MARWOOD GROUP®

Basing Physician Compensation on wRVUs Aligns Incentives of All Stakeholders

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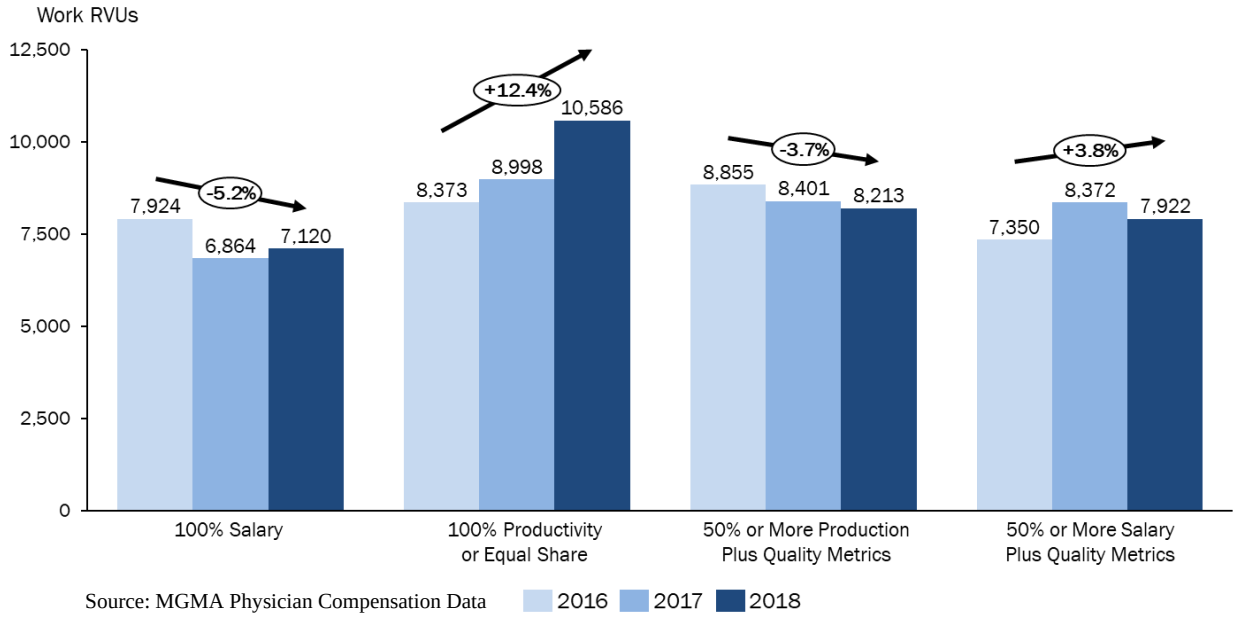
Physician Compensation Strategies

- A physician-led and productivity-based compensation plan allows for optimal subspecialty performance to deliver highest quality results with industry leading performance within local markets, regardless of mix of subspecialists and payors
- Marwood believes the ideal productivity-based compensation plan is utilizing a tiered wRVU model because it is a metric that is payor agnostic, easy to track, and is most closely tied to production
- Additionally, a meritocratic-based compensation plan should encompass local economics, physician buy-in, and quality outcomes

Figure 1: Median Compensation of Orthopedic Surgeons, by Compensation Plan (2016-2018)



Source: MGMA Physician Compensation Data

Marwood works with clients to tailor physician compensation models, particularly for more difficult specialties to align such as orthopedics, retina, and radiology, among others.

Physician Compensation Model Alignment

Demand for physician services is driven by a practice's proven ability to provide quality-focused, operationally efficient healthcare and exemplary customer service to referring physicians and patients. Therefore, it is paramount that a compensation plan mirrors these objectives to ensure success of a platform. A well-established compensation infrastructure will support growth through acquisitions and new customer wins.

It is no secret that many private equity backed physician practice platforms have had issues around compensation, which generally occur because they are apt to make ad hoc arrangements on a physician-by-physician basis, resulting in various compensation plans without a common philosophy. This becomes even more determinantal when the platform starts executing on their growth plans regardless of organic or inorganic avenue, particularly with top paid and diverse specialties such as orthopedics, GI and retina, among others. Structuring a compensation plan with a base compensation option is only favorable in rural areas where the appropriate level is around 80% of the previous year's compensation along with guarantees (should be less than total cash compensation). This is not the most optimal structure for dense MSAs and the majority of platform investments.

Implementing specifications and customizing the methodology for local economics and payor dynamics while employing Marwood's recommended incentive-driven approach will offer a differentiated approach to create a compelling value proposition for a successful platform's organic and inorganic growth plans across subspecialties, most notably for those with higher paid specialties (i.e. orthopedics, retina, etc.).

Recommended Productivity Compensation Model

Marwood believes a well-designed meritocratic model that compensates employed physicians commensurate with productivity thereby paying above average benchmarks in local markets attracts best-in-class physicians while delivering unmatched services, fueling further referrals and financial performance. Additionally, this creates a meritocratic culture that helps avoid cross-subsidization found in partnerships and allows for doctors to focus on their area of expertise. An incentive structure creates productivity levels significantly higher than both national and regional levels with equivalent quality metrics. Thereby, a meritocratic compensation model creates the opportunity for top physicians to make outsized compensation attracts best specialists in local markets.

wRVU is a standardized way to assign productivity credit and is tracked by almost all physician practices. wRVU-based compensation plans are highly scalable and have the flexibility to encompass ancillaries and additional sub-specialties that are often a part of the growth plan. A compensation plan based off wRVUs positions the plan ideally for new payment models. There are many ways to structure a wRVU-based model, most notably, one- or two-tier wRVU approaches, where different wRVU thresholds are set with higher conversion factor rates paid at the higher tiers. The second tier wRVU threshold will not always produce a material financial gain to the physician, so it can be an inexpensive investment to the organization that provides a psychological motivator aimed to incentivize physicians to achieve next-level performance.

As the healthcare industry reshapes due to COVID-19, incorporating both telehealth/virtual visit reimbursement and encounter numbers is key when developing the compensation plan (***see Marwood telehealth publications***). A compensation plan based on wRVUs incorporates telehealth visits and reimbursement across all payors, particularly as PFS codes eligible for telehealth have specific wRVUs.

Marwood believes a wRVU-based compensation plan with separate tiers provides a unified compensation plan that includes specialties and subspecialized physicians in more diversified PPM areas like GI, orthopedics and allergy / ENT to best serve a broad client base.

Quality Incentives

A physician compensation plan should incorporate measurable quality of care and be well positioned to succeed in a changing payment methodology environment. The dynamic nature of healthcare reimbursement continuing to move from volume to value means that quality outcomes need to be a priority over number of patients, therefore having a bonus based on quality is paramount.

Quality bonus incentives are generally tied to a form of non-productivity metric or quality performance and have gained greater notability in the industry due to shift to value-based care. Given volume being key for success due to reimbursement structure, quality incentives on average range from 10% to 20% of projected Total Cash Compensation in primary care and 5% to 10% for specialists. Marwood believes maintaining a coordinated strategy for quality metric tracking and incentives should overlay with payor requirements and the incentive should be proportionate to payor streams. Professional reimbursement is moving towards value or quality-based, therefore aligning at the greater end of the range aligns all stakeholders more cohesively.

Physician Buy-in

Retaining high-quality physicians is critical to long-term relationships with customers, particularly hospital contracts for specialties that rely heavily on outsourcing trends from health systems, such as anesthesia, radiology, and emergency medicine. Therefore, compensation plans should be generally agreed upon by employed doctors. By creating productivity-based compensation plans, there is less negotiation and disagreement from employed physicians. Additionally, physician-led culture leads to focus on quality and patient experience, areas critical to physician job satisfaction.

About the Author

Sheena Mathur is a **Vice President** at Marwood group and has been with the firm since 2018. Ms. Mathur is responsible for leading the Retained Services group and works with the business development team focused on origination activities. Prior to joining Marwood, Ms. Mathur worked as an investment banker at KeyBanc Capital Markets on the healthcare team. During her three years at KeyBanc Capital Markets, she closed numerous healthcare M&A deals along with executing on a number of leveraged finance deals with senior members at the firm. Ms. Mathur holds Bachelor of Arts in Biochemistry and Economics from Case Western Reserve University.

Marwood Group is a healthcare advisory firm offering strategic consulting services, with expertise in the U.S., E.U., and Asian markets. Marwood advises investors and life sciences companies on growth strategies and new business models, product lifecycle management, commercialization, market access and pricing strategies, and legislative and regulatory concerns.

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