

The business of transforming healthcare

PHYSICIAN COMPENSATION: HOW TO PAY DOCTORS IN A VALUE-BASED WORLD

Strategies for operating in a market that is increasingly competitive for limited physician resources

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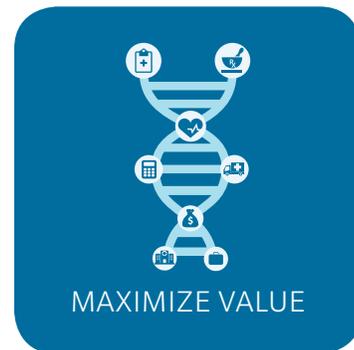
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PRICE IS WHAT YOU PAY. VALUE IS WHAT YOU GET:

Designing a Value-Based Physician Compensation Program

4 TAKEAWAYS: THE LAN FRAMEWORK AND HOW WE PAY DOCTORS



by Parie Garg, Principal, Oliver Wyman



In January 2015, Health & Human Services Secretary Sylvia M. Burwell announced measurable goals and a timeline to move the Medicare program, and the healthcare system at large, toward paying providers based on the quality, rather than the quantity, of care they give patients. To make these goals scalable beyond Medicare, Secretary Burwell also announced the creation of a Health Care Payment Learning and Action Network (LAN). Through the LAN, HHS has been working with private payers, employers, consumers, providers, states, and state Medicaid programs, and other partners to expand alternative payment models (APM) into their programs. A LAN work group released an APM Framework White Paper, as detailed in a [Health Affairs blog post](#). Here Oliver Wyman Principal Parie Garg shares considerations for physician compensation in light of the recommended framework:

1. WHILE CHANGING PHYSICIAN COMPENSATION IS NOT SUFFICIENT, IT IS NECESSARY TO STIMULATE AND SUSTAIN INNOVATIVE APPROACHES TO PATIENT CARE

- The first articulated guiding principle of the work group was to acknowledge that “changing providers’ financial incentives is not sufficient to achieve person-centered care, so it will be essential to empower patients to be partners in healthcare transformation.”
- Physicians are the lynchpin of the healthcare delivery system and control many aspects of downstream care delivery (which hospitals patients go to, which prescriptions they take, etc.). In order for there to be meaningful change, physicians have to view a redesigned compensation as a mutual benefit operation (beneficial to them and to the health system).
- Models where physicians have been excluded from the benefits have struggled to make meaningful change and recruit physicians. One doctor put it this way: “No physician is going to join an ACO if they aren’t promised a share of the savings that they helped create.”

2. THE CHANGE IN COMPENSATION NEEDS TO BE MATERIAL

- The upside from the alternative payment models needs to be substantial enough to garner physician attention. Past P4P models with ~5% of upside in return for measuring a large number of metrics have achieved limited success in true, sustainable behavior change, as this [New York Times article reports](#).

3. POPULATION HEALTH-BASED MODELS SHOULD BE VIEWED AS THE END GAME

- Providers are struggling to transition from fee-for-service to fee-for-value. Current systems, processes, and mindset are geared towards fee-for-service rather than fee-for-value.
- New models will need to be built on the skeleton of the fee-for-service model (e.g. utilized work RVUs to settle on base payment and value-based metrics to provide an upside) and the shift should be gradual. Moving immediately to a population health payment model will be extremely difficult for most organizations.

4. NO MATTER WHICH MODEL YOU EMPLOY, COMMUNICATION IS KEY

- Regardless of the choice of APM, communication with physicians and the clinician team is essential to positive momentum. Even the best designed model can fail due to lack of understanding, fear of the unknown, and a general unwillingness to change.
- If a physician's take home pay is going to be impacted, but they don't know what to expect, there will be significant pushback – regardless of the durability of the model.

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ABOUT THE AUTHOR

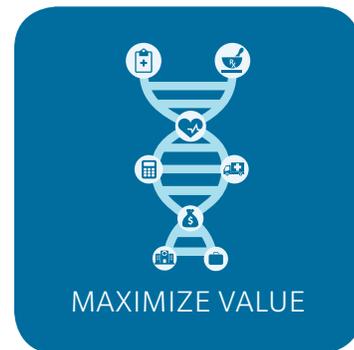


PARIE GARG

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Parie has experience building value-based care delivery programs for health plans and provider systems and has guided several companies in the design and development of innovative care delivery models, with expertise in physician compensation and government programs.

INCENTIVIZING DOCS: LESSONS FOR PAYERS FROM THE WORLD OF PHYSICIAN COMPENSATION



by Tomas Mikuckis, Principal, Oliver Wyman



As payers are under ever-increasing pressure to control costs and improve the quality of care, the focus on stronger incentive programs and a greater shift to value-based payments shows no signs of slowing. A [recent Forbes article](#) noted that figures from the Medical Group Management Association show nearly 11% of primary care doctor payments come from value-based contracts compared to just 3% in 2012 and 6.7% in 2013. Oliver Wyman Principal Tomas Mikuckis, with Parie Garg and Eric Lu, shares observations of how this trend is playing out in the market:

We're seeing payers implement a range of innovative new ways to encourage providers to deliver higher quality, lower cost care. Many payers are further increasing and refining P4P-style bonus payments to incentivize providers to achieve desired target outcomes, especially as quality in Medicare Advantage Stars becomes a do-or-die priority for many Medicare Advantage plans. Shared savings models are becoming more prevalent to align payer and provider incentives to lower costs. And the market is shifting towards full-risk arrangements where financial success is wholly based on total cost and quality performance.

These initiatives all require great effort and investment – but how can payers ensure they are achieving the value they need from providers? And more importantly, in a world of increasing pressure on cost performance, how do payers make sure they are not throwing good money after bad, but establishing incentive programs that are effective and valuable in driving change in outcomes?

Payers must shift from the historical approach of designing initiatives that target the desired value-based outcomes in a vacuum. To truly grab the attention of providers and drive behavioral change, payers must understand and align with the provider's existing compensation and incentive models. The models can differ significantly across a payer's network. While independent providers may be compensated primarily from the payer's fee schedule, employed providers receive salaries and bonuses that are calculated largely based on volume-based productivity performance. Understanding how the payer's initiative will impact the overall compensation for a physician is critical to gauge how strongly they will respond.

More importantly, as provider organizations have started to shift compensation models for their physicians to align with value-based outcomes, there are a number of lessons learned from the world of physician compensation that payers should consider when developing new value-based initiatives:

- **Cause and effect:** Most incentives tied to specific value-based metrics assume that the rewards will influence a physician's practice patterns and resulting performance on that metric. However, physicians may not receive those payments directly because their compensation is distributed via their employer's own compensation model, or incentives are retained by their IPA or PO. Understanding where the dollars go, and collaborating with physician groups to ensure they reach their target audiences, is critical.
- **Don't operate in a vacuum.** Just as payers are shifting towards value-based payments, provider organizations are also shifting towards incorporating value-based outcome performance into their compensation models. Payers should collaborate with providers to ensure that the targeted outcomes are aligned and that they are incentivizing physicians to perform against the same set of goals.
- **Put your money where your mouth is.** Payers should gauge whether the level of compensation they are paying for desired outcomes is significant enough to materially impact a physician's overall compensation. Otherwise, the payer's goals will be overlooked as providers focus on maximizing their performance in their organization's compensation model. This is especially true for independent physicians, where significant reimbursement may still be FFS-based. Value-based initiatives can fail to gain traction if they are not accompanied by a clear direction for broader reimbursement transformation.
- **Pick your battles.** Focus on a shortlist of KPIs. Physicians are extremely busy – they must care for a range of patients who often are members of several different plans. They don't have the bandwidth to focus on a laundry list of target outcomes and optimize their performance across a myriad of different initiatives. Instead, they hone in on the easiest-to-understand, highest value initiatives. Keep it simple for them by focusing initiatives, communications, and performance reporting on a targeted set of the most important metrics that they can impact. Value-based provider compensation models that are beginning to be developed for employed physicians can offer key lessons learned for how to strike the right balance. Many payer models today have excessive complexity and fragmentation that lead to [negative perceptions among providers](#), and payers who can have the easier understood and actionable approaches are more likely to build the stronger partnerships and buy-in required.

As the healthcare market shifts towards value-based payments, it will be critical that payers implement effective initiatives and compensation models that improve cost and quality performance. The above learnings can help payers work with existing physician compensation models for both employed and independent physicians in order to drive change.

Ultimately, incentives, compensation, and reimbursement are necessary but not sufficient to truly drive significant improvements in cost and quality of care – provider infrastructure and capabilities, clinical transformation and resources, leadership and strategic alignment, are all **additional inputs** without which any incentive program is unlikely to maximize impact.

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Tomas advises senior executives on consumer engagement and retail strategy, value-based healthcare, organizational transformation, and predictive modeling and risk-based analytical approaches to strategy and decision-making.

PHYSICIAN COMPENSATION: WHAT WE CAN LEARN FROM THE TUOMEY WHISTLEBLOWER

by Bruce Hamory, Chief Medical Officer, Oliver Wyman
and Tom Flannery, Partner, Mercer



Becker's Hospital Review posted ["The Tuomey case: 12 key points,"](#) presenting a list of major facts and discussion points related to the recent false claims case involving Sumter, S.C.-based Tuomey Healthcare System. The system, according to Becker's, lost its appeal and faces an order to pay approximately \$237 million in fines after a federal jury found it in violation of the Stark Law and the False Claims Act by submitting \$39 million in false claims to Medicare. Below, our [MMC Advantage physician compensation team](#), led by Mercer's Tom Flannery and Aaron Moore and Oliver Wyman's Bruce Hamory and Parie Garg, found 7 more lessons to draw from this unprecedented case:

- **It only takes one.** Under the False Claims Act, only one person has to file a complaint. Healthcare organizations can no longer be willing to brush aside the potential risks. Whistleblower provisions aid the government in helping ensure compliance. While all whistleblower claims are not valid, all such claims will be reviewed. There is a clear financial incentive to "blow the whistle" given the size of the claim – in the Tuomey case more than \$237 million. While we do not have the actual number, the whistleblower in this case could receive in excess of \$11 million for filing a complaint under the False Claims Act.
- **Small errors add up quickly.** And with compensation issues (either Medicare reimbursement or physician or executive compensation), penalties grow quickly too. Some of these risks cannot be covered by an insurance policy.
- **Heed your advisors.** Not listening to your advisors (legal, business, or compensation) can exacerbate the issue: Once providers have been informed of the foreseeable risks, any dismissal of advice is done at their own peril. When securing advice, healthcare providers need to inform all the advisors of all the facts and of the full range of counsel sought on the issue. Another concern raised by the case was the admission of evidence from one of the advisors brought in during the "opinion shopping" done to set the arrangements.
- **Know your market.** Compensation must reflect "fair market value" and be "commercially reasonable." Paying compensation in excess of collections poses significant risk. Appropriately structured employment and compensation arrangements may help mitigate this risk, depending on how the arrangements are designed.

- **Be creative – but not that creative.** Organizations are already struggling to recruit physicians, given the narrowing market base, the increased workload expectations, and the changes being wrought by healthcare reform. So it’s no surprise healthcare providers are seeking new ways to attract and retain talent – and pulling compensation as a major lever.
- **It’s a process.** For those healthcare providers seeking to launch innovative compensation models, it may not be enough to just consider redesign. The full range of transformation issues plaguing the market will also have to be taken into account.
- **It’s complicated.** Physician arrangements are complex and require seasoned advisors to help mitigate any risk. We note the comment made by Judge Wynn in a separate concurring opinion, suggesting this is an area of complexity under both the Stark Act and the False Claims Act, compounded by the laws and rules regulating Medicare: “I am troubled by the picture this case paints: An impenetrably complex set of laws and regulations that will result in a likely death sentence for a community hospital in an already medically underserved area.”

Compensation arrangements with, and between, physicians and other healthcare professionals require time, thought, and careful design. Standardization of the design rather than a series of “one-offs” is desirable. It must also be remembered that there are other factors in compensation than pure dollars, which must also be benchmarked.

As providers seek ways to change compensation to reflect fair market value, align with the principles of value-based care, and attract physicians in a shrinking market, we believe that the redesign should not be taken lightly – not just because of the physician engagement and alignment ramifications, but also because of the very real regulatory risk that could result.

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Bruce is a Partner and Chief Medical Officer in Oliver Wyman’s Health & Life Sciences Practice. He is a nationally known speaker on the topic of redesigning health delivery to improve value by improving quality and reducing costs.



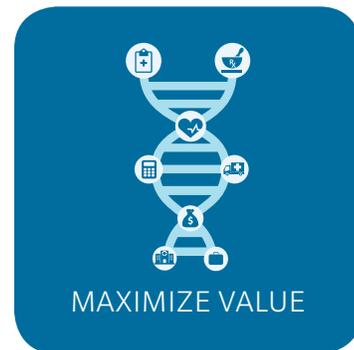
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Tom’s 30-year career spans executive compensation, talent management (succession, performance development, succession), organization design, and performance benchmarking.

PRICE IS WHAT YOU PAY. VALUE IS WHAT YOU GET:

DESIGNING A VALUE-BASED PHYSICIAN COMPENSATION PROGRAM



by Parie Garg, Principal, Oliver Wyman



Parie Garg, a member of the [MMC Advantage Provider Transformation team](#), presents how a physician compensation plan can be designed to both gain doc buy-in and realize the promises of value-based care:



So your organization has decided to move to value, keep up with the changing market trends, and make sure that you can keep the overall cost of care down. Great! The leadership is aligned, the administrative staff are aligned – but you still have one problem. The physicians that your organization depends on are resistant, skeptical, and wary of change.



Understandably so. Past payer and provider efforts to align compensation with value-based care have either provided a pittance to physicians (e.g. the 1%-5% uptick from P4P programs) or have buried them in paperwork, metrics, and measures up to their stethoscopes. To a large extent, gaining physician buy-in hinges on having an appropriately designed physician compensation model that rewards physicians for behaviors that align with the group or payer corporate objectives. In addition to considering the mechanics around compensation, rewarding physicians for outcomes, and accounting for additional administrative responsibilities, the compensation model must also take into account the realities of operating in a market that is increasingly competitive for limited physician resources.

Our team has had significant success in designing [physician compensation programs](#) that take into account all of these nuances and complexities. Not only do we believe that an appropriate compensation model can be feasibly designed and orchestrated, we also believe that a simple, elegant solution can be game-changing, and can make or break an organization's ability to improve quality and lower cost by effectively and speedily bringing physicians aboard. By focusing on the following success factors, health plans and provider systems alike can develop a successful, value-based compensation program:

- **Align on organizational priorities first.** Prior to launching any compensation redesign, it is critical that the organization is clear on what behavior changes are to be encouraged within the physician population, how those align with priorities, and how such behaviors and priorities may need to evolve as the organizational strategy evolves. The compensation program should be built to support these principles.
- **Make the compensation program fair, achievable, and impactful.** A value-based compensation model should (a) align with market benchmarks (b) reward the high

performers and hold the low performers accountable (c) balance production, quality, and efficiency incentives, and (d) ensure that the upside opportunity per distinct goal or metric is sufficient to motivate behavior change. Likewise, assure that models are designed and initial targets are set so that historical levels of MD compensation are achieved in early cycles of the program.

- **Focus on the metrics that matter.** Avoid laundry lists of metrics that are dilutive of the total incentive pool, are not statistically valid or reproducible, are outside of the control of the clinicians, or do not contribute to improvement in clinical value. Pick three-four behavioral categories that matter and limit distinct metrics to five-six per specialty.
- **Evolve the framework over time.** As desired benchmarks are achieved, evolve the framework to either include new metrics that are new priorities or change the thresholds or targets to ensure a cycle of continuous improvement.
- **Make the program self-funding.** Design the compensation program such that incremental incentive pools are funded through system-wide savings generated from practice or utilization efficiency stemming from physician behavior change. Designing the compensation in such a way allows compensation redesign to be viewed by physicians as a “bonus” rather than a “withhold” and limits arguments and resistance from payers and system leaders.
- **Consider engagement beyond compensation.** While compensation is typically used to drive the most meaningful changes in behavior, there are a variety of other ways to engage physicians – and not every behavior change requires an incentive. As such, the compensation model should be derived within the context of a broader engagement strategy that includes elements such as data transparency and compact development.
- **Communicate, communicate, communicate.** Take the physicians along on the journey of compensation rather than dictate terms to them. Engage physicians early and often, and appoint physician champions who can co-lead the process and serve as peer communicators.

Designing a physician compensation model is a significant undertaking, with far reaching impacts on the organization, administrative leadership, physician relationship managers, the overall health system and, most importantly, physician engagement. By following a few key principles, organizations can launch a model that is both effective and efficient.

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ABOUT OLIVER WYMAN HEALTH

Oliver Wyman Health is a virtual community of innovators convened by the Health & Life Sciences practice of global management consulting firm Oliver Wyman.

As the healthcare world changes and leaders look for direction, guidance, and new ideas, Oliver Wyman Health offers a digital platform for diffusing proven value-based solutions. Our in-house team of experts as well as a range of external thought leaders provide practical insights on the business challenges of transforming healthcare from volume to value.

We invite you to share ideas and infographics, contribute novel approaches to the financing and delivery of healthcare, subscribe to receive updates on effective strategies, and connect with other healthcare industry professionals.

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