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Short-term Disability for Employed Physicians – Current and Best Practices

Presented by Integrated Healthcare Strategies
as Authored by Mary Heymans

As the trend continues toward an increased level of physician employment, Integrated Healthcare Strategies has noted a significant number of physicians that are dissatisfied with the current handling of short-term leave. Although compliant with the Family Medical Leave Act (“FMLA”), a number of physicians have expressed concern that the compensation paid during maternity or extended medical leave as well as the impact to compensation afterwards, is not competitive with national standards.

To better understand industry current practices in this area, Integrated Healthcare Strategies conducted a national survey of leading healthcare organizations. Due to the strong interest in this topic, 85 healthcare organizations participated. These organizations represent a full array of providers including many of the largest most prestigious academic medical centers and integrated healthcare systems in the country.

The following results from the Integrated Healthcare Strategies 2009 Physician Short-Term Disability Survey provides insight on the current industry practices for short-term disability benefit design for employed physicians, as well as commentary on what we consider best practice plan design.

SURVEY FINDINGS HIGHLIGHTS

Short-term disability is considered a standard benefit option offered by the vast majority of healthcare organizations for all employees, inclusive of staff, management, and physicians. Although it is offered by most organizations, the benefit provisions can vary significantly typically based on the organizational structure and culture, as well as the physician compensation plan in place.

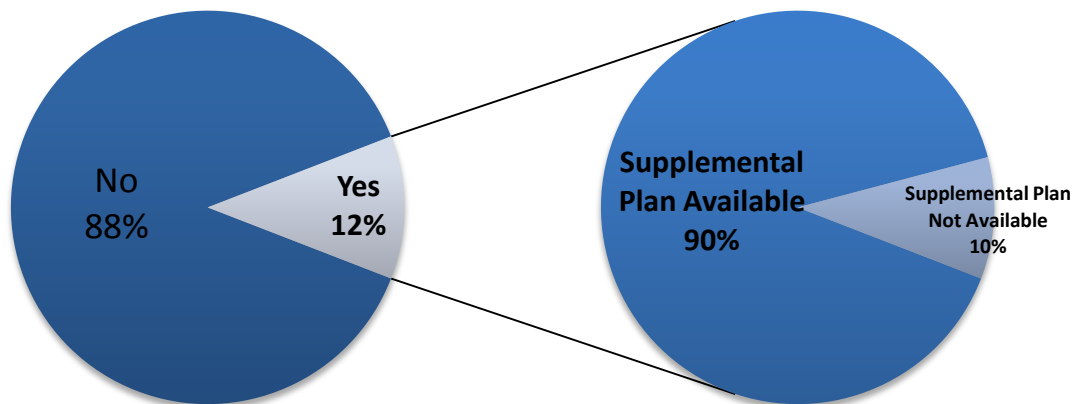
Key Survey Findings include:

- ◆ 100% of the participants have a program in place to provide compensation coverage when physicians are disabled before long-term disability takes effect.
 - Ten of the participants are in one of the five states that have mandated short-term disability coverage. Although 9 out of those 10 organizations provide a supplemental plan, it's typically at the physician's expense.
- ◆ When provided through the organization rather than the state, the most common type of coverage is through a short-term disability policy or salary continuation plan. The majority of those organizations reported their short-term disability or salary continuation plan as being self-funded and employer paid.
- ◆ Most often, participants' policies offer coverage for up to 180 days (which is the standard waiting period before long-term coverage takes effect) and cover 100% of compensation, which is predominantly defined as base salary only.
- ◆ The majority of organizations do not have a weekly maximum benefit as part of their plan, but for those who do have a maximum the average is \$2,100 per week.
- ◆ Most physicians employed by organizations that offer coverage are compensated under a productivity model and are typically given a productivity credit for their leave time.

STATE MANDATED SHORT-TERM DISABILITY COVERAGE

Five US states provide workers with a statutory short-term disability plan. These states are California, Hawaii, New Jersey, New York, and Rhode Island. Ten of the 85 survey participants are in one of these 5 states. Of those 10 organizations, 9 provide physicians a plan that allows them to supplement the state coverage. The supplemental plan is typically employee paid.

Is your organization in one of the five states that has a statutory short-term disability plan?

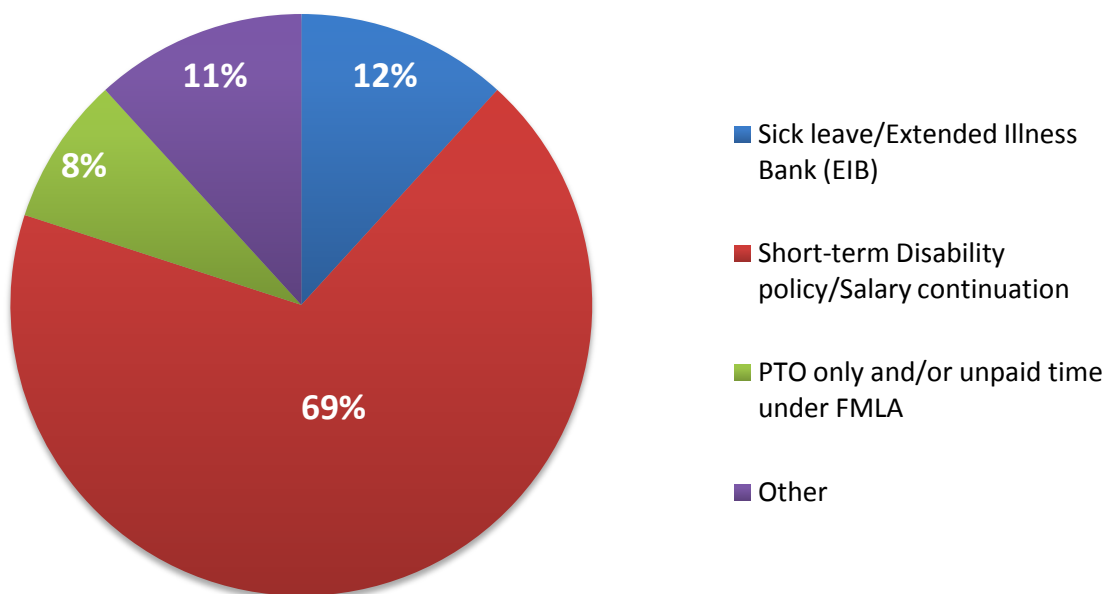


The state requirements vary, but are similar in that they offer between 50% to 67% of employee base salary for 26 to 52 weeks maximum, depending on the state. Note that these plans are not paid for by the state, they are either employer paid or financed through employee payroll deductions dependent upon the state. More detailed information on each of the state plans is listed below:

- ◆ California: The state plan provides between \$50 and \$959 per week after a 7-day waiting period for up to 52 weeks.
- ◆ Hawaii: The state requires minimum benefits of 58% of the employee's average weekly wages up to the maximum weekly benefit amount set annually by the state, after a 7-day waiting period for up to 26 weeks.
- ◆ New Jersey: Payment of two-thirds of the average weekly wage up to the maximum benefit of \$546 per week, benefits for up to 26 weeks with a 7-day waiting period.
- ◆ New York: The plan provides coverage of 50% of base salary up to \$170 per week after a 7-day waiting period for up to 26 weeks.
- ◆ Rhode Island: Benefits start after a 7-day waiting period and are paid based on a percentage of quarterly earnings over a base period, not to exceed 85% of the average weekly paid to an individual.

SHORT – TERM DISABILITY COVERAGE OFFERED BY ORGANIZATIONS

How are physicians compensated, when disabled, until long-term disability takes effect?



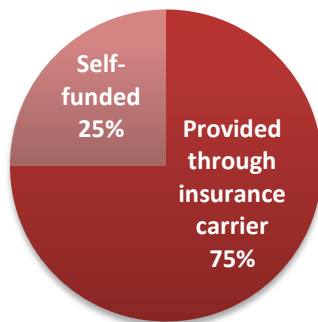
Sick Leave/Extended Illness Bank

Ten (10) organizations reported that they utilize a sick leave or Extended Illness Bank (“EIB”) plan to compensate physicians while on short-term disability leave. All of the organizations reported that their sick leave or EIB covers base salary only. It was also reported that 5 to 130 days accrue annually for full-time employees, and most organizations allow employees to carry a maximum of 10 to 130 days in their extended illness bank per year. Five out of seven organizations reported a waiting period of 3 to 15 days before the sick leave days can be used, with 3 days being the most common waiting period.

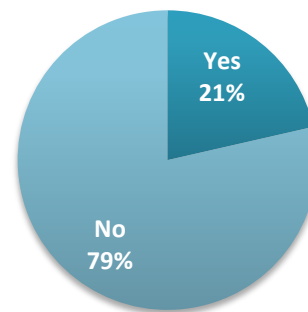
Short-Term Disability Policy/Salary Continuation

Sixty-nine percent (69%) of participants offer a short-term disability policy or salary continuation plan. For 15 of these 17 organizations, the plan is self-funded. For the self-funded plans, the majority do not use a third party to administer the plan. Additionally, the plan was most often reported as an employer paid benefit.

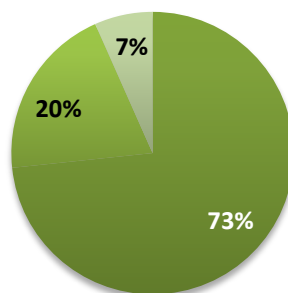
Is the short-term disability policy self-funded or provided through an insurance carrier?



If self-funded, do you have a third party who administers the plan?



Is the short-term disability policy employer paid, employee paid, or a combination of the two (shared cost)?



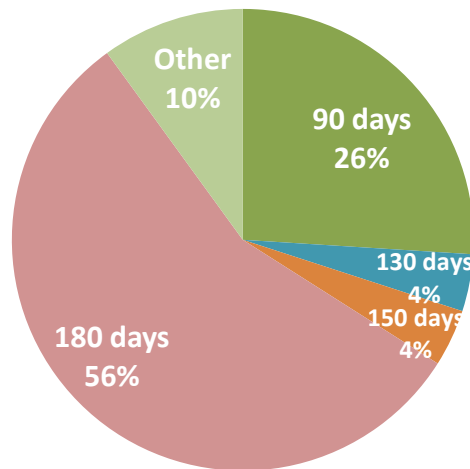
- Employer paid
- Employee paid
- Combination (shared cost)

Of the organizations that reported a short-term disability plan that is provided through an insurance carrier, the following insurance companies were reportedly used: Hartford (most popular), Cigna, and Lincoln Financial Group.

SPECIFIC FINDINGS FOR SICK LEAVE/EIB & SHORT-TERM DISABILITY POLICY DESIGN

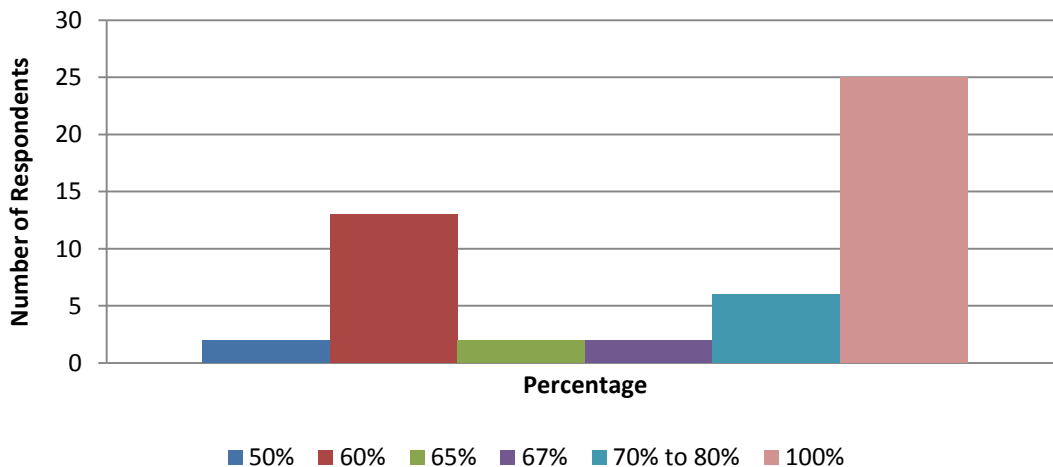
Organizations that use the sick leave/EIB option or the short-term disability/salary continuation option for employees reported that the coverage length of the offered policy ranges from 90 to 180 days.

What is the coverage length of the short-term disability policy?

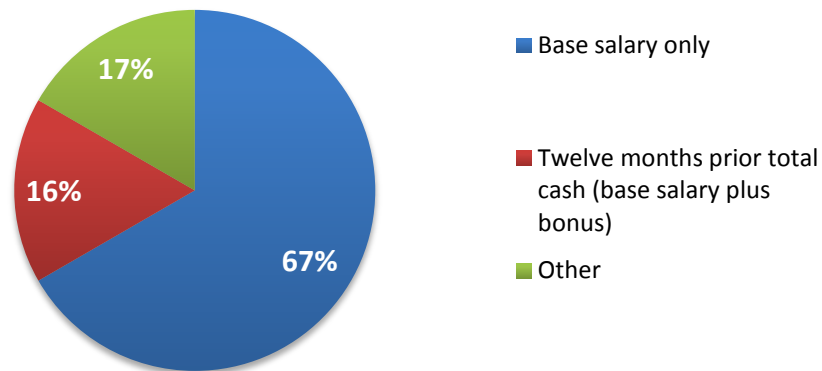


Organizations also reported that the policy covers 50% to 100% of compensation, where compensation was defined as base salary for 67% of the respondents.

What percent of compensation is covered by the policy?



How is compensation defined?

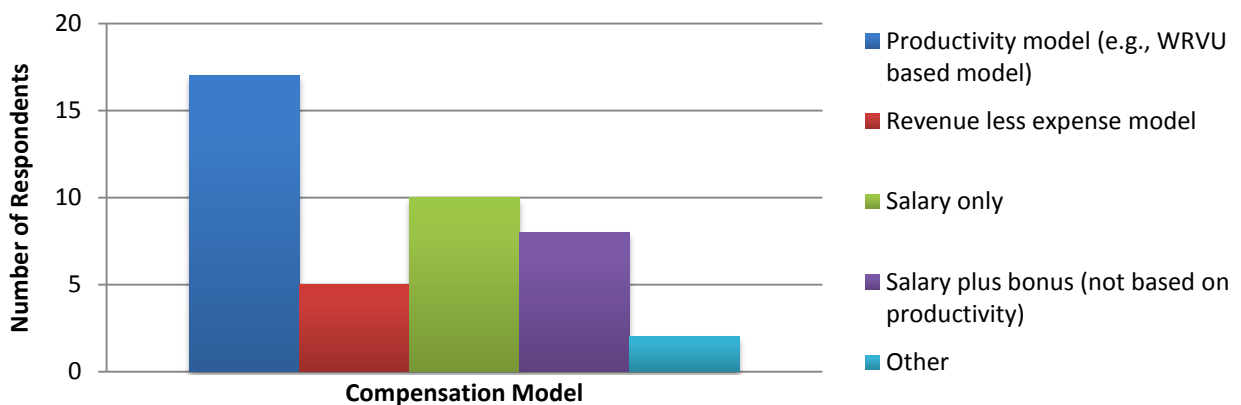


Most organizations do not restrict employees to a maximum weekly benefit, but those that do have a maximum weekly benefit that ranges from \$300 to \$3500. When asked how long the waiting (elimination) period is, organizations responded that it ranges from 3 to 14 days. Almost half of the organizations reported that there is no waiting period. A waiting period, also known as an elimination period, is defined as a period of time that passes until the short-term disability plan starts paying. This might happen when the employee has been absent for one week or until the sick leave has expired. All reporting organizations noted that their employee short-term disability plan covers the entire period until long-term disability takes effect.

IMPACT OF COMPENSATION MODEL DESIGN ON PLAN CHOICE

Different Short-Term Disability Plans are often selected depending on the physician compensation model that is in place at the healthcare organization. The following chart shows the type of compensation model or models under which physicians are compensated:

Under what type of compensation model(s) are physicians compensated?



Organizations are most likely to cover only base salary when 25% or less of compensation is at risk. Under more leveraged models, it is more common to see other approaches such as 12 months prior cash compensation utilized. When the physician returns, organizations will commonly make adjustments to prevent the physician from having to make up the loss in productivity during the leave. The most common approaches are to provide productivity credit to some degree or to remove the disability period from the plan calculation. Without such adjustments, physicians are typically dissatisfied with the benefit provision.

BEST PRACTICES

As more physicians are seeking employment opportunities, a competitive benefit package tailored to physician needs is a key component. Short-term disability policies replacing physicians' 12 months prior cash compensation during the waiting period until long-term disability begins often provide the best coverage. The issue is however, that the coverage is not affordable for smaller physician groups. Due to this fact, organizations commonly self insure this benefit at base salary level only or provide an extended illness bank that functions in a similar fashion. This can also provide a competitive level of benefit if the organization provides appropriate adjustments to the compensation formula upon the physician's return from leave. It is also important that the medical portion of maternity leave also be included in the definition of illness to provide a competitive level of benefit. As the industry is becoming more sophisticated in this service offering, PTO only plans are not viewed as a competitive option.

About Integrated Healthcare Strategies

Integrated Healthcare Strategies offers the most comprehensive array of healthcare-specific human resource consulting services available. Our five specialty practices provide clients with convenient access to insightful consulting advice from industry professionals. Services encompassed within our five practice groups include executive total compensation design; executive search; governance and leadership consulting; physician services; and human capital management consulting services. The Physician Services practice of Integrated Healthcare Strategies helps create successful relationships between not-for-profit healthcare organizations and their employed and affiliated physicians by providing unique consulting services that focus on physician total compensation plan designs, assessment of reasonable compensation, organizational structure and physician leadership development.

About the Author

Mary Heymans is a Senior Vice President with the Physician Services Practice of Integrated Healthcare Strategies. Ms. Heymans may be contacted at mary.heyman@ihstrategies.com or at 800-327-9335.