Introduction

In recent years there has been a dramatic increase in the number of hospitals employing physicians. Yaffe & Company, Inc. was interested in learning how organizations are addressing physician compensation governance, and plan design in the face of rapid advancement of physician employment. What we learned is that, presently, the compensation governance models and plan design structures for these physicians vary widely among hospitals and often even among physicians within the same hospital.

The survey generated responses from 177 organizations across 34 states.

Demographics

73% of participating organizations have less than $200MM in net patient revenues, with 45% of participants falling in the $50 - $200MM range.

50% of participants have less than $10MM in Physician Enterprise Revenue, with the largest group (20%) falling in the $2-5MM range.

Employed Medical Staff

Our survey indicated that anywhere from 0 to 100% of physicians are employed with the organization, with the median being 25%.

32% of participants indicated that their organizations employ between 10% and 30% of their physicians. It will be interesting to track this metric over time.

Given the current pressure for collaboration to increase quality and lower cost which is likely to continue, will employment continue to rise as an attractive model?

Physician Compensation Governance

As we see more and more physicians employed it is likely that the number of organizations with a physician compensation governance structure will also grow. According to our survey, only 56% of responding
organizations indicate that a physician compensation governance structure exists in their organizations and the elements involved in such a structure vary widely.

Among participants, it is clear that organizations with an oversight structure have different levels of governance sophistication. Almost two-thirds of respondents have reporting and compliance guidelines. Compliance guidelines can include establishing the framework within which physician compensation governance should operate. It may include items such as regular education to ensure the competence of those charged with such responsibility and guaranteeing access to expertise regarding the complex legal and regulatory landscape. If an organization does not have a Committee established for this express purpose, one would expect to begin seeing another Committee’s charter identify physician compensation as one of its responsibilities. One-fifth of respondents have a Committee chartered specifically for physician compensation and transactions. The charter is essential for establishing the committee, its role, and the scope of its authority.

Reporting guidelines seek to identify the extent of information to be reviewed, what information is selected to determine comparability, how that information is reported, and with whom it is shared. 63% indicated that guidelines of some form are in place. Only half of respondents have a written philosophy which establishes the competitive position of the organization and the relationship between fixed compensation and variable compensation, benefits and perquisites, and the extent to which productivity and non-productivity measures are used.

The survey results indicate that there is no physician compensation standard or best practice with respect to process or the responsible party or parties. Most often, the responsible party was the Executive Committee (24%) or the Compensation Committee (10%). Most notable may be that 8% either do not know or do not have a committee responsible. As this area becomes more complicated with potential 990 reporting, there will be a need for this to be clarified. With public reporting and increased scrutiny, it is likely that organizations where the CEO and/or Executive Team are currently responsible, the Board or a sub-Committee will have to find the proper oversight role that doesn’t stifle the ability to recruit necessary physicians to the community.

Over time, having an established nimble process will allow organizations to shift to a more holistic view of physician compensation rather than re-negotiating contracts on an ad hoc basis which can potentially lead to unintended consequences. What approach and process makes sense for your organization? Is the process currently in place effective? How could it be improved?
Physician Compensation Plan Design and Benchmarking

On average, responding organizations use two sources of data for benchmarking physician compensation. 24% of respondents use 3-4 different data sources. Over 20 different sources were named, with MGMA being the most cited source. Incorporating multiple data sources into the review allows an organization to understand regional differences or identify if a particular survey source is skewed for one particular reason or another. Finding the right source(s) for the right purpose and understanding how to make sense of the data will become increasingly important to executive management as they compete for talent.

When asked what elements are included in the physician compensation plan, 89% of respondents identified fixed base salary. It will be interesting to see how the shift toward value-based purchasing, desire for higher quality, and greater patient satisfaction will impact the balance and distribution of these factors.

Additional Comments

Physician compensation is an area that is currently changing rapidly, and will continue to do so. The thoughtful establishment of physician compensation governance takes time to work through and must be flexible to inevitable change. Compensation programs and the approach taken by each individual hospital will have a tremendous impact on the future of the organization. There are downstream impacts and much to be determined in regards to collaboration, the health and well-being of communities, and the viability of the organization itself. For those hospitals and systems which have little or no approach to speak of, this is the time to reconsider a process.
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