

Society for Radiation Oncology Administrators

Cancer Program Physician Employment Arrangements: What You Should Know!

Boston, Massachusetts

September 24, 2008

Session Presenter

Joseph M. Spallina, FAAMA, FACHE

Director

ARVINA GROUP, LLC

Ann Arbor, Michigan

jspallina@arvinagroup.com

www.arvinagroup.com

Website access to this presentation (PDF):

- **“About Us”**
- **“Publications”**
- **Scroll to “Cancer Presentations and Publications”**

Cancer Program Physician Arrangements

◆ Session Objectives:

- ◆ Components of an Employment Arrangement
- ◆ Structuring the Economics
- ◆ Case Examples

Cancer Program Physician Arrangements

◆ Target audience:

- ◆ Recruit cancer program physicians for employment.
- ◆ Negotiate/renegeotiate an employment contract.
- ◆ Write a physician employment contract.
- ◆ Work within a system where someone else has responsibility for the above.

Cancer Program Physician Arrangements

◆ Trends:

◆ Movement toward employment as a result of:

- Considered/action by some oncologists/groups.
- Income pressures on practice incomes.
- Physician lifestyle changes (the young and the mature).
- Independent practices need, but can not always support more sophisticated infrastructure capabilities.
- Employment is critical to hospital viability.

◆ Physicians have a choice who they choose as business partners.

◆ Align incentives and goals (quality, cost, access, strategy, etc.) – no room for error or ambiguity.

Cancer Program Physician Arrangements

◆ Trends (continued):

- ◆ **Economic package with security is more attractive to physicians than the uncertainties of group practice.**
- ◆ **Practice management expertise, to the extent developed by hospital systems, is a welcome and time savings service:**
 - **A deficit for many systems (absence, adequacy).**
- ◆ **“Corporate”, standardized, and consistent approach to practice management and decision making eliminates the politics and indecisiveness often experienced by groups.**
- ◆ **Greater opportunities for involvement in teaching and research in larger hospital employed groups.**

Cancer Program Physician Arrangements

◆ Physician employment:

- ◆ Recognized, understood, and managed by the system as a fundamental strategy.
- ◆ Supported by a practice management organization that is a distinct competency of the system:
 - Leadership and expertise.
 - Contemporary multispecialty group practice expertise (governance, contracting, compensation, physician practice management, service delivery, etc.).

Cancer Program Physician Arrangements

- ◆ **Goals related to employment:**
 - ◆ **Consistent application of standardized systems, processes, and management.**
 - ◆ **Legal structure established; consistent with Fair Market Value (FMV) principals.**
 - ◆ **Profitable; fair and equitable to the parties.**
 - ◆ **Align incentives and goals (contributes both to hospital program and physician practice growth).**
 - ◆ **Evolving: Create a group practice setting within an employed model (define the operating and management principals for physicians to practice).**

Cancer Program Physician Arrangements

◆ Employment Case Examples:

1. Medical Oncology Group (n=7):

- Hospital trying to retain the group (from leaving).

2. Surgical Oncologists (n=2):

- Surgeons wants to relocate from hospital A to hospital B.

3. Radiation Oncologist (n=1):

- Renegotiating contract with a freestanding center.

Cancer Program Physician Arrangements

◆ Case Example 1: Medical Oncology Group (n=7)

- ◆ **Compensation:** - RVU's @ 50th percentile (3,900), \$275,000 (25th percentile).
- ◆ **Benefits:** - No issues.
- ◆ **Other Terms:** - Non-compete not acceptable.
- ◆ **Job Description:** - Need to establish.
- ◆ **Program Goals:** - Not aligned.
- ◆ **Practice Management:** - Established, 200+ physicians, hospital CFO is president.

Cancer Program Physician Arrangements

◆ Case Example 2: Surgical Oncology Group (n=2)

- ◆ **Compensation:** - RVU's @ 75th percentile (9,200 each), \$'s @100th+ (\$1.3 million/yr for both).
- ◆ **Benefits:** - “Rich” request (~\$75,000).
- ◆ **Other Terms:** - None
- ◆ **Job Description:** - Agreement, focus on program growth.
- ◆ **Program Goals:** - Platform to align.
- ◆ **Practice Management:** - Adequate infrastructure.

Cancer Program Physician Arrangements

◆ Case Example 3: Radiation Oncologist (n=1)

- ◆ **Compensation:** - \$1.2 million, freestanding center, 25 – 30 pts/day, IMRT \approx 30%.
- ◆ **Benefits:** - No issues.
- ◆ **Other Terms:** - None
- ◆ **Job Description:** - Standard; lacks medical directorship.
- ◆ **Program Goals:** - Not aligned.
- ◆ **Practice Management:** - External billing company (6%).

Cancer Program Physician Arrangements

◆ Developing an arrangement:

◆ First, develop a term sheet:

- Confidential and non-binding discussion document.
- List the 5 – 10 priority terms of the proposed arrangement.
- Compensation is a key term 90%+ of the time.

◆ Reach agreement on the terms:

- Parties sign the agreed upon term sheet.

◆ Draft the contract:

- Review, discuss, and negotiate.

◆ Finalize the contract.

◆ Execute the contract.

Cancer Program Physician Arrangements

- ◆ **Term sheet outline:**
 - ◆ **Define the practice and scope of services.**
 - ◆ **Establish physician qualifications.**
 - ◆ **Employment start date and contract term.**
 - ◆ **Compensation:**
 - **Salary, withhold (if any), and target RVU's.**
 - **Bonus (requirements, distribution, etc.).**
 - **Unique benefits.**
 - ◆ **Billing entity.**
 - ◆ **Covered expenses.**
 - ◆ **Non-compete (if applicable).**

Cancer Program Physician Arrangements

◆ Contract outline:

- ◆ Description of employment responsibilities and duties.
- ◆ License, qualifications, medical staff membership, certifications.
- ◆ Professional liability insurance (limits and tail coverage).
- ◆ Rules, regulations, disclosures (insurance claims, conflicts of interest, criminal charges or investigations, etc.).
- ◆ Salary, withholds, bonus plan.
- ◆ Benefits (earned time off, leave due to illness, health insurance, short & long term disability insurance, group life insurance, retirement benefit, funds for medical professional education, association dues, travel expenses, ability to purchase health insurance after retirement).
- ◆ Patient records ownership.

Cancer Program Physician Arrangements

◆ Contract outline (continued):

- ◆ Billing and fees.
- ◆ Practice structure and expenses.
- ◆ Term and termination.
- ◆ Partial and total disability terms.
- ◆ Non-disclosure of information, patient information, access.
- ◆ Restrictive covenants.
- ◆ Effect of legal changes.
- ◆ Severability
- ◆ Other standard legal components (applicable laws, assignment, successor, authority to commit, notices, etc.).

Cancer Program Physician Arrangements

◆ Contract outline (continued):

◆ Key attachments to include:

- Job description.
- First year goals.
- Detailed description of the compensation plan, with calculation examples for salary, withhold, and bonus.

Cancer Program Physician Arrangements

- ◆ Establishing compensation (salary, bonus, benefits):
 - ◆ Consistent with Fair Market Value (FMV) methodology.
 - ◆ Federal Register / Vol. 69, No. 59 / Friday, March 26, 2004 / Rules and Regulations:
 - Medicare Program; Physicians' Referrals to Health Care Entities With Which They Have Financial Relationships:
 - Starts on page 16054.
 - FMV discussion on page 16128.

Cancer Program Physician Arrangements

- ◆ **Establishing compensation (salary, bonus, benefits):**
 - ◆ **FMV addresses price and compensation for (physician) services; can not take into account the volume or value of anticipated referrals:**
 - **Unique benefits (that deviate from a standard set) are factored into the FMV assessment.**

Cancer Program Physician Arrangements

◆ Establishing compensation (salary, bonus, benefits):

◆ National Data Sources:

➤ Medicare Program; Physicians' Referrals to Health Care Entities With Which They Have Financial Relationships:

- ECS Watson Wyatt
- Hay Group
- Hospital and Healthcare Compensation Services
- Medical Group Management Association
- Sullivan, Cotter & Associates, Inc.
- William M. Mercer

Cancer Program Physician Arrangements

2008 (Most Recent) Published Data	Hematology / Oncology				Surgical Oncology			
	20th / 25th %ile ¹	Median	75th / 80th %ile ¹	90th %ile	20th / 25th %ile ¹	Median	75th / 80th %ile ¹	90th %ile
	National Benchmarks				National Benchmarks			
<u>Annual Compensation</u>								
Medical Group Management Association								
- Non-Academic Physicians	\$291,899	\$363,428	\$515,784	\$777,783	\$300,573	\$331,250	\$444,790	\$544,353
- Academic Physicians	\$156,908	\$198,968	\$251,745	\$314,186	\$208,983	\$259,062	\$322,532	\$400,983
American Medical Group Association	\$244,066	\$301,809	\$400,450	\$510,329	\$277,448	\$327,650	\$402,456	\$461,962
Sullivan, Cotter and Associates, Inc.	\$187,875	\$229,650	\$300,004	\$356,850	\$185,000	\$227,500	\$280,000	\$350,000
<u>Production (Work RVUs)</u>		298,296						
Medical Group Management Association								
- Non-Academic Physicians	3,608	4,903	5,993	7,302	3,783	6,630	9,765	13,891
- Academic Physicians	2,526	3,697	4,580	5,665	4,102	5,943	7,672	9,792
American Medical Group Association	3,443	4,894	6,954	7,952	5,552	9,115	10,654	11,482
Sullivan, Cotter and Associates, Inc.	2,534	3,130	3,907	4,820	4,205	7,176	10,841	12,853
<u>Compensation per Work RVU</u>		4,309						
Medical Group Management Association								
- Non-Academic Physicians	\$63.38	\$82.09	\$111.65	\$150.20				
American Medical Group Association								
Sullivan, Cotter and Associates, Inc.								

Cancer Program Physician Arrangements

2008 (Most Recent) Published Data	Hematology / Oncology				Surgical Oncology			
	20th / 25th %ile ¹	Median	75th / 80th %ile ¹	90th %ile	20th / 25th %ile ¹	Median	75th / 80th %ile ¹	90th %ile
	<i>Northeastern / Eastern Region ²</i>				<i>Northeastern / Eastern Region ²</i>			
Annual Compensation								
Medical Group Management Association								
- Non-Academic Physicians	\$250,798	\$373,300	\$539,370	\$694,308				
- Academic Physicians		\$201,704						
American Medical Group Association	\$228,228	\$264,556	\$320,723	\$403,195	\$281,024	\$318,329	\$377,910	\$444,110
Sullivan, Cotter and Associates, Inc.	\$180,000	\$214,700	\$255,000	\$308,320	\$180,768	\$220,000	\$275,003	\$320,500
National Society of Certified Healthcare Business Consultants								
Hospital and Healthcare Compensation Ser	\$155,968	\$168,750	\$220,833					
		284,185						
Production (Work RVUs)								
Medical Group Management Association								
- Non-Academic Physicians	3,185	3,709	5,612	7,233				
- Academic Physicians								
American Medical Group Association	3,248	4,405	6,955	7,655	7,490	9,274	10,748	14,171
Sullivan, Cotter and Associates, Inc.	2,431	3,019	3,725	4,580	4,147	6,216	11,057	12,912
Hospital and Healthcare Compensation Service								
		3,711						
Compensation per Work RVU								
Medical Group Management Association								
- Non-Academic Physicians	\$68.86	\$86.33	\$120.94	\$147.06				
- Academic Physicians								
American Medical Group Association								
Sullivan, Cotter and Associates, Inc.								

Hematology/Oncology Salary Plan

- ◆ **Establishing salary and bonus:**
 - ◆ **Review historical worked RVU and salary data:**
 - Identify activities not credited towards compensation.
 - ◆ **Confirm RVU level (identify appropriate percentile):**
 - Consider the median, unless compelling data to support otherwise.
 - ◆ **Establish RVU:**
 - Target
 - Withhold range, if applicable.
 - ◆ **Determine salary:**
 - Target
 - Withhold range, if applicable.

Hematology/Oncology Salary Plan

- ◆ Establishing salary and bonus (continued):
 - ◆ Published 2008 hema/onc national salary data = basis to establish 2009 salary recommendations:
 - Assume a northeast practice setting.
 - Historical worked RVU's = 3,700 (equal to the median).
 - Median salary for northeast hema/onc = \$284,000.
 - Withhold (10%) = 3,350 worked RVU's; corresponding paid salary (1/12 paid monthly) = \$255,600 (\$21,300 monthly).
 - Withhold range (\$28,400, 370 worked RVU's on average per hema/onc) credited at the end of the fiscal year and paid prorated based on actual worked RVU's, assuming 3,330 – 3,700 worked RVU's.
 - Additional stipends can be paid, per contract responsibilities (directorships, teaching, research, etc.).

Hematology/Oncology Salary Plan

◆ Establishing salary and bonus (continued):

◆ Bonus pool distribution:

- Dependent on exceeding worked RVU targets and achieving individual hema/onc and group goals established annually as part of performance expectations (per the contract). As an example:
 - 50% of bonus based on exceeding 3,700 worked RVU target.
 - 50% of bonus based on meeting/exceeding program goals (quality process, clinical research targets, strategy priorities, marketing, etc.) assigned to the hema/onc's and the group.
 - Bonus paid at \$80 per worked RVU.
- Distributions can apply to the withhold only, bonus pool only, or both the withhold and bonus pool.

Hematology/Oncology Salary Plan

Community Medical Center (CMC)

FMV Methodology: Examples

	Examples		
	1	2	3
Target RVU	3,700	3,700	3,700
Annual Worked RVU's	4,000	4,000	3,500
Withhold - Minimum RVU's	3,350	3,350	3,350
Worked RVU's in Excess of Target	300	300	0
Withhold RVU's Worked	350	350	150
% Withhold RVU's Earned (n=350)?	100%	100%	43%
Withhold Target - Full Salary	\$ 284,000	\$ 284,000	\$ 284,000
Withhold -Minimum Salary/Paid	\$ 255,600	\$ 255,600	\$ 255,600
Withhold Amount Earned	\$ 28,400	\$ 28,400	\$ 12,171
Subtotal Salary	\$ 284,000	\$ 284,000	\$ 267,771
Paid \$'s Per Worked Bonus RVU	\$80	\$80	\$80
RVU Targets Met?	50%	50%	0%
Goals Met?	50% Yes	0% No	50% Yes
Bonus Amount	\$ 24,000	\$ 12,000	\$0
Total Salary, Withhold, & Bonus	\$ 308,000	\$ 296,000	\$ 267,771

Cancer Program Physician Arrangements

- ◆ Establishing goals:
 - ◆ Clinical responsibilities (earned or worked RVU's).
 - ◆ Contributions to strategy and program development, including outreach and satellite sites.
 - ◆ Teaching
 - ◆ Clinical research.
 - ◆ Leadership, contributions to committees, etc.

Cancer Program Physician Arrangements

◆ Case Example 1: Medical Oncology Group (n=7)

- ◆ **Compensation:** - RVU's @ 50th percentile (3,900), \$275,000 (25th percentile).
- ◆ **Benefits:** - No issues.
- ◆ **Other Terms:** - Non-compete not acceptable.
- ◆ **Job Description:** - Need to establish.
- ◆ **Program Goals:** - Not aligned.
- ◆ **Practice Management:** - Established, 200+ physicians, hospital CFO is president.

Cancer Program Physician Arrangements

- ◆ **Case Example 1 Findings:**
 - ◆ **Hospital's practice management organization in drastic need of modernization.**
 - ◆ **Salary not consistent with worked RVU's; corresponding salary should = \$300,000+.**
 - ◆ **No incentives; program goals and practice not aligned.**
 - ◆ **Contract terms require significant negotiations.**

Cancer Program Physician Arrangements

◆ Case Example 1 Remedy:

- ◆ Restructure the physician practice management organization.
- ◆ Salary established = \$360,000; target 4,000 RVU's.
- ◆ Withhold = \$35,000; target 3,600 RVU's.
- ◆ Two medical directorships assigned; each paid at \$150/hour, 3 hours/week, \$22,500 annually.
- ◆ Contract terms renegotiated.

Hematology/Oncology Salary Plan

Community Medical Center (CMC)

FMV Methodology: Hema/Onc Salary Plan

Projected/Annualized FY 2008 Worked RVU's

4,200+

Proposed FY 2008 Withhold Range.

Bonus

2007 & 2008 Hema/Onc FMV Range (Median)

FY 2007 Reported Worked RVU's (annualized).

Basis for proposed FY 2008 salary.

3,900

0 3,500 3,600 3,700 3,800 3,900 4,000 4,100 4,200 4,300 4,400

Average Annual Worked RVU's Per Hema/Onc

Salaries	
CMC	Median
FY 08	\$325K/ \$360K
FY 07	\$265K - \$375K
FY 07	\$275K

Cancer Program Physician Arrangements

◆ Case Example 2: Surgical Oncology Group (n=2)

- ◆ **Compensation:** - RVU's @ 75th percentile (9,200 each), \$'s @100th+ (\$1.3 million/yr for both).
- ◆ **Benefits:** - “Rich” request (~\$75,000).
- ◆ **Other Terms:** - None
- ◆ **Job Description:** - Agreement, focus on program growth.
- ◆ **Program Goals:** - Platform to align.
- ◆ **Practice Management:** - Adequate infrastructure.

Cancer Program Physician Arrangements

◆ Case Example 2 Findings:

- ◆ Benefits request - \$75,000.
- ◆ FMV salary = \$0.9 million (X2 surgeons).
- ◆ Salary & benefits request > FMV by \$300,000+.

◆ Remedy:

- ◆ Unable to negotiate an arrangement and remain within FMV.

Cancer Program Physician Arrangements

◆ Case Example 3: Radiation Oncologist (n=1)

- ◆ **Compensation:** - \$1.2 million, freestanding center, 25 – 30 pts/day, IMRT \approx 30%.
- ◆ **Benefits:** - No issues.
- ◆ **Other Terms:** - None
- ◆ **Job Description:** - Standard; lacks medical directorship.
- ◆ **Program Goals:** - Not aligned.
- ◆ **Practice Management:** - External billing company (6%).

Cancer Program Physician Arrangements

◆ Case Example 3 Findings:

- ◆ Negotiated 22% net revenue as a % of Medicare.
- ◆ Commercial rates established at 300% of Medicare.
- ◆ 22% rate applied to the center's total net revenue (net impact is \approx 30% - 35% of total net revenue).
- ◆ Comparative data: rad onc patient daily volume = 25, 6 – 8 weeks off/year, annual salary \approx \$750K.

◆ Remedy:

- ◆ Three year contract negotiated.
- ◆ Contract: phase in to the total net revenue target.
- ◆ Incentives and alignment goals (strategy, quality).

Cancer Program Physician Arrangements

◆ Example – New Recruitment:

- ◆ Establishing a new practice.

- ◆ Incentive phase-in:

- Year I: 100% salary guarantee, RVU target, bonus if exceed the RVU target.
- Year II: 50% - 75% salary guarantee, RVU target, bonus if exceed the RVU target.
- Year III: 0% salary guarantee, RVU target, withhold, bonus if exceed the RVU target.

Cancer Program Physician Arrangements

- ◆ Summary – Employing Cancer Program Physicians:
 - ◆ Requirements:
 - **Legal counsel participation**, guide, and review the analyses.
 - Expertise with RVU based compensation plans.
 - As a distinct competency, a physician practice management organization.
 - ◆ Complete **due diligence**:
 - Thorough review of historical practice activity levels, business practices, and CPT code mix and RVU levels.
 - ◆ Reality: 90%+ of the discussion focuses on **economics**.

Cancer Program Physician Arrangements

◆ Summary (continued):

- ◆ Do you best to **keep the oncologists engaged** and understand the FMV methodology behind the economics, and the overall process to link salary with clinical production, clinical research, operations improvement, and program goals.
- ◆ **Sharing data** leads to changes in behaviors that benefits both parties.

Cancer Program Physician Arrangements

◆ Summary (continued):

◆ **Discussing the data**, data transparency, and openness of the discussions, including give and take, contributes to **building trust** in the physician/hospital business relationship:

- Trust can be easily eroded with the slightest indiscretions, even if inadvertent.
- A positive & strong business relationship is **NOT** an endpoint; it is a means to a more important end, which is ?