Association of Community Cancer Centers

26th National Oncology Economics Meeting

Cancer Program Physician Employment Arrangements: What You Should Know!

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Cancer Program Physician Arrangements

- **Session Objectives:**
  - **Components of an Employment Arrangement**
  - **Structuring the Economics**
  - **Considerations for Physicians and Hospitals**
  - **Case Examples**

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Cancer Program Physician Arrangements

- Target audience:
  - Employing (or contracting with) cancer program physicians.
  - Negotiate/renegotiate an employment contract.
  - Write a physician employment contract.
  - Work within a system where someone else has responsibility for the above.

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Cancer Program Physician Arrangements

- **National Cancer Program Economic Overview:**
  - **Both hospital and physician payments systems are *under attack.***
  - **Medicare – the future:**
    - **More "*Global*" Fee Contracting.**
    - **Cancer program strategic implications:**
      - ***Cost sharing/significantly lower cost structure are required as future margin potentials shrink.***
      - **Other payors will likely follow Medicare's lead.**
  - **Future strategic solution – A strategically and economically aligned (sizeable) business within a fully integrated system.**

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Cancer Program Physician Arrangements

- **Trends:**
  - **Movement toward employment as a result of:**
    - **Considered/action by some oncologists/groups.**
    - **Income pressures on practices.**
    - **Physician lifestyle changes (entry level, pre-retirement).**
    - **Independent practices need, but can not always support more sophisticated infrastructure capabilities.**
    - **An adequate complement of oncologists is critical to cancer program viability.**
  - **Physicians have a choice when choosing a business partner.**
  - **Align incentives and goals (quality, cost, access, strategy, etc.) – no room for error or ambiguity.**

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- **Trends (continued):**
  - **Economic package with security is more attractive to some physicians than the future uncertainties of group practice.**
  - **Practice management expertise, to the extent developed by hospital systems, is a welcome and time savings service to physicians:**
    - **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.**

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Cancer Program Physician Arrangements

- **Physician employment:**
  - **Greater opportunities for involvement in teaching and research in larger hospital employed groups.**
  - **Must be recognized, understood, and managed by the system as a fundamental strategy.**
  - **Supported by a physician 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.).**
    - **Unfortunately, more the exception than the rule.**

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Cancer Program Physician Arrangements

- **Bottom line:**
  - **Successful cancer programs will be strategically and economically aligned with program physicians.**
  - **Business model alternatives:**
    - **JV's (few models) provide limited value.**
    - **Employment or contracting (pseudo-employment).**
    - **Co-management.**

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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 and, quality position).
  - Evolving: Create a group practice setting within an employed model (define the operating and management principals for physicians to practice).

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Cancer Program Physician Arrangements

- Guiding principles for employment arrangements:
  - Leadership and fiduciary:
    - Abides by state and federal regulations.
    - Promotes fiscal responsibility.
    - Simplicity; easy to understand and implement.
    - Transparent.
    - Fair, reasonable and, aligns with market conditions.
  - Compensation:
    - Based on Fair Market Value Principles.
    - Contains incentives (base, bonus, performance and quality, strategy).

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- **Guiding principles for employment arrangements:**
  - **Respect:**
    - Values the physician.
    - Values the cancer program.
  - **Collaboration:**
    - Contributes to the cancer program vision.
    - Creates incentives for program and practice growth.
    - Supports, is not in conflict with the multidisciplinary model of care.

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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.**

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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, risk components, and target wRVU's.
    - Risk/bonus percentages, distribution, etc.
    - Unique benefits.
  - Billing entity.
  - Covered expenses.
  - Non-compete (if applicable).

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- **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.).**

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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, risk/bonus, performance expectations, and related percentages.**

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- 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.

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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.**

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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

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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*			
Annual Compensation								
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
Production (Work RVUs)		**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
Compensation per Work RVU		**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.								

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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
	Northeastern / Eastern Region [2]				*Northeastern / Eastern Region [2]*			
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					
Production (Work RVUs)		**284,185**						
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								
Compensation per Work RVU		**3,711**						
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.								

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- **Components:**
  - **Base; 50% - 75% of total salary:**
    - Linked to FMV. Identify full salary wRVU target.
    - Stipulate the wRVU target associated with the base salary.
  - **At risk (clinical production bonus); 10% - 25%:**
    - Based on clinical production above the base amount (wRVU).
  - **At risk (performance bonus); 10% - 25%:**
    - Based on achieving/exceeding performance goals (quality (based on defined metrics), strategy (i.e., actively participates in implementation of a specific strategy), administrative activities (i.e., Commission on Cancer liaison, active participant on the center's strategic planning committee, programmatic activities (i.e., outreach), etc.).

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- Establishing salary:
  - Review historical worked wRVU and salary data:
    - Identify activities not credited towards compensation.
  - Confirm wRVU level (identify appropriate percentile):
    - Use the median, unless compelling data to support otherwise.
  - Establish salary %'s for each component and related wRVU target.:
    - Base
    - Risk: Clinical production
    - Risk: Programmatic/Quality/Strategy
  - Published 2009 national salary data = basis to establish 2010 salary recommendations.

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- **Establishing salary and bonus (continued):**
  - **Example:**
    - Assume a northeast hema/onc practice setting.
    - Historical worked RVU's = 4,000 – 5,000 (equal to the median).
    - Northeast hema/onc median salary = $284,000 @ 4,500 wRVU's.
    - Compensation per wRVU at median = $85.
    - Base = 70%, 3,150 wRVU, $200,000 annually (1/12 paid monthly).
    - Risk (clinical) = 20%, 1,350 wRVU, $56,000 (1/2 paid semi-annually).
    - Risk (program) = 10% or $28,000 (paid at year end).
    - Additional stipends can be paid, per contract responsibilities (directorships, teaching, research, etc.).

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- Establishing salary and bonus (continued):
  - Example (continued):
    - Annual Target = 4,500 wRVU's to earn $284,000.
    - Actual wRVU performance = 5,500.
    - Programmatic performance = 75% (3 out of 4 goals completed).
    - Base = 3,150 wRVU's or $200,000 paid.
    - Risk (clinical) = 1,350 or $56,000 paid.
    - Risk (clinical) above the base = 1,000 wRVU's paid at $85/wRVU.
    - Risk (programmatic) = only 75% paid or $21,000 (potential = $28,000).
    - Total annual salary = $362,000 (outperformed the target).

Cancer Program Physician Arrangements

- Establishing programmatic goals:
  - Clinical responsibilities (earned/wRVU's).
  - Achieve/exceed established quality metrics.
  - Contributions to strategy and program development, including outreach and satellite sites.
  - Teaching.
  - Clinical research.
  - Leadership, contributions to committees, etc.

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Cancer Program Physician Arrangements

- **Considerations for New Recruitment:**
  - **Incentive phase-in:**
    - **Year I: 100% salary guarantee, RVU target, bonus if exceed the RVU target.**
    - **Year II: 80% salary guarantee, 20% at risk (clinical), wRVU target, bonus if exceed the wRVU target.**
    - **Year III: 70% base salary, 20% risk (clinical; wRVU target, bonus if exceed the wRVU target), 10% risk (programmatic).**

Cancer Program Physician Arrangements

- What should I look for if I am an entry level physician?
  - Market competitive salary and benefits package?
  - Reasonable ramp regarding performance expectations?
  - Protection from downside risk during ramp up?
    - Year 1: Base salary = 100%. Eligible for bonus if exceed wRVU target.
    - Year 2: Base salary = 80% - 90%. Eligible for bonus.
    - Year 3: Fully implemented 70%/20%/10%.
  - Reasonable contract (including non-compete).
  - Can I trust the hospital; adequate PPMO?

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Cancer Program Physician Arrangements

- What should I look for if I am an entry level physician?
  - Open or closed medical staff model?
  - Where will I be practicing (main campus, other?)?
  - Health of current referral relationships?
  - Growing market; income and practice growth?
  - Opportunities for professional development?
  - Teaching and clinical research opportunities?
  - Healthy group dynamics?
  - Do I want to live in, raise a family in this community?
  - Plan B in case I have to punch out after I am employed?

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- What should the hospital look for in an entry level physician?
  - What unique skills, expertise does the physician bring to our cancer program?
  - Brings skills, expertise and, experience to help strengthen a strategic priority?
  - Potential leadership capability?
  - Good fit (work ethic, communications skills, personality, clinical interests, lifestyle, etc.) with the existing members of the group?
  - Reasonable compensation expectations?

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Cancer Program Physician Arrangements

- What should I look for if I am a mid career physician?
  - Same as an entry level physician, plus . . .
  - Potential cancer program and/or hospital leadership (medical directorship or other).
  - Potential to be a physician champion for a disease model?
  - Well developed disease specific clinical research track?
  - Opportunity to maximize contributions to my retirement fund?
  - Does the practice have a retirement bubble ready to burst?

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Cancer Program Physician Arrangements

- What should the hospital look for in a mid career physician?
  - Same as an entry level physician, plus . . .
  - What role to fill (program builder, clinical, etc.)?
  - Program building, demonstrated leadership (medical director, disease team, medical staff, planning, etc.)?
  - Area of specific clinical expertise?
  - Mentoring skills to apply to entry level physicians?
  - Ambassadorship potential to build community relationships and assist in fundraising?

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Cancer Program Physician Arrangements

- What should I look for if I am a pre-retirement physician?
  - For the most part, same as a mid career physician, plus . . .
  - Policy towards retirement ramp down?
  - Can I work in some capacity as a part time employee as I approach retirement?
  - Retirement benefits acceptable and when am I eligible?

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Cancer Program Physician Arrangements

- What should the hospital look for in a pre-retirement physician?
  - For the most part, same as a mid career physician, plus . . .
  - Work ethic?
  - Motive for joining?
  - Duration of commitment (till retirement or part time post retirement)?

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Cancer Program Physician Arrangements

- Do most physicians and hospitals ask these questions during a contracting process?
  - No
- Should they?
  - Yes, and everyone might be a bit happier.
- Will this change in the future?
  - Probably, but change occurs slowly.

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Cancer Program Physician Arrangements

- **Employment Case Examples:**
  1. **Medical Oncology Group (n=8):**
     - Hospital trying to retain the group (from leaving).
  2. **Medical Oncology Group (n=6):**
     - Renegotiating their contract (professional services agreement) with the hospital.
  3. **Surgical Oncologists (n=2):**
     - Surgeons want to relocate from hospital A to hospital B.

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Cancer Program Physician Arrangements

- **Case Example 1: Medical Oncology Group (n=8)**
  - **Compensation:** - wRVU's @ 50th+ percentile (4,200), $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.

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- Case Example 1 Findings:
  - Hospital's practice management organization in drastic need of modernization.
  - Salary not consistent with wRVU's; corresponding salary should = $365,000+.
  - No incentives; program goals and practice not aligned.
  - Contract terms require significant negotiations.

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- Case Example 1 Remedy:
  - Restructure the physician practice management organization.
  - Salary established = $360,000; target 4,000 wRVU's.
  - Withhold = $35,000; target 3,600 wRVU's.
  - Two medical directorships assigned; each paid at $150/hour, 3 hours/week, $22,500 annually.
  - Contract terms renegotiated.
  - Outcome = group exceeded programmatic goals and wRVU target by 5%+.

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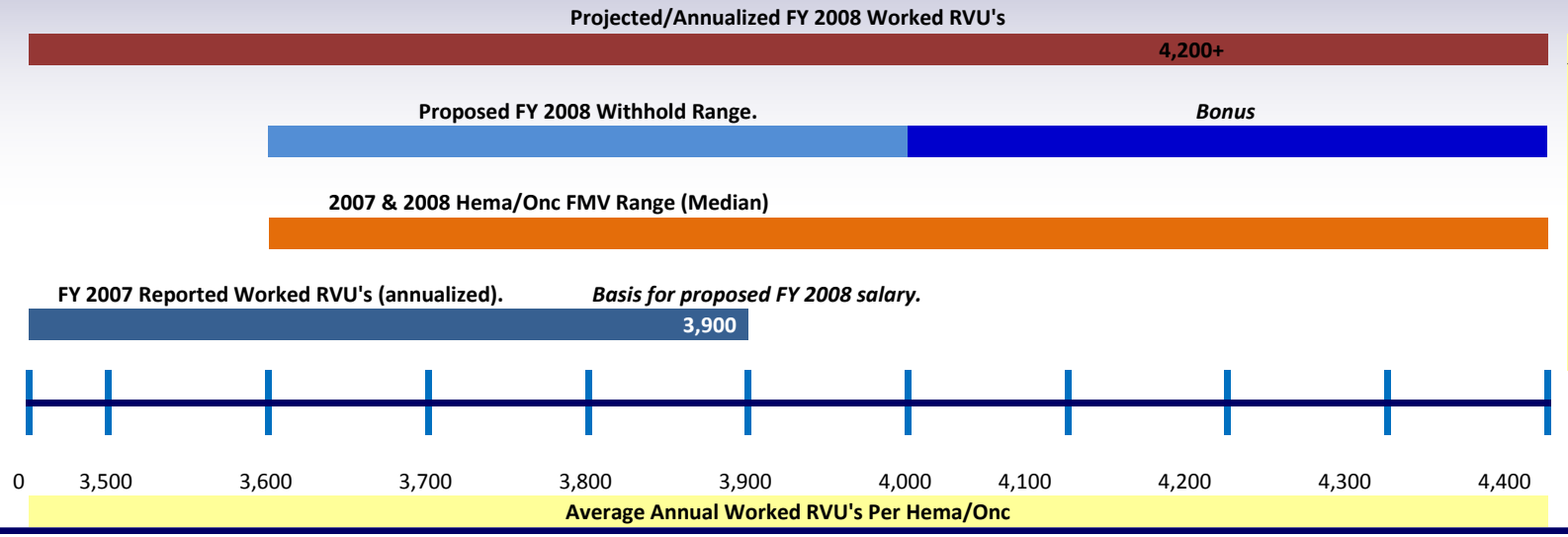
Cancer Program Physician Arrangements

Community Medical Center (CMC)

FMV Methodology: Hema/Onc Salary Plan



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

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- **Case Example 2: Medical Oncologists (n=6)**
  - **Compensation:** - $58/wRVU, $100,000 med director, $48,500 management services.
  - **Benefits:** - NA.
  - **Other Terms:** - Non-compete onerous.
  - **Job Description:** - Medical directorship lacks specificity.
  - **Program Goals:** - Not aligned.
  - **Practice Management:** - The group has a PSA contract with the hospital.

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- Case Example 2 Findings:
  - Group wRVU's are in the 75th+ percentile.
  - Fair compensation per wRVU = $108:
    - Difference between amount paid is $50/wRVU.
    - Group produces 8,000 wRVU's annually.
  - Non-compete = 2 year and 35 mile radius in an urban setting. Hospital not willing to offer an exclusive contract.
  - Medical directorship requires restructuring.

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- **Remedy:**
  - **Two year contract, with options for annual renewals.**
  - **Variable fee schedule negotiated based on monthly wRVU performance.**
  - **Medical director functions detailed, annual hours estimated = 300, paid at $150/hour.**
  - **Management functions detailed, annual hours estimated = 230, paid at $85/hour (primarily an APRN).**
  - **Non-compete = 1 year and the hospital's PSA.**
  - **No exclusive contract provided.**

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PROPOSED RVU TABLE
COMPTENSATION FOR wRVU'S PER 1.0 PHYSICIAN FTE

wRVU's/1.0 FTE		$ RATE PER wRVU
ANNUAL	MONTHLY	
0 - 3,000	<250	$ 65.00
3,001 - 3,500	251 - 292	$ 75.00
3,501 - 4,000	293 - 333	$ 85.00
4,001 - 4,500	334 - 375	$ 95.00
4,501- 5,000	376 - 417	$ 105.00
5,001- 5,500	418 - 458	$ 115.00
5,501 AND >	459+	$ 120.00

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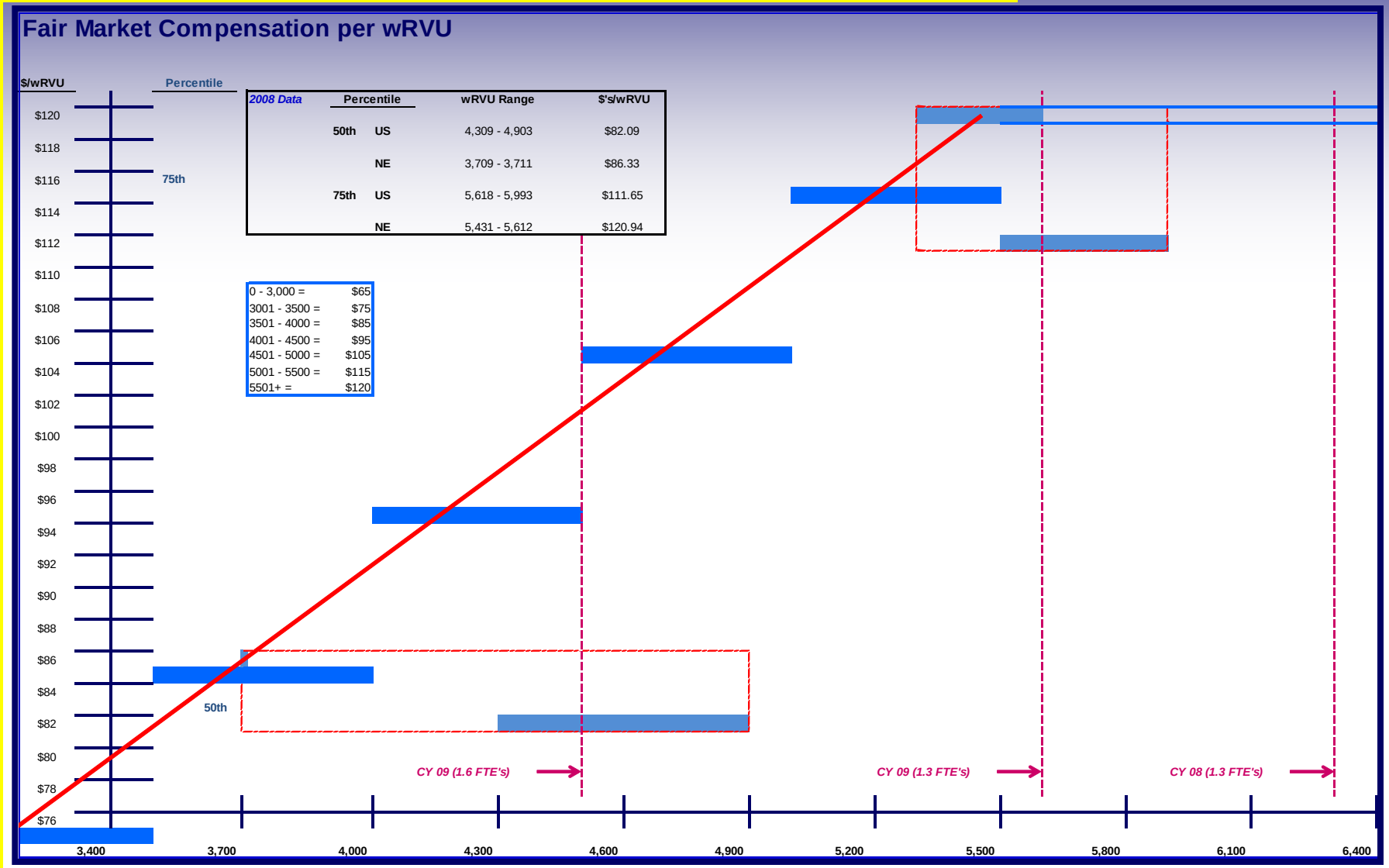

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- **Case Example 3: Surgical Oncology Group (n=2)**
  - **Compensation:** - wRVU's @ 75th percentile (9,200 each), $'s @100th+ ($1.3 million/yr for both).
  - **Benefits:** - "Rich" request (~$75,000).
  - **Other Terms:** - None
  - **Job Description:** - Agreement, focus on program growth.
  - **Program Goals:** - Platform to align.
  - **Practice Management:** - Adequate infrastructure.

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- Case Example 3 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.

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- **Summary – Employing Cancer Program Physicians:**
  - **Requirements:**
    - **Legal counsel participation, guide, and review the analyses.**
    - **Expertise with wRVU based compensation plans.**
    - **As a distinct competency, a physician practice management organization within the healthcare system.**
  - **Complete due diligence:**
    - **Thorough review of historical practice activity levels, business practices, and CPT code mix and wRVU levels.**
    - **When recruiting physicians; pay attention to career level and motivation for joining.**

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- **Summary (continued):**
  - **Reality: 80% - 90%+ of the discussion focuses on economics.**
  - **Do you best to keep the cancer program physicians 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.**

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- **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 . . . . . ?**

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