

## **HEALTHCARE TRENDS DISCUSSION**

In November of 2016 the United States realized a change in administration. While change and uncertainty is nothing new to the healthcare industry and health provider organizations, each time it occurs new dynamics emerge and trends evolve as a means to prepare and account for potential changes.

Whether the federal government repeals, replaces, or modifies the Affordable Care Act (“ACA”), healthcare provider organizations now face uncertainty around reimbursement once again, as the number of patients with subsidized insurance coverage will likely decrease either through revisions to the ACA or because commercial payors are leaving the insurance exchange market. Further changes under a new bill remain a source of uncertainty, leaving many organizations in a “holding pattern” to avoid prematurely making significant operational capital and resource investments.

In the interim, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) began implementation January 1, 2017, under a revised option-based structure. This will be the first performance year for Merit-Based Incentive Payment System (“MIPS”) under MACRA, and it is important that provider organizations and physicians understand the impact and implications of being reimbursed less per increment of service under the traditional fee-for-service model, and assuming greater risk for population health management and qualitative outcomes. Many organizations employing physicians may feel the need to pass risk on to physicians through their compensation models in order to maintain alignment with hospital reimbursement and, ultimately, operational financial feasibility. As a result, understanding market based, specialty-specific, incentive payment dynamics will become increasingly important for organizations in order to remain competitive.

While productivity still remains the dominant driver of physician compensation programs, quality incentives are being designed and implemented at almost every one of our clients. It has been our experience that the amount of compensation that is allocated to quality incentives can vary dramatically by specialty, market and organizational philosophy. We have seen these incentives range from a nominal amount (e.g., 1% to 2%) to as much as 30% of a physician’s overall compensation.

We have also seen a movement in the metrics that are used in these types of quality programs. Programs today will often include metrics around patient satisfaction or experience, clinical outcomes, operational efficiencies, citizenship, etc. Lastly, we have also seen a change from using individual physician goals to goals that are based on the performance of groups, practices, and even around a service line; potentially through clinically integrated networks (“CIN”) and/or accountable care organizations (“ACO”). These models share risk and reward amongst the organization and clinical providers across the continuum of care, and emphasize the emerging theme of provider accountability for care delivery. These two network models have seen their share of successes and failures within pioneer organizations, and more data and documentation is becoming available to base decisions regarding whether or not to pursue these types of models.

Consolidation of provider organizations through mergers and acquisitions is a trend that has continued for nearly a decade and shows no signs of slowing down. The continued growth of physician networks continues to be a major initiative for all of our clients as they seek to offset economic pressures related to declining reimbursement and rising operating costs, be better positioned to provide the full continuum of care and manage patients, and to provide the type of certainty and stability that many physicians require today. However, this rapid growth of employed physician networks has resulted in many hospitals administering multiple compensation systems and models that are now creating recruitment, retention, and internal equity issues within their network.

We have found that as organizations grow, they are increasingly finding a need for standardization around frameworks for physician compensation to be able to recruit and retain physicians, reduce inequities in compensation, effectively reward desired performance, ensure regulatory compliance, and streamline administration of compensation programs. Many of our clients are now working towards centralizing their compensation program and ensuring that they have a compensation plan built around a common compensation philosophy.

The development of a compensation philosophy for a physician compensation program is instrumental. It not only outlines the competitive positioning, peer group and structure of the compensation plan, it speaks to what an organization believes in and what it values in its' physicians. It addresses issues such as affordability, regulatory compliance, and collaboration with other providers (e.g., advanced practice clinicians) who also play an important role on the delivery of healthcare. The compensation philosophy can indirectly address how the organization increases physician engagement while minimizing physician burnout.

With the continued focus on healthcare spending, and the increased complexity of physician compensation programs, we continue to see increased scrutiny of physician financial arrangements and challenges of regulatory compliance by federal agencies, particularly the Office of Inspector General ("OIG"). Stark Law, fraud and abuse, the federal Anti-Kickback Statute, gain-sharing programs, and excess compensation continue to be areas of concern.

Whether ensuring the physician compensation plan is competitive in today's market and allows for the successful recruitment and retention of the best physician talent, or reducing the risk around fair market value, commercial reasonableness, and reasonable compensation issues, healthcare organizations need to have access to reliable market data. Gallagher Integrated's *Physician Compensation and Production Survey* provides details behind the cash compensation components making it one of the most relevant and valuable sources of information regarding physician compensation market data available.