



INTEGRATED HEALTHCARE STRATEGIES™

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Improving the Economic Agility of Your Physician Practice

Presented by Integrated Healthcare Strategies
as Authored by Tom Becker

The economic downturn has hit just about every sector of the economy, including healthcare. Layoffs have resulted in the loss of healthcare benefits and a reduction in the number of people on commercial health insurance rolls. Health care providers are seeing a shift from commercial insurance to Medicaid, and in some cases, to self-pay payer categories. These economic realities are magnified as providers consider the potential impact of further cuts in Medicare and other government sponsored reimbursement, as well as the uncertainty of healthcare reform initiatives of the Obama administration.

In some physician practices the immediate reaction to the downturn has been layoffs, which may be necessary just to survive economic realities. Layoffs often have unintended impacts on the delivery of healthcare and are commonly accompanied by a rousing chorus of complaints from the physicians who suffer the consequences. In addition, after surviving layoffs, the reality in many physician organizations is that physician compensation may decline, and the remaining support staff is likely to find their scheduled wage increases frozen or eliminated to deal with ongoing practice losses.

In some cases, physicians in private practice are re-considering being acquired by a hospital or healthcare system, or becoming employed. The physician's immediate problems might be solved by becoming employed but those problems may be transferred to the hospital or healthcare system.

If your organization has an integrated physician practice, what initiatives are being undertaken to improve your physician organization's agility to deal with this economic tumult? How does an organization engage the physicians in this economic right sizing process?

Physician compensation plans can have an impact on behavior and practice economics. Some early adopters used "revenue less expense" compensation plans to evolve physicians from private practice to an integrated setting. Physicians could understand these plans since the plan mirrored their economic experience in private practice. Revenue less expense compensation plans have the following characteristics:

- Ties compensation directly to top-line net revenue generation
- Engages the physician in the collection of professional fees

- Involves the physician directly in expense management in the practice since reduced operating expenses resulted in increased compensation
- Exposes the physicians to reimbursement risk, i.e., contracting with payers, declining Medicare/Medicaid rates

Even today there are many who strongly support revenue less expense compensation plans within integrated physician organizations for these very reasons.

Many organizations have shifted away from revenue less expense types of plans to Work Relative Value Units (Work RVU) based compensation plans to buffer the physicians from payer mix risk and reimbursement risk. Work RVU plans have the following characteristics:

- Eliminates reimbursement risk, particularly for integrated systems that are required to serve an indigent population
- Buffers physicians from operational risk since the integrated system has the responsibility to manage the practice
- Disengages the physician from managing operating expense since compensation is based entirely on the production of Work RVUs

In this economy it is important to have employed physicians engaged in the management of practice expenses. Their direct involvement likely will result in real expense reductions rather than a quick fix that is undone just as soon as the immediate crisis has passed.

How can physicians on a Work RVU plan be re-engaged in practice expense management? First, it is essential that a portion of physician pay be “at risk” for practice expense management. The organization should set budgetary goals for reduction in operating expense. These goals could be expressed as a percentage of the expense budget or, a value per Work RVU. In setting these goals, avoid the use of external benchmarks since relevant cost survey data is limited and often not representative of your organization. Second, reward the physician’s achievement of these goals by increasing the Work RVU conversion factor by a percentage of the expense savings.

What elements of operating expense should the physician be “at risk” for?

- Size of direct support staff in FTEs
- Overtime expense
- Medical supplies
- Revenue producing equipment
- Purchased services

In addition to an individual incentive plan, consider establishing a physician group / practice site annual bonus plan. The bonus should be gated (conditioned on) on meeting group/practice site financial objectives as a minimum – if the gate is not met no bonus is paid. A portion of the award could be based on patient satisfaction, another on growth in new patients to the group - not the physician or practice site, and lastly, specific quality indicators determined by physicians.

Summary

In the current economy and with the unknown impacts from healthcare reform it is important for physician organizations to maintain financial agility. Operational agility can be gained by engaging the physicians in managing both top-line revenue generation *and* operational expenses.

About the Author

Tom Becker's thirty years of healthcare experience includes administrator positions at hospitals, medical groups, and IPA's. He held the post of Vice President, Chief Operating Officer at the Santa Barbara Medical Foundation Clinic, a multi-specialty group in Santa Barbara, California. He was formerly Administrator of Buena Ventura Medical Clinic, Inc., as well as President and Chief Executive Officer of Buena Ventura Medical Management Co. Mr. Becker also held the position of Chief Administrative Officer at Bakersfield Family Medical Center, Bakersfield, California. Prior to his administrative roles in medical groups, he was an Associate Director and Assistant Dean at the University of California San Diego Medical Center (UCSD). He directed the Information Systems at the Scripps Clinic and Research Foundation in La Jolla, California. He served as a Senior Consultant with Information Associates, Inc. of Rochester, New York. Tom.Becker@IHStrategies.com

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