

Physician Compensation Article

Lindalee A. Lawrence, "Are Our Physicians Compensated Fairly?", Consultant's Corner, MHHRA News, Spring 1999.

Are Our Physicians Compensated Fairly? By Lindalee A. Lawrence, Lawrence Associates

Human resources (HR) professionals are frequently asked to consult with physicians to determine the fairness and equity of physician compensation. Fairness and equity, though, depend on one's perspective. The steps outlined here assure a quality analysis of internal and external compensation, but may not address the underlying concerns of the physicians.

Toward that end, the HR professional should first talk with all concerned parties to learn their perspectives and to find out what issues have prompted compensation questions. Even after gaining an understanding of the various perspectives, the tasks of identifying internal compensation practices and analyzing the competitive marketplace for a myriad of physician specialties can seem daunting.

This article offers brief guidance in managing these tasks based on our experience with physician compensation for HMOs, multi-specialty group practices and hospitals.

Understanding the Culture and Work Environment

Understanding the physicians' culture and work environment is a key step toward analyzing physician compensation. The work environment is an important element in physician recruitment and retention. Organizations vary tremendously in terms of culture and values regarding levels of productivity and performance expectations, use of physician extenders, annual hours worked, on-call and after hours coverage, hospital visitation, levels of patient acuity, and approaches to administration, research, teaching and outside consulting. All of these work factors influence the perception of fair compensation in relation to colleagues in other organizations. The level of administrative support and work-associated stress also impact the time and patience that physicians can offer the human resources (HR) professional in any discussions about compensation.

Evaluating External Equity: Design and Amount

The culture and values of the work environment generally determine physician compensation structure and design. National surveys provide a good picture of the range of design options and serve as useful benchmarks for annual competitive analysis. The Medical Group Management Association (MGMA) "Physician Compensation and Production Survey", identifies six categories of compensation design: productivity-based, guaranteed or base salary, straight salary, equal shares, capitation and structured incentive/bonus. In our own surveys, physicians frequently describe "salaried" as including fee-for-service and rates per hour. "Full-time" physicians include a wide range of flexible work hours, and a wide range of "full-time" pay.

Apart from the impact of varied pay designs, surveys tend to capture different elements of pay. MGMA consolidates compensation into "direct compensation" and "retirement benefits". Other surveys like Sullivan, Cotter & Associates' "Physician Compensation and Productivity Survey Report" present a more detailed picture of total cash compensation, including salary, stipend, incentive, deferred compensation and other cash.

Prior to collecting external market data, the HR professional should identify the most important pay elements for his/her organization. Total compensation, including cash compensation and all benefits, is the most valuable information from a recruitment and retention perspective. Total compensation is also the focus of the Internal Revenue Service Intermediate Sanctions, applicable to "disqualified" physicians.

Unfortunately, the benefits element of total compensation can be difficult to value and quantify. Valuation and comparison of different kinds of retirement plans is detailed and time-consuming. Valuation of subsidized office space, office staff, board certification incentives, malpractice insurance, income guarantees and other varied arrangements is even more difficult. With limited administration, physician practices cannot assure the quality and accuracy of responses to complex benefit questions. Inability to collect detailed data can limit a survey to analyzing the prevalence of these benefits.

Information about cash compensation is somewhat easier to collect. It, too, varies with the incumbent's work hours or negotiated arrangements. Pay rates per hour worked, combined with an assessment of productivity data, help to assure greater comparability between an organization and its external market.

National surveys, like MGMA and Sullivan Cotter, have fairly large numbers of physician participants. The HR professional can select from a variety of market segments by specialty, geography, practice type, compensation type, years of service and so forth. Periodic local surveys, however, help to answer specific questions about local work environments, the marketplace and competitive hiring practices. A local survey can target a group of similar participants and collect detailed information from the physicians' colleagues. This level of custom analysis highlights organizations' differing practices and can address misperceptions about external compensation.

Evaluating Internal Equity

A final piece of any compensation analysis -- internal equity -- addresses the fair relationship of an organization's incumbents to each other. In order to establish equity, some organizations link base pay to experience or step rates. Step rates may be more prevalent in response to union organizing among physicians. Other organizations have compensation tiers with flat rates for either entry-level or experienced physicians. Still other organizations link pay to productivity and performance. In surveying the marketplace, clear relationships between pay and other factors can be masked by the variety of approaches being used. In general, employers try to assure competitive compensation at the entry level in order to recruit physicians with 1 - 2 years in a specialty.

Any of these internal equity approaches are appropriate if they satisfy the organization's values and support retention. In communicating its approach to internal equity, an organization should be explicit about how incumbents are valued.

Talking with the Physicians

Above all, the HR professional wants to build credibility, provide consulting support and forge a cooperative link with physicians. Toward that end, it is essential to:

- Understand the physicians' culture and work environment.
- Educate physicians about how compensation strategy impacts behavior, how an organization assesses its total compensation and what constitutes internal equity.
- Consolidate the organization's data on all compensation elements across as many physician contracts as possible.
- Communicate "bottom-line" information and, if necessary, detailed information to individuals with inquiring scientific minds, little administrative time and stressful jobs.
- Respond to recruitment and retention concerns with a good understanding of the work environments, levels of compensation offered by the external marketplace, and ways in which market compensation packages can be misunderstood or misstated during recruitment.

Conclusion

Determining the fairness and equity of physician compensation involves gaining an understanding of the perspectives of all parties, their culture and values, comparing compensation for the external and internal markets, and communicating the findings. In general, although perspectives may differ greatly and the data may be questionable, the outlined process should help in reaching an answer to the question, "Are our physicians compensated fairly?".