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Navigating Provider Compensation in a Competitive Landscape

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Recruiting and retaining both physician faculty and advanced practice providers (APPs) has emerged as a significant challenge for academic medical centers (AMCs) across the United States. The capacity of AMCs to offer a broad range of quality medical services, conduct leading-edge research, and train the next generation of healthcare professionals rests largely on the caliber of its physician and APP workforces. In response, AMCs are adopting a more strategic approach to physician faculty and APP compensation to address the:

- Growing demand for physicians
- Intense competition for physician leadership talent
- Required clinical capacity and patient access needs through team-based care models and the utilization of APPs such as nurse practitioners, physician assistants, and certified registered nurse practitioners
- Mounting economic and market pressures

Market Forces Driving Transformational Change

With respect to physician compensation and work effort allocation, traditional AMCs are steeped in a history of autonomy across numerous decision-makers. These oversight structures tend to promote siloed decision-making and competing interests that present obstacles to modernization efforts and delays in implementing necessary workforce changes. As a result, significant variation in compensation and performance expectations along with gaps in work effort allocation and sources of direct funding contribute to long-term unsustainability.

To overcome these challenges, many AMCs are undergoing transformational change. These changes typically involve the integration of academic and clinical enterprises, accelerated expansion of the geographic footprint to improve patient access to surrounding communities, improve its payer mix, and reduce risk. To achieve these goals, AMCs must grow the number of community-based providers either through direct employment or alignment strategies. Given these changes, board members,

compensation committees, and executives must remain vigilant in managing and mitigating regulatory risks while also streamlining compliance processes. They must also ensure that compensation decision-making is flexible and nimble in the short term to support recruitment and retention efforts, address market competitiveness, and manage costs.

Consider recent data released by the American Medical Association (AMA) that estimates 47 percent of physicians are 55 or older and vary widely by geography and physician specialty area.¹ Furthermore, a joint research study conducted by SullivanCotter and the Association of American Medical Colleges (AAMC) shows that AMCs increased their APP workforce by approximately 25 percent between 2018 and 2021 compared to only 3 percent in the physician faculty workforce.² This surge in APP employment and utilization only adds to the complexity. Additionally, changes in APP scope of practice, billing, and deployment require that organizations stay up to date on APP practice.

Key Considerations for Effective Physician and APP Compensation Planning

Effective workforce planning today requires that the unique needs of each workforce are understood and aligned to promote collaboration. A key consideration when designing today's compensation programs is preventing competition between physicians and APPs. This is a challenging endeavor that requires a proactive, intentional, and ongoing alignment of strategy and governance. Leadership must stay informed on emerging trends and work collaboratively to ensure their organization remains competitive and well-positioned for long-term success.

To that end, boards should consider the following four key questions:

1. Is there enough flexibility in compensation decision-making, within a set of principles, to address regulatory risks, retention challenges, market competitiveness, and cost/optics issues efficiently in the short term?
2. Is funding resourced and directed to address the financial sustainability of both physician and APP compensation while appropriately valuing and rewarding physician faculty and APPs for their clinical and academic performance?
3. Does the current approach proactively identify gaps contributing to current and emerging recruitment/retention issues and address converging labor markets?

1 American Medical Association, *AMA Physician Masterfile*, 2021.

2 Association of American Medical Colleges, *An Update on Physician Compensation Methodologies in Academic Medical Centers*, 2021.

4. What degree of alignment is appropriate now and in the future between physician and APP compensation strategies? Who is accountable for ensuring ongoing alignment with changing rules and regulations related to APP practice? How is provider morale and burnout monitored as changes are implemented?

→ Key Board Takeaways

- In the short term, promote nimble decision-making to support recruitment and retention efforts while ensuring appropriate guardrails exist to manage regulatory risk.
- Proactively identify retention risks, opportunities to improve performance, and areas where labor markets are converging.
- Address gaps and support transformational change through strategic funding of provider compensation.
- Due to the rapidly changing healthcare market, consider more frequent updates to the principles and philosophies guiding physician faculty and APP compensation.
- Develop a holistic longer-term roadmap to address increasing market pressures and rising costs while engaging providers through efficient, accurate, and timely reports.

Creating a Roadmap for Success

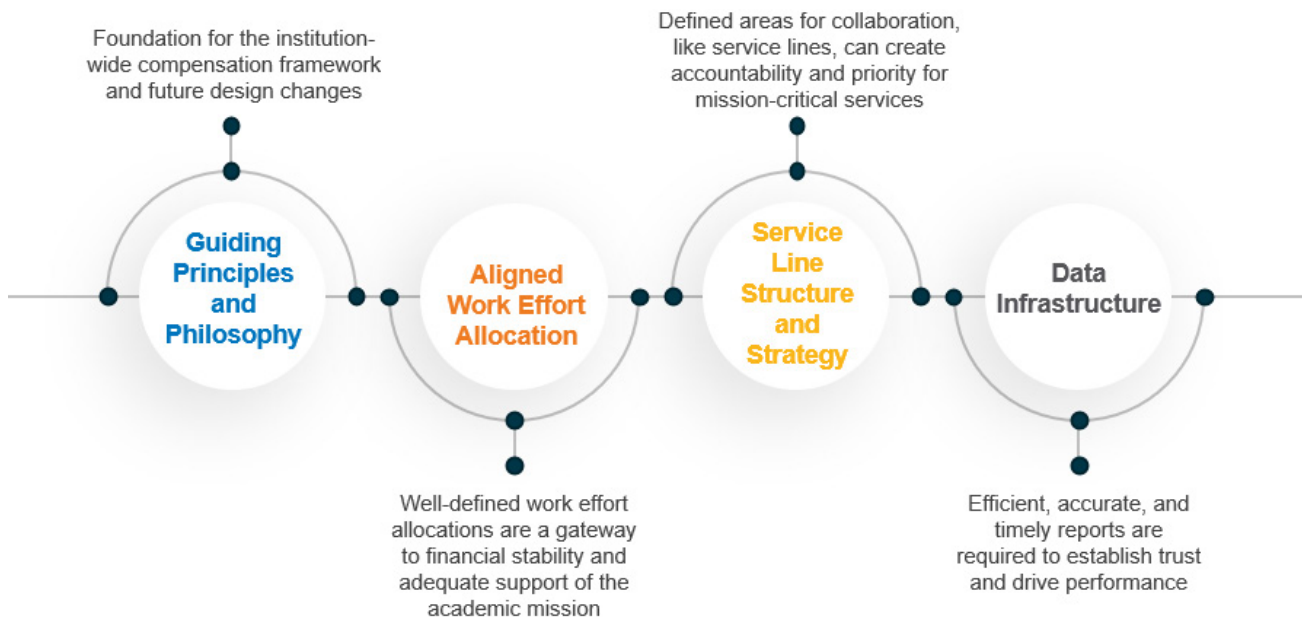
AMCs increasingly find themselves competing not only with other non-AMC healthcare systems, but also with large payers and multi-state physical and online retail clinics for primary care, patient referrals, and outpatient clinic services. Today, the largest employer of physicians in the U.S. is UnitedHealth's Optum business unit with approximately 70,000 employed or aligned physicians.³ Next is Ascension with approximately 49,000 employed and aligned physicians.

The convergence of labor markets and care delivery models require more frequent updates to the principles and philosophies guiding physician faculty and APP compensation. These actions serve as a foundation for evolving an institution-wide compensation framework and will help the organization more effectively plan and

3 Jakob Emerson, "Meet America's Largest Employer of Physicians: UnitedHealth Group," Becker's Healthcare, Payer Issues, February 18, 2023.

implement future compensation plan design changes. AMCs should also evaluate the effectiveness of current compensation plans against any changes to its philosophy. This is further illustrated in **Exhibit 1**, which highlights the four key pillars when creating an effective framework for an AMC.

Exhibit 1: Example: Framework for Establishing a Roadmap



As AMCs continue to navigate new market pressures and rising costs, one important step is to evaluate and align the allocation of work effort with financial realities to remain viable. A past study from AAMC found that approximately \$0.53 in institutional funds was required for every external research dollar to support current and future grant research.⁴ Many AMCs today rely heavily on clinical revenue sources to support their academic and research missions. This makes it increasingly difficult to compete for talent with non-academic health systems. Moreover, in some specialty areas, AMCs reliance on only academic sources can target total cash compensation (TCC) for physicians just out of residency far below their non-academic counterparts that are growing their service line strategies, like neuroscience. This is illustrated when

4 Association of American Medical Colleges, *Academic Medicine Investment in Medical Research*, 2015.

comparing TCC for general neurology where the SullivanCotter data exceeds the AAMC data at the 25th percentile by over 25 percent.⁵

In addition, as clinical revenue moves toward risk-based payments based on value-based performance metrics and expectations, AMCs may face challenges in meeting these expectations due to their high complexity and disproportionately higher prevalence of patients with comorbidities. Lastly, it is important to recognize that each AMC has a unique clinical workforce culture and practice environment, which creates a unique set of barriers to achieving organizational objectives. Therefore, it is necessary to address changes in physician and APP compensation as well as corresponding governance and oversight structures, with an intentional and customized approach based on a comprehensive understanding of current state.

Conclusion

A comprehensive review of current compensation practices can serve as the foundation for driving performance in an increasingly complex operating environment. Considering the four key questions outlined above can assist boards, compensation committees, and executives in guiding the AMC towards a more proactive and sustainable approach to physician and APP compensation that supports recruitment and retention, enhances the AMC's tripartite mission, and promotes long-term sustainability.

The Governance Institute thanks Jason Tackett, Managing Principal, and Zachary Hartsell, Principal, SullivanCotter, for contributing this article. They can be reached at jasontackett@sullivancotter.com and zacharyhartsell@sullivancotter.com.



5 Comparison of TCC data reported in SullivanCotter's 2022 *Physician Compensation and Productivity Survey Report* to assistant professor data reported in AAMC's *Report on Medical School Faculty Salaries 2020–2021* with a common aged effective date of January 1, 2022.