ADVENTURES IN MEDICINE

Career & Life Planning

Survival Guide

Compensation Packages

Discovery Resource

ST-03

Your Compensation Guide:

Joseph White

Principal, LarsonAllen Health Care Group
M.B.A., University of Saint Thomas; B.S.B., Accounting, University of Minnesota Carlson School of Management

Joe White provides consulting, audit, accounting, and tax advice for physician groups and healthcare systems nationwide. With 20 years of experience in physician compensation, he is able to help new physicians navigate the complexities of compensation issues, including benefits, compensation methods, production methods, and the strengths of potential employers. In his spare time, he likes to fly and ride motorcycles to see the nation and the world, from the Smoky Mountains to Costa Rica. He was assisted in writing this material by colleague, Jennifer Burkholder, a consultant on audit, tax and business issues to physician groups, clinics and senior living facilities, who received a B.A. in Accounting from the University of St. Thomas.

Your Compensation Guide:

Jennifer Burkholder, CPA

Ms. Burkholder, a CPA and senior associate in CliftonLarsonAllen's health care practice, advises physician groups, clinics and senior living facilities on audit, tax and business issues. She received a bachelor's degree in accounting from the University of St. Thomas.

In This Stage: Compensation Packages

In any adventure, there must be a **REWARD** — an object of stunning beauty, a diamond of great price, an unparalleled achievement.

Physicians complete their extensive training for many reasons. But everyone has an idea of the payoff. What is your reward for your sacrifice of time, money, family?

How do you expect to be "compensated" by your employer? What are the various elements of that compensation? How much day-to-day work and on-call hours will be required from you? What is a reasonable compensation package?

In this stage, we'll explore compensation, how it is organized, and help you think through all the rewards you hope to gain from your sacrifice and your job as a physician in today's marketplace setting.

Few things get our attention like money. In this case, **YOUR** money.

Let's dig in.

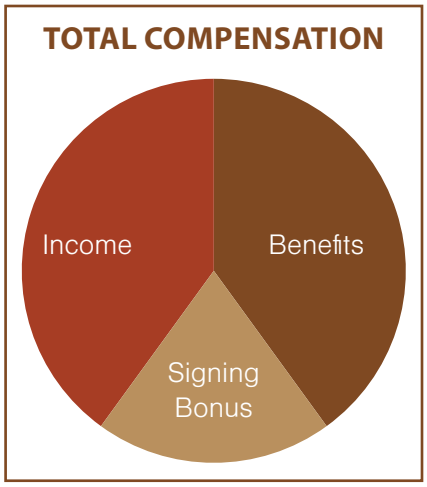
CONTENTS

Compensation Plans

Based on current medical market conditions, such as physician shortages and changing demographics, you may find yourself inundated with practice opportunities. Sorting through the various offers, with the looming pressure of **REPAYING A MOUNTAIN OF DEBT** ($158,000 for the average resident), can be overwhelming. In this scenario, compensation becomes an important element to consider and assess. Even so, use caution in placing too much emphasis on the "almighty dollar," which can lead to uninformed decisions, impacting other life priorities and leaving lasting consequences.

MORE THAN A PAYCHECK

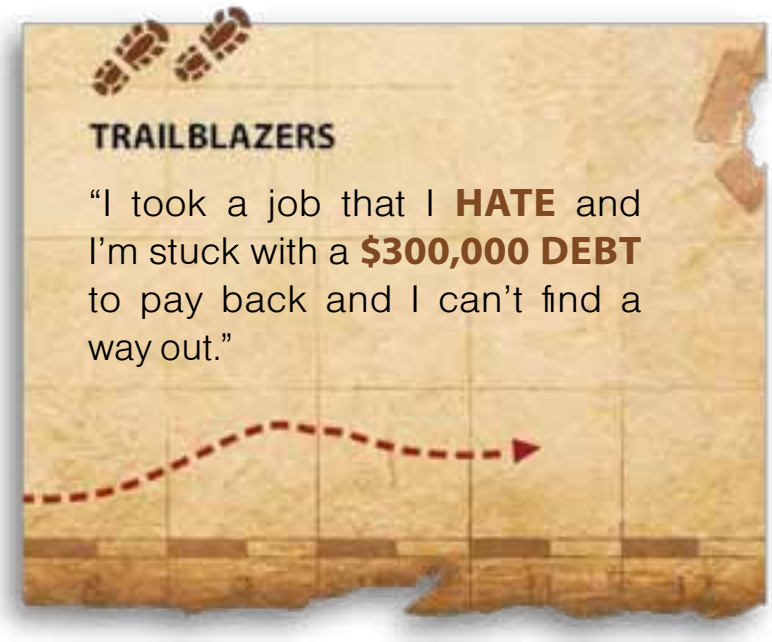
Compensation plans represent arrangements for how employees are paid. There are many compensation models within the healthcare industry. For physicians, total compensation typically consists of two major components, income and benefits, and may have a third, a signing bonus.



INCOME, or the wages received, can come as a **GUARANTEED SALARY** or **PRODUCTIVITY-BASED COMPENSATION**. Knowing how these are calculated will greatly affect your total pay, so be sure that you understand it.

BENEFITS, which may not have an obvious dollar value attached, are a major part of the overall compensation, and understanding them is vital when assessing opportunities.

Finally, depending on the practice and/or geographic area, you may receive a **SIGNING BONUS**, which can be considerable. The amount is often commensurate with the length of employment spelled out in the contract, and a portion is earned each month you stay with the practice. If you leave the practice earlier than the original commitment, repayment of the unearned amount is required.



Income

GUARANTEED SALARY

A guaranteed salary is often provided for one to two years before the physician is switched to a productivity-based compensation formula. This guarantee **REMOVES THE RISK** associated with starting a practice as it often takes one to two years for a physician's schedule to become full with new patients. If you do not have a guarantee it means you are paid based upon production: no patients, no production, no money! Typically if you have a guaranteed salary but earn more through production efforts, you would take home the greater amount.

The shortage of physicians has increased the amount that physicians are receiving in salary. For many specialties, employers are sometimes desperate to attract physicians and they rely on higher compensation packages to fill positions that may have been unfilled for months, if not years. In many situations, physicians are being paid **ABOVE-MARKET** salary ranges at the outset.

In the case of a two-year guaranteed salary contract, physicians should take stock of their situation after the first 12 or 18 months. For some physicians, this can be a cold, hard assessment of what their income will be when their compensation becomes production-based. If your production is high, all is well. In some cases, however, physicians realize that their income is going to drop dramatically after that two-year point. Some of them panic and go out and find a new practice and contract that will provide a guaranteed salary once again for another two years. While this may seem like a clever way to keep a steady paycheck, physicians who jump ship every two years **NEVER GAIN THE MOMENTUM** of a long-term practice and their careers ultimately suffer.

PRODUCTION-BASED COMPENSATION

In recent decades, production-based compensation has become by far the most popular way to compensate physicians. While some smaller portion of compensation may stem from patient satisfaction or administrative duties, it is no exaggeration to say that **ALL** new physicians need to know how productivity-based compensation is calculated. While there are various production bases used, in general the physician is paid based on the work he or she performs or the revenue brought in by that work.

Production-based compensation can allow physicians to work the amount that they choose and be compensated accordingly. How it is calculated can change your total pay **DRAMATICALLY**, so know the production base the group uses, and be realistic about how much you will produce in your early years.

The most common methods of calculation are: **GROSS CHARGES**, **NET COLLECTIONS**, and **RELATIVE VALUE UNITS** (RVUs). The specific differences between these methods are described in detail on the next page. You may also encounter a combination method, where there is a combination of a fixed-base amount and a productivity amount. As the method is determined by the organization, specifics can vary from what is discussed here.

Gross Charges

In this method, gross charges (undiscounted rates) for the services provided by the physician are used to determine the physician's percentage of the total gross charges for the group. This percentage is multiplied by the total compensation pool for the group to determine the physician's compensation. The compensation pool is the total amount available to be distributed to all of the physicians. It is what remains of the total receipts after all of the non-physician expenses for the group have been paid. If this method is used to determine productivity, make sure that the fee schedule is reasonable and does not overly reward one procedure over another. If you do not perform a specific procedure, you could be shortchanged.

Net Collections

A second productivity model often used is the net collections method. Net collections represents actual money received for the services provided by the physician and calculates what portion those collections are out of the total collections for the practice. This percentage is multiplied by the total compensation pool for the group to determine the physician's compensation. This method can be a disadvantage for physicians who serve a higher Medicare and/or Medicaid payor mix as these payors tend to reimburse at lower amounts, and patients covered by these payors tend to be the ones who fill up your schedule first as you start a new practice.

Relative Value Units (RVUs)

RVUs represent a third common productivity measure and compensation payout. RVUs are standardized measures of work volume independent of the payment billed or received for the work. Most health systems compensate physicians based the number of work RVUs produced, multiplied by a conversion factor that is predetermined by the practice as a whole and based upon published survey information. The most commonly used survey information is published by **MEDICAL GROUP MANAGEMENT ASSOCIATION** (MGMA) and **AMERICAN MEDICAL GROUP ASSOCIATION** (AMGA). There are entire books written on RVUs, and you will likely want to do additional research on how they may affect your compensation in the future.

Sample Comparison of Production-Based Formulas

	DOCTOR A	DOCTOR B	GROUP TOTAL
Gross Charges	$1,100,000	$900,000	$10,000,000
Net Collections	$600,000	$400,000	$5,000,000
RVUs	5,263	4,486	
Gross Charges Percentage (doctor's percent of total)	11%	9%	
Net Collections Percentage (doctor's percent of total)	12%	8%	
Per RVU Conversion Factor	$45	$45	
Compensation Pool			$2,000,000

For Doctor A, let's look at how the compensation would vary depending on which productivity calculation was used.

DOCTOR A	
11% gross charges percentage x $2,000,000 compensation pool = **$220,000**	Gross Charges
12% net collections percentage x $2,000,000 compensation pool = **$240,000**	Net Collections
5,263 RVUs x $45 per RVU conversation factor = **$236,835**	RVUs

In Doctor A's case, the RVU method and the net collections method would provide about the same income, with the gross charges method falling $20,000 lower.

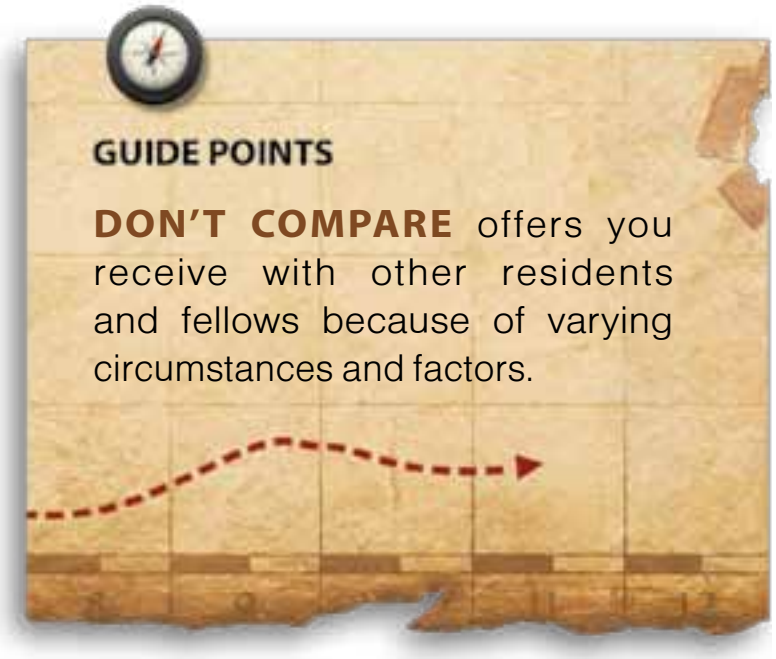
But for Doctor B, the story is different.

DOCTOR B	
9% gross charges percentage x $2,000,000 compensation pool = **$180,000**	Gross Charges
8% net collections percentage x $2,000,000 compensation pool = **$160,000**	Net Collections
4,486 RVUs x $45 per RVU conversation factor = **$201,870**	RVUs

In Doctor B's case, the RVU-based compensation would be more than $40,000 higher than the net collections method! Possibly this physician has a large number of Medicare clients and the group writes off more of the charges.

Generally an RVU-based formula is seen as **MORE EQUITABLE** than the other measures of productivity. It removes "fee schedule bias" and does not penalize those providers who have more Medicare and Medicaid patients. A practice may choose to reward those who bring in the cash; however, this tends to be less so these days.

Whatever productivity method is used, it is critical that you **UNDERSTAND** how it is calculated. As shown in the example above, it will make a significant difference to your compensation.



GUIDE POINTS

When looking at compensation during interviews, consider asking these questions:

- Is there a signing bonus? What are its terms? Remember that because of inflation, money today is worth more than money later.
- What is the potential for compensation? Look at both near-term and long-term.
- How long does it take to build a full practice?
- What portion of the compensation is production-based? Does this match your work style?
- What is the compensation per RVU? How does it compare to the market as a whole? How often is this amount revisited?

(For more information about interview questions, see Stage 6.)

Benefits

While not as obvious as income, benefits can be the difference between a good offer and a great offer. Typical benefits that physicians may receive as part of their compensation package include:

- Pension and/or retirement plan such as 401(k). How much does the practice contribute, e.g., percentage of compensation? Six or nine % annual contributions may result in hundreds of thousands of dollars put aside for retirement if invested properly. Figure out what this amount will be when looking at total compensation. Private practices tend to provide much higher retirement contributions (10% to 15%).
- Relocation
- Paid time off
- Insurance — health, dental, life, disability
- Continuing medical education
- Dues, memberships and licenses
- Malpractice insurance. Depending on the specialty, this can be a large amount.
- Payroll taxes, such as Social Security and Medicare tax
- Automobile — Is a leased car provided by the group? A mileage allowance? Or just straight mileage expenses?
- Cell phone
- Other business expenses
- Temporary housing

In addition to benefits and production-based income, there are other, smaller compensation "pieces" to be aware of. Bonuses are sometimes paid based on **PATIENT SATISFACTION** or various **QUALITY MEASURES**. **IN-SERVICE OR MEETING ATTENDANCE PAY** rewards physicians for attending board meetings and taking on administrative duties within the practice. While common, these forms of pay are typically not a large part of the overall compensation.

Compensation and Geographical Location

Given current medical market conditions, compensation will continue to evolve and change, perhaps substantially more than in previous times. This information reflects current compensation trends based on data extracted from MGMA's *Physician Placement Starting Salary Survey: 2009 Report Based on 2008 Data*. (Visit mgma.com/surveys for more information.)

Depending on the location, population and other factors, there can be **SUBSTANTIAL DIFFERENCES** in physician compensation. Compensation surveys can be a good resource for information, but keep in mind that many of them tally all the participants across the country and provide an average salary.

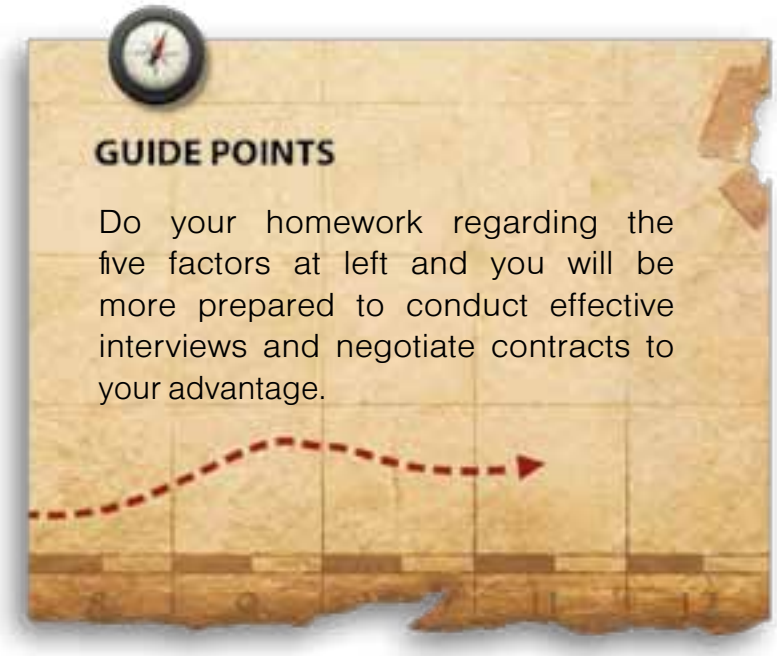
When researching your specialty's average income, make sure to consider the different markets. In general, salaries are higher in the Midwest and the Southeast than in the Northeast and West Coast states. Income in the Northeast can be 20-30% less than Midwest salaries.

Rural opportunities can be some of the most attractive positions because compensation packages are up to 20-30% higher in rural and medium-sized communities. This is because hospitals and groups often offer signing bonuses, loan repayment and higher salaries.

In addition to looking at compensation data, keep in mind that the cost of living can vary widely across the United States. Major metropolitan areas are more expensive to live in than smaller metros or rural areas. The South and Midwest typically have a lower cost of living than the East or West. To compare specific cities, online calculators like **WWW.BESTPLACES.NET/COL** can show how the cost of living affects your salary.

Five major factors impact a physician's salary and compensation plan:

1. Geographic location
2. Demographic classification
3. Practice type
4. Practice ownership
5. Medical specialty



The information that follows provides an overview of each factor in terms of trends and resources for which to conduct your own research regarding your specific situation.

1. GEOGRAPHIC LOCATION

Geographic location can make a big difference in compensation levels, as pay can vary dramatically between regions.

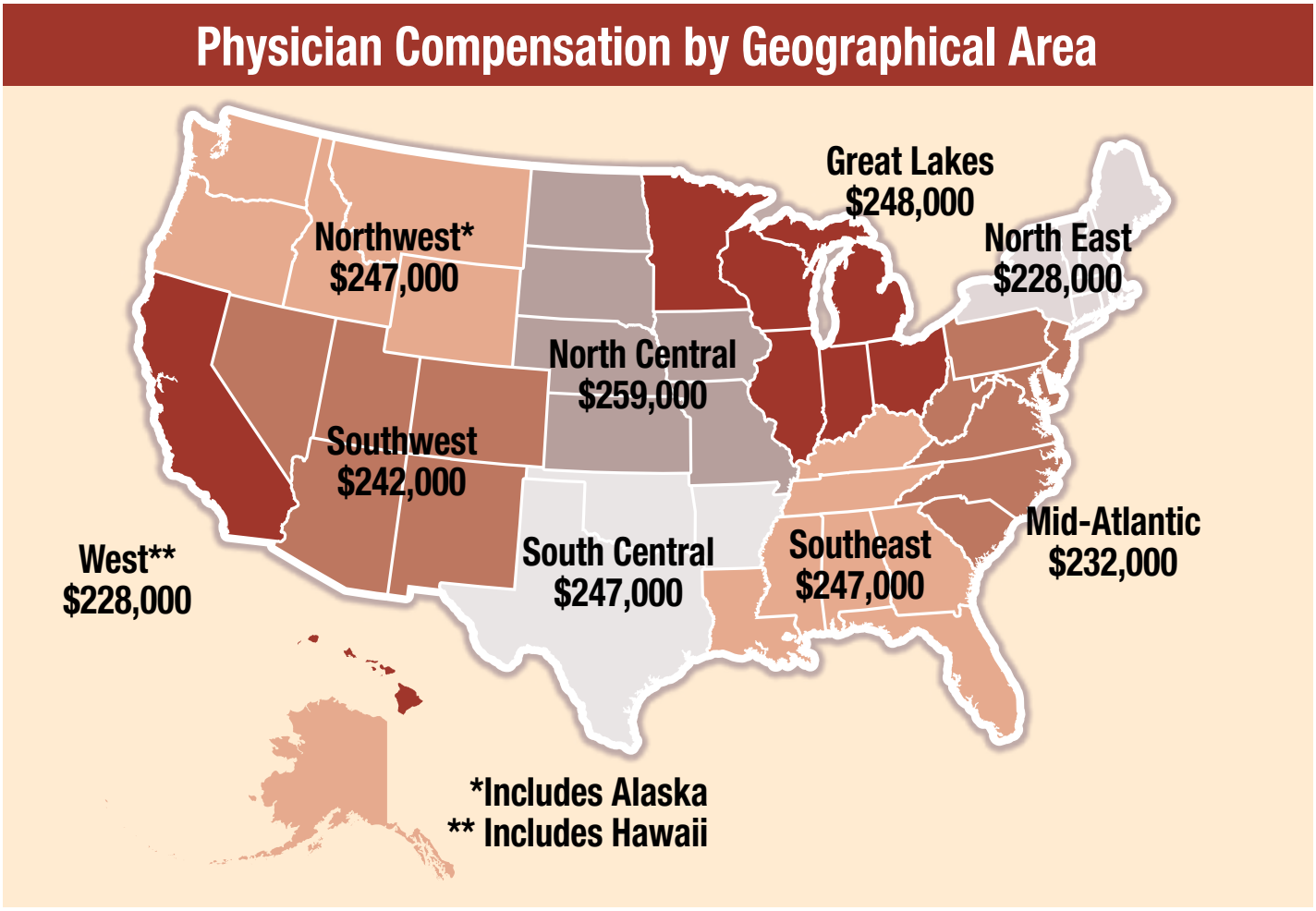


Chart and compensation data from Medscape's 2013 Physician Compensation Reports (using 2012 data)

Image reprinted with permission from Medscape (http://www.medscape.com/), 2013, available at: http://www.medscape.com/features/slideshow/compensation/2013/public.

Eastern

Physicians in the eastern United States were, overall, paid the least of any geographic region. Both the North East and Mid-Atlantic sub-regions have average physician pay of $20,000 to $30,000 less than the higher-paying regions, with the North East tending toward lower pay than the Mid-Atlantic. The difference is not as significant in primary care, but for some specialties the difference can be huge. First year cardiologists can make $100,000 less (25% less) in the North East regions than they make in the Northwest. Other specialties where salaries run lower in the North East and Mid-Atlantic are dermatology, hematology/oncology, nephrology, ortho and general surgery, physiatry, and pulmonary medicine.

Midwest

The Midwest regions of the Great Lakes and North Central represent the some of highest paying overall regions for first year physicians. While primary care doctors fare better in the South overall, many of the specialties do best in the Midwest. Specialties that have the highest compensation in the Midwest include anesthesiology, surgery (all types), dermatology, ophthalmology, and psychiatry.

Southern

The South Central and Southeast lead the regions in compensation in several areas. Family Practice and OB/GYN doctors are paid $5,000 to $25,000 more than in the other parts of the US. Overall pay in the South is solidly in the middle of the pack. Other specialties with higher pay in the South are emergency medicine, internal medicine, neurology, and urology.

Western

The West is the largest geographic region, including the Northwest, the Southwest, California, Alaska, and Hawaii. Along with the East, it tends to have lower overall compensation. Specialties that have the highest compensation in the West include plastic surgery and gastroenterology. Overall compensation in the West runs higher than the East, but still lags behind the Midwest and the South.

2. DEMOGRAPHIC CLASSIFICATION

In general, as the **POPULATION** increases, the pay **DECREASES**.

Demographic comparisons are based on MGMA data.

Non-Metropolitan (NM): Fewer than 50,000

In most categories, first year compensation is highest in non-metropolitan areas, roughly 10% above the next highest region. There are a few specialties that are paid significantly more in non-metropolitan areas, namely gastroenterology, cardiology, and otorhinolaryngology.

Metropolitan 1 (50,001 to 250,000

The smaller metropolitan areas trail non-metropolitan areas for pay, but are ahead of larger metropolitan areas. The average pay is 8-10% less than the rural areas, and 5-7% higher than the 250,000 to 1,000,000 metropolitan classification. Several specialties do have the highest compensation in this demographic region, including orthopedic surgery and pulmonary medicine.

Metropolitan 2 (250,001 to 1,000,000)

This demographic category is more variable than the smaller populations, with higher pay than the largest metro areas in some specialties, lower pay in others. On the whole the compensation is comparable to the largest cities. Specific areas that have higher compensation than the 1+ million category are: gastroenterology, OB/GYN, and neurology.

Metropolitan 3 (more than 1,000,000)

The largest metropolitan areas tend to have the lowest pay. There are virtually no categories in which these metro areas have the best compensation. There are several that beat out the 250,000 to 1,000,000 population centers, namely hematology/oncology, internal medicine, ortho surgery, and cardiology. In all cases, though, the difference is relatively small, roughly 5-10%.

3. PRACTICE TYPE

Physicians in single-specialty practices tend to earn less than those in other practices, while solo practices usually have the highest compensation levels.

Single Specialty

Single specialty has the highest pay in only one area, hematology/oncology. In general, pay in a single specialty practice is 5%-25% less than the market leader.

Multispecialty

Multispecialty practices tend to have the highest compensation in more specialized medicine, such as cardiology, neurology, ortho surgery and radiology. For these, the pay ranges from 5% to 35% higher than in single specialty. Overall, multispecialty compensation is similar to hospital department compensation.

Hospital Department Practice

These practices rarely have the lowest compensation, although it is not necessarily the highest. The areas in which hospital department practices have the highest compensation are anesthesiology, neurology, general pediatrics, psychiatry, pulmonary medicine, specialized surgery, and urology.

Solo Practice

Historically, solo practices have been well compensated. These days, though, they are becoming less common as current trends move toward larger groups. For those areas of medicine that still have sufficient survey respondents, the solo practice has the highest compensation levels, although typically only $5,000-$10,000 higher.

4. PRACTICE OWNERSHIP

Hospital-owned practices tend to have higher compensation than physician-owned practices, from 8% to 50% higher.

Hospital Owned

In general, first-year compensation is higher in hospital-owned practices as hospitals have a higher Medicare reimbursement, and also make money on ancillary services such as x-rays, labs and in-patient. For primary care, compensation varied from 8% to 17% higher at hospital-owned practices. In specialties the range is even greater, stretching from virtually even compensation levels in some specialties to as much as 63% higher in others. The greatest differences were in specialties such as surgery, cardiology and otorhinolaryngology.

Physician Owned

First-year compensation at physician-owned practices tended to be lower across the board, with only a couple of exceptions. Radiology and urgent care were the only categories in which the physician-owned practices paid more than the hospital-owned practices, with differences from 7% to 16%. However, the independent group may have higher earning potential for the physicians in

GUIDE POINTS

Evaluating a Practice

Most residents have already selected a specialty and have already graduated as either an American or international graduate, and many have a predetermined area of the country or population size they would prefer. Given that, finding the right job with the right compensation will often require evaluating opportunities within the chosen specialty and area. Finding a well-run practice will help ensure that the compensation will be the best that it can be in the situation. Here are some questions to consider:

- Is the practice or health system stable? Stable is preferable, but if they are growing, some instability is expected.
- What is its business outlook? Do they have a plan to expand? Or are they in a solid niche?
- Is the practice or the system a market leader?
- Are the current physicians busy? If so, that's good, but make sure they're not "too busy," indicating there could be issues.
- How is the leadership structured? Is the practice run by physicians or non-physicians?
- Are there administrative expectations for the doctors?

the long run, and they may also provide the physician with an opportunity to invest in other areas related to the medical practice including the medical office building, imaging equipment or ambulatory surgery centers.

5. SPECIALTY

In general, specialists have higher compensation than primary care physicians. Primary care physicians, which includes family practice, internal medicine, pediatrics, and geriatrics, has a median range of $170,000 to $185,000. Specialists start there and go up to $400,000, depending on the specialty. The highest compensation goes to cardiology, orthopedic surgery, gastroenterology, radiology, surgery of all types, urology, and anesthesiology.

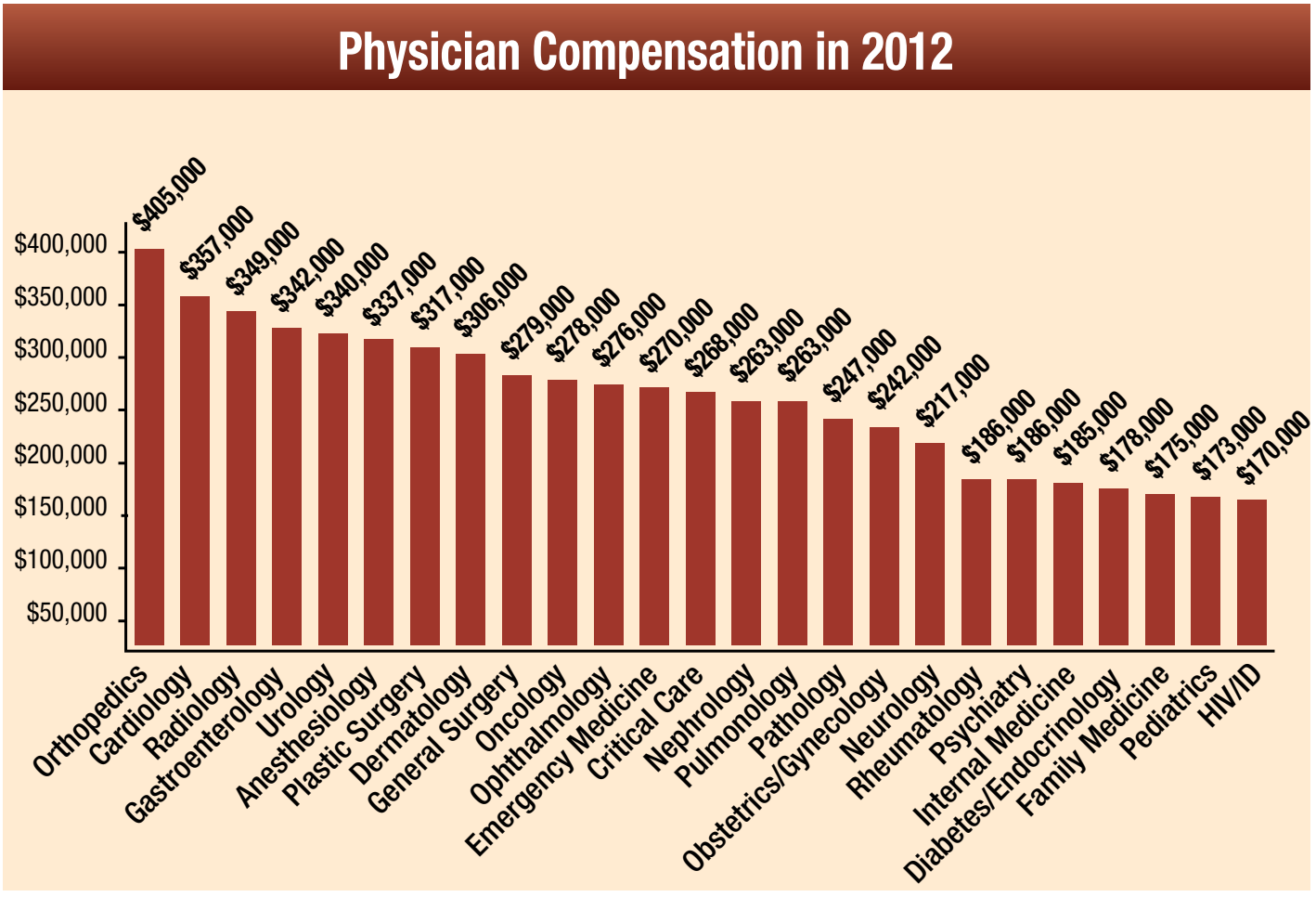


Chart from Medscape's 2013 Physician Compensation Report (using 2012 data)

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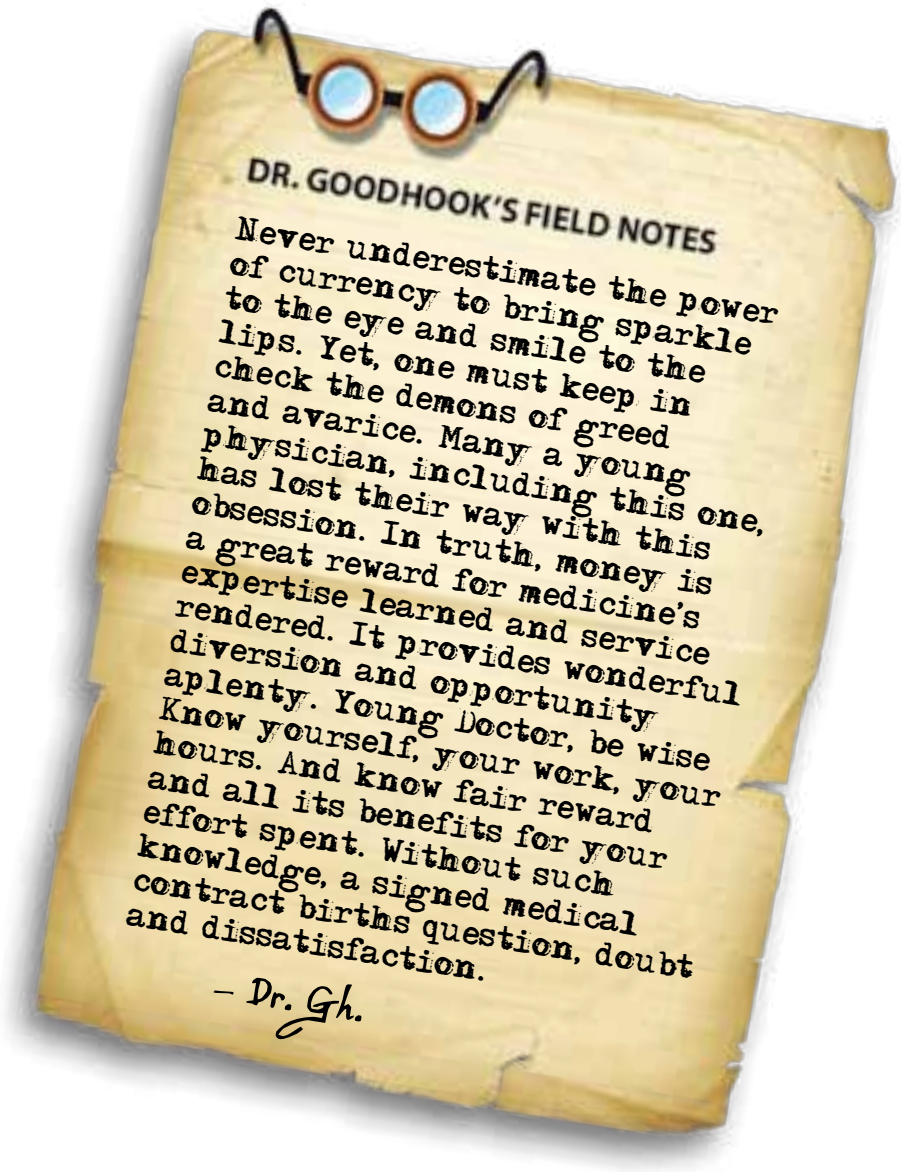
Using the Data

In examining the data presented in the report, practice administrators and other report users should consider the following:

1. What is the difference between your facility's data and the report median (or mean, if appropriate)?

2. By what methods can the compensation indicator be internally and/or externally changed or controlled?

3. How should your medical group measure performance for this indicator? Do your systems and processes allow for the appropriate assessment of the compensation indicator?



3 COMPLETED

Stage 3 Action Checklist

Make sure you have completed these tasks by the end of this stage:

- ❑ Think about the elements of a compensation package that are most important to you.

- ❑ Consider the geographic locations and size of community that meet your expectations.

"Always be aware of the diverse nature of compensation. Money is nice, but it certainly will not be the only thing that makes you successful — or allows you to enjoy success."

— Napoleon Hill