The Evolving Landscape in Family Physician Compensation and Employment Contracts

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Learning Objectives

1. Identify trends in employment contracts and compensation models for family physicians as payment moves from volume to value.
2. Determine if overall employment packages are current and competitive.
3. Have meaningful conversations with current or potential employers around value-based payment and changes to compensation packages.

Audience Engagement System

Step 1

Step 2

Step 3
Agenda

1. Recognize how the market for family physicians is evolving
2. Apply current salary and incentive offers to negotiate a competitive employment agreement
3. Evaluate emerging trends in value-based compensation

An Evolving Market

What factors are driving contracts for family physicians?

Factor One: A Dearth of Doctors

The Doctor Deficit

Rising Appointment Wait Times

Average wait time for a physician appointment up 30% from 2014

Average wait time for family medicine up 50% from 2014

Rising Appointment Wait Times

Average Family Medicine Wait Times
2014 – 19.5 days
2017 – 29.3 days

Average Wait Times, All Specialties
2014 – 18.5 days
2017 – 24.1 days
### Rising FP Appointment Wait Times

<table>
<thead>
<tr>
<th>City</th>
<th>Average Time to Appt. (FP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>109 days</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>67 days</td>
</tr>
<tr>
<td>Portland</td>
<td>38 days</td>
</tr>
<tr>
<td>Miami</td>
<td>38 days</td>
</tr>
<tr>
<td>Atlanta</td>
<td>27 days</td>
</tr>
<tr>
<td>Denver</td>
<td>27 days</td>
</tr>
<tr>
<td>New York</td>
<td>26 days</td>
</tr>
<tr>
<td>Seattle</td>
<td>26 days</td>
</tr>
<tr>
<td>Houston</td>
<td>23 days</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>17 days</td>
</tr>
<tr>
<td>Washington DC</td>
<td>17 days</td>
</tr>
<tr>
<td>San Diego</td>
<td>13 days</td>
</tr>
<tr>
<td>Dallas</td>
<td>12 days</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>8 days</td>
</tr>
</tbody>
</table>

Source: Merritt Hawkins 2017 Wait Time Survey

### Who is in Most Demand?

**TOP 20 SEARCH ASSIGNMENTS**

1. Family Medicine
2. Psychiatry
3. Internal Medicine
4. Nurse Practitioner
5. OB/GYN
6. Hospitalist
7. Emergency Medicine
8. Physician Assistant
9. Dermatology
10. Anesthesiology
11. Pediatrics
12. Urgent Care
13. Gastroenterology
14. Pulmonology
15. Cardiology
16. Orthopedic Surgery
17. Neurology
18. General Surgery
19. Neurology
20. Otolaryngology

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

### A Recurring Theme

Family Practice – Merritt Hawkins’ #1 recruited specialty for the 11th consecutive year

### Multiple Sites of Service...

- Community hospitals
- Hospital systems
- ACOs
- Academic Centers
- Urgent Care Centers
- Large groups
- Retail
- Large Employers
- Insurance Companies
- Ambulatory Surgery Centers
- Military/VA Hospitals
- FQHCs

...are seeking family physicians

### The New Mantra

BE EVERYWHERE, ALL THE TIME

### Multiple Practice Styles

- Traditional Family Medicine Employment
- FP w/ OB
- Ambulatory only
- Hospitalist
- Academic
- Sports Medicine
- Administrative
- Urgent Care
- Locum Tenens
- Concierge
- Part-time
The Effect on Salaries

Sources: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

AES POLL QUESTION
How confident are you that starting salaries in family medicine will continue to rise in the next 1-3 years?
A. Extremely confident
B. Very confident
C. Neutral
D. Not very confident
E. Not at all confident

The Effect on Salaries

Family practice by region

Factor Two: Consolidation/Integration

Hospital ownership of physician practices increased by 86% from 2012 to 2015 as hospitals acquired 31,000 physician practices

Rise of the Mega Group
Large U.S. Medical Groups
1. Kaiser Permanente Medical Group – 7,304 physicians
2. Cleveland Clinic – 1,999 physicians
3. Mercy Clinic – 1,775 physicians
4. Aurora Medical Group – 1,193 physicians
5. North Shore-Long Island Jewish Group – 1,155 physicians
6. University of Washington Physicians Network – 1,124 physicians
7. UCI Health Physicians – 1,078 physicians
8. UCLA Internal Medicine/Geriatrics – 1,005 physicians
9. Novant Health Group – 1,031 physicians
10. Palo Alto Medical Foundation Clinic – 988 physicians

The New Paradigm

Recruiting in Bulk
30 to 40 searches instead of 3 or 4

AFTER CONSOLIDATION, CONTRACTS MUST BE ALIGNED
**Factor Three: Physician Employment**

Merritt Hawkins’ searches featuring hospital employment:

- 2004: 11%
- 2017: 43%

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

**AES POLL QUESTION**

What percent of new physicians jobs feature employment rather than independent practice ownership/ partnership?

A. 25%
B. 45%
C. 65%
D. 85%
E. Over 90%

**Physician Employment**

Percent of Merritt Hawkins searches featuring employment with hospital, medical group, FQHC, academic facility, etc.:

- Greater than 90%
- Independent practice: Less than 10%

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

**One Effect Of Employment: Turnover**

Annual physician move rates:

- Family medicine: 13.5%
- Emergency medicine: 13.3%
- Internists: 11.9%
- Urgent care: 19.9%

Does not include “switching flags”

Source: Physicians on the Move, SK&A, August 2015

**Factor Four: The Move from Volume to Value**

Primary care physicians the key to:

1. Expanding access
2. Improving quality
3. Reducing costs

“Here They Come to Save the Day!”

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

**Given These Trends, What Types of Contracts Will You See?**

<table>
<thead>
<tr>
<th>Contract Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>22%</td>
</tr>
<tr>
<td>Salary with Production Bonus</td>
<td>72%</td>
</tr>
<tr>
<td>Income Guarantee</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives
If Salary with Production Bonus, on What is the Bonus Based?

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>RVUs</td>
<td>52%</td>
</tr>
<tr>
<td>Net Collections</td>
<td>28%</td>
</tr>
<tr>
<td>Gross Billings</td>
<td>6%</td>
</tr>
<tr>
<td>Patient Encounters</td>
<td>14%</td>
</tr>
<tr>
<td>Quality</td>
<td>39% (≤7% in 2011)</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

What Percent of the Production Bonus is determined By Quality Metrics?

21%

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives

Quality-Based Metrics

The “perpetual motion machine” of physician compensation

We must reward “quality” & “value”...

But how?

Quality Metrics

Bonuses (fixed or as a % of base) for:

- Achieving minimum average of patients per day
- Exceeding average patient satisfaction scores
- Correctly documenting charts
- Appropriate coding and billing
- Citizenship (peer review, community relations)
- Accuracy of charting/EMR input

Quality Metrics (continued)

Bonuses (fixed or as a % of base) for:

- Participation in annual quality improvement project
- Clinical process effectiveness
- Patient safety
- Population/Public Health
- Efficient use of resources

AES POLL QUESTION

What percent of physician contracts offer production bonuses featuring quality/value based metrics?

A. 17%
B. 23%
C. 39%
D. 54%
E. 73%
A Real World Hypothetical

Family Physician
Base salary: $231,000
Bonus achieved: $50,000
21% of bonus based on value: $10,500
Income tied to value as % of total compensation:
3.7%
Enough to change behavior?

What is the “Goldilocks Zone”?

HABITABLE ZONE

The right formula for balancing volume and value

Why Does Volume Still Rule?

- Consider the average annual revenue family physicians generate for their affiliated hospitals: $1,560,688*
- 89.1% of commercial health plan payments to providers are still based on traditional fee-for-service and are not tied to improving quality or efficiency**

*Source: Merritt Hawkins’ 2016 Survey of Physician Inpatient/Outpatient Revenue
**Catalyst for Payment Reform, March, 2013

Here Comes MACRA

MACRA repeals the SGR formula – Medicare payments no longer tied to GDP

Two Choices

1. Merit-Based Incentive Payment System (MIPS)
2. Alternative Payment Models

The MIPS Scoring System
Alternative Payment Models

- Practices take lump sum
- Care for population groups
- Hit cost/quality goals to earn bonus
- 5% bonus for signing up

The Low Volume Exemption Threshold

Physicians with less than $90,000 in Medicare billings or less than 200 Medicare patients

AES POLL QUESTION

How prepared are you for MACRA?

A. Very Prepared
B. Somewhat Prepared
C. Somewhat Unprepared
D. Very Unprepared
E. Not Applicable

The Geisinger Option

Forget formulas

Straight salaries, higher than average

What about Employed Physicians?

The hospital or other employer assumes compliance and cost

AES POLL QUESTION

How would you describe your practice status?

A. Employed
B. Independent
C. Hybrid
D. Other
RVU Compensation: Understand the Formula

- RBRVS vs. Physician Work RVUs (Know the difference)
- Check the physician fee schedule at CMS site. Click on the PFS Relative Value files for CPT Relative Value updates.

For More Information See:

Mid-Point Q&A

Contracts: What Happens at the End of the Term? (1-3 Years is Standard)

- Straight production based on RVUs? (“eat what you treat”)
- Must base salary be renegotiated?
- Pay often is based on a quarterly system – what happened with last quarter’s RVUs?
- Pay can later be reconciled up or down
- When the RVU model changes, physicians get nervous.

Can you earn additional upside POTENTIAL?

- If group physicians are earning more than the base, new physicians may ask how they got there. Request transparency and review the numbers.
- Prepare an estimated pro forma, i.e. number of patients new physicians will see versus the RVU compensation model. Typically a Family Medicine physician will generate 1.3 Work RVU per patient encounter annually.

Has a physician needs assessment plan been completed?
Signing Bonuses

Included in 76% of Merritt Hawkins searches
Average bonus (all physicians) - $32,636
Average bonus (FP) - $22,050

Relocation Allowance

Included in 96% of Merritt Hawkins searches
Average allowance - $10,072

CME Allowance

Included in 95% of Merritt Hawkins searches
Average CME - $3,613

Additional Benefits Are Usually Standard

- Malpractice: 98%
- Health insurance: 98%
- Retirement: 95%
- Disability: 91%
- Educational loan forgiveness: 25%

For More Information See:

What if Some Patients are Concierge/Direct Pay?

- Can physicians build their own concierge patient base?
- How will compensation work?
  - Concierge/direct pay compensation can be pooled together or paid separately to individual doctors

Source: Merritt Hawkins 2017 Review of Physician Recruiting Incentives
Make sure Physician Schedules are Defined

- Unassigned ER?
- Inpatient census for the practice?
- Phone calls/prescription refills?
- No call at all?

What Are The Hours Of Operation?

- Define “normal business hours”
- 8 half days at the clinic?
- 4 days a week?
- Open Saturday?

Paid Time Off

- Sometimes it is standard, but it does vary and can be negotiated.
- 4 to 5 weeks is standard for family medicine. Note difference between “vacation” and “PTO”.

What About Partnership?

Time to partnership eligibility:

<table>
<thead>
<tr>
<th>Time</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate/one year</td>
<td>36%</td>
</tr>
<tr>
<td>Two years</td>
<td>62%</td>
</tr>
<tr>
<td>Three years</td>
<td>0%</td>
</tr>
<tr>
<td>Four years</td>
<td>0%</td>
</tr>
<tr>
<td>Five years</td>
<td>2%</td>
</tr>
</tbody>
</table>

The Partnership Contract

- If partnership offered, there should be a separate partnership contract, or at least terms of buy-in
- Time to partnership specified
- An equity clause should be included
- Purchase terms – pro rated share of hard assets
- Good will/blue sky/accounts receivable rarely an option

Non-Competes

- Do you have moonlighting expectations?
  - If so, should be approved in writing by employer
- Do you have outside business interests – patents? Clinical trials? Devices? Speaking engagements?
  - Employers will stipulate such revenue is separate
- Large employers generally don’t care about non-competes. If they do, their non-competes are iron-clad.
Admitting Privileges
The contract should state at which facilities physicians are required to have admitting privileges. Physicians should not be prevented from obtaining privileges where they wish.

Causes of Termination
• 30-90 days is standard for termination without cause. Physicians should not have to stay several months or more if they are not satisfied or are uncomfortable.
• Termination with cause is usually for clear offenses.
• However, physicians should be cautious if the contract states they can be terminated “for cause in certain instances at the sole discretion of the corporation.”

Tail Insurance
• Big systems usually pick up tail as a matter of course.
• However, if you leave without cause during the contract period, the onus may be on you.

Is Employment Here to Stay?
Hospital employment of physicians is a positive trend

<table>
<thead>
<tr>
<th>Employed Physicians</th>
<th>Practice Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>44.7%</td>
</tr>
<tr>
<td>Disagree</td>
<td>55.3%</td>
</tr>
</tbody>
</table>

Source: A Survey of America’s Physicians: Practice Patterns and Perspectives. The Physicians Foundation/Merritt Hawkins, 2016

Repeal and Replace?
The X-Factor

Practice Recommendations
• Four factors driving contracts:
  1. The physician shortage
  2. Facility consolidation
  3. Employment
  4. Volume-to-value
• Contracts are designed to “shape physician behaviors” to meet employer quality/production directives
• Get all practice metrics – hours, duties, non-competes – in writing on the front end
Questions

The Evolving Landscape in Family Physician Compensation and Employment Contracts
Presented by: