

KEEPING IT "REEL"

Provider Compensation Design

At the core of every hospital, health system, and practice are the physicians who provide patient care. An organization's physician compensation plan is the undercurrent and key component of its relationship with providers. Having a flexible, sustainable, and contemporary compensation design plan in your tackle box ensures physicians are inspired to support organizational mission-critical strategies. The following outlines a proven approach that can be adapted to your organization's needs.

Steps in Compensation Plan Design

1 Determine Compensation Key Principles

Agree on compensation Key Principles to ensure the success of a new compensation model.

Ensure transparency of the compensation Key Principles, reference it throughout the process of developing a new model, and use the Key Principles to evaluate new incentives and resolve disputes.

2 Assess Current State and Define Key Objectives

Conduct interviews with physician and administrative leaders to understand what works and what does not work within the current compensation plan.

Execute a benchmarking analysis, comparing the current compensation plan to the market and assessing sustainability.

3 Develop Provider Compensation Models

Use agreed-upon Key Principles to develop specialty-specific compensation models.

Analyze the compensation models with calculations of compensation under past and projected scenarios to determine the financial impact on the physicians and organization.

4 Achieve Buy-In and Develop Implementation and Communication Plans

Ensure buy-in from physician and administrative leaders for the compensation models developed.

Build an implementation committee, work plan, and milestones.

Establish and schedule provider education sessions with the committee.

Forces that Shape Provider Compensation Models



Organization Strategy

Compensation plans reflect the organization's broader goals.



Amount of Payer Reimbursement at Risk

The degree of fee-for-service reimbursement will impact the type of compensation methodology expected by providers.



Competition During Provider Recruitment

Compensation plans allow organizations to attract talent, compete during negotiations, and retain their existing workforce.



Culture

Organizations with strong cultures rely less on financial incentives to motivate physicians and more on performance transparency and communication of expectations.



Regulations Driving the Determination of Value

Federal regulations may require compensation be fair market value and commercially reasonable or provide narrow pathways for profit distribution.

Elements of a Successful Compensation Plan Design

1 Align physician incentives with daily workflows and the goals of the organization

Physicians will be more likely to embrace metrics they can influence.

Physician alignment will create strong partnerships and improved financial performance.

2 Pay for physician performance

Physicians paid for performance will be more likely to embrace a plan design that rewards effort.

Consider unintended consequences of each performance area.

Incentivizing certain types of metrics may cause detriment to other initiatives.

3 Establish equity across the physician group

No matter how enticing an incentive is, it must also be attainable.

A compensation plan should be designed for application across the organization to minimize potential inequities.

4 Ensure financial viability for stakeholders

An organization needs to remain financially viable while compensating physicians with an amount that is fair and consistent.

5 Mitigate compliance risk

Physician compensation should be reviewed from a compliance perspective. Regulations vary by the Stark Law exemption applied.

For nearly 40 years, PYA has helped organizations align strategy with compensation plan design, helping them attract and retain top talent. Whether providing advisory services for a physician's employment agreement or assisting an organization in creating a framework for physician compensation, PYA uses its many years of experience and service-centered culture to deliver compensation plans that meet the individual needs of each client.

If you would like additional guidance with provider compensation, or any matter related to compliance, valuation, or strategy and transactions, contact a PYA executive at (800) 270-9629.



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