AMGA™

Advancing High Performance Health

White Paper

Top 10 Pitfalls to Avoid in Provider Compensation Plans

Top 10 Pitfalls to Avoid in Provider Compensation Plans

By Fred Horton, M.H.A.

White Paper, July 2022

AMGA™
Advancing High Performance Health

In our compensation design work at AMGA Consulting, we often encounter situations that have caused significant problems with the installation of a new provider compensation plan. Many times, we are called to assist in redesigning a previous plan that stalled or failed to be fully functional.

While the reasons are never exactly the same from organization to organization, there are several recurring factors that frequently contribute to failed plans. In this white paper, I will articulate what we see as the top 10 contributors to failed plans, based upon our experience in the market. These items should be considered common mistakes to avoid when designing a plan.

1. Creating a plan that is "administratively" driven or designed.

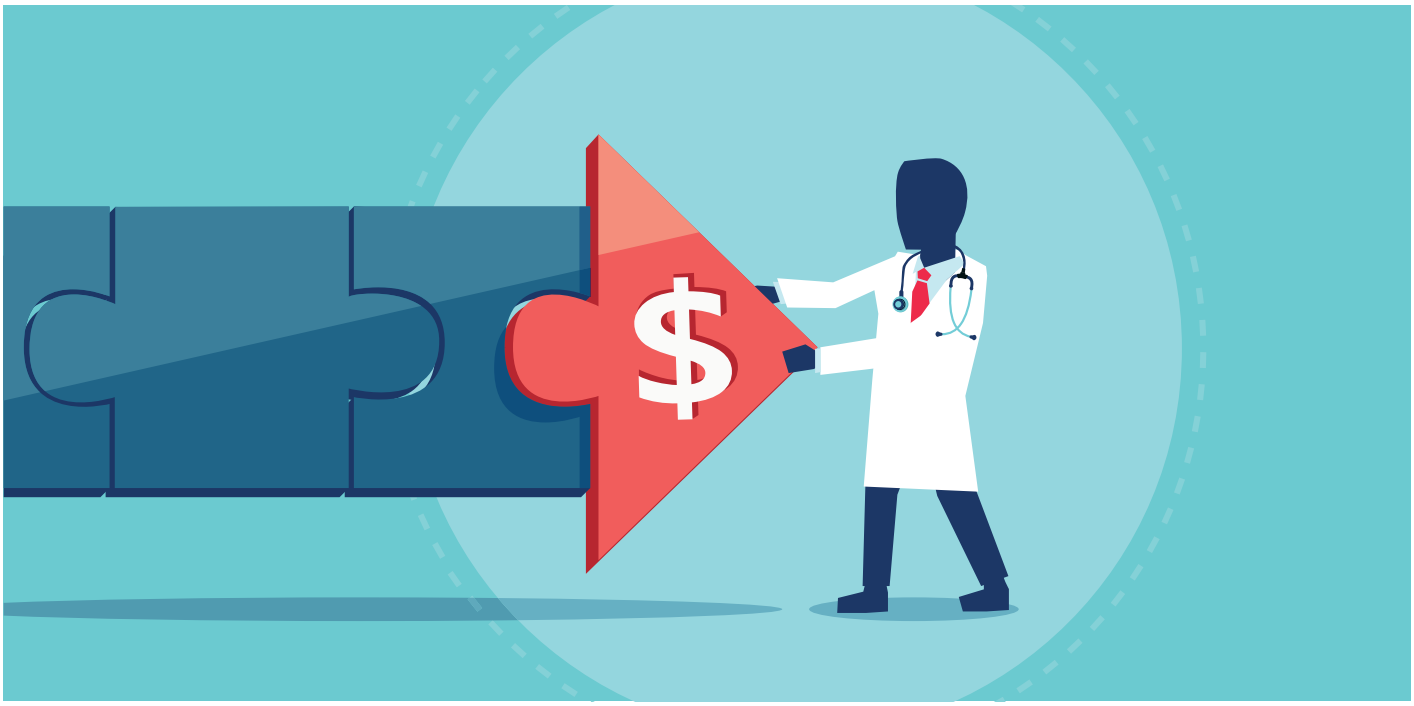
When organizations forget to involve providers in the design process, or minimize their input, plans typically end up not aligning to the reality of day-to-day clinical practice. Because of this disconnect and the lack of early provider buy-in, they are very difficult to implement. Be sure to include providers in the compensation committee that develops your plan, as their input is invaluable to successful implementation. While the actual approval of a new plan may involve formal governance entities, such as the board, it is important that the design committee include providers' perspectives.

2. Developing a compensation plan to manage "outliers" or to address components that have been "gamed" by a small minority of providers in the past.

The compensation plan should be designed to align with the vast majority of the providers. However, you should address issues related to outliers and carve-outs for select providers through the performance review process. You also should not engineer your compensation plan to eliminate less than optimal behavior. As we often say, the compensation plan is a horrible proxy for a performance review.

3. Utilizing a formula from another organization.

No two organizations are exactly alike, especially in relation to the biggest driver of alignment: culture. A plan must be customized, and there is no one-size-fits-all model. Additionally, by taking an "off-the-shelf" approach, you will minimize the involvement of providers and short circuit the development of leadership and engagement that comes from working through a comprehensive and transparent process.



4. Developing a plan too far ahead of where you are today.

A plan should align culture, strategy, financial performance, care model, and the like. When organizations develop a plan significantly more advanced than where they are in the present moment, they often are unable to make the transition. In the meantime, providers are paid in a manner that is aligned to a point in the future that does not materialize, and there are typically negative consequences for the organization.

5. Including incentives for providers that are not aligned to areas they can impact or for aspects attributable to others' performance.

Incentives should be tied to individual or team performance where the provider has direct involvement. There are many ways that incentives can be misaligned. For instance, if you include an incentive for referral management that is built into the infrastructure of the organization and has nothing to do with provider decision-making. This could include enrollment in a chronic disease management system where the support staff are responsible for the enrollment. Since the provider has little or no influence on this activity, their incentive should not be tied to it. Another example would be linking total cost of care to the provider when the system has an overall "cost" issue, such as contracting for ancillary services via a high-cost provider, that is not the physician's responsibility. These kinds of incentive structures can lead to significant skepticism and less-than-robust engagement from providers.

6. Making plans so complex that no one understands how they get paid.

Plans should be commonly understood by the vast majority of the providers. If this is not the case, there is no line of sight between how a provider views their actions and the compensation outcome. When this is the case, we find limited progress or any real improvement in the incentive targets.

7. Keeping data at the provider compensation committee level.

While some data should be confidential in nature, general information related to plan development should be shared frequently and transparently. Again, when this is not the case, skepticism grows, and development of

a new plan can face a backlash. When data on performance is not shared, many times providers will make inaccurate assumptions about how performance is evaluated and rewarded. These assumptions can be difficult to overcome, and the plan is set to be challenged from the outset.

8. Developing incentive plans without the ability to measure or report.

We see this time and again—organizations building a plan without having a track record of being able to measure and report on the very metrics that impact the incentive portion of a design. In our work, we state emphatically that if you can't measure and report (both accurately and timely), you should not include the metric in the plan.

9. Using the compensation design as a weapon or punishment.

Plans should be developed to reward the right behavior and align with performance. As stated previously, performance issues should be dealt with through an organization's robust performance review process.

10. Viewing compensation design as a negotiation.

In our view, you should strive to pay competitively so that you can recruit and retain the best and brightest talent. The work of the provider compensation committee should be to create target levels of performance aligned to behaviors that lead to target levels of compensation. When organizations treat the design process as an ongoing negotiation, both the organization and the providers lose. Fair and market-based compensation should be the mantra, rather than "higher" or "lower." Higher and lower are artificial goals, whereas target compensation levels such as "X percentile compensation/wRVU" are tangible and fit into your recruitment and retention strategy related to what you can achieve in the marketplace. Financial realities do come into play, but to treat design as a negotiation creates distrust and is a recipe for long-term disaster.

Provider compensation design represents a unique point of intersection among your culture; your commitment to rewarding in an appropriate, transparent, understandable and adequate manner; your strategic imperatives; and your position on your journey from volume to value. By looking at your design through this lens and avoiding the common mistakes referenced above, you can align your organization and goals to a compensation plan that recruits, rewards, and retains high-quality physicians and advanced practice providers.

Fred Horton, M.H.A., is president of AMGA Consulting. Fred is a dynamic healthcare advisor who possesses more than 20 years of industry experience, market insight, exemplary capabilities managing diverse and challenging projects and the ability to create tangible results on behalf of his clients.

AMGA is a trade association leading the transformation of health care in America. Representing multispecialty medical groups and integrated systems of care, we advocate, educate, and empower our members to deliver the next level of high performance health. AMGA is the national voice promoting awareness of our members' recognized excellence in the delivery of coordinated, high-quality, high-value care. More than 170,000 physicians practice in our member organizations, delivering care to one in three Americans. For more information, visit amga.org.

AMGA Consulting is your long-term partner on key business issues. We provide unprecedented access to market data and best practices derived from America's leading health systems and more than 170,000 physicians nationwide. With decades of experience, our team of talented consultants will assist your organization in effectively addressing your challenges. We provide timely and cost-effective solutions customized for your organization. Our methodology, industry experience, and customized approach provide a foundation for effective solutions that match your unique situation. For more information, visit amgaconsulting.com.

Advancing High Performance Health

One Prince Street
Alexandria, VA 22314-3318

amga.org