Evolving Physician Compensation at The Everett Clinic

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The Everett Clinic (TEC)

- Largest independent medical group in the Pacific Northwest
- Physician Owned
- Nine locations throughout Snohomish County
- Fifth largest private employer in county
- 1,800 employees
- 500 providers
- 300,000 patients
- 900,000 annual visits
- More than 40 medical specialties

The Everett Clinic (TEC)

- One of only 10 organizations to participate in national demonstration project
- Everett identified by Dartmouth Atlas as one of ten model communities in U.S. providing high-quality care at lower cost
- Nationally recognized for program with Boeing that reduced healthcare costs 20% for targeted population
- Featured in one hour national PBS documentary: “U.S. Health Care: The Good News” for providing high-quality healthcare at costs far below the national average

Who We Are

CORE VALUES:

- We do what is right for each patient
- We provide an enriching and supportive workplace
- Our team focuses on value: service, quality, and cost

Physician Compensation Philosophy

- Support our core values
- Attract & Retain the best
- Pay market competitive salaries
- Internal & External equity
- Align incentives & reward appropriate behavior
- Easy to understand & administer
- Compensation plan has changed every 5-7 years as the local market has changed

Where We Have Been

Evolving Business Model

1996-2004

- Facility Expansion
- Profitable Ancillary Services
- Attractive Pricing and Sustained Profitability

2005-2013

- EPIC Implementation
- Emphasis on Lean
- Redefining the Delivery Model (Smokey Point)

Compensation Models

Pre-2010

- Percent of Net Collections
- End of year market adjustments
- Many miscellaneous incentives
- Complex & not transparent

2010

- Moved to wRVUs as primary component
- Salary floor in year 1 if no reduction in work effort

Evolving wRVU Model

- Conversion factors set prospectively
- Introduced sliding scale (2011)
- Increased patient satisfaction pool of money (2011)
- Meaningful Use incentive (2011)
- Care Coordination incentive for Adult Primary Care (2011)
- Steepened sliding scale (2013)

Where We Are Going

- The country is broke
- Less money for healthcare
- Market consolidation
- Healthcare reform (ACOs and Exchanges)
- Rewards to those who deliver value with a lower total cost of care
- Large employers losing global competitiveness
- Loss of cross subsidy for Medicare and Medicaid

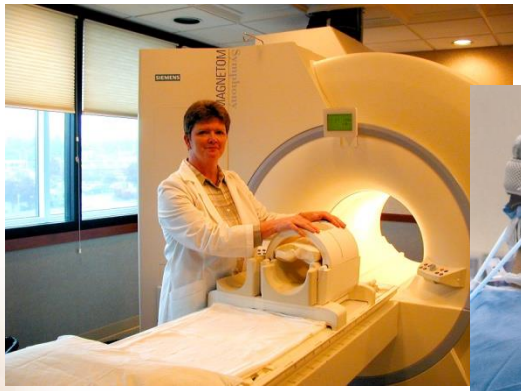
Strategic Direction

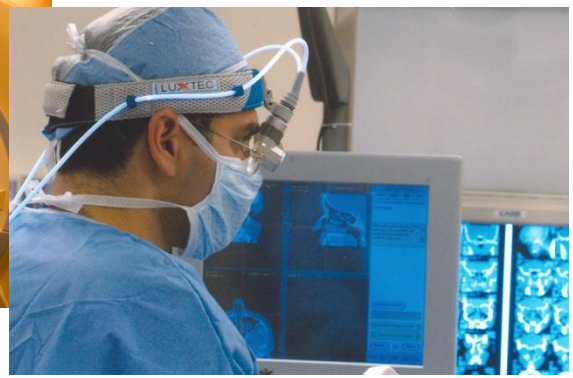
- Make healthcare more affordable
- Stronger emphasis on higher quality and safety
- Prepare for a new reimbursement model
- Improve financial performance
  - Grow
  - Reduce cost per visit

- Implement a more accountable and responsive governance and management model

Our Big Audacious Goal:

Lower the cost of care 25% over the next five years while increasing value





Compensation Plan

- Maintain productivity with wRVU model
- Maintain sliding scale
  - Tiered conversion factors designed for lower producers
- Increase focus on rewarding value
- Will need to be nimble to adjust to changing reimbursement model

Three Year Plan

	Market	Current	2014	2015	2016
RVU/Production	85-90%	90%	85%	80%	76%
Organizational Incentive		0%	3%	4%	5%
Discretionary • Citizenship • Patient Satisfaction • Quality • Access	5+% & Trending Up	1%	3% Y – Adult PC N	7% Y – PC & Spec (4 depts) Y – PC & Spec	10% Y – PC & Spec Y – PC & Spec
Risk/Capitation • Advanced Care Coordination • Utilization			Current Formula for Adult PC*		
Highly Profitable Award r Upward Sliding Scale		1%	1%	1%	1%
Leadership		5%	5%	5%	5%
Other (Mentoring, Disability, Medical Directorship, E-visits, fogey, etc.)		3%	3%	3%	3%

*Study options for rewarding appropriate utilization

Organizational Incentive

- Goal is to align physician behaviors with organizational profitability
- Shared plan with physicians in 2013
- Made modifications based on feedback
- Introduced in 2014
- 3% holdback increases to 5% over time

Focus on the Patient Experience

- Use Press Ganey Surveys
- Incentivizes
  - High performers (top quartile)
  - Long-term performance
  - Improvement over time
  - Team performance
- Teaching/Coaching
  - Providers need tools to improve
  - Mentoring program
- Will impact reimbursement if don't perform

Physician Engagement

- Shareholder engagement in business is critical
- Citizenship bonus
  - $1,500 for meeting attendance
  - Citizenship defined as 24 hours per year

Manage Healthcare Costs

- Advanced Care Coordination Program
- Care Coordination stipend for Adult Primary Care
  - Based on complexity and size of panel
- Data from health plans is inconsistent & incomplete
  - Challenging to tie compensation

Focus on Quality

- Quality Incentive Plan
  - Adult Primary Care (2014)
    - Based on 10 of the 12 Targeted Quality Metrics
    - Up to $5,000 per physician
  - Pediatrics & 4 specialty depts (2015)
  - Rest of specialty (2016)
- Incentive for meeting Meaningful Use requirements
- Revenue related to several value based contracts dependent on quality performance

Focus on Access

- Access Plan
  - Identify new metric (1st half 2014)
    - Current metric is 3rd Available
    - Manual & non-standard process
  - Report on new metric (2nd half 2014)
  - Tie compensation to it (2015)
- Opportunity if able to perform in this area
  - TEC seen as high quality & low cost in market
  - Opportunity to be included in "narrow" networks

Focus on Leadership

- Key for supporting change & to strengthen organizational culture
- Leadership Pay = 5% of total compensation
- Investment in leadership = 1.3% of clinic revenue
- Physician Leadership Structure
  - Board of Directors & key Board Sub-Committees
  - Clinic dyad teams at Service Line level (Primary Care, Sub-Specialty & Surgery)
  - Facility Medical Directors and Department Chairs

Strategic Implications for Providers

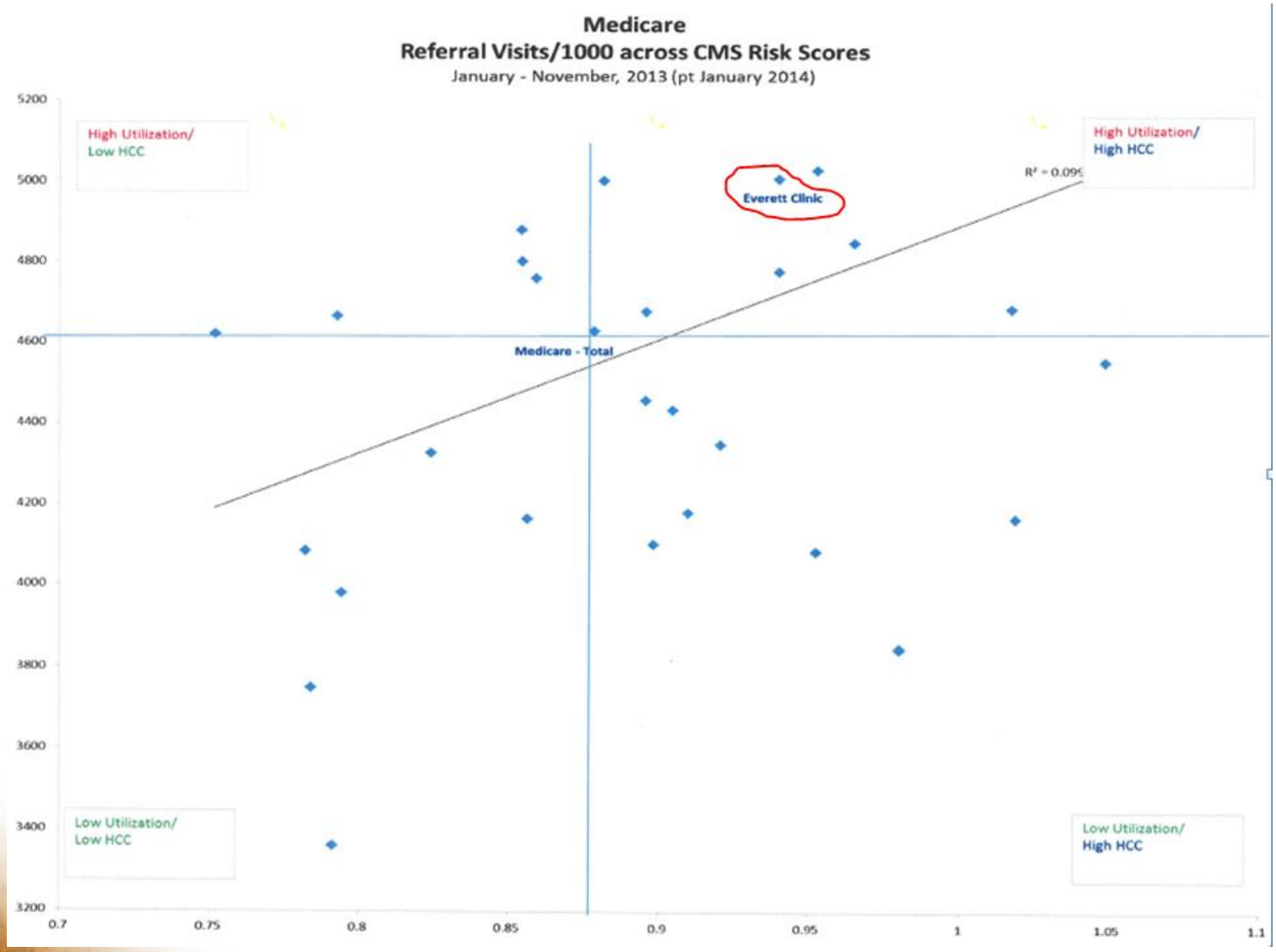
- Improve healthcare with fewer resources
- Transition from supply to demand-driven market
- “Right care at the right time” is now “right care at the right time *at the right place at the right price.”*
- Embed quality and safety in care and work processes
- Strengthen enterprise culture and leadership

Changing How We Get Paid

- Moving away from payment system based on volume
- Piloting contracts that pay providers for value
- Incentives for reaching highest quality standards
- Value Based Contracts Current State
  - Represents 23% of total Patient base
  - Represents 29% of total Revenue base
  - Bonus payments represent 2% of total Revenue base

Focus on Complex Patients and Institutional Management

- 20 percent of patients consume more than 70 percent of healthcare resources
- Innovate care programs that control cost and improve outcomes
  - Boeing Intensive Outpatient Care Program
- Look for ways to avoid unnecessary ED visits
- Seek safe alternatives to hospital admissions
- Preventing unnecessary re-admissions


Medicare
Referral Visits/1000 across CMS Risk Scores
January - November, 2013 (pt January 2014)
High Utilization/
Low HCC
High Utilization/
High HCC
Everett Clinic
Medicare - Total
Low Utilization/
Low HCC
Low Utilization/
High HCC
5200
5000
4800
4600
4400
4200
4000
3800
3600
3400
3200
0.7
0.75
0.8
0.85
0.9
0.95
1
1.05
1.1


2014
ANNUAL CONFERENCE
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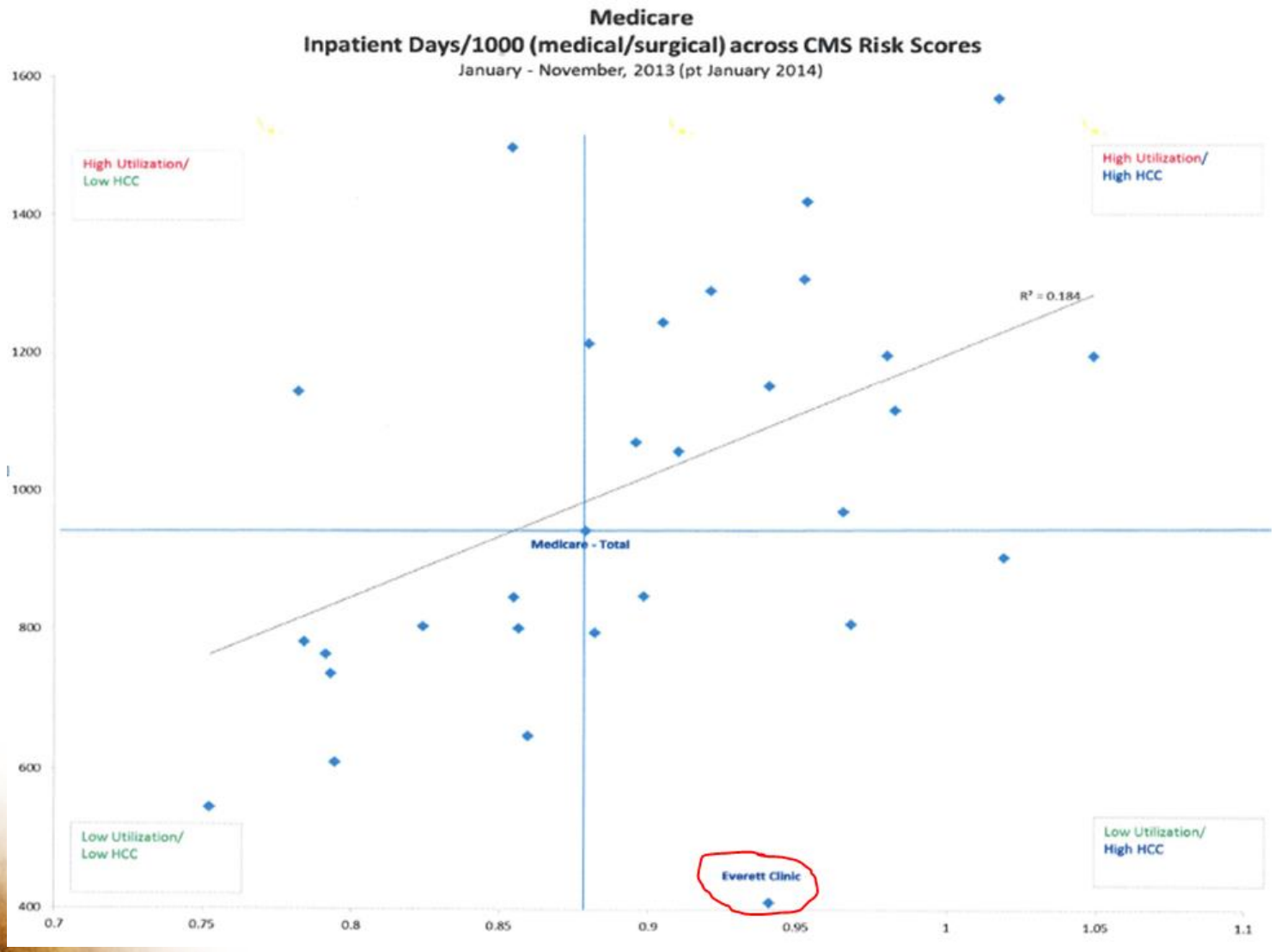
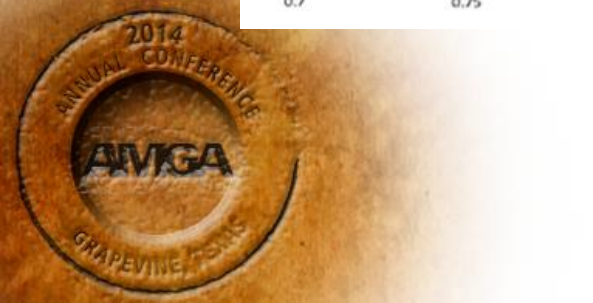

Medicare
Inpatient Days/1000 (medical/surgical) across CMS Risk Scores
January - November, 2013 (pt January 2014)
High Utilization/
Low HCC
High Utilization/
High HCC
R² = 0.184
Medicare - Total
Low Utilization/
Low HCC
Low Utilization/
High HCC
Everett Clinic
1600
1400
1200
1000
800
600
400
0.7
0.75
0.8
0.85
0.9
0.95
1
1.05
1.1


2014
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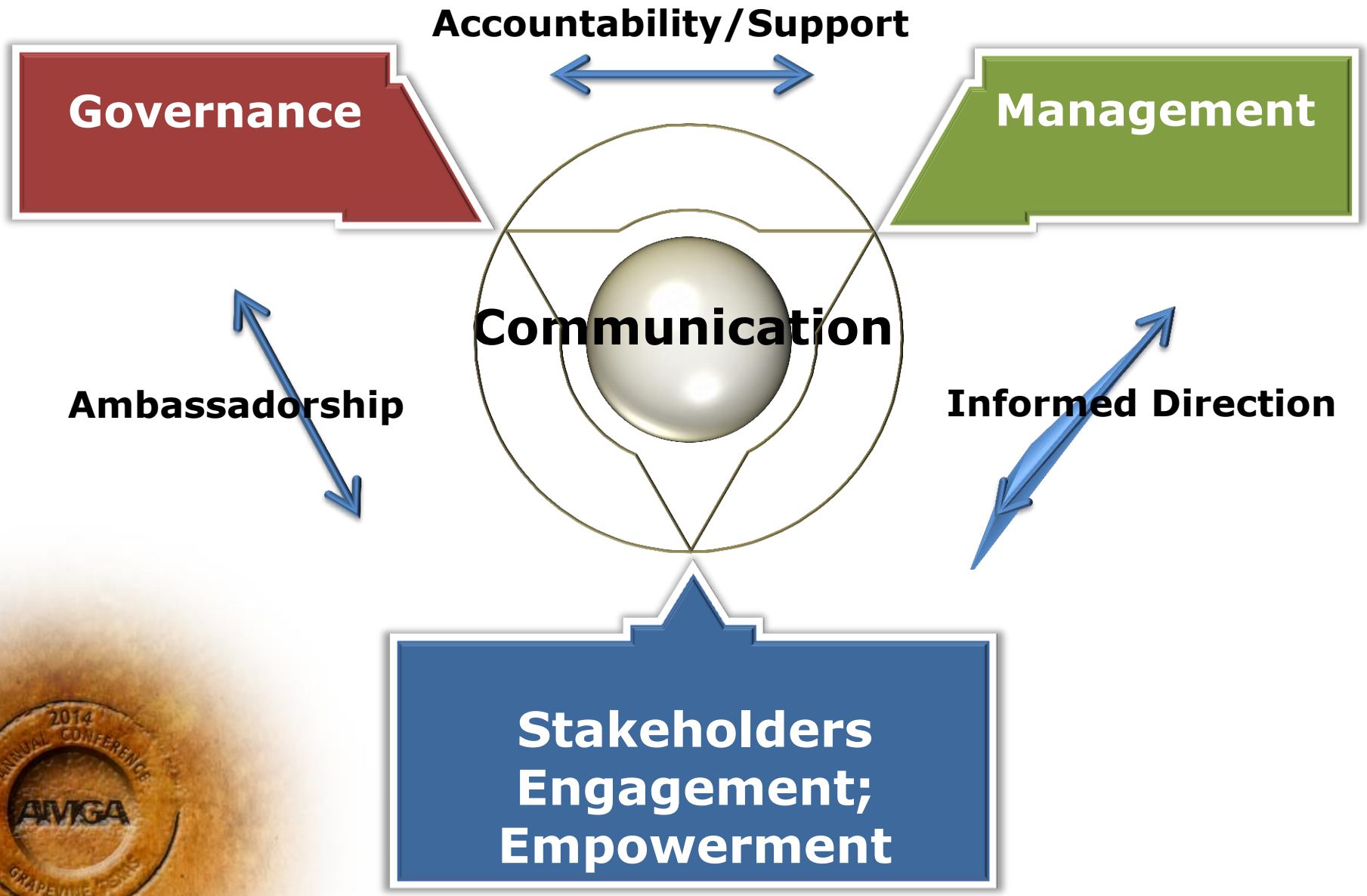
Prescription Management and Integrated Behavioral Health

- Drug representatives and samples banned
- Generic drugs prescribed 90% of the time
- Savings: $100 million a year
- Chronically ill patients deal with depression and anxiety
- Behavioral Health services added to Primary Care services
- Reduced costs 15% below network average

Implementing a More Accountable Governance and Management Model

- The Board must hear the concerns of all shareholder owners and providers
- The industry is going through significant upheaval
- We are at a time where strong governance and unity of purpose are extremely important
  - Change will be a constant
  - Leadership and clarity of direction can help with this


Accountability/Support
Governance
Management
Communication
Ambassadorship
Informed Direction
Stakeholders
Engagement;
Empowerment

TEC Strengths/Threats In the New World

Strengths

- Outpatient care system expertise
- Care coordination
- Lower costs than hospital
- Engaged physicians and staff
- Influence on how the majority of the healthcare dollar is spent

Threats

- Big enough?
- Enough capital?
- Change fatigue?
- Others catching up in expertise
- Unlevel playing field creating uncompetitive situation in certain specialties
- Regulatory battles (imaging in-office ancillary exception)

Issues and Challenges

- Managing the culture
- Communication
  - Educating providers on the changing environment
- Provider engagement
- Finding the right metrics that will align physician behaviors
  - Data from health plans is incomplete, complex & untimely
- IT Infrastructure
  - Data needs to be timely, easy to access & reliable

5 Year Outlook

	5 Year Outlook
RVU/Production	<76%
Organizational Incentive	5%
Discretionary • Citizenship • Patient Satisfaction • Quality • Access	>10%
Risk/Capitation • Advanced Care Coordination • Utilization	Study Options
Highly Profitable Award or Upward Sliding Scale	1%
Leadership	5%
Other (Mentoring, Disability, E-visits, fogey, etc.)	3%

Conclusion

- Compensation is a small but important piece of the puzzle
- Should be consistent with strategies of the organization
  - Clinical Model
  - Business Model
  - Culture

Questions