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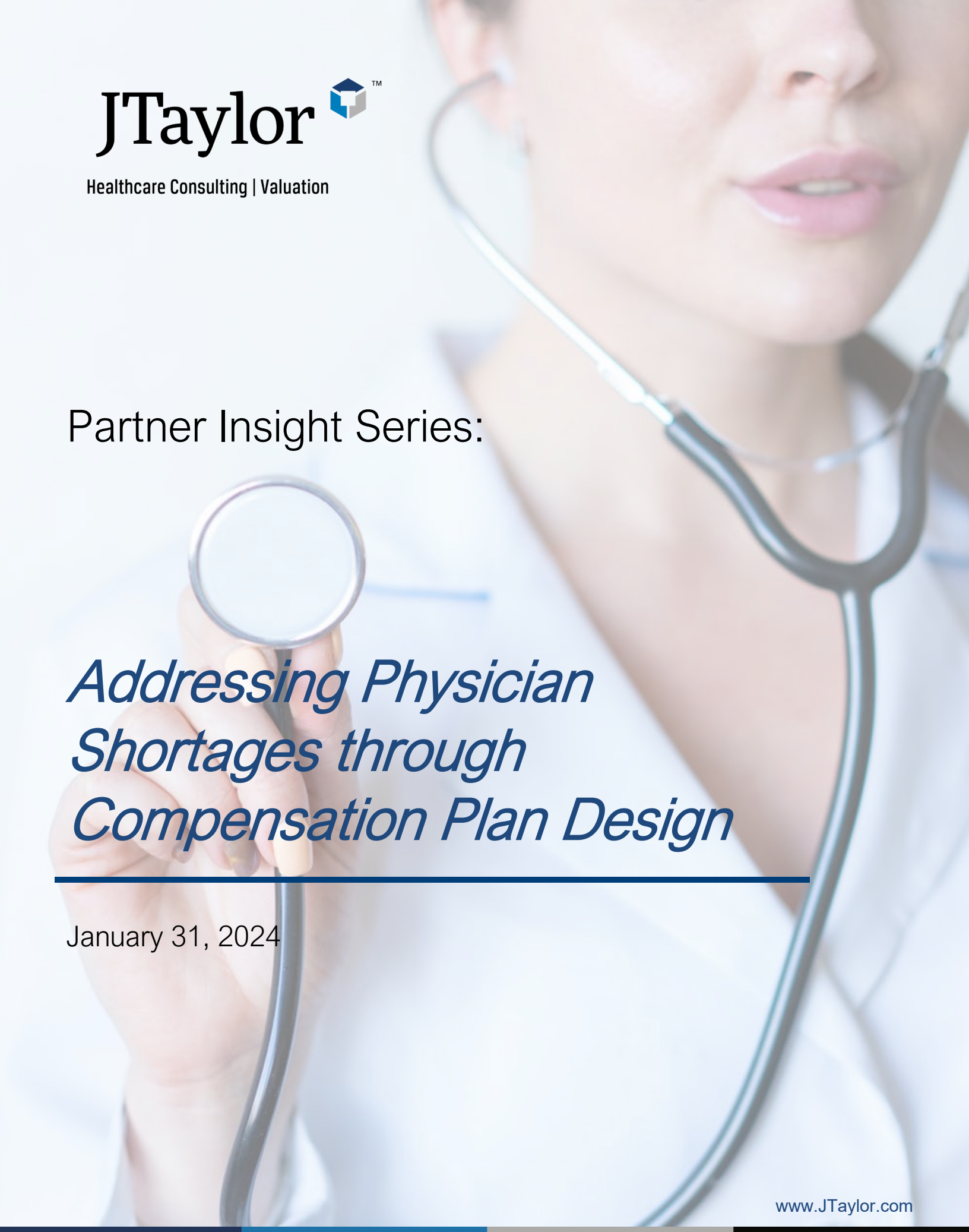

Partner Insight Series:

Addressing Physician Shortages through Compensation Plan Design

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Addressing Physician Shortages through Compensation Plan Design

Introduction

The healthcare industry has shifted in numerous ways in the last decade, impacting the needs of our clients. The dance between physician expectations and organizational financial goals has led to an overall shift in compensation structure and the route recent graduates may be taking in the healthcare field. What is the future, then, of healthcare and those considering a career in it?

Shortage of Physicians

There is a nationwide shortage of physicians due to a variety of factors, including an aging physician population and the increasingly competitive road to get into medical school and residency programs. The number of available slots within medical programs across the country has not increased commensurate with the growing demand for doctors. We have all experienced the results of this dynamic, enduring significant wait times for an appointment, decreased options for procedures, and in some locations even a complete lack of certain specialists. According to the Association of American Medical Colleges (AAMC), there is estimated to be a shortage of 37,800 to 124,000 physicians in the United States by 2034.[i] At the same time, the overall United States population is expected to increase by 10.6% by 2034, including a 42.4% increase in Americans over the age of 65.[ii] Already, a greater percentage of patients are covered by Medicare than in the past, and that shift is expected to persist over the next five years as the elderly population continues to grow. The need for providers to care for this growing senior population is not reflected in the stagnant number of slots available in graduate medical programs.

Work-Life Balance

Across most professional fields, the younger generation has a different perspective on work than generations past. This age group generally values work-life balance more than ever before and are therefore less willing to work the same number of hours as their predecessors. At the same time, they tend to graduate with much higher student debt than young professionals in previous years because of skyrocketing tuition costs. As a result, they believe additional compensation is warranted when longer hours are required. This has been prominent in the healthcare field, where physicians now expect to be paid more if they take on any work outside their primary clinical responsibilities – activities such as call coverage, medical directorships, supervision of other clinical personnel, and even after-hours chart documentation and related correspondence. We have seen this dynamic impact compensation plan designs and physician recruiting strategies. With greater compensation demands and reluctance to work longer hours, the expectations of physicians and their employers can conflict dramatically.

Complexity in Compensation

There can be many layers to a physician's compensation, creating complexities in aligning each party's goals. One nuance unique to healthcare is the requirement for physician compensation structures to comply with government regulations, including physician self-referral prohibitions

(commonly known as the Stark Law) and the Anti-Kickback Statute. These laws both require physician compensation to be consistent with Fair Market Value and commercially reasonable. The unique facts and circumstances of each arrangement (e.g., geographic location, physician roles, and experience/expertise) also influence what level of compensation is appropriate. For example, higher compensation in rural markets as compared to metropolitan areas is often reasonable given the difficulty attracting physicians to those locations. Higher compensation can be an incentive for physicians to take jobs in less desirable locations, yet creates complexities in retention.

These dynamics largely influence where physicians are both seeking and accepting jobs around the country. It is essential to focus on the "why" behind recruiting challenges and low retention rates. Is it due solely to compensation? Or are other factors in play? Physicians may be frustrated by being asked to take on more duties or work more hours than was originally outlined. Sometimes, the organization's culture may be problematic, or physicians may not feel they have enough of a voice with leadership. Perhaps the physicians are concerned about the availability of adequate resources (e.g., facilities, equipment, clinical support staff, administrative support). Ultimately, the health system must walk a tightrope to ensure that compensation is both compliant and compelling, considering all the services the physician is expected to provide and the resources provided by the health system.

Reimbursement Structure

Medicare reimbursement for physician services continues to decline, with an effective cut of 26% since 2001 according to the American Medical Association.[iii] This puts pressure on hospitals that employ physicians, as they are left to figure out how to ensure financial stability while still maintaining a quality medical staff. The shift to value-based care and reimbursement has created challenges for organizations as well. Historically, physician services have primarily been reimbursed based on volume, where they are paid more if they deliver more services. In contrast, value-based care compensates physicians based on the results they deliver to patients. These results are evaluated on quality, outcomes, and cost of care. The better these results, the higher the reimbursement. However, transition to and adoption of value-based care reimbursement has been slow, which puts hospitals and physicians somewhat in limbo as they try to navigate the "what ifs" related to the future of reimbursement.

Physician Compensation Design & Alignment of Goals

Given the challenges and complexities of physician compensation in the current environment, many health systems are reevaluating their compensation structures. When making a transition, it is imperative that leadership implement effective change management strategies. Shifting the compensation structure directly impacts a physician's livelihood, and it is natural for there to be resistance to change initially. New compensation structures should consider the strategic goals of the organization while also taking into account physician desires. Success is often achieved only when physicians and administrators sit side-by-side at the decision-making table from the beginning, as this ensures each party has a voice in crafting the new model. Strategically involving "physician champions" who are well-respected by their peers can go a long way in giving the medical staff confidence in the new plan. Simultaneously, it is important to keep an eye on reimbursement trends and expected changes in payer contracts. The compensation structure should be aligned with payer contracts so that the model is financially feasible. In other words, the mechanism to determine physician compensation should ideally mirror the mechanism to generate revenue. For example, if a significant payor provides a bonus for achieving certain

quality metrics, the compensation model should reflect similar metrics to incentivize that behavior. Over time, if more payer contracts move towards value-based reimbursement but health systems continue to pay physicians based on volume, there will be a complete disconnect between the money coming in (revenue) and the money going out (compensation).

Our team is uniquely situated to interact with the various parties involved in a compensation design effort, including administrative and physician leaders, and to help clients evaluate the many factors impacting not only physician compensation but also the financial health of physician groups. We strive to be transparent throughout the process with all involved and to help clients develop compensation structures that are compliant and competitive such that they can successfully recruit and retain physicians.

Final Thoughts

Physician shortages across the county increase pressure on physician compensation, as the market is more competitive than ever. At the same time, financial pressures on hospitals and physician groups are increasing. As a result, employers and physicians must scrutinize compensation structures to align incentives and goals.

Given the natural tension created by these challenges, administrators and physicians must unite in the interest of patients, with physician recruitment and retention as a priority. Transparent discussions and a team-based approach are critical. Further, physician education related to regulatory compliance, common compensation structures, and physician practice economics can be helpful as most physicians have not received this as a part of their medical education. As more and more physicians go directly into employment rather than operating private practices, this educational component becomes increasingly important. Bridging that education gap between physicians and their employers can be beneficial to all during recruitment and any compensation plan redesign processes.

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Haley leads the firm's physician advisory service line where she serves clients in the areas of compensation valuation, compensation plan design, provider practice valuations, physician transaction related due diligence and general consulting related to hospital / physician arrangements. Haley is passionate about helping her clients recruit and retain talented providers by ensuring provider compensation is competitive and compliant with applicable regulations such as the Stark Law and Anti-Kickback Statue. She understands the everchanging healthcare provider landscape and seeks to understand the unique market dynamics and challenges faced by each client she serves.

[i] American Association of Medical Colleges. (2021. June 11). *AAMC Report Reinforces Mounting Physician Shortage* [Press release]. https://www.aamc.org/news/press-releases/aamc-report-reinforces-mounting-physician-shortage
[ii] Ibid.
[iii] American Medical Association. (2023, August 18). *Medicare Basics series: Medicare physician payment adequacy – Budget neutrality.* https://www.ama-assn.org/practice-management/medicare-medicaid/medicare-basics-series-medicare-physician-payment-adequacy