



# Common Compensation Models in Hospital Physician Employment Agreements

By Christopher M. Huryn

**DUE TO PRESSURES** from government regulators, payors, patients and other competitors, some form of integration between physician groups and hospitals is often imperative for both entities' continued survival. Recently, hospital employment has become one of the more common integration options for physicians to consider.

Compensation models for physician employees vary by hospital and also by the particular circumstances of the physician. A physician contemplating hospital employment should have a good understanding of common compensation methodologies, such as the guaranteed salary model, the "revenue-minus-expenses" model, and the Work Relative Value Unit (wRVU) productivity model.

## Salary Compensation Model

In a salary compensation model, most or all of the physician's compensation is a fixed salary. The hospital may require the physician to maintain a certain level of annual productivity in order to continue to receive the fixed salary. If the physician's productivity level falls below that threshold, the salary would decrease proportionally, or the physician and hospital would negotiate a new salary amount.

A hospital may also offer a physician a salary for only the first year or two of a contract term, and thereafter the physician may be paid on a revenue-minus-expenses or other model.

A portion of the salary compensation or an annual bonus may be tied to the physician's meeting certain quality, productivity and/or other performance measurements.

## Revenue-Minus-Expenses Compensation Model

In a revenue-minus-expenses compensation model, the physician's compensation is determined largely or entirely by collections. With the possible exception of an annual guaranteed salary amount, the physician's compensation is based on the revenue attributable to the physician's professional services minus the expenses and overhead that the hospital allocates to the physician.

In order to account for charity and/or uncompensated care, as well as for fluctuations in collections and reimbursement rates, the hospital may credit the physician's revenue by a specific amount.

With this model, the hospital typically pays the physician an estimated monthly "draw" based on expected

revenue and expenses and periodically reconciles the draw payments based on actual revenue and expenses.

## wRVU Compensation Model

In a wRVU model, compensation is primarily based on the number of wRVUs the physician produces, and the hospital pays the physician a negotiated dollar amount per wRVU. This model allows the physician to avoid the risks of collection and declining reimbursement that would be present in a revenue-minus-expenses model. Uncompensated and/or charity care services may be included in the physician's wRVU total. The hospital pays the physician an estimated monthly draw based on expected productivity and periodically reconciles the draws based on actual performance.

A wRVU model may also include a productivity bonus, eligibility for which can be tied to the physician exceeding an annual wRVU threshold. The bonus can be a specific amount or an increased dollar amount per wRVU for each wRVU over the threshold. A productivity bonus may also be tied to meeting patient satisfaction and other quality criteria.

*Christopher Huryn is a Partner, Health Care practice group, Brouse McDowell in Akron.* ■