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**Special Report**

# **A New Physician Compensation Plan**

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*Strategies for Success*



*Make Decisions, Resolve Conflict, Move Forward*



# A New Physician Compensation Plan

## *Strategies for Success*

### Creating a New Plan

It has often been said that every medical group has three physician compensation systems:

1. The one they used to have (and that some wish they would go back to).
2. The one they are using now.
3. And the one that they are thinking about using in the future.

Physician Compensation Systems (also known as Income Distribution Systems) are one of the most discussed issues in any medical group. Try as they like, many groups cannot develop and reach agreement on a system which supports the long-range goals of the group.

Why can't they? For three important reasons:

1. ***Lack of long range goals*** - At its best, a physician compensation system should be structured to support the long-range goals of the group. For many groups, this is a problem because either the group has not developed a coherent plan for the future, or because groups have never seen the physician compensation system as a strategic tool to help them reach their long-range goals.
2. ***Lack of an organized process*** - Most groups just “talk around” their compensation system and never implement changes. This happens because no one is “in-charge” of moving the effort forward.



3. **Win/lose mentality** - any change in the compensation system results in appearance that one set of physicians “win” while another set “loses.” Because of this, physicians are often skeptical of a revised system proposed by one of their peers.

But there are several environmental changes that are forcing groups find a way to overcome these obstacles and update their physician compensation system. These changes include:

- **Shrinking of the pie:** All indications are that there will be increasing pressures on physician income. As the pie shrinks, physicians concern over how the pie is divided will grow.
- **Ancillary Services:** Stark legislation has made it very important for groups to review how they allocate their returns from in-house ancillary services. Direct returns based on volume referred can create legal risk for the group.
- **Capitation:** Physician compensation systems which work well in a fee-for-service environment can kill a group in a capitated environment. There is no “omni-system” that works in every environment.
- **Value of Primary Care:** For groups trying to attract primary care as a strategy to lock in referrals and increase their attractiveness to managed care entities, a system must be put into place that allows for competitive compensation levels.

With an array of pressures, and an almost limitless set of alternatives in structuring a physician compensation, how can groups take positive steps to change their method of income distribution? There are 5 key steps:

1. **Education:** Education of the group as to the need for change, and general options .
2. **Practice Goal Identification:** What are the long range goals of the group? As the old saying goes, “if you don't know where you are going, how will you know when you get there?” A group's physician compensation system must be aligned with the groups long-range goals.



3. **Establish Structure:** Once the group's long-range goals have been identified, the current compensation system should be evaluated in terms of its abilities to support those goals, and alternatives should be identified when it or components of it do not.
4. **Testing:** The alternatives should be tested using historical or projected data to assure that the areas where incentives are appropriate are generating anticipated results. In additions, physicians will typically not accept a system unless that have a financial benchmark with which to evaluate it.
5. **Communication:** The results of the preceding efforts should be reviewed with the physicians. It is critical that they understand how the proposed changes were developed and what will be their impact. Once this is done, it is up to the group to adopt the needed changes.

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As you might expect, our knowledge in this area is based on the fact that Latham Consulting Group has provided **Physician Compensation Services** to many medical groups. If we can provide assistance or answer any questions you might have, please contact us at 704/365-8889.