Looking to Formalize Your Physician Compensation Strategy? Follow the 1-3-5 Rule

As a strategy consultant focusing on the physician enterprise, and more specifically on physician compensation design, one question I frequently get asked is how to develop a strategic plan for managing physician and advanced practice provider (APP) compensation. Specifically, organizations look for guidance on how often they should be rebasing and/or recalibrating their compensation plans to ensure their compensation program remains competitive and contemporary.

When answering this question, I often advise clients to follow the “1-3-5 Rule.” Here is a breakdown of the rule and what each component means:

1: Rebase Market Compensation Rates Annually

To ensure your compensation program remains market competitive, it is important to rebase your salary, productivity, and other compensation rates on an annual basis. Many organizations choose to tie their rates to a target market percentile of the physician compensation and productivity surveys. This subjects their physicians to market-based increases typically in the 2-3% range.

There has been high market volatility in 2022 and it is expected in 2023 due to the COVID-19 pandemic, inflationary growth and cost of living challenges, the 2021 Medicare Physician Fee Schedule, and other factors. Because of this many organizations are adjusting their approach to continue to provide reasonable increases to their physician compensation pool. Regardless of the methodology used, rebasing your compensation levels on an annual basis is essential to ensure your providers’ compensation levels keep up with the market and avoid potential retention issues.

3: Consider Compensation Plan “Tweaks” Every Three Years

After going through a compensation plan design process, it may be tempting to just “set it and forget it.” After all, a lot of work went into setting levels of base salary, quality, and productivity incentives in the new compensation program. Also, the compensation rebases annually to ensure the total remuneration remains competitive, and surely that should be enough, right?

Not necessarily.

Payor contracts tend to come up for renewal every three years or so. As the industry continues to move from volume to value-based reimbursement, more of an organization’s revenue will be tied to quality and other non-productivity-based outcomes the next time a contract comes up for renewal. Those contract renewals could impact what an organization might do in its provider compensation program.

For example, consider an organization with a compensation model that is 90% base salary, 7.5% wRVU-based productivity, and 2.5% quality. Then, consider that organization’s payor contracts shift such that 80% of revenue is driven through fee for service and 20% through quality and shared savings programs. In that case, the organization should consider shifting those percentages to align its compensation program with its payor contracts.

5: Consider a Major Compensation Plan Overhaul Every Five Years

The healthcare industry is changing with an increased focus on providing high-quality, low-cost care to patients. As this trend continues, new types of compensation programs have emerged to shift the focus away from things like wRVUs and toward panel management and outcomes-based payment arrangements. Over time, as more organizations consider and adopt alternative compensation models, these models will become more mainstream and may make legacy models look a bit antiquated. This can create recruitment and retention challenges for an organization.

About every five years, organizations should evaluate their strategic plans relative to the physician enterprise. This should be done to determine if the compensation structure (e.g., the 90% base, 7.5% wRVU, 2.5% quality model) remains contemporary and competitive with modern physician compensation programs.

When considered in totality, the "1-3-5 Rule" can help organizations better manage their physician compensation and alignment models. In turn, this will ensure the organization is always able to best compete in an increasingly competitive marketplace.

Author

Anthony Domanico, CVA
Director
Compensation Arrangements, Strategic Advisory Services
972-616-5861
anthony.domanico@vmghealth.com

VMG HEALTH

Only healthcare.

The Leaders in Strategy & Transaction Advisory