERY: THORACIC NATIONAL MARKET DATA MEDIAN WORK RVUs AND PROFESSIONAL COLLECTIONS

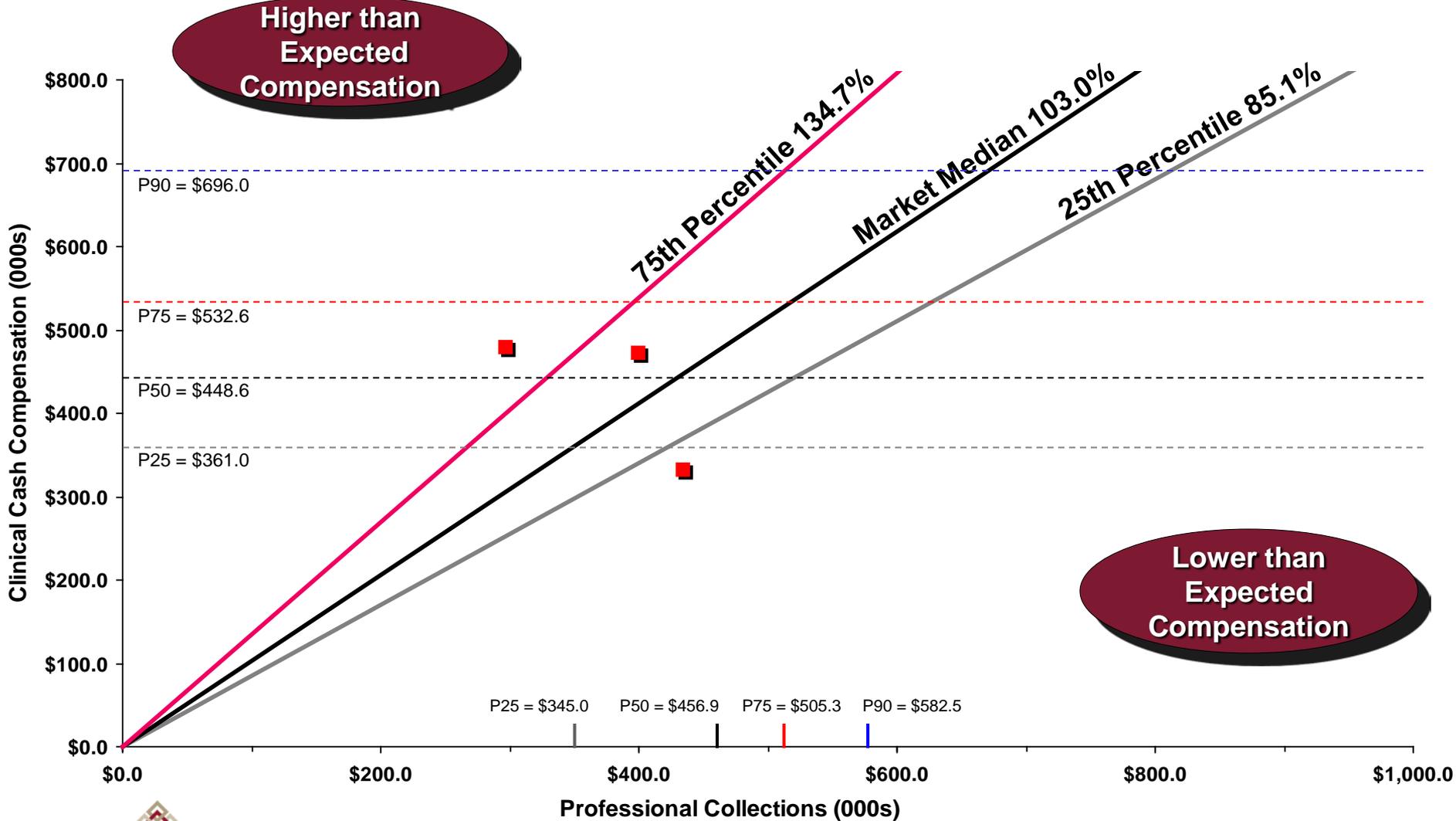


SURGERY: THORACIC NATIONAL MARKET DATA INDIVIDUAL CLINICAL CASH COMPENSATION TO WORK RVUs



SURGERY: THORACIC NATIONAL MARKET DATA

INDIVIDUAL CLINICAL CASH COMPENSATION TO PROFESSIONAL COLLECTIONS

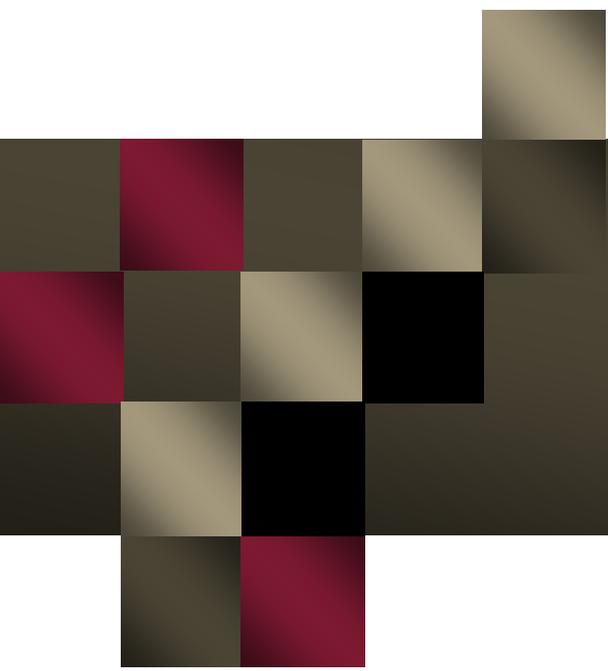


Thoracic Surgery

Clinical Cash Market Comparisons

- Base Pay
 - Full time access for services; some level of practice call
- Clinical Cash Compensation
 - Productivity based pay
 - Quality based pay
- Other Pay components
 - Administrative pay
 - Typically based on an hourly rate; potential for
 - Trauma call pay
 - Per diems
 - Outreach
 - Subsidized to some extent based on drive time and lost productivity
 - Research
 - Based on funding or other performance metrics
 - Teaching
 - Typically for didactic teaching or in academic setting





Other Discussion Items

