Employment and Income Guarantee: How much is your physician worth?

Income guarantee and employment are today’s prevalent physician compensation models in the marketplace. A careful look at both their upsides and drawbacks will help you decide what compensation plan suits the physicians you need in your practice.

In the past decades, most physicians were under private practices. Compensation was more or less prearranged and income depended on the quantity of their patients. Today’s generation of physicians and some baby boomers, however, are compensated either by salary or guarantee, usually added with bonuses. Loan forgiveness, overhead and revenue sharing, referral and resource allocation, call coverage as well as productivity-based performance and incentives among others are just some of what are being factored in before giving doctors their paychecks.

Employing Physicians

Unlike the industry in the past decades, employing physicians is straightforward. This is an appealing arrangement for healthcare systems because it assures on-call coverage, steady referrals, ancillary volume and revenues that may be otherwise acquired by competitors. Production costs for facilities are outweighing their reimbursements. As a growth strategy, hiring physicians can max the financial performance of a facility by efficiently using its resources and by lessening competitors and identical services within the community. Facilities are exploring employment arrangements in order to cut costs, broaden the services they offer, and bring in increased revenue.

An Ophthalmologist remarked, “The current job market is so bleak that most practices are offering very little guarantee and asking for huge buy-in’s. Poor compensation coupled with high debts make bankruptcy a distinct possibility. Security is worth a lot now since with young ophthalmologists it is the exception rather than the rule that income will be quite unsure.”

Hiring a physician means a fixed salary. While this is a significant investment the return out weighs the drawback. Healthcare systems should also consider incentive plans when employing physicians. Productivity based bonuses are becoming a prevalent standard as they offer long-term rewards for physicians. Whether as a growth strategy or just out of necessity due to the high demand and shortage of physicians, facilities can take advantage of the incentives of an employment compensation agreement.

Income Guarantees

Income guarantees help doctors establish their private practices by giving them loans for at least 18 months. Income guarantees have become a staple compensation structure for facilities to recruit physicians in their practices. Although income guarantees are not as popular to primary care as to other specialties, they remain favorable compensation arrangements for healthcare systems to maintain good working relationships with physicians.
“A common misconception,” says Craig Fowler, Vice President of Training, Recruiting and Business Development for Pinnacle Health Group, “is that income guarantees exist mostly in rural areas. There are actually more hospitals offering income guarantee in metropolitan areas. Healthcare groups usually offer income guarantees to specialists to deter patient outflow to other facilities. In fact, these hospitals consider this an advantageous arrangement because it caps losses from an employed staff, which requires quite an investment for the facility.”

For instance, healthcare systems in New York, Nevada and even Canadian cities use income guarantees as part of a physician’s financial incentive. Fowler comments further, “it can also be an effective retention strategy for hospitals, and it is usually based on productivity. Income guarantees aren’t typically offered to hospitalists, but we’ve had searches from facilities offering these arrangements to them in order to keep the practice in the community.”

PHG Chief Operating Officer Michael P. Broxterman furthers, “Healthcare groups, mostly non-profit, offer this arrangement even to hospitalists, whose income is based on productivity. If the community has a high demand for the service, it financially benefits both the physician and the hospital. Physicians can even exceed allocated revenue and secure an added income.”

A Cardiologist from Atlanta Georgia comments, “Money is the bottom line. Income guarantee provides me a better venue for practice growth and decision-making acuity while increasing my earning potential.” Hospitals in New York, for instance, consider income guarantee as a helpful incentive to recruit and retain doctors. It reduces financial losses from employing physicians, and the community benefits from the physician’s services.

With the advent of Stark laws, however, healthcare systems must be cautious about drafting income guarantee contracts. It is crucial that there is a practice need in the community. Broxterman advises, “Hospitals must know the compensation trends in the marketplace first in order for income guarantee to be efficiently integrated into their compensation plans. This will help physicians transition once the duration of the guarantee ends.”

**Adding value to your compensation plans**

Compensation structures during the 1990s were motivated by competition to increase revenue and expand their health systems. Today’s industry, however, is different. Hospitals employ physicians to stop other facilities from utilizing their services, as well as relieving the high demand for healthcare. With an estimated shortage of 50,000 doctors this year, from specialties such as Primary Care, Radiology, Endocrinology, Neurology, Cardiology.

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**QUICK SURVEY**

Pinnacle Health Group surveys physicians about employment and income guarantee arrangements

Pinnacle Health Group’s quick survey on compensation preferences showed financial security as a key factor for physicians when looking for practice opportunities. The survey, which was sent to 5,000 2009 residents and fellows between December 2009 and January 2010, resulted in employment compensation arrangement as the major preference (60.3%) compared to income guarantee (39.7%).

The survey also explored the advantages and drawbacks of employment and income guarantee arrangements, with the following results:

- **Increased financial security**: 63.7%
- **Fixed compensation**: 46.6%
- **Work hours devoted to patient care and not running a business**: 46.6%
- **Decision-making capabilities**: 34.5%
- **Fixed schedule**: 29.3%
- **Physicians not wanting to be told when to come and go**: 29.3%
- **Collegiality among colleagues**: 24.1%
- **Business and leadership acuity**: 24.1%

Physicians cited “increased financial security” as the most important factor when comparing the two compensation agreements (63.7%). It was followed by a “fixed compensation rate” and their “work hours being devoted patient care and not running a business,” which both tied at 46.6%. Other considerations for choosing between employment and income guarantee include “decision-making capabilities” (34.5%), “fixed schedule” (29.3%), “physicians not wanting to be told when to come and go” (29.3%), “collegiality among colleagues” (24.1%) and “business and leadership acuity” (24.1%).

Michael P. Broxterman, COO of PHG commented, “In today’s industry and economic downturn, we see more doctors who do not want to take on the typical financial risks. Most of the young doctors we work with want security and a balanced quality of life. In addition, we also see the trend among baby boomers accepting a change in their careers towards employment simply because they are fatigued by the business of medicine.”

Unlike in previous years, where most physicians preferred solo practice and the high earning potential of income guarantee, today’s physician recruiting industry is inclined towards employment. However, some respondents still favor income guarantee. A Cardiologist remarked, “There is earning potential and professional growth in income guarantee but some healthcare groups are not being clear about it in their contracts.”

When physicians were asked to choose between employment and income guarantee provided that they made 10% more under income guarantee, 52% of the respondents opted for income guarantee. Broxterman concludes, “Over 90% of all the opportunities our clients offer to physicians are either employment only or include both employment and net income guarantee as agreement options. How healthcare groups structure their compensation agreements can affect their recruiting plans as well as physician productivity, so they must plan it out carefully.”
SUCCESS STORY

PHG finds an excellent physician for a 165-bed facility

THE NEED:
A 165-bed facility in Pennsylvania, offering health services such as PCUs, Radiology, Rehabilitation, Primary Care, Outpatient and Diagnostic Services, was in search of hospitalists to fill the service line gap after key physicians left the community.

The facility was satisfying their need through locum tenens, but they preferred a permanent physician to finally put the lid on costs. They were having difficulties recruiting due to geographical location and competition from another facility in the area. The hospital also had narrower parameters in their candidates, making the search more challenging.

THE ACTION:
Pinnacle Health Group worked directly with the facility’s administrators to initiate a first-hand community profile and an aggressive marketing plan to cast a wide net as they needed several physicians to fill out the required minimum of staff in the facility. The facility preferred American medical college graduates; so PHG initiated customized direct mail campaigns utilizing digital press, as well as other sourcing mediums such as job distribution service and online resources.

PHG narrowed down its candidate pool and made several site visits as well as candidate assessments. As in every successful recruiting approach, PHG directly worked with the administrators in the search process.

THE RESULT:
Direct mail advertising was considered the most effective as it had numerous excellent responses. An Altoona physician responded from PHG’s sourcing campaign and was interested in looking for a job in the area due to family ties. After several site visits, a real estate tour, a candidate assessment and negotiation in compensation and incentives, the physician signed on to the practice.

Aside from having the right specialty and the added value from her subspecialty, the physician works efficiently by extending call coverage to her patients. PHG had exceeded the client requirements with good communication, attention to detail and excellent negotiation skills!

Obstetrics and Gynecology, Anesthesiology and Psychiatry among others, hospitals deem employment as a necessity.

For healthcare organizations, the employment compensation arrangement is advantageous being that it yields positive reimbursement. Employment aligns physician incentives, optimizes the resources of the facility and decreases the duplication of services in the community.

Broxterman adds, “On our searches offering employment arrangements, we work with healthcare groups to decrease losses anywhere between $15,000 to $50,000 and over $100,000 per annum per physician. We further this by saving more than $200,000 for at-risk revenues.”

Whether income guarantee or employment, healthcare facilities should also consider various factors that will affect the practice environment it will provide to recruited physicians, such as license regulations, malpractice / insurance requirements, personnel, overhead, contracting and taxes among others. Healthcare groups must assess the double-edged benefit and drawback of employing physicians, or the relative earning potential of income guarantee.

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