iStock.com/Arnav Pratap Singh/valentinarr

An Inside Look at Compensation

What pay-for-performance can teach us about VBC

By Kevin McCune, MD

"It's not any one model. It's really about ensuring you have the proper infrastructure and then the critical component is creating alignment with culture, strategy, and ensuring congruency with your care model."

That's what Fred Horton, MHA, president of AMGA Consulting, told me when we recently had the chance to talk about compensation design in a value-based world.

He told me, "A lot of people think it's just how somebody gets a paycheck, and it's way more than that. In fact, it's far more strategic in nature than most people realize."

The caveat here, Horton said, is that "at the end of the day, there is no 'one universally perfect plan' for value. Rather, the key is to try to get near perfect alignment for your unique organization."

From that broad overview, where can we start to gain a better understanding of what it means to restructure compensation for value-based care (VBC)?

Looking to Pay-for-Performance

Fortunately, the trend toward value-based payment started years ago, when organizations began to focus on pay-for-performance plans in full-risk health maintenance organizations (HMOs).

"If you look into the volume-to-value background, it really started in a significant way with the Health Maintenance Organization Act of 1973," Horton explained. "The result was a dramatic change to the landscape of healthcare in the United States: the proliferation of HMOs, preferred provider organizations (PPOs), and independent provider associations (IPAs). alongside traditional fee-for-service arrangements."

He continued: "To me, this was the real substantive start of the shift from volume to value. What's really important is that organizations focused on the move to value began to understand that decreasing variation in care, utilizing best practices, and applying key processes led to the best results. As an outcome, I believe the focus on metrics and measurements began to improve—many of which are utilized today, although in an advanced manner. Some of those same metrics are included in provider compensation plans."

Horton explained that in the 1990s, in particular, there was a dramatic shift to larger and more sophisticated organizations focused on their ability to manage cost and quality. "Many were perfecting processes in order to provide high-quality care, with superior outcomes at a reasonable cost," he told me.

"Based on 2022 data, 79% of responding organizations reported that they had value-based incentives included in their current plan. Compare that to 2009, when the same metric was 41%; in 14 years, it's nearly doubled. Probably about 8%–10% of compensation is associated with these incentives today."
— Fred Horton, MHA

That focus included "things like patient satisfaction, lower cost, and access to care," according to Horton. "As the environment for value has expanded, organizations have had to ensure they created appropriate access to and use of data. There's a level of sophistication and advancement associated with that, as they had to make sure that reporting was accurate and timely."

As metrics have been embedded into compensation plans, the level of advancement on measurement and reward has improved greatly. Over time, that advancement has been observed with the reporting in AMGA's annual *Medical Group Compensation and Productivity Survey*. "When AMGA started this survey 36 years ago, the only data we collected were specifically related to compensation—there weren't even any productivity measures," Horton said. "It wasn't until the late 1990s and then into 2000 and beyond when reporting on these measures really picked up, but I think we can link a lot of the progression in the survey's sophistication to some of the payer models at that point in time."

However, he believes pay-per-performance has not been without its challenges, and "there have been significant shortcomings in how metrics have been applied to provider compensation design."

Correcting Course

"Unfortunately, many organizations took the approach of leveraging the physician and pushing down all outcomes to them," Horton lamented. "So we got this craziness in the environment where people think it's that easy and that simple. Organizations sometimes take this approach where they say, 'We're going to move into value, and because of that, we're going to change the formula so that virtually all of the determinants of success are physicians' responsibility.'"

He explained, "The true ability to perform in the value space is not just your compensation plan. In fact, it's not just the physicians' performance—it's the whole organization's performance. At the end of the day, that performance is driven by operations, design, and process."

"If you do not have the infrastructure, regardless of what kind of plan you have, you can't reach the promised land," Horton warned. "We could have incentives all day long for our physicians, but if the proper systems are not in place, they're not going to achieve the results. And, in fact, your culture will erode and your providers will feel they are inappropriately leveraged. If we want to get serious about moving the meter, we have to start having incentives that aren't just pinpointed down to a physician but that are actually shared across the organization, up and down, with a comprehensive infrastructure and necessary resources to make value work in a cohesive manner."

Horton is no stranger to this sort of cross-organizational alignment. "Early in my career, I was with an organization that had its own HMO for a period of time, and we were very focused on quality and value," he shared. "One year, the only goal we had in our strategic plan was to answer the phones. Everybody, from front-level management all the way up to the top—all physicians, all providers—was aligned to that one goal, and we all reported on it. Every staff member knew that was our goal. That is an example of a well-constructed goal, and the comprehensiveness of the incentive structure led to excellent focus and execution. It said clearly, 'We are all in this together.'"

This is what Horton described as the "*esprit de corps*" that's essential to realizing value.

Creating the Right Culture

An emphasis on simple group and, as appropriate, individual goals helps to define an organization's culture, and compensation plans should match that. "Complexity is not our friend as it relates to compensation design, and you can't widgetize every little component," Horton said. "You really need something that's going to match the culture. If the organization is truly strong in its drive toward value, it will evolve naturally."

To truly foster this culture, he said, "physicians and providers, themselves, should be engaged in the compensation design process. They have to help set the metrics and expectations. Over the past several years, we've learned that it rarely works for administration to develop a plan and roll it out."

The risk here is palpable. "As crazy as it sounds," Horton explained, "organizations that have not included providers in the design and those who have not tested their data collection processes often get midway through the year before realizing they can't appropriately measure the metrics in their plan. At that point, they are faced with two really bad

approaches: pay out without knowing if they got any value, or hold back payment, which obviously creates some big problems as they then cannot attain their purported levels of target compensation."

Measuring Success

Just having a value component in your compensation plan is not enough. "The real critical element," according to Horton, "is whether or not the organization has a high-performing provider review process at the professional level."

He was specific about what he thinks is required: "It's amazing to me the number of organizations that don't take the time to ensure providers get a thorough review at least once a year. I would argue that multiple performance check-ins are even better. I can show you current plans that are essentially base compensation plans—straight salaries—but they still have expectations built into them, and the individual is reviewed on whether they achieved those expectations. So at the end of the year, those plans really become variable, right? For example, they may have a straight salary, but it adjusts the next year based upon the past year's performance. Those expectations can include patient satisfaction, productivity, panel size, access, and the like. However, without a review, how do you connect the dots and reestablish expectations while also providing support that is necessary and consistent with a strong performance review process?"

Wheels in Motion

When I asked where he thought we were as a sector regarding an understanding of this compensation approach, Horton told me, "I do believe that AMGA members are some of the most advanced in the industry and learn from one another. Given the fact that many have been involved in one or another form of value-based care for long periods of time, I believe we have members who are in the top of the country with their understanding and approaches. AMGA members, in particular, truly understand the cultural aspect. Incentive creation varies across our members."

However, he said, "One caveat is that understanding is not the only challenge—the marketplaces just aren't uniform. That creates some challenges."

The biggest challenge? "I would say it's how we're having to put our feet in two canoes," he said. "You've got so much fee-for-service that's still occurring in addition to value, but we've got to get beyond fee-for-service in this country."

We are moving in the right direction. Horton shared, "In the *2023 Medical Group Compensation and Productivity Survey*, which is based on 2022 data, 79% of responding organizations reported that they had value-based incentives included in their current plan. Compare that to 2009, when the same metric was 41%; in 14 years, it's nearly doubled. Probably about 8%–10% of compensation is associated with these incentives today."

The one thing Horton reiterated as the key to keep in mind: "There is no perfect formula. There is a formula that's aligned to where you are and where you're headed as an organization, and that's the one you should use. Trying to take someone else's compensation plan and implement it in an incongruous culture is a recipe for disaster."

Find the compensation plan that's right for your organization's culture, and you're well on your way to realizing the ultimate goals of the value-based transition. GPJ

iStock.com/Arnav Pratap Singh/valentinarr

***Kevin McCune, MD**, is the senior advisor on value, AMGA, and chief physician executive, AMGA Consulting.*