

Setting physician compensation in the context of multiple earning streams

By Joe Aguilar

MBA, MPH, MSN, CVA

Dr. Smith is a neurosurgeon and is negotiating the compensation terms of her employment agreement. She performs many services that she wishes to be considered in her total compensation. As her employer, you know that you have various terms you can use to structure her compensation and want to use them to align the physician's desire with the organization's patient care mission, financial solvency, and operational strategy. In doing so:

- How should Dr. Smith be compensated: base guarantee versus production bonus?
- What services should she be compensated for: clinical, research, advanced practice supervision, etc.?
- When or in what context is it acceptable to pay her the sum of multiple earnings streams?

Whether you are a practice administrator, compliance officer or healthcare lawyer, these are questions that arise for each physician agreement. The key is to arrive at a financially sound and legally compliant answer, while incentivizing each physician to provide quality care to patients.¹ The compensation agreement should stand the test of regulatory scrutiny while being neither too low as to only attract few quality physicians nor too high to be

financially sustainable.² Here are some considerations to meet these goals when structuring the physician's compensation terms.

BASE GUARANTEE

When reviewing an agreement, the annual base guarantee is often a point of discussion for many physicians. While it is often in the best interest of the physician to seek a higher base guarantee, the overall financial and compliance risk to the employer is reduced by minimizing the guaranteed portion of the physician's total compensation.

This structure is not meant to reduce the total potential compensation to the physician, but to ensure that a high level of compensation is only achieved when the physician's production level and/or workload is in excess of that which would support the base. This is especially the case when the total compensation package includes multiple earning streams and can be illustrated by the example in Table 1.

Option B with the high base guarantee carries the greatest financial risk to the employer should Dr. Smith produce at the 33rd-percentile wRVU level. Total compensation falls at the 79th percentile; however, the effective wRVU conversion rate of \$162.88 per wRVU

TABLE 1. DR. SMITH'S PROPOSED COMPENSATION TERMS UNDER TWO DIFFERENT OPTIONS

	OPTION A (LOW BASE)	OPTION B (HIGH BASE)
Proposed base guarantee	\$500,000 per year	\$1,000,000 per year
Physician wRVUs	8,000 wRVUs	8,000 wRVUs
	(-33rd percentile)	(-33rd percentile)
Call coverage	\$225,000 per year	\$225,000 per year
(90 shifts per year)	(\$2,500 per 24-hour shift)	(\$2,500 per 24-hour shift)
Administrative services	\$78,000 per year	\$78,000 per year
(240 hours per year)	(240 hours x \$325/hours = \$78,000)	(240 hours x \$325/hours = \$78,000)
Total physician compensation	\$803,000 per year	\$1,303,000 per year
	(-33rd percentile)	(-79th percentile)
BENCHMARKING AND RATIO ANALYSIS		
	OPTION A (LOW BASE)	OPTION B (HIGH BASE)
Base compensation per wRVU	\$71.43 per wRVU	\$125.00 per wRVU
	(-40th percentile)	(-80th percentile)
Total compensation per wRVU	\$100.37 per wRVU	\$162.88 per wRVU
	(-60th percentile)	(111% of the 90th percentile)

The example is for illustrative purposes only. Each of the compensation terms in isolation (base, call and administrative rate) is presumed to be within fair market value (FMV). The hypothetical analysis reviews the total compensation and demonstrates the potential compliance risk associated with the varying of terms under the different scenarios.

falls well above the 90th percentile. This is a function of the multiple earning streams coupled with the low wRVUs produced relative to the high base guarantee.

The low wRVU production also translates into lower overall collections for the physician, thereby potentially creating a net loss for the employer given the discrepancy between Dr. Smith's low production level when compared to her high base guarantee.

MULTIPLE EARNING STREAMS FOR SEPARATE PROFESSIONAL SERVICES

As in the example above, Dr. Smith received compensation for her clinical services, call coverage and administrative services. Additional services that are often provided by physicians include advanced practice provider (APP) supervision, research activity, quality performance and graduate medical education

services. While it is common and acceptable to pay the physician for all services provided, it is critical that the compensation determined be specific to each service. For example, the value of a systemwide medical directorship is most likely valued at a different rate than for medical student preceptorship services. The opportunity cost, skill set required and time spent can vary dramatically across these separate services, impacting the compensation for that specific earning stream accordingly.³

Many employers will look to national surveys for benchmarking purposes to provide internal support for a physician's compensation. In doing so, it is also important to understand the surveys and what exactly is being counted as compensation. For example, the *MGMA DataDive Provider Compensation* glossary defines total compensation to include "salary, [on-call compensation,] bonus and/or incentive payments, research stipends, honoraria, and distribution of



TABLE 2. STACKED COMPENSATION TERMS VERSUS RECONCILED AGAINST THE BASE

	OPTION A (STACKED)	CALCULATION
Proposed base guarantee	\$1,000,000 per year	A \$1,000,000 per year
	(-56th percentile)	
Physician wRVUs bonus (\$90 per wRVU in excess of 12,500)	8,000 wRVUs per year	B \$0
	(-33rd percentile)	
All coverage (90 shifts per year)	\$225,000 per year	C \$225,000
	(\$2,500 per 24-hour shift)	
Administrative services (\$325 per hour)	\$78,000 per year	D \$78,000
	(240 hours x \$325/hours = \$78,000)	
Quality performance	\$80,000 per year	E \$80,000
APP supervision	\$18,000 per year	F \$18,000
Research services	\$40,000 per year	G \$40,000
Total annual physician compensation (A+B+C+D+E+F+G)		\$1,441,000 (-86th percentile)
	OPTION B (RECONCILED)	CALCULATION
Proposed base guarantee	\$1,000,000 per year	A \$0
	(-56th percentile)	
Physician wRVUs bonus (\$90 per wRVU)	8,000 wRVUs per year	B \$630,000
	(-33rd percentile)	
Call coverage (90 shifts per year)	\$225,000 per year	C \$225,000
	(\$2,500 per 24-hour shift)	
Administrative services (\$325 per hour)	\$78,000 per year	D \$78,000
	(240 hrs x \$320/hour = \$78,000)	
Quality performance	\$80,000 per year	E \$80,000
APP supervision	\$18,000 per year	F \$18,000
Research services	\$40,000 per year	G \$40,000
Total annual physician compensation (Greater of A or sum of B+C+D+E+F+G)		\$1,071,000 (-63rd percentile)

The example is for illustrative purposes only. Each of the compensation terms in isolation (base, call and administrative rate) is presumed to be within fair market value (FMV). The hypothetical analysis reviews the total compensation and demonstrates the potential compliance risk associated with the varying of terms under the different scenarios.

profits.”⁴ In this case, it would not be appropriate to compare clinical earnings only to the total compensation reported by MGMA. The more accurate comparison would be to utilize the sum of all forms of compensation from each of the separate earning streams.

Lastly, it is important to note that the overall compensation terms, including each earning stream, must comply with the Stark Law and take into consideration whether it falls under any exceptions and/or safe harbors.⁵

RECONCILING EARNING STREAMS AGAINST THE BASE GUARANTEE

An alternative to stacking multiple earning streams on top of a base guarantee would be to reconcile these earning streams against the base guarantee. Reconciling the multiple earning streams can be a way for employers to satisfy the physician’s desire for a higher base guarantee while minimizing risk associated with lower-than-expected production levels.

Let’s return to the example of Dr. Smith to illustrate the difference in Table 2.

The total compensation can vary significantly depending on whether additional earning streams are stacked or reconciled against the base guarantee. When reviewing the resultant total compensation ratios, the stacked version carries the greatest risk of being outside of compliance. Compensation per wRVU ratios benchmark much higher in Option A when compared to Option B in which all earning streams are reconciled against the base. Under the stacking method (Option A), compliance risk decreases as wRVU production increases to the level that supports the base guarantee. In other words, the physician needs to

produce enough wRVUs to support his or her base guarantee before being compensated for additional services (e.g., call compensation) in excess of the base guarantee.

SUMMARY

One size does not fit all when it comes to physician compensation agreements. These considerations can be used in a variety of ways to suit the needs of the specific circumstance. Perhaps the most important takeaway from this discussion would be to make every effort to assign the appropriate value to each earning stream, including the base guarantee. This will minimize financial and regulatory risk by ensuring that the cumulative compensation of all the earning streams does not exceed the appropriate compensation for the services provided. ■



Joe Aguilar, partner,
HMS Valuation Partners,
joe.aguilar@hmsvalue.com.

NOTES

1. Including compensation for quality as a distinct earning stream is increasing with the trend away from production-based compensation models. Compensation for patient care quality can be a topic in itself and is beyond the scope of this article.
2. Oppenheim C, Durie B, Joseph A. *The Stark Law: A Comprehensive Analysis and Practice Guide*, 6th Edition, American Health Lawyers Association.
3. Dietrich M, Smith T. *BVR/AHLA Guide to Valuing Physician Compensation and Healthcare Service Arrangements*, 2nd Edition, 2017.
4. MGMA. *2019 MGMA DataDive Provider Compensation Glossary*.
5. “Title 42, Part 411 Subpart A — General exclusions and exclusion of particular services.” Code of Federal Regulations. Available from: bit.ly/35gywNy.