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System Focus

Physician Alignment and Compensation: A Call to Action

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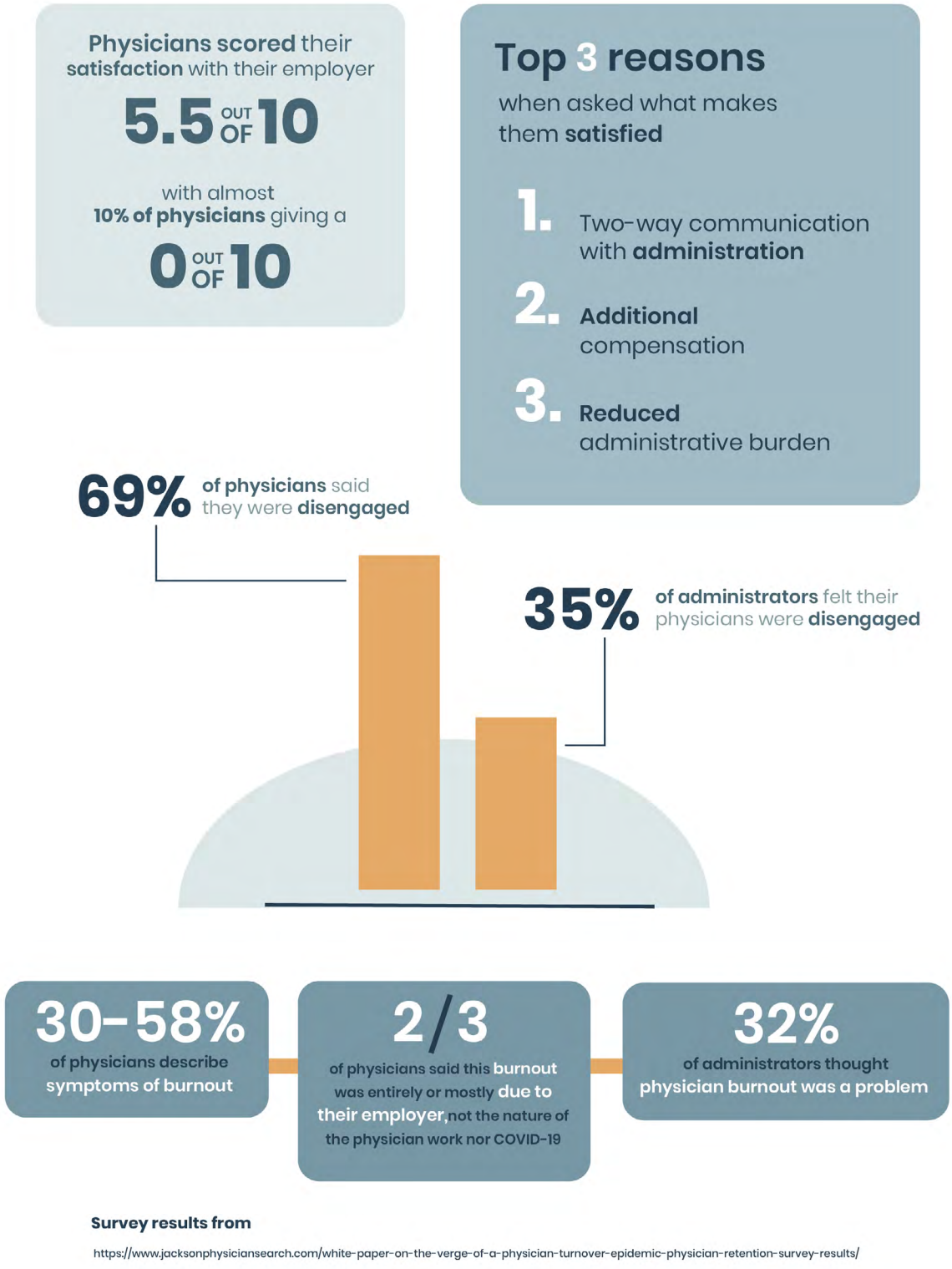
Health systems must recognize the critical importance of physician–hospital alignment. As a result, 70 percent of U.S. physicians are employed by hospital systems and, increasingly, other corporate entities such as private equity.[1] However, organizations often mistake employment with alignment. While employment provides the most contractual alignment, true physician–hospital alignment requires a multidimensional approach to develop and maintain physician satisfaction and engagement. The need to focus on physician–hospital alignment has grown increasingly important due to the rise in physician dissatisfaction, burnout, and disengagement, exacerbated by the COVID-19 pandemic. Further, health systems are uniquely challenged with physician–hospital alignment due to the nature of being comprised of multiple organizations, each of which often have disparate and culturally distinct medical staffs.

Current State of Physician Alignment

A survey conducted in 2021 asked physicians about their job satisfaction.[2] As shown in the graphic below, physicians scored their satisfaction with their employer poorly. The survey went on to ask physicians what makes them satisfied. The top three responses by priority were two-way communication with administration, additional compensation, and reduced administrative burden. Unsurprisingly, most physicians reported being disengaged (69 percent) and burned out (30 to 58 percent). Reportedly, burnout was entirely or mostly due to their employer, not the nature of physician work nor COVID-19.

1 "COVID-19's Impact on Acquisitions of Physician Practices and Physician Employment 2019–2020," Physician Advocacy Institute, Avalere Health, June 2021.
2 *On the Verge of a Physician Turnover Epidemic: Physician Retention Survey Results*, Jackson Physician Search, 2021.

On the contrary, administration felt physician disengagement and burnout were less of a problem (35 and 32 percent, respectively). These statistics highlight the dire state of physician satisfaction, engagement, and burnout, as well as the disconnect with administrators largely driven by a lack of constructive, two-way communication.



Survey results from

https://www.jacksonphysiciansearch.com/white-paper-on-the-verge-of-a-physician-turnover-epidemic-physician-retention-survey-results/

➜ Key Board Takeaways

- Engage leadership to understand their current perceptions of physician satisfaction, engagement, and burnout. If not being performed, consider formal measurement of such areas within the organization via surveys for physicians and administration. Health systems must examine elements in aggregate and by sub-entity.
- Assess leadership and board composition to ensure there is adequate physician representation and engagement within the organization and its board.
- Ensure physician compensation is a top priority for the board given the state of physician satisfaction, regulatory risk, and impact on recruitment and retention. Physician compensation must be a board topic at least annually, covering at minimum:
  - The organization's compensation strategy alignment with organizational vision, mission, and strategic priorities, and its effectiveness at driving performance to those priorities
  - External factors impacting compensation strategy/model and its viability
  - Competitiveness via health system-specific benchmarking
  - Internal comparative analysis and equity
  - Physician satisfaction and preferences with compensation, and their necessary involvement in engaging around compensation strategy development
  - Stark Law and Anti-Kickback Statute compliance, including fair market value, commercial reasonableness, and compensation for volume/value of referrals
  - Equity and defensibility across the health system
- Ensure the organization adopts industry best practices in physician compensation and contracts.

Evolving Landscape of Physician Compensation

Physician compensation is an essential component of physician alignment, satisfaction, and engagement, a significant expense for organizations, and an organizational risk due to heavy regulatory oversight. Therefore, industry best practices recommend administrators review physician compensation and contracts

at least every two years and evaluate their compensation strategy every three to five years. Boards must discuss physician compensation annually.

Now, more than ever, health systems are revisiting their provider compensation strategy, models, and contracts, driven by several influential factors affecting the market landscape:

- **The 2021 Medicare Physician Fee Schedule (PFS) changes are here to stay.** On December 2, 2020, CMS published the final rule for the 2021 PFS, which included a significant overhaul to the evaluation and management (E&M) codes. The result was a significant increase in work relative value units (wRVUs) for certain specialties, especially primary care. For example, the specialty of family medicine experienced a 19 percent increase to wRVUs based on average utilization. CMS subsequently issued its final rule for the 2022 PFS, which preserved the wRVU increase and lowered the conversion factor from $34.89 to $34.61, among other changes. As most organizations provide productivity bonuses to their physicians and increasingly advanced practice providers (APPs), the result was increased provider compensation expense with lowered reimbursement, unsustainable for most entities.
- **COVID-19 has created unprecedented challenges in recruiting and retaining physicians.** A national physician recruiting firm recently conducted a poll where 54 percent of physicians said COVID-19 changed their career plans, with 50 percent of those considering a change in employer.[3] COVID-19 has accelerated physician dissatisfaction with their employers resulting in a provider-driven recruitment landscape. A reduced supply of physicians are under increased demand, resulting in an escalation of compensation, more scrutiny around fair market value, and longer lead times to recruit.
- **The industry continues to push from fee-for-service to value-based payment.** Value-based payment models have bipartisan support, with several influential bodies such as the CMS Innovation Center and MedPAC pushing for accelerated adoption. COVID-19 further highlighted the unsustainability of the fee-for-service model. As such, the Stark Law was amended to clarify and provide safe harbors for organizations wishing to align provider compensation with value-based care reimbursement. Therefore, organizations are increasingly evaluating their value-based contracts and provider compensation models, which incentivize performance under such contracts.

3 *Ibid.*

- **Anticipated expiration of the COVID-19 public health emergency (PHE).** Effective March 1, 2020, a "Stark Blanket Waiver" became effective throughout the duration of the PHE, allowing organizations to hold their physicians harmless or reduce the impact of the pandemic on physician compensation.[4] Many organizations took advantage of the waiver and modified their compensation practices to account for COVID-19. However, the PHE is coming to an end and organizations will not be able to rely on the waiver for protection against Stark Law and Anti-Kickback Statute violations. If organizations violate such laws, penalties can include denial of Medicare/Medicaid reimbursement, refund of Medicare/Medicaid reimbursement, imposition of civil monetary penalties, and/or imprisonment. Such penalties are frequently millions of dollars.

The pace of change in provider compensation has been significant. Organizations are finding that their provider compensation is no longer aligned with their organizational strategies and evolving industry trends. Therefore, organizations are revisiting, or developing, their compensation strategy. Key to strengthening physician satisfaction and engagement is to include physicians (and APPs if applicable) in the compensation committee, or similar, to develop the compensation strategy in partnership with

➜ Key Board Questions

- What is the current state of our physician alignment?
- What strategies does our organization apply to advance physician alignment? Specifically, what is being done around physician leadership, bidirectional communication, and compensation?
- Does our organization have a physician compensation strategy and compliance policy? Are the two meeting our organization's needs given evolving organizational priorities in a post-COVID-19 marketplace and external forces impacting compensation?
- What level of risk is the board willing to accept for failing to align with employed and independent physicians?
- What level of risk is the board willing to accept for failing to maintain compliance with applicable compensation laws and regulations?

4 Section 1135(b) of the Social Security Act (42 U.S.C. § 1320b-5)

administration. An effective approach that centers around physician participation and leadership in the process ensures two-way communication with physicians and administration, and physician alignment, buy-in, and support for the resulting compensation strategy and model. In absence of such an approach, organizations risk further exacerbating issues of physician alignment, satisfaction, and engagement.

Developing physician alignment, satisfaction, and engagement requires an ongoing commitment from senior leadership and boards. Key to the success is addressing compensation on an ongoing basis. Such an effort must ensure both physicians and boards have a seat at the table in driving the organization forward.

The Governance Institute thanks Opal Greenway, Director and Principal at Stroudwater Associates, and Kirsten Meisterling, Senior Consultant at Stroudwater Associates and Director for a mental health non-profit, for contributing this article. *They can be reached at ogreenway@stroudwater.com or (208) 241-7238 and kmeisterling@stroudwater.com or (802) 760-8048.*