Coker GROUP

Business Advisors for the Healthcare Industry

Case Study
Provider Compensation Misalignment

About the Authors

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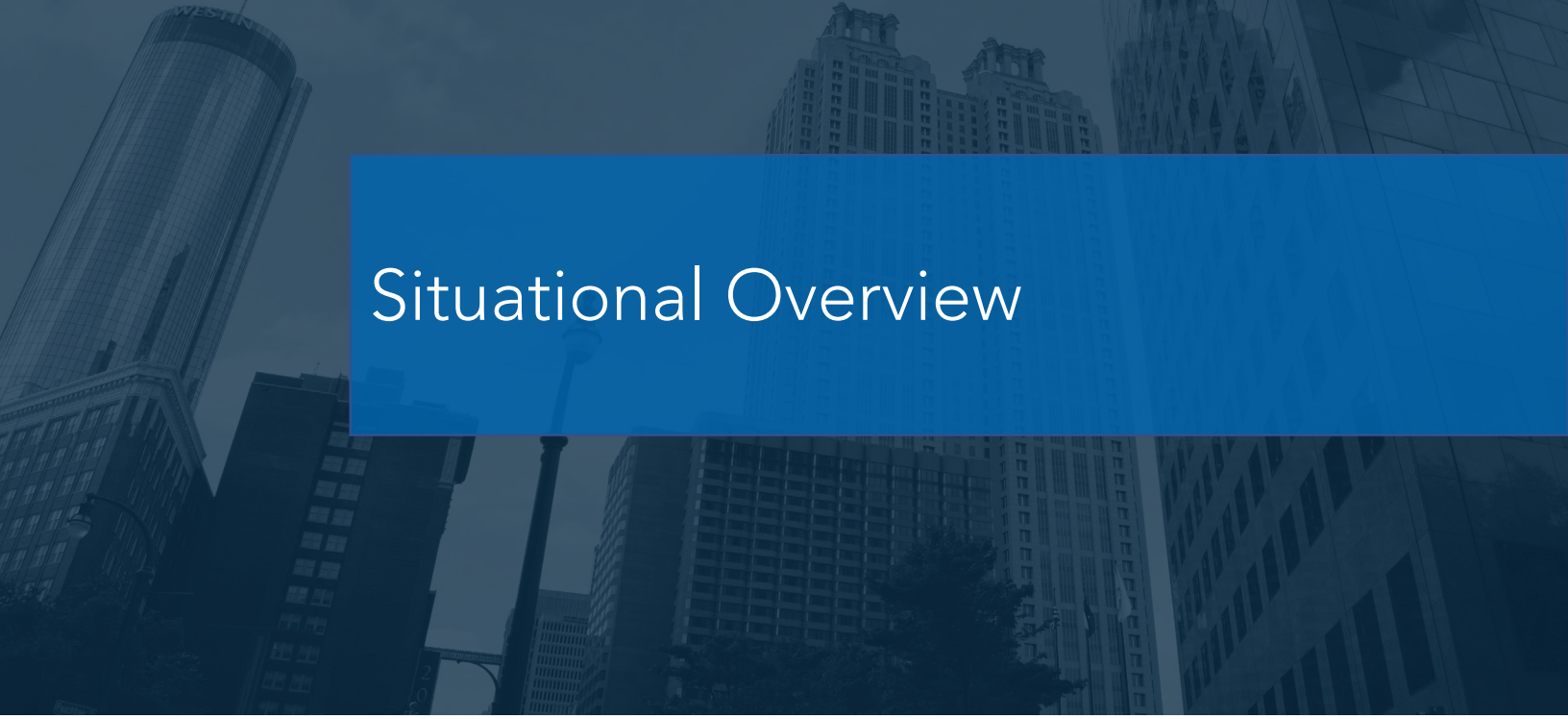
Baynes Welch is a senior associate at Coker Group. He is an accomplished problem-solver who is dedicated to fixing the myriad of problems in healthcare. He has experience working with the country's largest, independent, physician-owned primary care practice which has shaped his understanding of the challenges physician offices face and the solutions required to remain competitive in the mercurial healthcare landscape.

Situational Overview



Situational Overview

Fragmented provider compensation structures risk significant negative financial impacts.

- High potential for provider investment to outpace productivity
- Risk of turnover as high productivity, low compensation providers seek employment alternatives

Medical groups must juggle numerous competing pressures as they design provider compensation structures, including

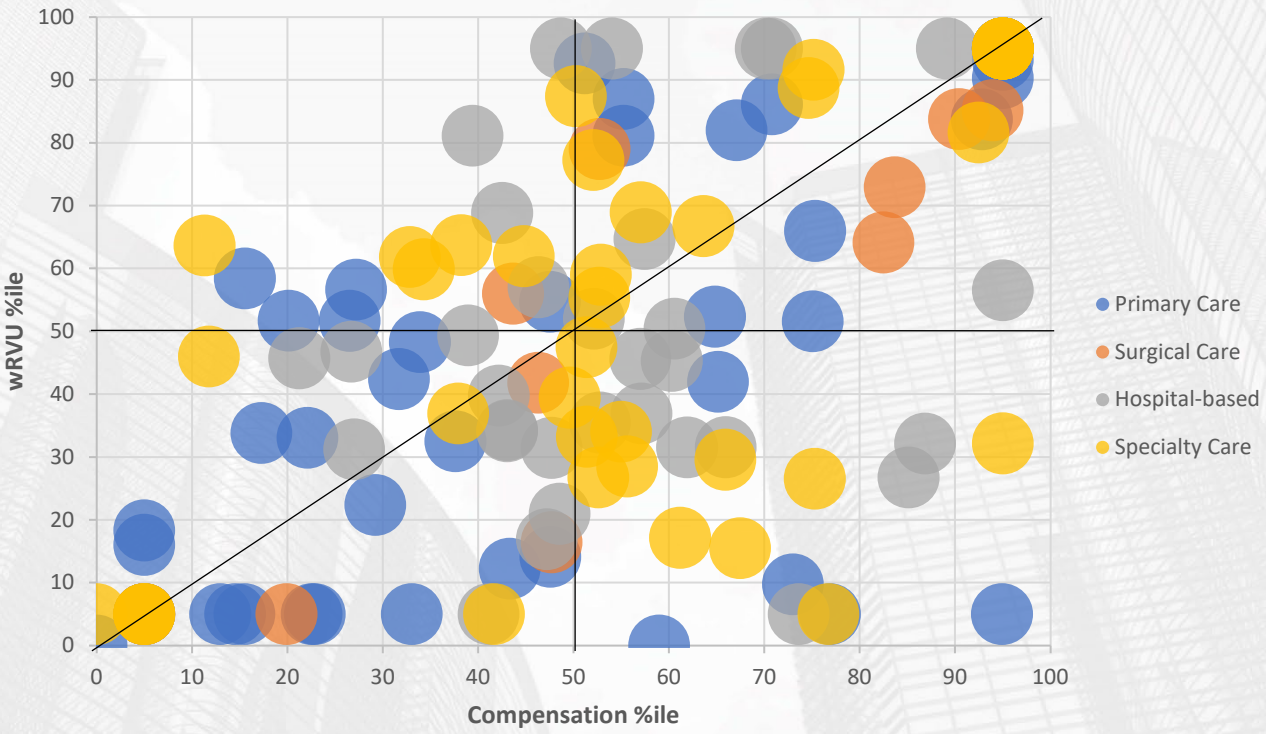
- 2021 MFPS changes
- PSA arrangements
- Employment contracts
- Professional collections
- Key income statement metrics
- Industry trends and more

Medical groups which grow quickly and significantly often inherit a medley of various provider compensation agreements.

- Such groups can benefit immensely from an overarching provider compensation philosophy

Physician Compensation Scatterplot

Example Data



In general, the scatterplot illustrates wide variability in individual compensation vs. production.

A few providers are on the extreme end of the 2nd quadrant (top left) where production significantly exceeds compensation.

- These physicians are "flight risks" who may seek better compensation elsewhere.

However, many more make up the extreme end of the 4th quadrant (bottom right) where compensation greatly outpaces productivity.

- These physicians place a strain on the medical group's finances.

The medical group's decentralized compensation approach is contributing to this variability.

Example: Income Statement Evaluation and Benchmarking

Example Data

Values presented in 1,000's	FY21				FY22 YTD			
			MD FTEs 103.0				MD FTEs 104.8	
	Total	% of NR	Per MD	Market %tile	Total	% of NR	Per MD	Market %tile
Revenue								
Gross Patient Revenue	$108,494	178%	$1,054	32	$122,354	176%	$1,168	45
Capitated Patient Revenue	$62	0%	$1		$0	0%	$0	
Contractuals & Bad Debt	($56,914)	-93%	($553)		($63,020)	-91%	($602)	
Net Patient Service Revenue	***$51,642***	***85%***	***$502***	***31***	***$59,334***	***86%***	***$566***	**45**
Other Revenues	$9,338	15%	$91	78	$9,994	14%	$95	80
Total Net Revenues	***$60,980***	***100%***	***$592***	***33***	***$69,328***	***100%***	***$662***	48
Practice Expenses								
Personnel Costs	$16,870	28%	$164	26	$19,842	29%	$189	36
Purchased Services	$2,428	4%	$24	78	$5,595	8%	$53	>95
Supplies & Equipment	$3,542	6%	$34	23	$4,208	6%	$40	28
Occupancy	$2,631	4%	$26	18	$3,021	4%	$29	22
Malpractice	$2,630	4%	$26	90	$2,691	4%	$26	91
Other Expenses	$1,588	3%	$15	69	$1,185	2%	$11	54
Billing Services	$2,269	4%	$22	36	$2,308	3%	$22	36
Central Support	$2,195	4%	$21	15	$2,522	4%	$24	15
Total Practice Expenses	***$34,153***	***56%***	***$332***	***21***	***$41,371***	***60%***	***$395***	**31**
Contribution Margin	***$26,828***	***44%***	***$261***		***$27,956***	***40%***	***$267***	
Physician Compensation								
Physician Salaries	$43,315	71%	$421		$45,146	65%	$431	
Physician Benefits	$440	1%	$4		$521	1%	$5	
Physician Fringe	$1,624	3%	$16		$1,817	3%	$17	
Total Physician Compensation	***$45,378***	***74%***	***$441***		***$47,483***	***68%***	***$453***	
Advanced Practitioner Compensation	$12,739	21%	$124		$13,312	19%	$127	
Total Provider Compensation	***$58,117***	***95%***	***$564***		***$60,796***	***88%***	***$580***	
Practice Investment	***($31,290)***	***-51%***	***($304)***	***29***	***($32,839)***	***-47%***	***($313)***	**26**

Financial Performance Observations

Gross and net patient revenue are well below median. Other revenue, which includes quality incentives and other operational revenue, compares favorably to benchmarks. This dynamic did not influence the benchmark comparison to total net revenue in FY21 as the medical group was still near the 30th percentile.

Operational expenses compare favorably to benchmarks. While areas like purchased services, malpractice expenses, and other expenses appear higher than expected, they do not significantly affect overall expense performance.

Total investment per physician (29th percentile) appears to be a significant improvement opportunity. Low patient service revenue is a contributing factor. Provider compensation, a large portion of spend in FY21 (95% of NR), may also be driving the loss. Compensation and provider production will be evaluated further to understand root causes.

Recommendations

Refine compensation philosophy with the economic needs of the medical group (volume and revenue).

Revise and consolidate compensation structures to align provider spend with practice revenue.

- Include considerations for new MPFS values
- Shift multiple structures toward a more consistent methodology

Compensation models should provide physicians with market-competitive compensation that aligns physician incentives with the medical group's organizational goals.

- For example, physician compensation should maximize through high production and maintaining a high level of quality performance

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