

Society for Radiation Oncology Administrators

Cancer Program Physician Employment Arrangements: What You Should Know!

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Session Presenter

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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/renegotiate 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 | | | | | | | | |
| 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. | | | | | | | | |

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 ?