Provider Compensation
“Road Map to an Uncertain Destination”

AMGA CONSULTING SERVICES

Implications of Health Care Reform for Physician Compensation

AMGA CONSULTING SERVICES

Environment

- Changes are accelerating in the health care industry. Health care reform will:
  - Expand access, further increasing demand.
  - Reduce the level of reimbursement.
    - Ultimately impact how providers are compensated.

- Aging Population.
- New technology – devices, treatments, drugs.
- New delivery models.
- Number of physicians is marginally increasing and aging; thus future scarcity for certain specialties.
- Health care organizations (HCOs) will continue to consolidate and move towards increased physician employment.

Bottom Line

- Changes in health care reimbursement will require changes in the delivery models. An organizations readiness for these changes is critical to its long-term success.
- Increased focus on physician integration and alignment.
- Physician compensation will continue to evolve with:
  - Increased emphasis on patient experience, quality and efficiency (cost of care).
  - However there will be a continued emphasis on productivity to ensure patient access.

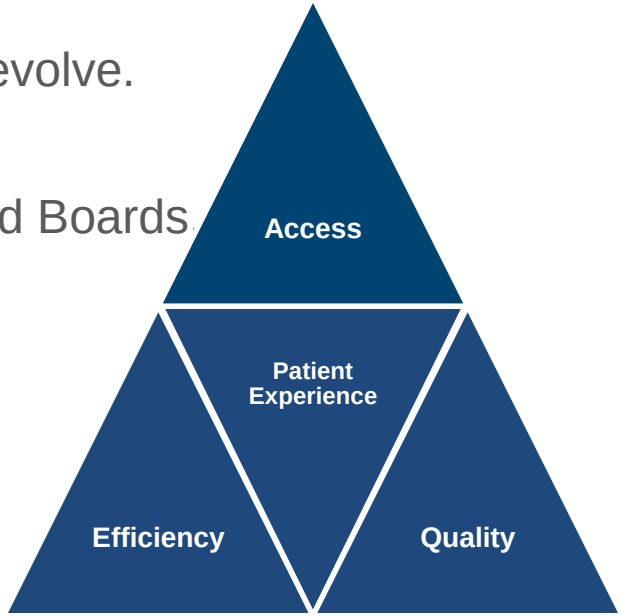
Implications of Health Care Reform

Relationship between Medical Groups and Health System

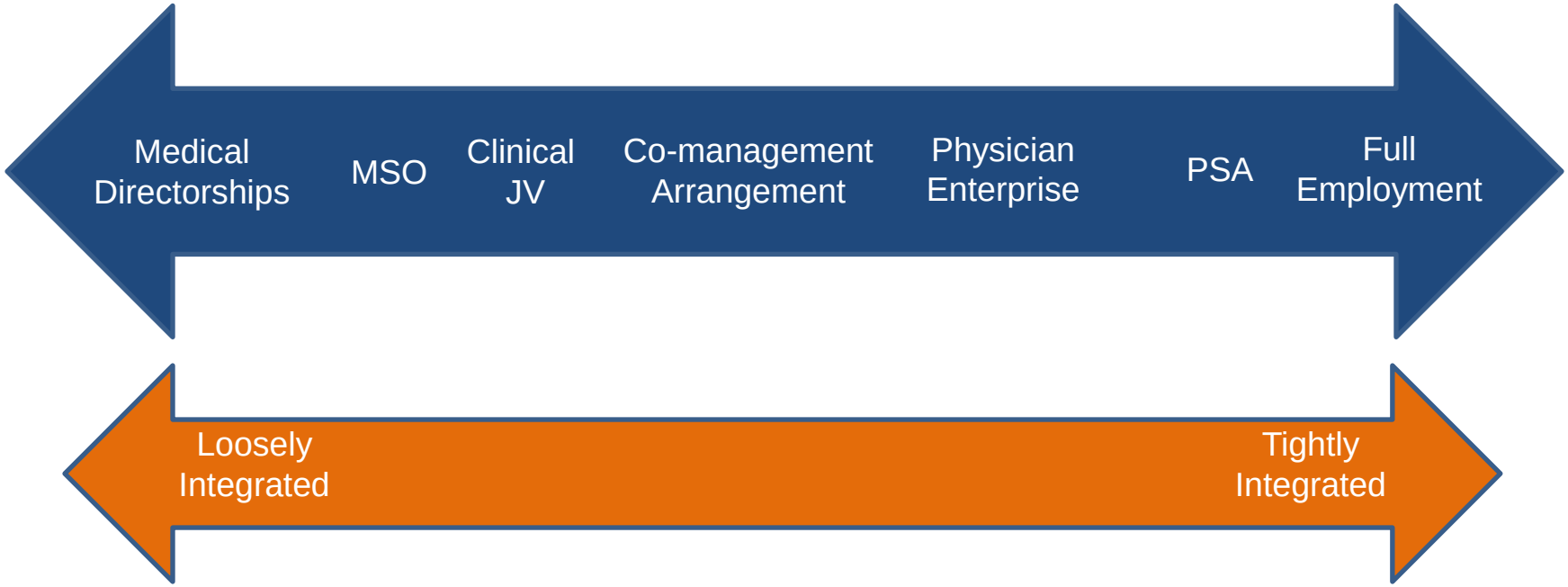
- Reductions in reimbursements and financial pressures will test the relationship between health system leadership and physicians.
  - The health systems will need new ways to measure physician performance.
  - Measurement systems of the past will need to evolve.
  - Increased pressure to improve efficiencies.
  - Higher expectations from system leadership and Boards.

Relationship between Physicians and Patients

- Higher expectations from patients.
- Pressure to meet community health needs.



Implications of Health Care Reform



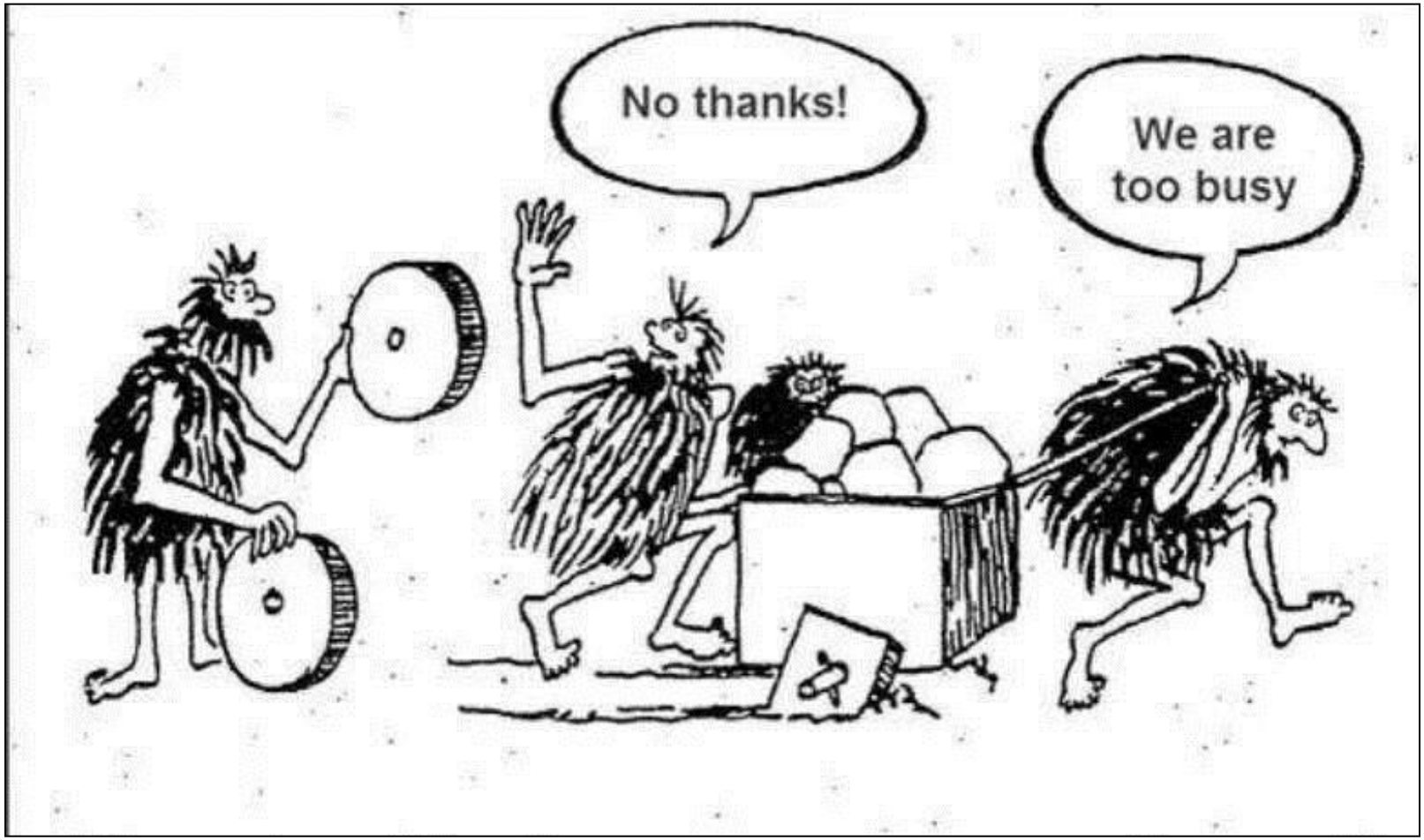
Integration - does not mean - Alignment

Implications of Health Care Reform

Physician Pay-for-Performance

- Greater emphasis on incentive plans and performance, with particular focus on:
  - Cost reduction.
  - Quality.
  - Patient satisfaction.
  - Citizenship.
  - MU and PQRS.
- Incentive compensation.
  - Compensation Committees and Boards are increasingly active in the goal-setting process.
    - Requiring a greater ROI on incentive dollars.
    - Rethinking performance measurement in incentive plans.

Implications of Health Care Reform



AMGA CONSULTING SERVICES

Current Practices Related to Physician Compensation

Physician Compensation Strategies

"The way physicians are paid affects, even if subconsciously, what physicians do"
- Journal of the American Medical Association (JAMA), August 2010

- Organizational culture, current and prospective strategic vision and current industry trends influence the type of compensation offered to physicians.
- Success in implementing new physician alignment strategies and compensation structures are directly linked to industry benchmarks and the overall economic performance of the organization.
- The most prevalent compensation structures are a reflection of current industry trends with an eye on the future industry developments.
- Data converted to information equals power.
- Organizations need to understand what is happening across the market both in "how physicians are paid" and "what physicians are paid" to determine its place in the market and improve its ability to recruit and retain

Compensation Plans

- Primary care specialties.

Component	Overall (n=144)	Change From 2012	Avg. % of Comp	Change From 2012
Work RVUs	67%	2% ↑	75%	4% ↑
Quality Incentives	34%	29%	9%	9%
Financial Incentives	21%	N/A	11%	N/A
Base Salary	33%	3% ↑	52%	3% ↓
Net Production	21%	3% ↓	73%	0%
Administrative	17%	1% ↓	4%	0%
APC Supervision	13%	3% ↓	2%	1% ↓
Discretionary	12%	2% ↓	4%	1% ↓
Equal Split	8%	3% ↑	10%	0%
Call Pay	8%	2% ↑	2%	3% ↓
Panel Size	7%	2% ↑	15%	5% ↑
Cost Accounting	7%	4% ↓	59%	14% ↓
Gross Production	6%	2% ↑	59%	8% ↓

Data broken out to provide more detail from prior year survey.

Results from the 2013 AMGA Survey

Compensation Plans

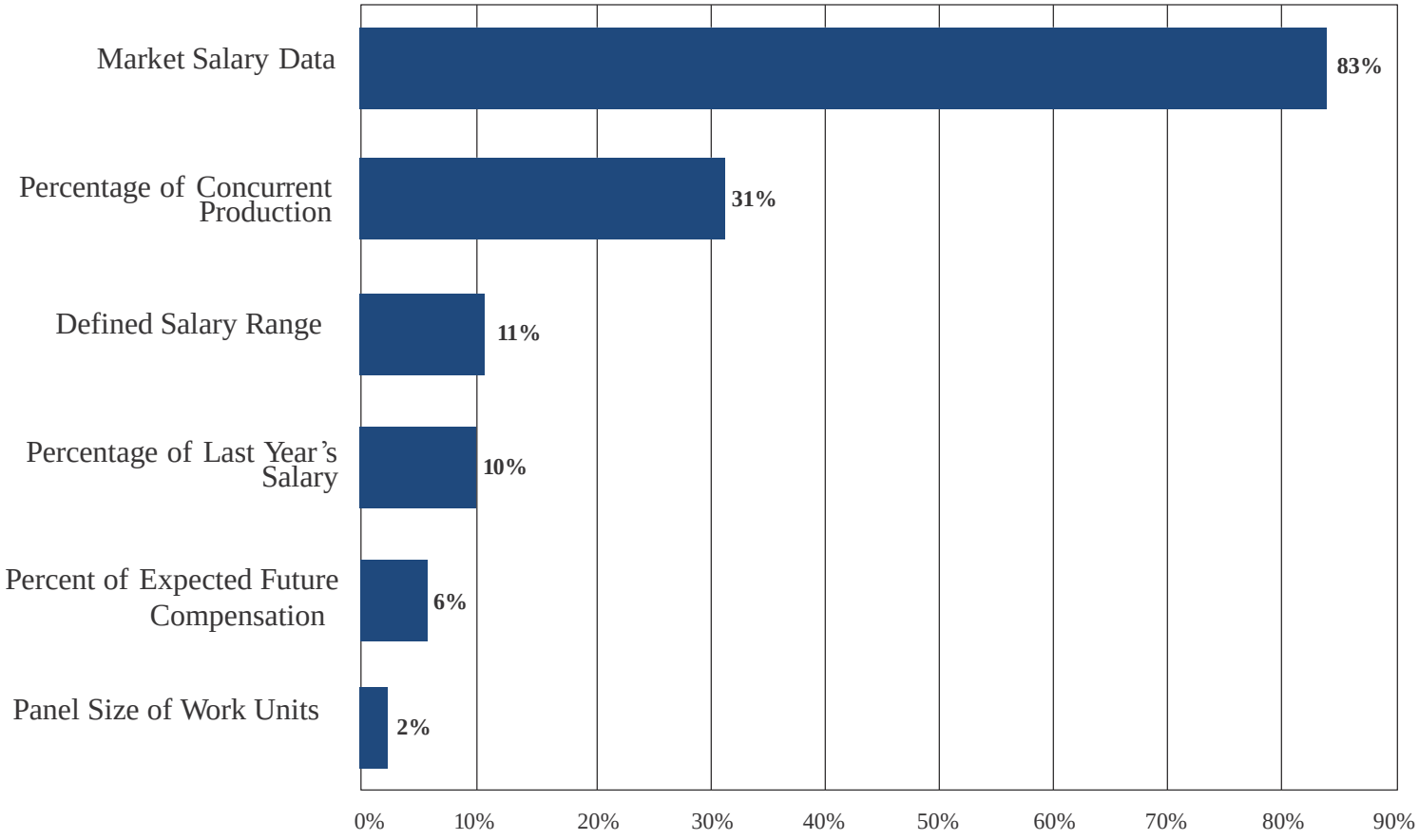
- Medical and surgical specialties.

Component	Overall (n = 138)	Change From 2012	Avg. % of Comp	Change From 2012
Work RVUs	70%	2% ↑	66%	1% ↑
Base Salary	41%	1% ↑	57%	0%
Quality Incentives	28%	29%	6%	8%
Financial Incentives	20%	N/A	10%	N/A
Net Production	22%	1% ↓	69%	1% ↑
Administrative	20%	3% ↑	4%	1% ↓
Discretionary	13%	1% ↑	4%	0%
Call Pay	12%	0%	3%	2% ↓
Equal Split	10%	5% ↑	20%	7% ↑
APC Supervision	7%	1% ↓	1%	1% ↓
Gross Production	7%	3% ↑	49%	21% ↑
Cost Accounting	6%	5% ↑	45%	22% ↓
Panel Size	0%	1% ↓	0%	10% ↓

Data broken out to provide more detail from prior year survey.

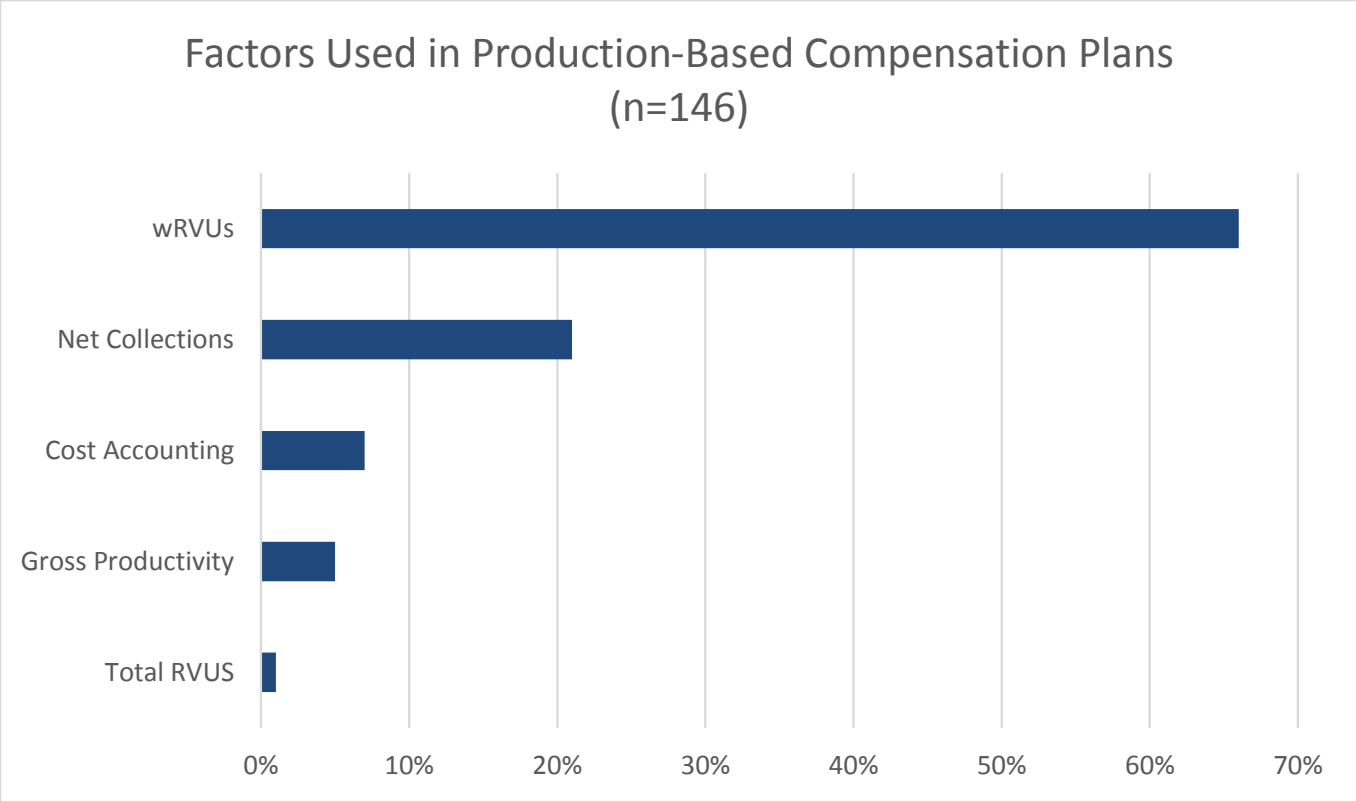
Results from the 2013 AMGA Survey

How do healthcare organizations determine the base salary?



Work RVUs in Compensation Design Still a Dominant Factor

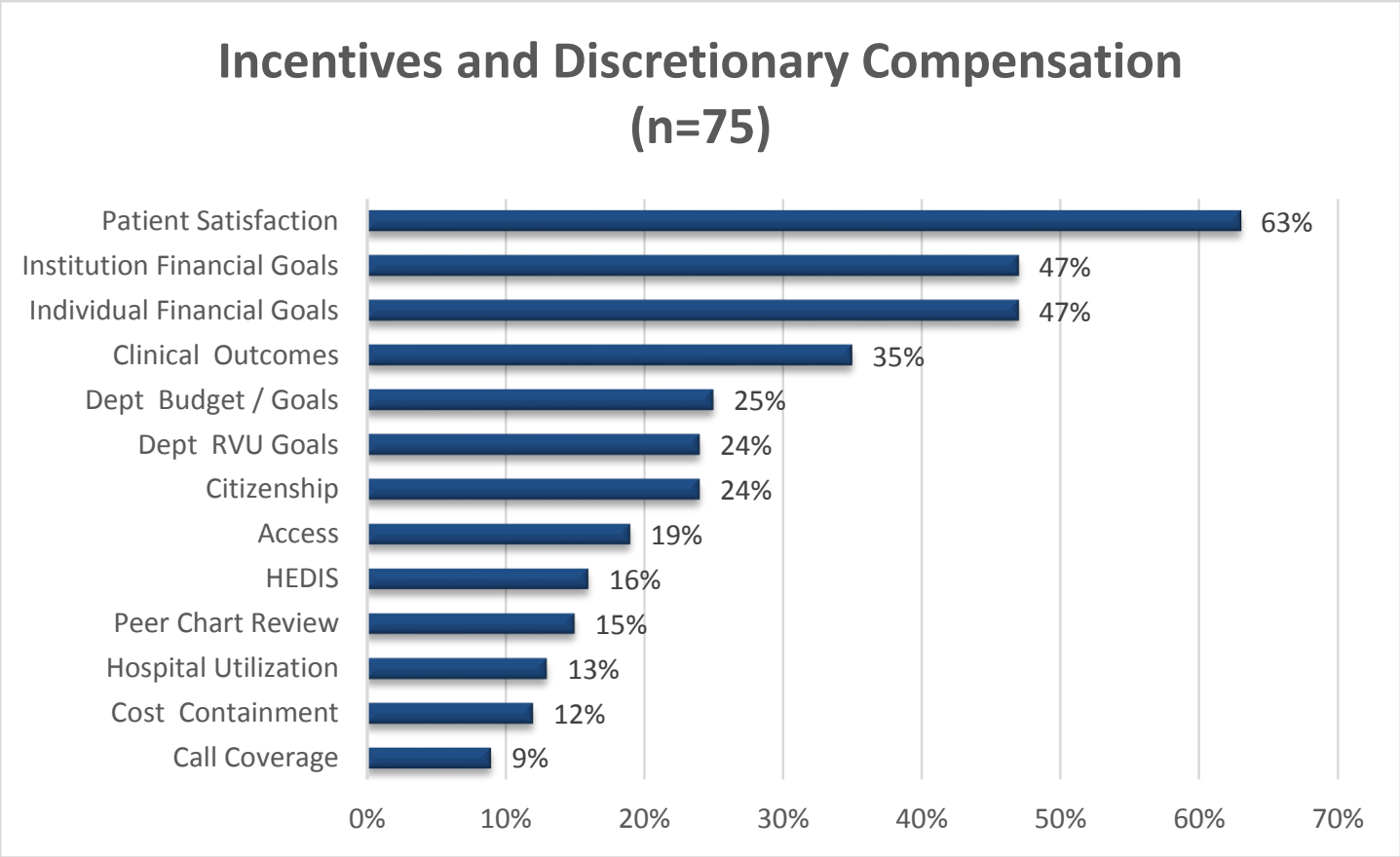
- Sixty-six percent of AMGA survey respondents use work RVUs as the productivity metric for their compensation plans.



Incentive Compensation

Incentives

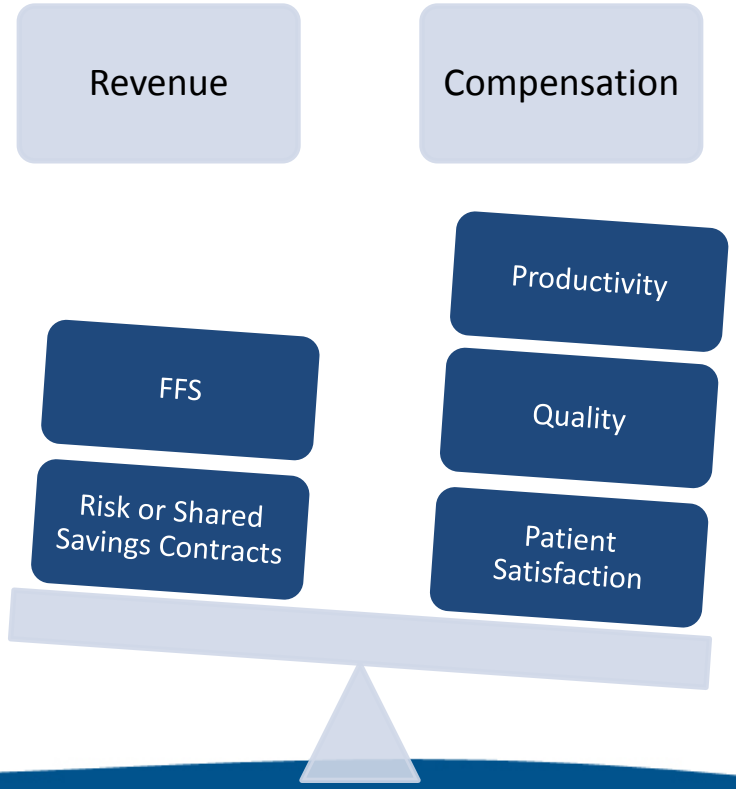
- Compensation based on criteria for items other than direct and individual production.



Key Trends

Key Healthcare Trends for 2014

Production-driven compensation systems need to evolve to reflect the changing healthcare economics, however, many organizations are reluctant to get too far ahead of the reimbursement changes.



Key Healthcare Trends for 2014

Shared saving programs, bundled payments, capitated contracts and insurance exchanges may fundamentally alter the way healthcare organizations obtain reimbursement, therefore it is important that physician compensation plans adjust to these new incentives/revenue stream.

- With this new environment physician compensation plans must focus on more than just productivity (wRVUs).
- There are three fundamental approaches to designing a new physician compensation plan given the new realities:
  - Base Salary plus Incentives – Salary set on market data or prior year performance, incentives tied to specific measurable metrics.
  - Performance Driven – Measure and pay for several variables that drive the new performance metrics i.e. access, quality, patient satisfaction, cost of care etc.
  - Salary Driven – The salary is set on the group culture, targeted market position and organizational economic realities.

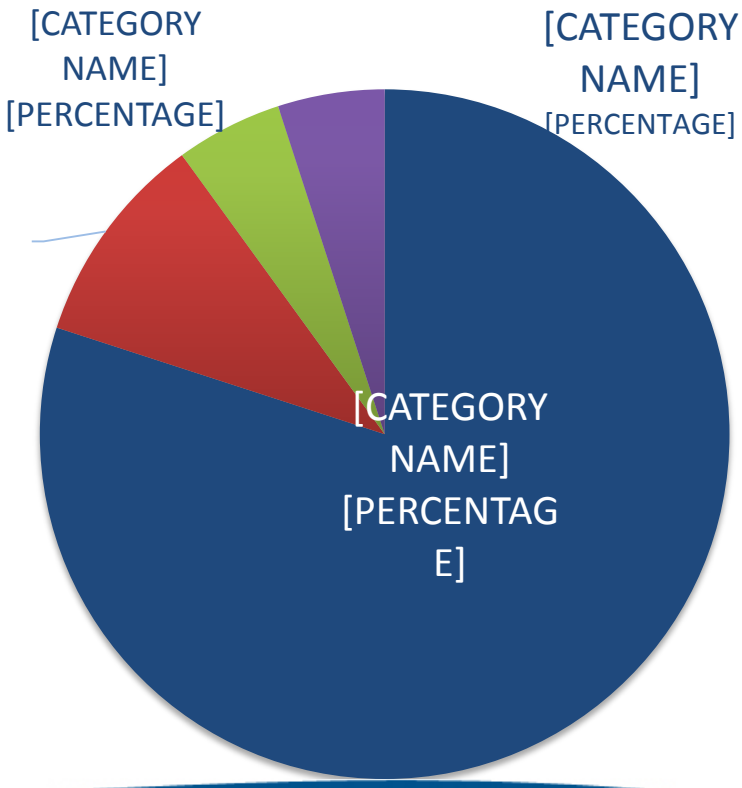
Key Healthcare Trends for 2014

Compensation Planning Challenges – 2014 and Beyond

- Managing physician expectations.
- Disconnect between compensation and reimbursement.
- Difficulty of measuring certain performance activities.
- Balancing conflicting organizational and industry initiatives.
- Internal politics.
- Lack of consensus on the best approach.
- Bad data (yes we still are dealing with bad data).

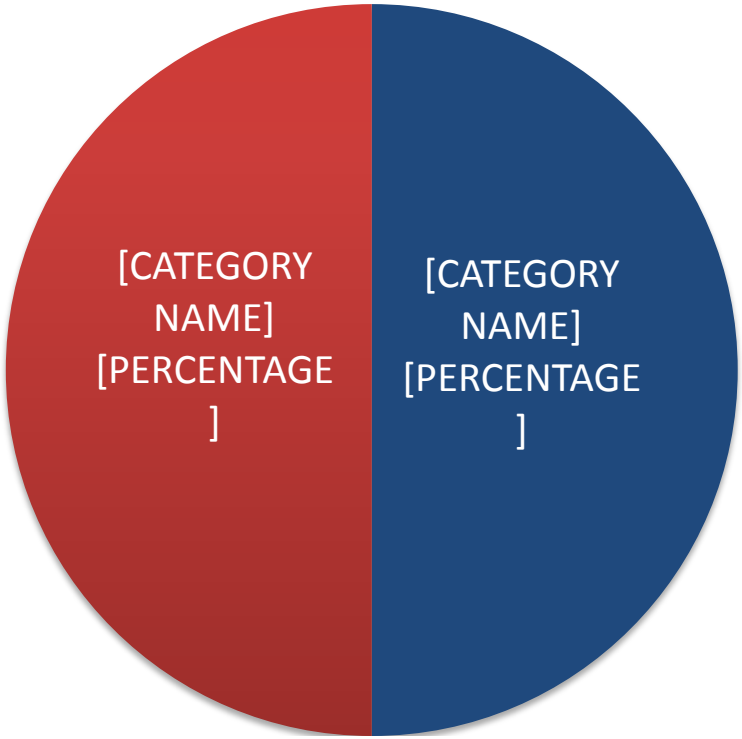
Near Term Approaches

- Compensation models will retain a production element over the next two to three years.
- Patient satisfaction is becoming a standard measure.
- Clinical outcomes are being introduced; initially clinical process measures.



Next Generation Models

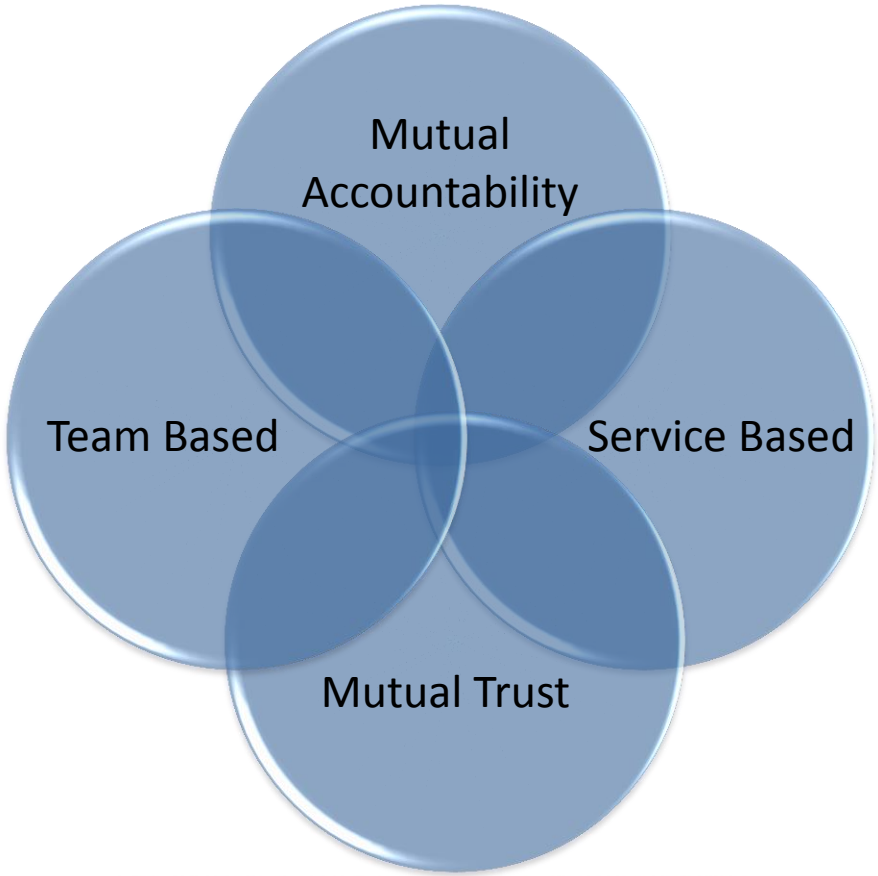
- Will balance production with patient outcome measures.
- Quality measures will move beyond process to outcomes.
- Cost of care across the continuum will emerge as an important factor.



Compensation Program Transition

Culture

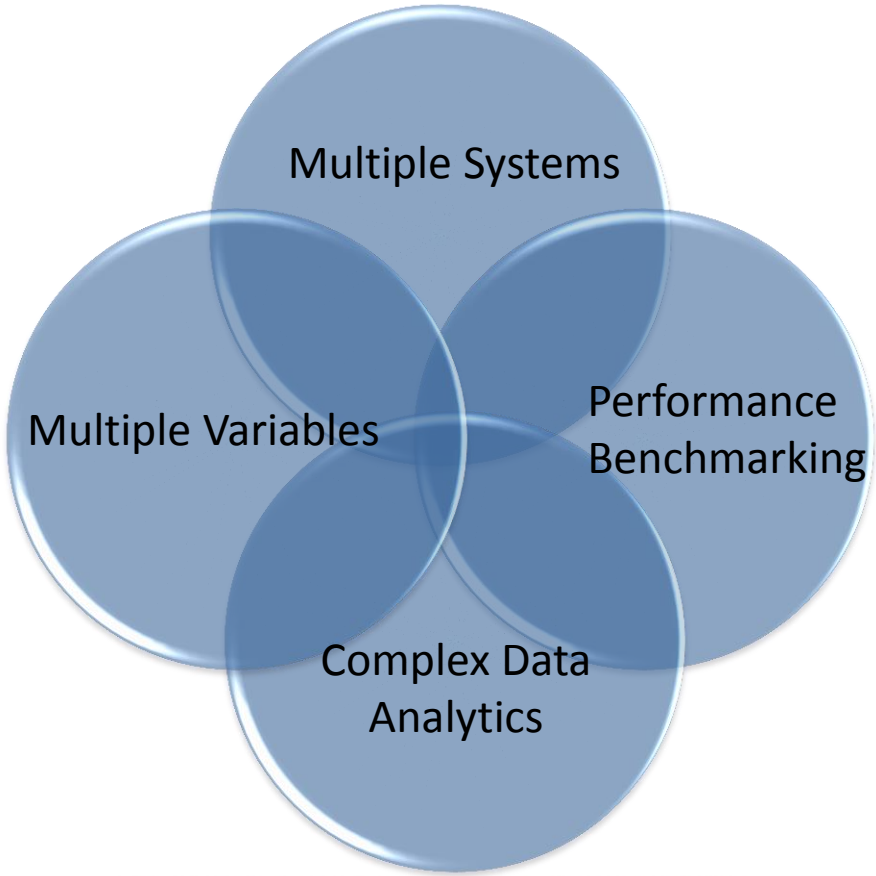
How *fast* can an organization move the pendulum?



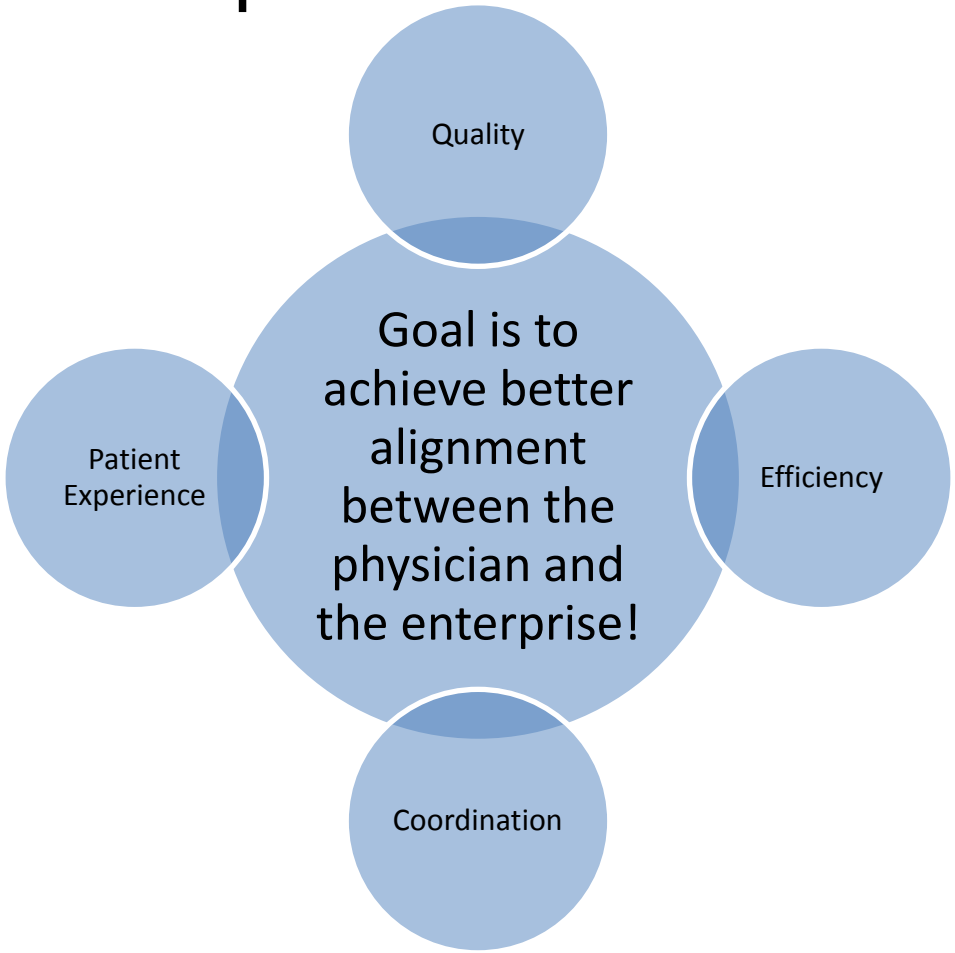
Compensation Program Transition

People, Process and Technology

How *fast* can an organization move the pendulum?



Goal of Successful Physician Compensation Plans



Examples of Transitional Compensation Models

Methodology #1

Base Salary

Performance Incentives

Methodology #2

Base Salary

Performance Incentives

Production Incentives

Methodology #3

Tiered Base Salary

Quality Incentives

Patient Satisfaction

Patient Access

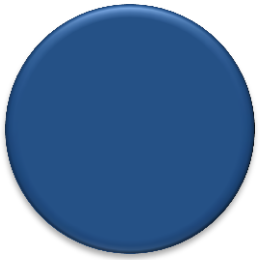
To Do List

- Conduct a cultural assessment and readiness for change.
- Improve EHR and registries to support population health.
- Redesign operational processes to support patient care coordination.
- Develop work standards.
- Redesign physician compensation plan.

24

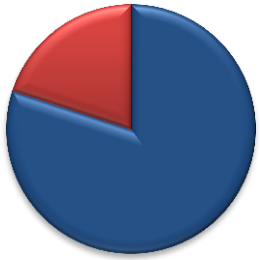
Transitioning from Productivity Based Plan to a Value Based Plan

Years 1 to 2



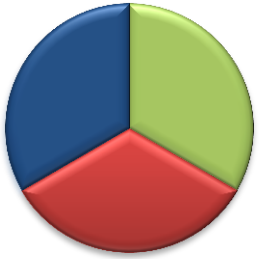
- 100% Production Plan continues.
- Performance measure data collected and tested.
- Shadow reports created.
- Identification of non-productivity metrics.
- Education and communication strategy developed.

Years 2 to 3



- Production compensation reduced.
- Funding established for nonproduction pools.
- Nonproduction incentives grow every year and are continuously evaluated and approved.
- Education and communication ongoing.

Years 3+



- Transition completed.
- The combination of production, nonproduction and guaranteed salary components continues to be evaluated.
- Education and communication ongoing.

Summary

- Healthcare organizations are actively involved is assessing and redesigning their physician compensation plan(s).
- New physician compensation plans have an **"at risk"** component that is based on achievement of patient satisfaction and quality goals, while maintaining a focus on production.
  - Compensation **"at risk"** is in the 5%-20% range today.
  - Larger **"at risk"** components in the future.
- Healthcare organizations are building the processes and infrastructure to report quality outcomes and service metrics.

Questions