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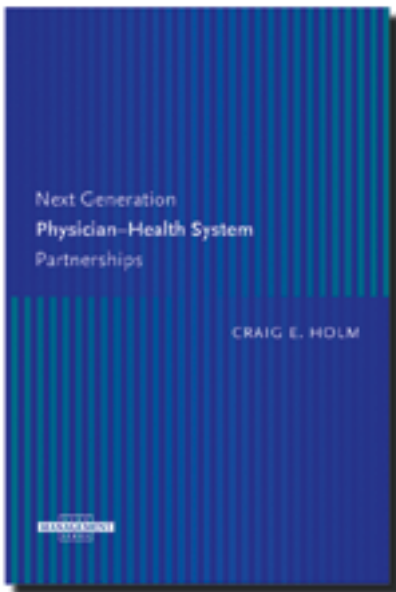


## Compensation Arrangements Between Physicians and Health Care Organizations

Formal compensation arrangements between physicians and health care organizations are more prevalent than ever. The type and nature of the arrangements also varies more so than at any time in the past. Many health care organizations now compensate physicians to ensure on-call coverage, meet guaranteed levels of income, provide mentoring/training to new physicians, offer clinical services at a hospital, or as part of management contracts or services and employment arrangements.

### Guidelines for Establishing Effective Compensation Arrangements With Physicians

There are a number of issues that health care organizations must keep in mind when negotiating compensation arrangements with physicians. Here are some guidelines to consider:



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for more information on Craig Holm's book *Next Generation Physician-Health System Partnerships*, published by Health Administration Press.

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to view Robert Hill and Alan Zuckerman's article "**Top Money Makers for Your Physician Group Practice**," which was published in the July 2003 issue of *Managing the Margin*.

- Clearly articulate performance expectations and measurement criteria in the compensation agreement
- Make a substantial portion of compensation at-risk, based on achievement of performance and quality targets
- Issue monthly physician performance summaries
- Measure and review performance before paying out bonus payouts, typically quarterly or annually
- Make every effort to ensure that the contract duration is neither too short, nor too long; two to five years with options for renewal is generally reasonable
- Review and revise compensation arrangements as market conditions, regulations, and other circumstances change
- Terminate arrangements with physicians in cases where performance is at unacceptable levels or shows little potential for improvement.

### Complying with Government Regulations

The government's fraud and abuse regulations are intended to ensure that health care providers that receive Medicare and Medicaid funding do not offer or receive anything of value to encourage the referral of business. Nonprofit organizations may lose their tax-exempt status if they engage in transactions that result in prohibited private inurement or excessive private benefit. In addition, the officers and directors of a tax-exempt organization may be personally liable if their organization engages in an excess benefit transaction with a physician or other private party. Health care organizations are strongly encouraged to consult legal counsel for appropriate guidance relative to federal, state, and local regulations and laws.

One focal point for government compliance efforts has been fair market value assessment of compensation paid to physicians employed or under contract by health care organizations. To ensure that health care organizations are abiding by Centers for Medicare & Medicaid Services' regulations, Health Strategies & Solutions recommends using three criteria to determine the reasonableness of compensation:

\* **Financial Performance.** Health care organizations should evaluate their net operating gains or losses by

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to view Bernadette Broccolo's article, "**Exempt Organization Compliance with the Intermediate Sanctions Regulations**," which was published in the summer 2002 issue of *The Practical Tax Lawyer*.

practice or clinical service and the aggregate operating gains and losses for all employed and contract physicians. Compensation paid to physicians should take into account financial performance so that a hospital is not viewed as inappropriately subsidizing physicians.

\* **Regional Comparisons.** Health care organizations should compare compensation paid to physicians with averages or medians from the hospital or system's regional market.

\* **National Survey Data.** Health care organizations should compare compensation paid to physicians to industry benchmarks. The Medical Group Management Association, the American Medical Association, and many other organizations conduct annual surveys of physician compensation that are valuable tools for comparing salaries of primary care and specialist physicians with national benchmarks.

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to view Craig Holm and Lou Glaser's presentation, "**Ending Physician-Health System Partnerships Equitably**," which was presented at the American College of Healthcare Executives' Annual Congress on Healthcare Management in March 2001.

### **Financial Benefits of Compensation Evaluations**

Health Strategies & Solutions assisted a two-hospital system in Colorado with evaluating the performance of physicians in a variety of compensation arrangements. The system has employment, administrative, and consulting services arrangements with more than 250 physicians. As part of the engagement, the consultants developed strategies for performance improvement and reviewed numerous compensation arrangements for compliance with government regulations.

#### **The evaluation included four key steps:**

- 1.** Analyzing current and historic financial and operating performance for physicians compensated by the health system
- 2.** Reviewing the contractual terms for physicians compensated by the health system
- 3.** Assessing the reasonableness of compensation and stipends for physicians in more than 25 departments of the hospitals
- 4.** Developing a modified compensation structure that

more closely tied physician compensation to productivity and operating performance

By implementing the recommendations that emerged from the evaluation, the health system was able to improve annualized performance by more than \$1.5 million, meet the compliance review requirements necessary to secure additional bond debt and refinance existing debt, and establish a framework for future compensation arrangements with physicians.

For more information on compensation arrangements between health care organizations and physicians, fair market value assessment, performance improvement, or revenue enhancement for physician practices, please contact Robert Hill or Craig Holm, or call 215-636-3500.

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