



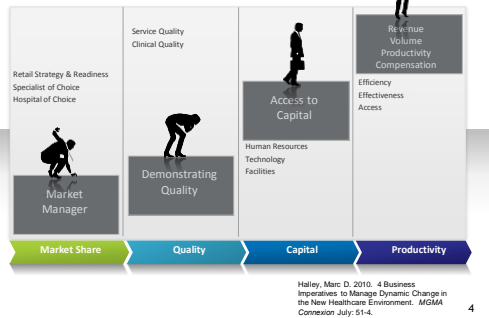
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The Strategic Position of Compensation

A Perfect Storm...



Today's Strategic Imperatives



Drivers for Compensation Review

- Budget Pressure
- Integration of practices
- Physician angst
 - Perceived inequity (internal / external)
 - Lack of control
 - Operational barriers
- Administrative complexity
- etc.

Compensation Committee

Committee Composition

- Physicians: 2-4
 - Respected opinion leaders
 - Highly productive
- Administrative: 2-4
 - Network Executive
 - At least one from: CMO, CFO, HR etc.
- Others may participate on an as needed basis

Committee Considerations

- Identify non-compensation barriers to higher productivity
- Identify meaningful expectations - productivity & reporting
- Simplify
- Assess rates - appropriate?
- Refine/align the fixed/incentive ratio
- Implement a manageable framework
- Create a smooth transition
- Strive toward viability

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Design Considerations

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*Compensation redesign

Is, and is not...

- Not renegotiation of individual compensation
- Not a substitute for active management
- Not something that will yield immediate bottom line improvement
- Not re-surfacing of old politics
- Not easy
- Is opportunity to ensure equity among providers
- Is opportunity to align compensation with productivity
- Is opportunity to reset compensation expectations (physician and administration)

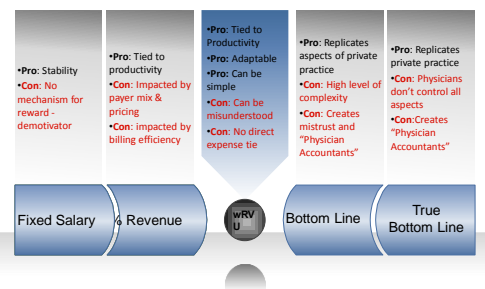
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*Compensation Tenets

- Attract and retain quality physicians while providing internal equity (consistency)
- Productivity or performance compensation components must be based on factors that the provider can directly impact
- Provide personal productivity incentives
- Promote organizational viability
- Evolve with industry trends
- Simple to understand

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Pro & Con of various models



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*Compensation Model

Success Factors

1. Risk - *variability*
2. Physician Control
3. Timely Payout
4. Bottom Line Accountability / Understanding - *viability*

There is no "perfect" model

Any Model/Framework can work in the right situation

With any approach, the parameters must be set appropriately

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Simplified RVU Model Illustration

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Model Dynamics

Base

Prior Year total comp * Base %
Paid monthly/bi-weekly

Productivity

Unit * Rate
Reconciled against Base
paid Monthly

Quality/Other

Total

Unit * Rate or Base, whichever is greater

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Model Dynamics

Yearly Illustration (75% Base)

Simplified year by year example

	Year 1	Year 2	Year 3	Year 4
Prior Year Compensation (Compensation Basis):	\$12,000	\$15,000	\$14,000	\$16,000
Base Compensation %	75%	75%	75%	75%
Annual Base Compensation\$	\$9,000	\$11,250	\$10,500	\$12,000
Moving Average Work RVUs	1,500	1,400	1,600	1,150
Rate per Work RVU	\$10	\$10	\$10	\$10
Total Rate * RVU	\$15,000	\$14,000	\$16,000	\$11,500
Less: Total Base Compensation Paid	-\$9,000	-\$11,250	-\$10,500	-\$12,000
Add'l Productivity Comp Earned	\$6,000	\$2,750	\$5,500	-\$500
Total Year End Compensation (Basis for next year):	\$15,000	\$14,000	\$16,000	\$12,000

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Model Dynamics

Monthly Illustration (75% Base)

Simplified month by month example

	Month 1	Month 2	Month 3	Month 4
Monthly Base Compensation \$ ($\$10,800$ annually)	\$900	\$900	\$900	\$900
wRVU 2 months prior	100	110	115	115
wRVU 1 month prior	110	115	115	100
Current Month wRVU	115	115	100	50
3 Month moving average	108.0	113.0	110.0	88.0
Multiplied by rate/RVU	\$10	\$10	\$10	\$10
Comp Earned	\$1,080	\$1,130	\$1,100	\$880
Less Base Compensation Paid	-\$900	-\$900	-\$900	-\$900
Additional Productivity Compensation	\$180	\$230	\$200	\$0

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Model Dynamics

Yearly Illustration (Declining % Base in transition)

Simplified year by year example

	Year 1	Year 2	Year 3	Year 4
Prior Year Compensation (Compensation Basis)	\$12,000	\$15,000	\$14,000	\$16,000
Base Compensation %	90%	80%	70%	50%
Annual Base Compensation\$	\$10,800	\$12,000	\$9,800	\$8,000
Moving Average Work RVUs	1,500	1,400	1,600	1,400
Rate per Work RVU	\$10	\$10	\$10	\$10
Total Rate * RVU	\$15,000	\$14,000	\$16,000	\$14,000
Less: Total Base Compensation Paid	-\$10,800	-\$12,000	-\$9,800	-\$8,000
Add'l Productivity Comp Earned	\$4,200	\$2,000	\$6,200	\$6,000
Total Year End Compensation (Basis for next year):	\$15,000	\$14,000	\$16,000	\$14,000

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Additional Components

Incorporating “Quality”

- Identify the “pool” dollars
 - Ensure Total \$\$ are viable/reasonable (Productivity \$\$ + “Quality” \$\$)
 - Allocate those additional \$\$/wRVU upon meeting the defined criteria
 - Staff cost, quality metrics, etc

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Patient Satisfaction

Patient Satisfaction Survey Results: Hospital will develop an Ambulatory Clinic-focused patient satisfaction survey instrument. While the survey instrument may contain several questions of a broad satisfaction nature, the questions for which physicians will receive scoring are specific to the care and service provided by the physician. Patients will rank the physician on a scale with the following increments: Strongly Agree, Agree, Disagree, Strongly Disagree.

Specific Questions Used for Scoring

- *[Provider] spent enough time with me during my visit/examination*
- *I understood the explanation of my care/illness as provided by [Physician]*
- *[Physician] was friendly/courteous during my visit.*
- *I would be comfortable recommending [Physician] to my friends and family for care.*

Patient Satisfaction Measures	
Compliance Threshold	Quarterly Payment to Physician
Provider achieves a score of 90% of responses or greater indicating they strongly agree or agree for the specific measures indicated	25% of the total Performance Pool (\$1.00 per wRVU)
Provider achieves a score of 89% or lower	No additional payment

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Cost Containment

Labor Force Cost Containment: Establish a baseline support staff cost per wRVU. The GROUP must maintain support staff cost (all non physician labor expense) below the identified threshold. (Staff cost per wRVU ratio will be established in advance based upon an agreed upon rate as identified within the annual budget.)

Labor Force Cost Containment	
Compliance Threshold	Quarterly Payment to Group
Achieves a staff cost/wRVU which is below the specified threshold	25% of the total Performance Pool (\$1.00 per wRVU)
Group achieves a staff cost/wRVU ratio which is above the budget threshold	No additional payment

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PQRS or Payer Incentives

CMS PQRS	
Compliance Threshold	Quarterly Payment to Physicians
Achieves a score of 100% compliance	50% of the total Performance Pool (\$2.00 per wRVU)
Provider achieves a score lower than 100%	No additional payment

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Productivity vs. Quality

They are complimentary

Full Emphasis on Productivity

Total \$\$ available for compensation (\$20/wRVU)

Equal Emphasis on Productivity & Quality

Total \$\$ available for compensation (\$20/wRVU)
50% on productivity (\$10/wRVU) | 50% on quality* (\$10/wRVU)

* distribution based on meeting quality metrics

Higher Emphasis on Quality

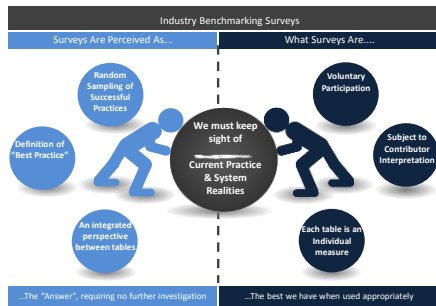
Total \$\$ available for compensation (\$20/wRVU)
25% on productivity (\$5/wRVU) | 75% on quality* (\$15/wRVU)

* distribution based on meeting quality metrics

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Survey Data

Industry Surveys



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Compensation Benchmarks

Real world scenario

Scenario: A cardiologist who wants to become employed. His wRVU productivity is 18,400 \approx 90th %tile. You want to compensate at a fair rate.

What rate/RVU should be paid?

Summary of MGMA Compensation & Production Survey:
Cardiology: Invasive-Interventional

MGMA Table #	25th %tile	Median	75th %tile	90th %tile
Work RVU (20.1)	8,146	10,224	13,852	18,316
Compensation (1.1)	\$389,211	\$497,500	\$639,965	\$811,697
Compensation/wRVU (22.1)	\$39	\$49	\$58	\$71

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Compensation Benchmarks

Real world scenario

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If incorrectly applied, the costs can be significant

- a) \$71 or > (\$1.3MM, \$500k above 90th %tile)
- b) \$55 to \$60 (\$58 results in \$1.07MM, \$255k above 90th %tile)
- c) \$45 to \$50 (\$50 results in \$920K, \$108K above 90th %tile)
- d) < \$45 yields comp right at 90th%tile

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Compensation Benchmarks

Real world scenario

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Identify what the practice actually achieved
(Based on earnings statements and RVU productivity)

- RVU Productivity = 18,400
- Compensation (from W-2 or K-1) = \$600,000
- Compensation achieved from the practice = \$33 / wRVU

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Compensation Benchmarks

Real world scenario

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Work RVU (20.1)	8,146	10,224	13,852	18,316
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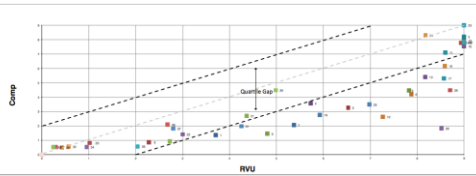
- Data elements are independent survey elements!
- 90th %tile compensation doesn't mean the compensation of physicians who have RVU productivity at the 90th %tile
- Ratio tables (Compensation / wRVU) are never a good measure upon which to base compensation.
- Competitive situations often demand a premium – Base the premium on the correct benchmark

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Integration & Transition

Decile Plot - RVU vs. Comp

Private Multi-specialty Practices

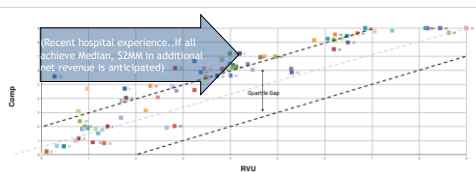


Private practices - by definition break-even
All have advanced ancillary revenue (CT/MRI)

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Decile Plot - RVU vs. Comp

Hospital Employed Practices



Employed by Hospitals & Systems
Premiums due to:
strategic / competitive pressure
poor compensation design

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The Devil is in the transition

The transition period will make or break the
compensation implementation

Transition Challenges

- Standardizing on a new metric can create unintended “bonuses”
- Wide variation in existing rates/wRVU
- Keeping the “right” group whole
- High producers with high rates/wRVU
- All politics become yours!

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Transition Process

1. Segment into productivity tiers
2. Identify “equivalent” rates within each tier
3. Starting with top tier, identify the rate that achieves the objective (generally to keep them whole)
4. Work backward through the tiers
5. Look for “champions”
6. Avoid payment tiers if possible, use tiers when needed as a transition mechanism
7. Once rates are identified, address roll-in timing

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Segment into productivity tiers

PC	Historical Compensation			Compensation Modeling			Original Productivity Comp	Basic Rate (Productivity Comp)
	Comp	RVU	Comp/Comp	Base Rate	Total Comp	Delta		
Specialty	Comp	RVU	Comp/Comp	Base Rate	Total Comp	Delta	Original Productivity Comp	Basic Rate (Productivity Comp)
1 Family Practice (with)	\$ 355,264	11,325	\$ 27.82	\$ 330,746	\$ 330,746	\$ 24,518	\$ 330,746	\$ 24,518
2 Family Practice (with)	\$ 266,250	8,759	\$ 30.40	\$ 262,770	\$ 262,770	\$ 3,480	\$ 262,770	\$ 3,480
3 Family Practice (with)	\$ 250,422	8,703	\$ 28.78	\$ 261,076	\$ 261,076	\$ 10,654	\$ 261,076	\$ 10,654
4 Family Practice (with)	\$ 267,434	8,649	\$ 30.92	\$ 259,480	\$ 259,480	\$ 7,954	\$ 259,480	\$ 7,954
5 Family Practice (with)	\$ 268,235	8,621	\$ 31.11	\$ 258,623	\$ 258,623	\$ 9,612	\$ 258,623	\$ 9,612
6 Family Practice (with)	\$ 233,424	8,246	\$ 28.31	\$ 247,376	\$ 247,376	\$ 13,048	\$ 247,376	\$ 13,048
7 Family Practice (with)	\$ 223,086	8,083	\$ 27.60	\$ 242,497	\$ 242,497	\$ 18,399	\$ 242,497	\$ 18,399
8 Family Practice (with)	\$ 227,510	7,933	\$ 28.68	\$ 237,980	\$ 237,980	\$ 10,470	\$ 237,980	\$ 10,470
9 Family Practice (with)	\$ 218,253	7,799	\$ 27.99	\$ 233,980	\$ 233,980	\$ 15,687	\$ 233,980	\$ 15,687
10 Family Practice (with)	\$ 186,950	7,395	\$ 25.28	\$ 221,849	\$ 221,849	\$ 34,898	\$ 221,849	\$ 34,898
33 Family Practice (with)	\$ 93,874	3,834	\$ 24.49	\$ 112,015	\$ 112,015	\$ 18,141	\$ 112,015	\$ 18,141
34 Family Practice (with)	\$ 109,793	3,822	\$ 28.73	\$ 114,070	\$ 114,070	\$ 4,277	\$ 114,070	\$ 4,277
36 Family Practice (with)	\$ 136,950	3,529	\$ 38.81	\$ 105,860	\$ 105,860	\$ 31,090	\$ 105,860	\$ 31,090
37 Family Practice (with)	\$ 105,395	3,483	\$ 30.26	\$ 104,496	\$ 104,496	\$ 998	\$ 104,496	\$ 998
38 Family Practice (with)	\$ 84,568	3,443	\$ 24.48	\$ 103,383	\$ 103,383	\$ 18,815	\$ 103,383	\$ 18,815
39 Family Practice (with)	\$ 96,000	2,690	\$ 35.68	\$ 80,712	\$ 80,712	\$ 15,288	\$ 80,712	\$ 15,288
40 Family Practice (with)	\$ 40,008	2,432	\$ 16.48	\$ 72,568	\$ 72,568	\$ 12,560	\$ 72,568	\$ 12,560
42 Family Practice (with)	\$ 112,024	1,980	\$ 56.58	\$ 59,393	\$ 59,393	\$ 52,631	\$ 59,393	\$ 52,631
43 Family Practice (with)	\$ 189,998	1,891	\$ 99.90	\$ 56,727	\$ 56,727	\$ 133,271	\$ 56,727	\$ 133,271
44 Family Practice (with)	\$ 48,000	1,761	\$ 27.27	\$ 52,849	\$ 52,849	\$ 10,849	\$ 52,849	\$ 10,849
45 Family Practice (with)	\$ 28,314	1,077	\$ 26.30	\$ 32,301	\$ 32,301	\$ 3,987	\$ 32,301	\$ 3,987

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Work down through tiers

Historical Compensation				Compensation Modeling									
PC	Comp	ROI	of Comp	Base Rate	Tier #1	Tier #2	Tier #3	Total Comp	Ofc's In Production	Equity Rate	Productivity	Control	
Specialty	6,858,237	108,624	11.00	\$25.00	\$1	\$2	\$3	\$14,742	7	(705,450)			
1 Family Practice (with)	\$15,564	11,325	\$ 27.82	\$ 78,648	\$ 11,325	\$ 16,575	\$ 26,699	\$ 51,212	\$ 34,208	\$	31		
2 Family Practice (with)	\$66,250	8,759	\$ 30.60	\$ 218,975	\$ 8,759	\$ 26,277	\$ 17,518	\$ 271,529	\$ 5,279	\$	31		
3 Family Practice (with)	\$20,422	8,793	\$ 28.78	\$ 217,563	\$ 8,793	\$ 26,108	\$ 17,459	\$ 269,778	\$ 19,356	\$	31		
4 Family Practice (with)	\$27,434	5,669	\$ 30.92	\$ 216,333	\$ 5,669	\$ 25,948	\$ 17,299	\$ 268,129	\$ 695	\$	31		
5 Family Practice (with)	\$68,235	8,621	\$ 31.11	\$ 215,519	\$ 8,621	\$ 25,862	\$ 17,242	\$ 267,244	\$ 991	\$	31		
6 Family Practice (with)	\$33,434	8,246	\$ 28.31	\$ 205,147	\$ 8,246	\$ 24,738	\$ 16,902	\$ 255,632	\$ 22,198	\$	31		
7 Family Practice (with)	\$23,098	8,083	\$ 27.60	\$ 202,081	\$ 8,083	\$ 24,250	\$ 16,168	\$ 250,581	\$ 27,483	\$	31		
8 Family Practice (with)	\$27,510	7,933	\$ 28.68	\$ 198,317	\$ 7,933	\$ 23,798	\$ 15,865	\$ 245,913	\$ 18,402	\$	31		
9 Family Practice (with)	\$18,331	7,799	\$ 27.99	\$ 184,583	\$ 7,799	\$ 23,308	\$ 15,599	\$ 241,779	\$ 23,486	\$	31		
10 Family Practice (with)	\$18,950	7,395	\$ 25.28	\$ 184,874	\$ 7,395	\$ 22,185	\$ 14,790	\$ 229,244	\$ 4,791	\$	31		
33 Family Practice (with)	\$9,874	3,834	\$ 24.49	\$ 95,846	\$ -	\$ -	\$ -	\$ 95,846	\$ 1,972	\$	25		
34 Family Practice (with)	\$19,791	3,822	\$ 43.81	\$ 95,558	\$ -	\$ -	\$ -	\$ 95,558	\$ 64,235	\$	25		
35 Family Practice (with)	\$16,950	3,529	\$ 38.61	\$ 82,317	\$ -	\$ -	\$ -	\$ 82,317	\$ 48,733	\$	25		
37 Family Practice (with)	\$25,395	3,483	\$ 30.26	\$ 87,080	\$ -	\$ -	\$ -	\$ 87,080	\$ 18,315	\$	25		
38 Family Practice (with)	\$8,268	3,463	\$ 24.48	\$ 86,069	\$ -	\$ -	\$ -	\$ 86,069	\$ 1,901	\$	25		
39 Family Practice (with)	\$6,000	2,690	\$ 35.68	\$ 67,260	\$ -	\$ -	\$ -	\$ 67,260	\$ 28,740	\$	25		
40 Family Practice (with)	\$6,058	2,432	\$ 24.68	\$ 60,798	\$ -	\$ -	\$ -	\$ 60,798	\$ 790	\$	25		
42 Family Practice (with)	\$13,024	1,980	\$ 56.58	\$ 49,694	\$ -	\$ -	\$ -	\$ 49,694	\$ 62,530	\$	25		
43 Family Practice (with)	\$19,968	1,891	\$ 89.90	\$ 47,273	\$ -	\$ -	\$ -	\$ 47,273	\$ 122,726	\$	25		
44 Family Practice (with)	\$8,000	1,781	\$ 35.77	\$ 44,032	\$ -	\$ -	\$ -	\$ 44,032	\$ 18,560	\$	25		
45 Family Practice (with)	\$8,314	1,077	\$ 26.30	\$ 26,917	\$ -	\$ -	\$ -	\$ 26,917	\$ 1,397	\$	25		

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Successful Transition Takes Time

Activities	May '12	Jun	Jul	Aug	Sep	Oct	Nov	Dec '13	Jan '14	Feb	Mar	Apr	May
Shadowing for existing providers	Shadowing												
Transition implementation for existing providers													
Full implementation for existing providers													
New providers receive income guarantee (fixed base) during 24 month start up period													

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