Administering **Physician Compensation** in 2016 and Beyond: **What You Need** to Consider

Hospitals and medical groups do not simply acquire or hire physicians and other providers; they invest—*heavily*—in them. This paper walks you step-by-step through understanding and identifying the major ways in which technology can support your compensation strategy and reward your organization with optimized return on your physician investment.

It happens too often. After investing in physicians and other providers, organizations then fail to take the steps necessary to ensure their investment will pay off. On one hand, the addition of these providers can increase market share and boost referrals. On the other, poor management of physician compensation can alienate providers while delaying and reducing the potential payoff from having these valuable team members on staff.

This situation is partly why hospitals face major recurring losses per provider, which, according to *The Hartford Business Journal*, amount to an average of $150,000 to $250,000 per year per physician over the first 3 years.¹ Poor compensation management means too much time and money spent producing too little benefit. Why is this the case?

**Physician compensation strategy and plan development is both time consuming and cost intensive.**

Physicians and administrators can spend 6 to 12 months creating or revising a compensation plan. Outside experts hired to facilitate the development and analysis of the plan will do a thorough job—access the physician compensation data, look at the trends, identify the areas that can be improved—but their expert assistance comes at a heavy price if the resultant plan is incorrectly administered.

**Actually administering compensation is challenging.**

Typical compensation management systems split relevant data across disconnected systems: compensation models in Excel, specific payment terms in PDF contracts, payroll information in HR systems, performance data in the electronic health record (EHR) system, and compliance data somewhere in the mix (hopefully). In the end, the lack of integration or interoperability between these systems (1) forces administrators to spend more time entering or chasing more data, (2) makes it harder to perform tasks like reconciling payment against contract terms, and (3) increases the risks of errors and compliance issues.

**Those errors and issues are compounded by the use of spreadsheets.**

In an ECG survey, 97% of respondents use Excel to manage their physician compensation.¹² According to another 2015 review, an average of 94% of spreadsheets contains error, with error rates between 1.2% and 2.5%.¹³ In yet another study, Dartmouth College researcher Stephen Powell commented, “Spreadsheets are full of data that’s never used and errors that go nowhere. They are not necessarily systems with inputs that get processed into outputs.” Seven of the errors his research uncovered were estimated to have cost impacts ranging from $4 million to $110 million.¹⁴

**Further, spreadsheets and disconnected systems are not scalable.**

Hospitals are acquiring physician practices at an unprecedented rate, and they can easily see their ranks swell by the thousands. As the complexity of administering physician compensation increases, the time required to manually bridge disparate contract management, payroll, and performance systems mounts, and users struggle to keep pace.

**This is where compensation management systems—and making the whole process work well—come into their own.**

A modern compensation management system automates calculating and adjudicating. It also will intelligently monitor physician compensation while providing real-time feedback to administrators and physicians on performance under the compensation methodology. Such a system increases transparency throughout an organization while providing secure access to information, allowing for more robust discussion of alternatives and alignment between the enterprise and physicians. Ventana Research’s *Trends*
1: Integrate your systems into a single, central source of compensation truth.

According to Ventana Research, more than 40 percent (41%) of respondents indicate they must use two or more systems to gain a complete view of compensation.\textsuperscript{x}

In fact, when hospital administrators describe the technology solutions they’re using as physician compensation software they often refer to only one piece—like payroll—of a much larger puzzle.

That’s problematic. Research also suggests that the lack of technological integration was either a very impactful or the most impactful barrier to total compensation management for 66% of participating organizations.\textsuperscript{vii}

Physician compensation administration systems must interact with supporting processes.

Issues stemming from disconnected systems can start from the moment a physician enters into a contract. That document and the information it contains—how much the physician will be paid in exchange for what services—is frequently dumped into a static PDF. Administrators can’t do anything \textit{to or with} it (e.g., align it to performance metrics), even though the contract might stipulate that performance must be regularly measured for incentive pay.

The result can quite problematic. Physicians either get paid too little (resulting in unhappy staff) or they get paid too much (with unhappy CFOs, budgetary losses, and possible compliance violations). Reconciliation with payroll, performance, and contract terms either doesn’t happen or relies on time-consuming, error-prone manual processes. Under these circumstances, answers to questions about specific payments and compensation strategy may lie out of reach for organizations.

When the compensation administration technology can sit atop HR and other organizational systems, allowing for the collection of related but disparate data points, it can become a central source of truth as the only system that has the ability to assimilate compensation management, adjudication, reconciliation, and benchmarking. Gaining answers to pressing questions, identifying red flags related to compliance matters, forecasting trends that will improve strategy, etc., are all a matter of clicking through a single integrated dashboard, regardless of where the pertinent information resides (i.e. in an EHR/PM, financial, payroll, or other system).

In short, data integration enables a holistic view of the organization, allowing for horizontal and vertical analysis of the data, and the benefits of integration aren’t just manifold—they’re foundational to \textit{other}, even more advanced, benefits.

Ventana Research writes, “To drive improvement, it is necessary to integrate existing information sources with compensation and workforce performance or talent management systems.”\textsuperscript{viii}

With those systems working in tandem, the compensation administration application will do more than just improve accuracy and ease of use; it will fuel dramatic time savings and support stronger strategic decision making.
That’s because compensation-related data can be captured, communicated, validated, verified, analyzed, and acted upon with minimal—or zero—manual labor by hospital administrators. Many of the most tedious aspects of handling physician compensation, such as repeatedly inputting, updating, and chasing data, can become fully automated to improve accuracy and reliability. See Figure 1.

In an interview with *HealthLeaders* magazine, John Drago-vits, former CFO of Dallas-based Parkland Health & Hospital System, expressed his belief that automation is key to forward-leading healthcare. He said, “We’re looking at automating everything in the revenue cycle area. [This is] the system of the future.”

The same thinking applies to compensation. As just one example, in a compensation management system physician payments can be instantly and automatically reconciled against both performance metrics and the terms of the contract, ensuring accuracy and giving all parties increased insight and transparency on how compensation is working—and whether it’s working.

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### What about HIPAA?

Sometimes keeping data in silos is an intentional, if inconvenient, decision. Healthcare providers are subject to stringent and highly punitive data privacy laws, like HIPAA, that govern how protected health information can be used and communicated.

However, HIPAA-compliant technologies have come a long way, and the Office for Civil Rights even released a comprehensive set of new guidelines in early 2016 to help healthcare providers understand that “the real HIPAA supports interoperability.”

If HIPAA is the only apparent barrier to integration, it’s not a reason—it’s an excuse.

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*Figure 1. Automated reconciliation is a benefit of greater integration between systems.*
2: Offer greater **transparency** to your key stakeholders, including physicians and providers.

One of the immediate results of improved integration is greater transparency between administration and physicians related to the compensation plan’s functionality (i.e., everyone has open, easy, role-based access to critical data needed to ensure physician compensation aligns with organizational priorities).

This transparency, in turn, has impacts on physician satisfaction and engagement. Specifically, clarity promotes engagement because physicians can see firsthand that the terms of their employment are being met and they are being treated fairly. They can understand how their compensation would be affected by different practice decisions: “If I increase WRVUs by X%, what will my compensation be?” See Figure 2.

By contrast, if providers do not know why they are being paid for certain services and how they can improve their compensation, this situation can result in significant frustration. For instance, bundled payment programs with unclear origins can create reconciliation nightmares. How can anyone figure out how payment aligns with the terms of the contract when there is only a single lump-sum payment notated?

Researchers (who are also practicing physicians) from Indiana University point to a lack of transparency as a primary cause behind declining physician engagement. “Many hospitals, they said, collect a great deal of information about the performance of their medical staff, but share little information in return. One physician described the situation in terms of a ‘one-way mirror,’ in which data on physician performance are widely circulated, but the performance of the organization and its non-physician leaders remains largely opaque.”

Automated, real-time reports create transparency by allowing all parties to clearly understand performance implications.

In other words, transparency can serve as a highly effective retention tool.

It also empowers administrators to answer their own questions (e.g., which physicians are meeting performance expectations? Is the organization’s compensation strategy incentivizing the correct behaviors?) by giving them greater visibility into the underlying compensation strategy and activity.

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*Figure 2. Physicians gain clarity into their own compensation.*
Combining integration with transparency yields the ability to see into every aspect of physician compensation (see Figure 3). This newfound visibility allows for the assessment of productivity, quality, and other performance data in a timely manner, so that administrators can identify opportunities for improvement. Quite simply, visibility enables administrators to understand how compensation is working within their organization.

For numerous reasons, many hospital leaders struggle to obtain an unobstructed view into their organizations’ operations. It’s no surprise that when you do not have visibility into all facets of your organization, you do not know whether you have problems to fix. Despite the best efforts of busy executives and administrators, festering issues can—and do—go unnoticed.

This is where modern compensation management tools prove to be truly eye opening to those who may struggle with understanding the value of yet another technology solution. With increased visibility, organizations can gain an understanding of everything that is affecting physician compensation right now, and that knowledge almost inevitably leads to reactions of “I didn’t know we were doing that—why are we doing it this way?” Having actionable information available means leaders can discuss and make decisions based on facts rather than guesses. That’s the power of visibility: much more control over the decision-making process.

The result is the ability for leaders to lead based on actionable data that’s produced and updated in real time, rather than expending time and energy trying to figure out how to pay or how much they paid their providers. This is a subtle, but crucial point. Right now, most hospitals spend undue effort determining whether they’re meeting their end of the contract: Are we in compliance? Are we paying providers fairly? Are we paying them too much?

It becomes possible to answer questions physicians and providers didn’t even realize had answers, particularly when looking at performance. Are providers meeting their terms? Are they meeting their target goals? Are they returning value on the investment the hospital made in them?

Compensation management systems help strengthen practice management by allowing organizations to translate data into information, and information into actions that improve outcomes.

In part, that’s because the right compensation management system should possess the intelligence and ability to take smart action on its own.
4: Deploy **artificial intelligence** that can handle automated activities.

Truly automating compensation-related activities requires a system that can think for itself through a variety of situations, or at least not be completely dependent on human intervention for certain operations. This artificial intelligence (AI) makes it possible to rapidly develop and administer compensation plans in the modern marketplace and, further, to institute automated processes. Almost every aspect of compensation strategy would benefit from some degree of automation, including the following:

- Compensation plan development and revision
- Contract management
- Physician payment adjudication
- Market rate identification and fair market value
- Access to productivity, quality, and other physician performance data in real time
- Identification of productivity trends and development of improvement plans
- On-boarding of new physicians

Some executives, including Parkland’s former CFO, Dragovits, argue that a key benefit to automation is the way it changes an organization’s use of its people-based brainpower. Dragovits cites an example of one department needing 35% fewer people after the organization automated eligibility rechecks for patients who receive public assistance to pay for medical care. With efficiencies gained from a compensation management perspective, team members could be reassigned to understaffed departments or refocused on improving practice performance.

Freeing staff capacity is, however, just the tip of the iceberg when it comes to AI.

5: Identify problems and opportunities in advance with **predictive analytics**.

AI is also the engine behind predictive analytics. At its most fundamental, predictive analytics uses the data already resident in systems to forecast the future before organizations are blindsided by it. It can, for example, reduce the risk of noncompliance. When administrators go in and modify a compensation model, they can compare the resulting compensation to benchmark data in order to determine whether a physician may require internal or external review of his/her compensation. With this ability to change compensation plans at a global level and to see the resulting compensation, administrators can determine whether there may be any fair market value or other issues.

With a consistent data model and structure, administrators can go into a planning environment to understand how a change would affect the organization, without having to wade through 20 or 30 Excel models and thousands of iterations.

Often, systems can be configured to run predictive analytics automatically and in the background, so that these systems can alert organizations to red flags or identify improvement opportunities, without users even having to search for them.
6: Use **active alerts** to push critical information out to users automatically.

It shouldn’t be left up to the user to have to ask for predictive intelligence. A modern compensation management system should do the heavy lifting for the user and, *if* user intervention or awareness is required, trigger alerts. In fact, the burden should be on the system, rather than the user, to perform critical activities, such as the following:

- Flagging errors or issues resulting from automated payment reconciliation
- Identifying when a contract has been changed or asking for approval of a certain change
- Testing and comparing the plan against market-based standards to account for changes on an ongoing basis (this way, the system can proactively identify physicians who are receiving compensation that may be in excess of the broader market based on various productivity and nonproductivity levers)
- Adjudicating payments to ensure that all payments to physicians are consistently calculated and adhere to all contracts between physicians and the organization
- Measuring almost any other metric residing in the system and flagging it for alert at certain thresholds

That last point is the most important. For example, many compensation plans combine productivity- and nonproductivity-based metrics. As the 40,000-member Healthcare Financial Management Association says:

> Plans that incorporate both types of metrics should begin as largely productivity-based and then increase the proportion of compensation tied to nonproductivity metrics over time. As organizations see greater portions of their revenue derived from value-based arrangements, the compensation approach should evolve accordingly.\[xiii\]

Ensuring that kind of staged evolution in compensation is nearly impossible when relevant information is locked into spreadsheets or PDFs. Automated alerts in compensation management systems can pull critical pieces of data before users even know that information is needed, and push that data out across a variety of devices.

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More **Fundamental** Functions

7: You need the ability to access information from any device - **anywhere, anytime**.

When compensation administration tools are hosted in the cloud, they enable anytime, anywhere access; staff, physicians, and management can have information available from almost any personal electronic device.

For example, a physician might want to look at his/her smartphone and know, for today’s services, how he/she got paid. The tool that contains this information should be accessible from nearly any device (phone, tablet, laptop, or desktop) with an Internet connection.

The world is more connected than ever, and the ability to access critical data anywhere, anytime is ubiquitous. As such, any technology solution will need to provide users with that level of flexibility. Cloud-hosted tools also impose very little IT disruption (no hardware or software to install or upgrade). Many healthcare organizations have been burned by technology. They might have invested heavily in EHR systems, for example, only to see productivity compromised or more time required for data entry; this is what *Forbes* deems healthcare’s current *productivity paradox*.\[xiv\]

Any new technology or deployment that taxes the IT department can be seen as a negative risk. A cloud- and SaaS-based deployment minimizes demands made of the IT group, requiring very little (or no) IT overhead or time—and that is something organizations should demand of modern systems.

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8: You need the ability to **scale** compensation management as new providers are added.

A cloud-hosted compensation administration system is more than just available on the fly; it’s also scalable to encompass any number of locations, departments, and provider types.

As hospitals expand and acquire more medical groups, they may find themselves growing into a workforce of thousands of providers. Their compensation management method must grow with them. The system can be scaled to accommodate future growth without the need to set up new servers or make additional investments.

9: You need the ability to protect and **secure** information within the system.

The solution should be hosted specifically in a data center certified in whose cloud computing infrastructure is continuously updated to meet the security requirements of the healthcare industry.

Security concerns are not academic: healthcare data systems are under attack. *The Washington Post* called 2015 *the year of the healthcare hack.*xv A survey of about 200 hackers by data protection firm Thycotic found that 29% consider the healthcare sector to be the most vulnerable to a breach.xvi Proper security is paramount. Certified data centers are often able to provide layers of security—because it’s their core function—that hospitals may struggle to manage on site. This includes 24/7 data backup and recovery services and advanced server security protection through server-intrusion prevention and scans for more than 70,000 vulnerabilities.

10: You need the ability to make the system easily **auditable and compliant**.

Alongside security concerns, hospitals must adhere to stringent compliance regulations, including many specific to compensation.

Solutions need to be auditable and capable of producing insight into issues quickly and easily—and, preferably, before they become a problem. If a system is hosted through a data center certified in SAS 70, many of the requisite compliance elements will already be met. But there are, of course, other compliance regulations regarding physician compensation, including the Stark Laws, and noncompliance can be very expensive. One hospital system, who was found to have violated the Stark Law, settled with the U.S. Department of Justice for a record-setting $85 million. States are also taking a harder look at hospital profits. Connecticut, for example, is examining deep funding cuts and tax increases. “The fact is that nonprofit hospitals earned more than half a billion dollars in profit last year,” said Gian-Carl Casa, undersecretary for legislative affairs of the Office of Policy and Management.xvii Part of the industry’s response, according to *The Hartford Business Journal*, has been to inspect the minutiae of hospital finances. That effort mandates an auditable system capable of producing thorough, custom reports quickly and easily.
Conclusion: Today’s technology can support your provider compensation strategy more effectively than most hospitals and medical groups realize.

Provider compensation is not a trivial matter for healthcare organizations. This single aspect of hospital administration has direct, and often dramatic, impacts on financial performance, employee retention/loyalty, regulatory compliance, and operational efficiency. Given that physicians and other providers represent one of the most important investments hospitals will ever make, it is critical that organizations do everything in their power to optimize returns. Old solutions (like Excel or isolated payroll programs) that are failing to keep pace with the changing healthcare market have been eclipsed. Today’s tools, strategies, and systems can meet and exceed the demands imposed by proliferating compliance obligations, physician acquisitions, and financial concerns.

It is possible to do more with physician compensation management today than has ever been possible before. Organizations can align all aspects of physician compensation automatically; from the moment a physician contract is loaded into the system, its terms for payroll and performance can be reconciled with contract management. Modern compensation management systems also possess the intelligence to use that information to peer into the future to forestall problems before they arise and identify opportunities before they pass by. The future has never been brighter for deploying technology that supports compensation strategy and reinvigorates the underlying investment in physicians and providers.

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