

PHYSICIAN COMPENSATION GOVERNANCE: BUILDING A GOOD FOUNDATION

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Many hospitals and healthcare systems have seen year-over-year growth during the past decade in the number of employed physicians and advanced practice providers, sparked by the gradual shift to value-based reimbursement. According to the 2016 American Medical Association Physician Benchmark Survey,¹ over 50% of family practice physicians in the United States are employees of a hospital or wholly-owned subsidiary. The same holds true for physicians that practice in a multispecialty setting, with direct employment trends expected to continue over the next few years.

As physician networks grow, questions of compensation governance arise, frequently in direct proportion to the size and complexity of the network. Organizations have adopted various approaches to their physician compensation governance and related compensation models to align physician stakeholders with the goals of value-based care. Organizations such as Mayo Clinic, The Cleveland Clinic, and Kaiser Permanente have largely standardized their compensation philosophy and found success putting employed physicians on a fixed salary as a means to reduce the over-treatment of patients and incentivize quality of care and administrative efficiency.² More commonly, community-based healthcare systems seek to align employed physician compensation by ensuring compensation plans reflect the organization's risk relative to at-risk quality performance reimbursement. Thus, given the dynamic nature of healthcare reimbursement and the associated physician compensation arrangements, organizations are best served when physician compensation is proactively managed within the framework of a high-functioning physician compensation governance structure. Below, we explore three elements of physician compensation governance: (1) **the Compensation Committee**, (2) the **Compensation Policy**, and the **Compensation Plan**.

THE COMPENSATION COMMITTEE

Who *governs* compensation issues is an important question within the physician compensation compliance arena? The answer can have far-reaching ramifications. For physicians employed by a hospital or health system, questions often arise as to whether the hospital board of directors governs or perhaps delegates physician compensation oversight to the physician network board. In smaller organizations, it is not uncommon for a member of the c-suite or legal counsel to provide oversight of physician compensation in conjunction with the hospital's board. Governance structures can take on various shapes and sizes. However, from a best practice standpoint, it is essential for organizations to ensure that a robust governance structure exists and that the fiduciary responsibilities surrounding physician compensation are proactively managed.

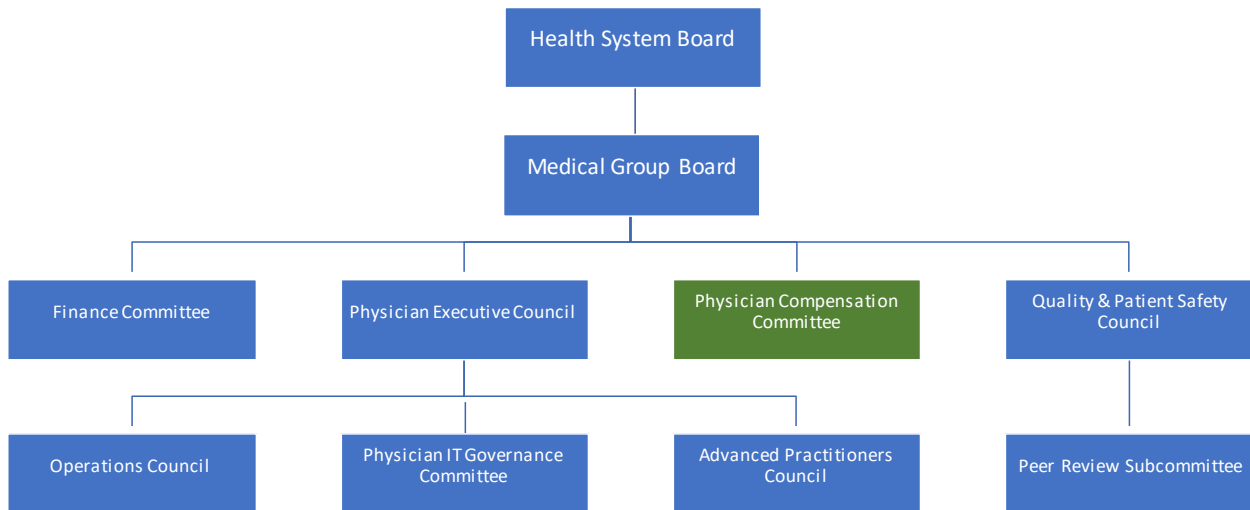
¹ <https://www.ama-assn.org/sites/default/files/media-browser/public/health-policy/PRP-2016-physician-benchmark-survey.pdf>

² <https://www.sciencedaily.com/releases/2017/05/170509121934.htm>

The size of the physician network should be considered prior to establishing a governance structure. From a functionality standpoint, it probably does not make sense for medical groups that have 10 employed physicians to have a multilayered governance structure, including a formal compensation committee. In a medical group that has 50 or more employed physicians, a compensation committee becomes a necessity.

Figure 1 charts a governance structure for a health system and affiliated medical group, wherein the health system has delegated physician compensation oversight to the medical group, via the medical group’s physician compensation committee, with ultimate oversight retained by the health system’s board of directors.

Figure 1: Example of Health System and Medical Group Governance Structure



The compensation committee should be created based on a charter that defines the roles and responsibilities of the committee, including the committee’s duty to provide oversight and reporting and not merely as a body that makes recommendations. A physician compensation committee should oversee compensation model development and the maintenance and ongoing oversight thereof, updates to compensation policies and procedures, advocating for updates to approved compensation models, and compensation related issue resolution.

As Figure 2 illustrates, the compensation committee should have established roles as determined by the compensation committee’s charter.

Figure 2: Example of Health System and Medical Group Compensation Committee Roles

	Medical Group President	Physician Compensation Committee	Medical Group Board of Trustees	Health System Compensation Committee
Committee Charter		Follows	Adopts	
Philosophy	Follows	Adopts	Approves	Approves
Goals and Budgets	Recommends and Follows	Adopts	Approves	Reviews (as needed)
Recruiting		Recommends	Approves	Reviews (as needed)
Agreements	Approves	Reviews		
Policy Exceptions	Recommends	Approves	Reviews	
Evaluations		Reviews		

COMPENSATION POLICY

The compensation policy helps to establish guidelines for acceptable compensation practices. In the absence of well-defined compensation policies, variation in physician pay practices often result in one group of physicians perceived as receiving better treatment than others. Compensation policies provide a foundation for clear communication and standardized application of the compensation committee's collective decisions relative to physician compensation.

Establishing specific compensation policies focuses the attention of all stakeholders on the key tenets of the organization's approved compensation plan structure. Well-defined compensation policies provide a lens through which to ensure compensation structure adheres to the mission, vision, and value of the organization, as frequently reflected in the organization's physician compensation philosophy. Key areas that policies should address include ensuring compensation is adaptable, equitable, compliant, reasonable, and effective.

With respect to compensation compliance with Stark and Anti-kickback regulations, compensation policies should outline an organization's approach in regard to fair market value (FMV) and commercial reasonableness (CR) testing, addressing questions such as what triggers an internal review versus what should be sent out for external review, how should potential FMV/CR issues be adjudicated to the extent they exist, and how often should FMV reviews be performed for all employed physicians.

COMPENSATION PLAN

The compensation plan, which encompasses compensation model documents, requires a standardized model structure for medical groups of substantial size. Further, as compensation models become more complicated with the addition of value-based components, standardization of the compensation model becomes critical irrespective of medical group size, as achieving alignment between operations and compensation is paramount. Compensation plans can be customized to address the specific needs and practice patterns of individual specialties, such as primary care, surgical and medical specialties, and inpatient medicine specialties. To the extent there is variation between individual physician compensation agreements, standardization via a formal compensation plan becomes a challenge, if not impossible.

A formal compensation plan is a way to document the key tenets of the compensation structure outside of the employment agreement, wherein each employment agreement references this document. A compensation plan ensures terminology is consistent across all physicians and their respective specialties. Further, standardization around a compensation plan allows for simplicity within any subsequent model updates, as updating a single document entails fewer resources and time than updating multiple physician employment agreements.

CONCLUSION

The highly-regulated nature of physician-hospital compensation arrangements, coupled with the tremendous level of consolidation within the healthcare industry over the past decade, has created an environment wherein physician employment is becoming the norm versus an exception. This movement necessitates that organizations of all shapes and sizes establish a well-functioning governance structure for physician compensation. An effective governance structure entails establishing clear roles and responsibilities concerning who governs physician compensation, the creation of physician compensation policies, and the documentation of the approved compensation plan(s) through which physician compensation will be adjudicated.

To learn more about how Coker can assist you and your organization, please contact Stephen Ross, MHA, FHFMA, CMPE, Senior Manager at sross@cokergroup.com or by calling 678-832-2021.