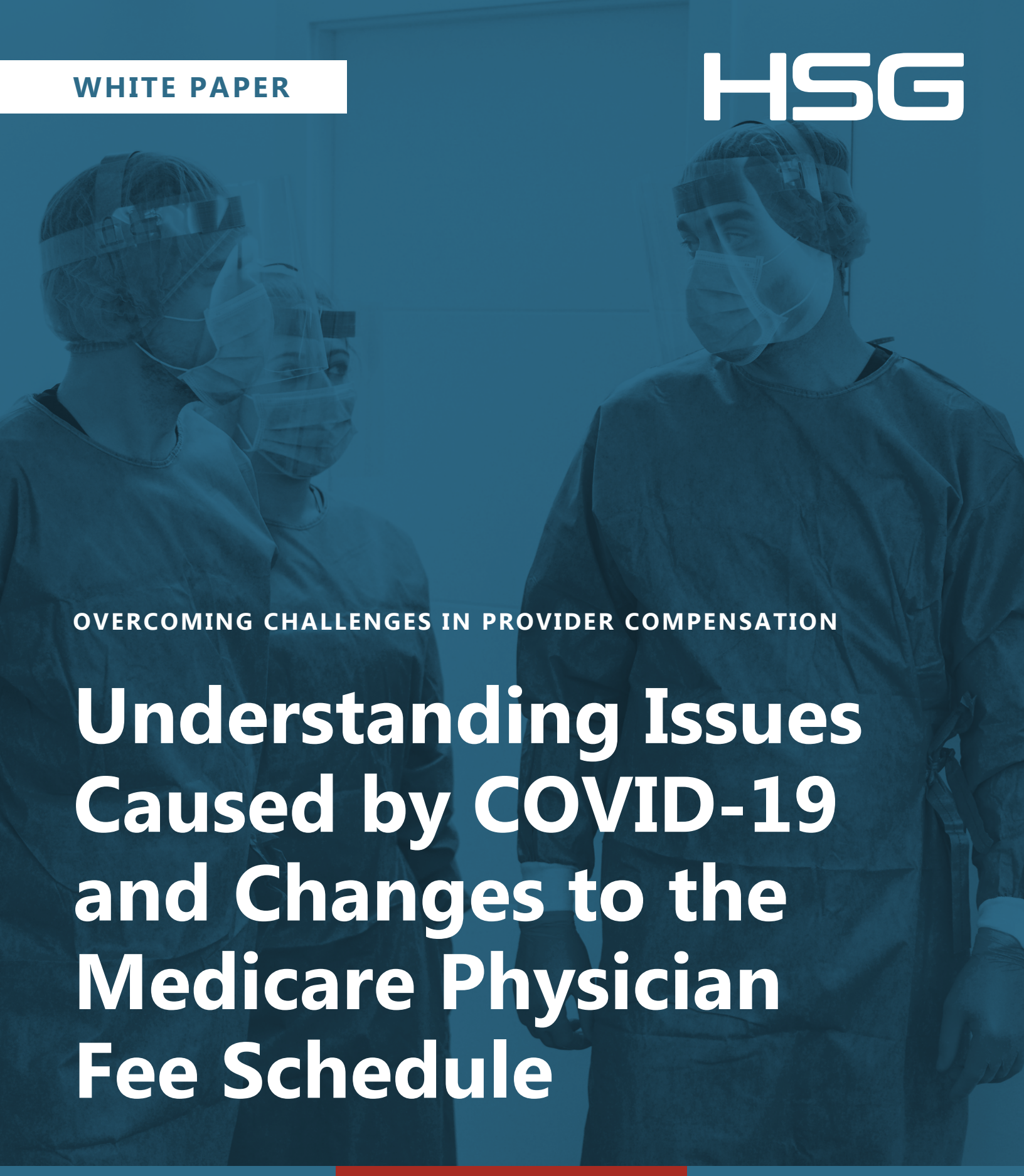
WHITE PAPER

HSG



OVERCOMING CHALLENGES IN PROVIDER COMPENSATION

Understanding Issues Caused by COVID-19 and Changes to the Medicare Physician Fee Schedule

SEPTEMBER 2021

About HSG

HSG builds high-performing physician networks so health systems can address complex changes with confidence.

SERVICES

PHYSICIAN STRATEGY
Driving a common strategic focus with engaged physicians.

PHYSICIAN LEADERSHIP
Identifying and engaging strong physician leaders is integral to the network's development and success.

PERFORMANCE IMPROVEMENT
Improving the performance of employed physician networks.

NETWORK INTEGRITY
Leveraging HSG Physician Network Integrity Analytics® to create and monitor patient acquisition and retention strategies.

PHYSICIAN COMPENSATION
Aligning physician compensation with health systems and employed network goals.

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Introduction

Developing and maintaining strategies for employed provider compensation has never been easy. HSG continually partners with clients on creating compensation plans that are specific to and evolve with an organization's needs. This may involve focusing on alignment between productivity and compensation, balancing market rates with organizational sustainability, and/or shifting compensation dollars towards value.

Two acute issues will add additional challenges in the next few years:

- **Issue #1:** Reduced volume during the COVID-19 pandemic will lead to artificially high per wRVU compensation rates in surveys based on 2020 data.

- **Issue #2:** For many specialties, changes to the 2021 Medicare Physician Fee Schedule (MPFS) will result in wRVU production that is significantly higher than historic levels.

This whitepaper will provide in-depth analysis of these two issues and discuss strategies for avoiding potential pitfalls.

ISSUE #1

Reduced volume during the COVID-19 pandemic will lead to artificially high per wRVU compensation rates in surveys based on 2020 data.

The COVID-19 pandemic has certainly created a host of operational problems for hospitals and health systems. In 2021, hospitals continued to deal with capacity issues, staffing shortages, and other challenges that strain hospital operations. In 2020, hospitals dealt with transitioning to telehealth, suspending elective procedures, and other issues that created a substantial decrease in patient volume.

From the provider perspective, this decrease in patient volume can be observed in survey data. When looking at trended wRVU data from the Medical Group Management Association (MGMA), we observe median wRVU values decreasing for most specialties when comparing 2019 data to 2020 data. Figure 1 shows data for selected specialties

FIGURE 1: DECREASE IN MEDIAN wRVUS (FAMILY MED, CARDIOLOGY, GENERAL SURGERY

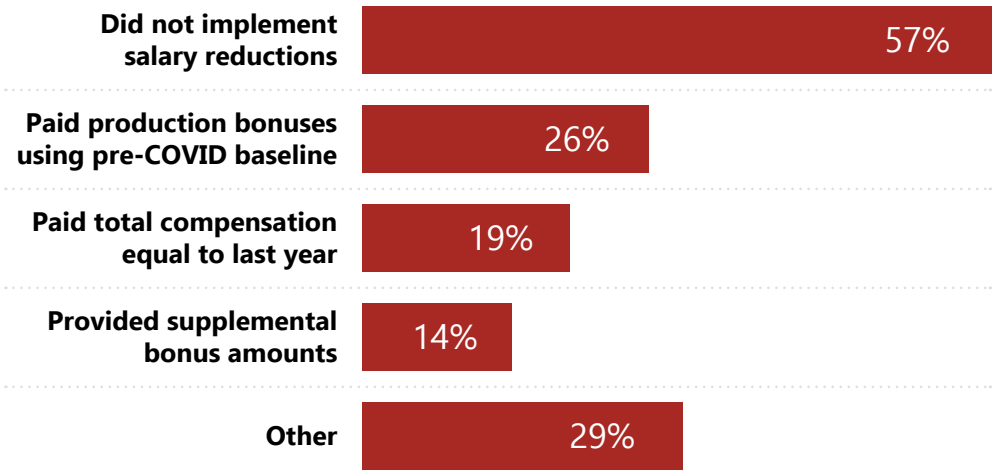
Survey Specialty	2020 Report (2019 Data)	2021 Report (2020 Data)	Percent Change
Family Medicine (without OB)	4,936	4,388	-11.1%
Cardiology: Noninvasive	8,047	6,820	-15.2%
Surgery: General	6,801	6,040	-11.2%

Fortunately, volume has rebounded for many organizations and learnings from 2020 will help ensure smooth operations and mitigate against decreased volume during additional waves. However, 2020's situation will have a lasting impact on provider compensation and create particular challenges when using and interpreting provider compensation survey data.

Despite decreasing volume, many organizations took steps to protect provider compensation. This has been observed both in our client interactions and analysis of survey data. In August of 2021, we asked 68 executives from around the country to reflect on 2020 and comment on their organization's provider compensation challenges during, and in response to, the COVID-19 pandemic. More than 90% of these organizations utilize provider compensation plans that include components tied to wRVU production. Recognizing that a drop in wRVUs would lead to decreased provider compensation, many organizations took measures to mitigate the impact of reduced volume. **In fact, 83% of the executives surveyed indicated implementing mitigation measures. The most common approaches included not implementing reductions and/or paying providers based on pre-COVID productivity levels.** More details are shown in Figure 2 on the following page.

FIGURE 2: HSG COMPENSATION TRENDS SURVEY RESULTS

HOW DID YOU MITIGATE REDUCTIONS TO PROVIDER COMPENSATION DURING 2020?

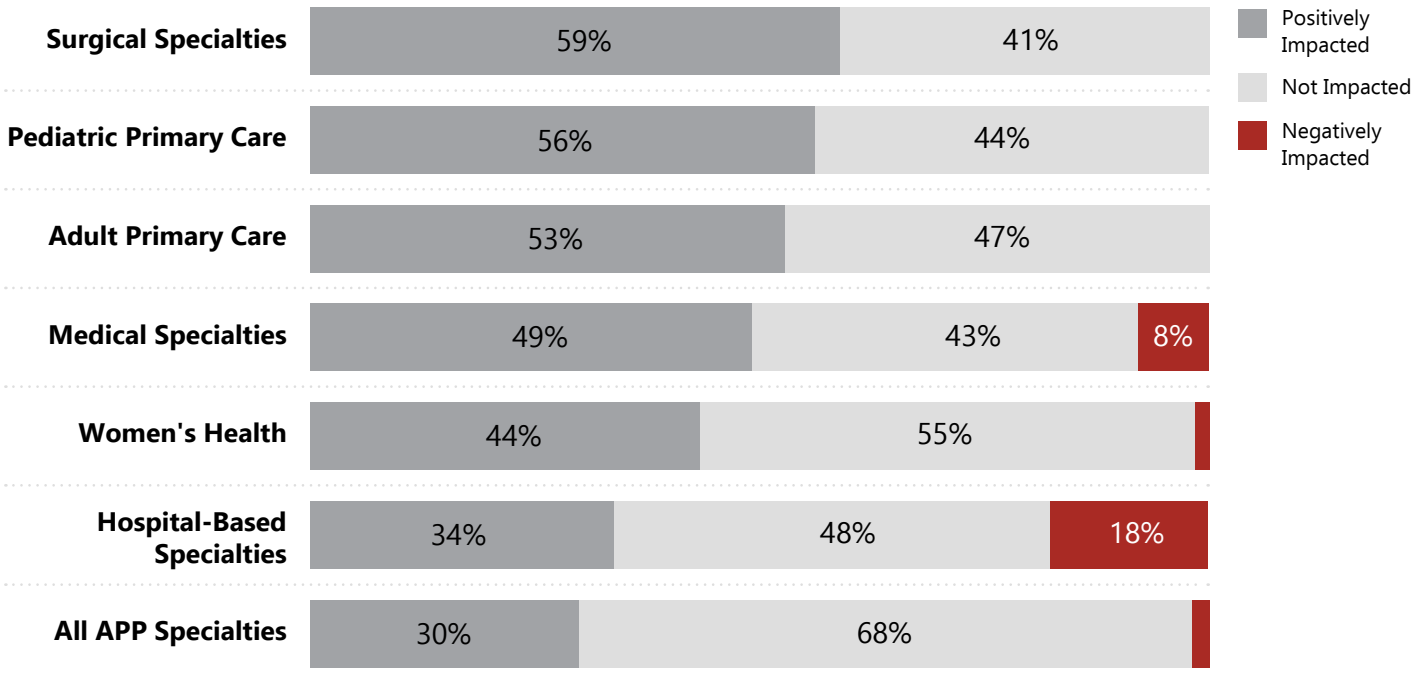


Note: Responses will add up to more than 100% because some organizations implemented multiple mitigation tactics.

Despite these mitigation measures, approximately half of these executives indicated a negative impact to their providers' compensation. As shown in Figure 3, this varied by specialty type, with surgeons more likely to see a compensation decrease and some hospital-based physicians seeing an increase to compensation (likely intensivists and other specialties where volume grew due to the pandemic). APPs were less likely to be impacted and our experience is that these providers are more likely to be on base salary models.

FIGURE 3: HSG COMPENSATION TRENDS SURVEY RESULTS

HOW WAS PROVIDER COMPENSATION IMPACTED AS A RESULT OF COVID-19?



These trends are also observed when analyzing total compensation data from MGMA where 2020 median compensation remained within a few percentile points when compared to 2019 median compensation. Figure 4 shows details for selected specialties.

FIGURE 4: MGMA PROVIDER COMPENSATION SURVEY MEDIAN TOTAL COMPENSATION (NATIONAL) BY SPECIALTY

Survey Specialty	**2020 Report** (2019 Data)	**2021 Report** (2020 Data)	Percent Change
Family Medicine (without OB)	$254,665	$264,698	3.9%
Cardiology: Noninvasive	$529,027	$521,248	-1.5%
Surgery: General	$440,759	$442,508	0.4%

When comparing these compensation changes to the wRVU changes shown in Figure 1, it is apparent that compensation values did not drop in proportion to wRVUs. This has a major impact when interpreting survey data, particularly data published regarding total compensation per wRVU. After all, if compensation is relatively stable and wRVUs have gone down, simple logic would imply that total compensation per wRVU has increased. That is exactly what we observe in the survey data. Figure 5 shows total compensation per wRVU for selected specialties.

FIGURE 5: AMGA MEDICAL GROUP COMPENSATION AND PRODUCTIVITY SURVEY MEDIAN TOTAL COMPENSATION PER wRVU (NATIONAL) BY SPECIALTY

Survey Specialty	**2020 Report** (2019 Data)	**2021 Report** (2020 Data)	Percent Change
Family Medicine (without OB)	$51.70	$59.69	15.5%
Cardiology: Noninvasive	$63.67	$73.05	14.7%
Surgery: General	$66.83	$74.74	11.8%

These increases are an artifact of low volume and NOT representative of actual market shifts in provider compensation. However, these large survey numbers may create upward pressure on compensation models as many organizations and providers rely on these surveys to determine market value.

ISSUE #2

For many specialties, changes to the 2021 Medicare Physician Fee Schedule (MPFS) will result in wRVU production that is significantly higher than historic levels.

While this whitepaper focuses on provider compensation and is not intended to serve as a complete guide to MPFS changes, we will give a basic overview of MPFS changes in order to understand their impact on provider compensation.

The MPFS determines relative value units and allowable payment amounts for all active Current Procedural Terminology Codes (CPTs) that can be billed by providers. Typically, Centers for Medicare and Medicaid Services (CMS) makes minor updates to these values year-by-year. However, in December 2020 CMS published the final 2021 MPFS that contained exceptionally large changes to RVU and payment values. While there were many substantial changes, two items that have major impact to provider compensation are the following:

1. Substantial increases to wRVU values for new and established office visit codes as shown in Figure 6 below.
2. Decreasing the per RVU conversion factor from $36.0896 to $34.8931.

FIGURE 6: wRVU VALUES FOR OFFICE VISITS CODES IN 2020 AND 2021 MPFS

E/M Code	2020 MPFS wRVU	2021 MPFS wRVU	Percent Increase
99201	0.48	N/A	N/A
99202	0.93	0.93	0%
99203	1.42	1.6	13%
99204	2.43	2.6	7%
99205	3.17	3.5	10%
99211	0.18	0.18	0%
99212	0.48	0.7	46%
99213	0.97	1.3	34%
99214	1.5	1.92	28%
99215	2.11	2.8	33%

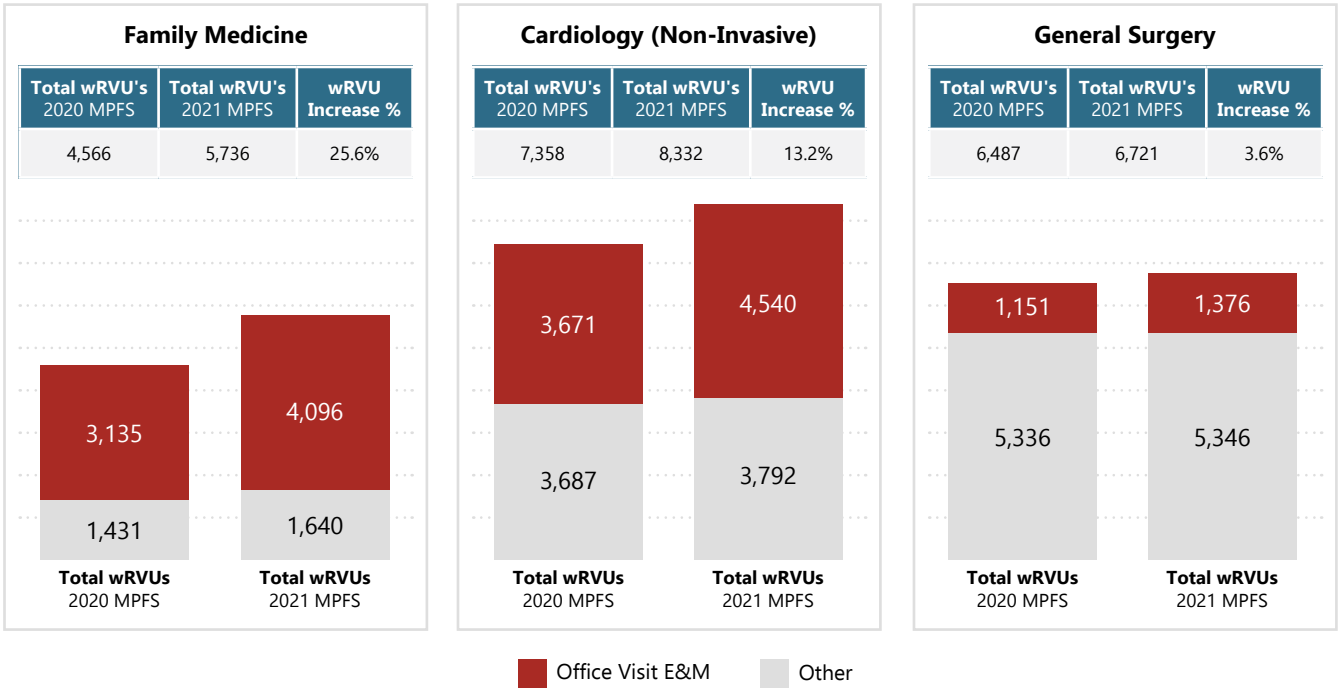
Figure 7 below provides wRVU and payment detail for CPT 99213, one of the most commonly used codes in all of professional billing.

FIGURE 7: RVU AND PAYMENT DETAILS FOR CPT 99213 (LEVEL THREE ESTABLISHED PATIENT OFFICE VISIT)

E/M Code	2020 MPFS wRVU	2021 MPFS wRVU	Percent Increase
wRVU	0.97	1.30	34%
Non-facility peRVU	1.06	1.25	18%
mpRVU	0.08	0.10	25%
Total RVU	**2.11**	**2.65**	**26%**
Conversion Factor	$36.0896	$34.8931	-3%
Medicare Allowable	**$76.15**	**$92.47**	**21%**
Allowable per wRVU	$78.50	$71.13	-9%

While the table above clearly shows the impact on a single CPT code, it becomes more complicated when we try to understand how these changes will impact total wRVUs and provider compensation. The overall impact to a provider will depend on the provider's specific service mix. Specifically, the proportion of wRVUs generated by office visits as compared to other services. Figure 8 shows examples for three selected specialties:

FIGURE 8: EXAMPLE OF TOTAL WRVU INCREASE FROM 2020 TO 2021 MPFS BASED ON SPECIALTY CODING DATA AND SERVICE MIX



Total wRVUs increase in each of the above examples. If compensation is based on wRVU productivity, this will result in a corresponding increase to compensation. Because of the decreases to the CMS per RVU conversion factor, there is not a corresponding increase to organizational revenue.

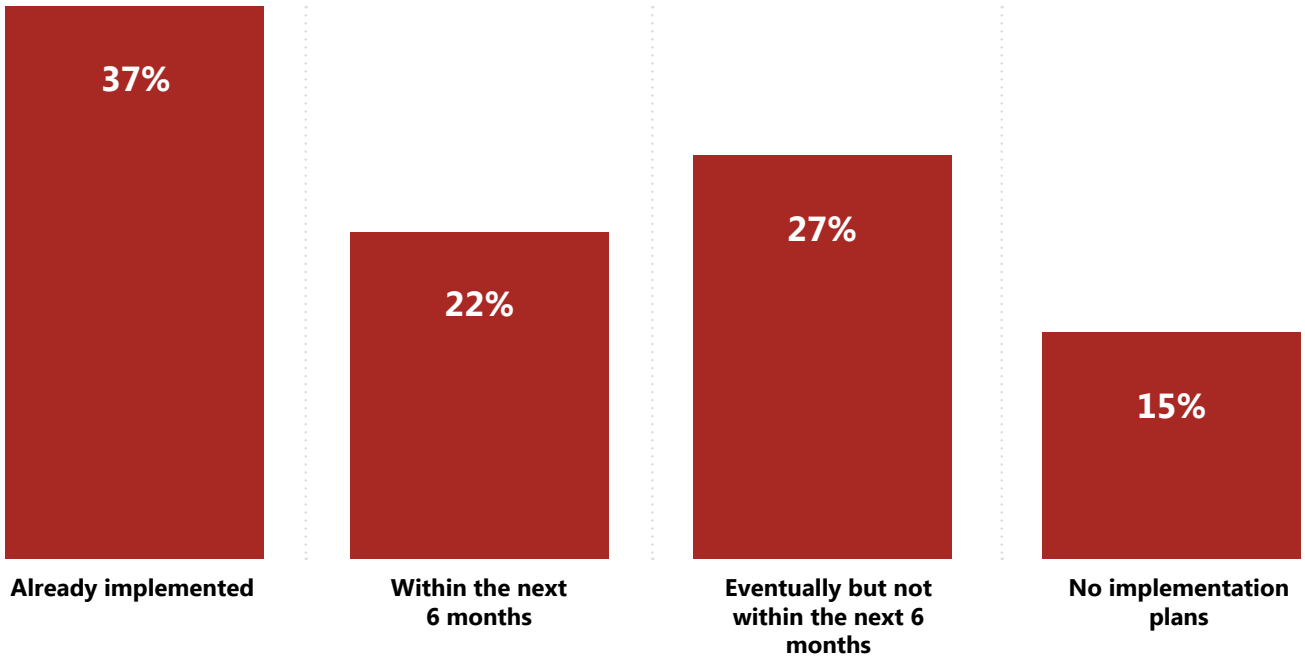
Given the above dynamics will harm the medical group's bottom line, it is important to understand what organizations are doing to mitigate this impact.

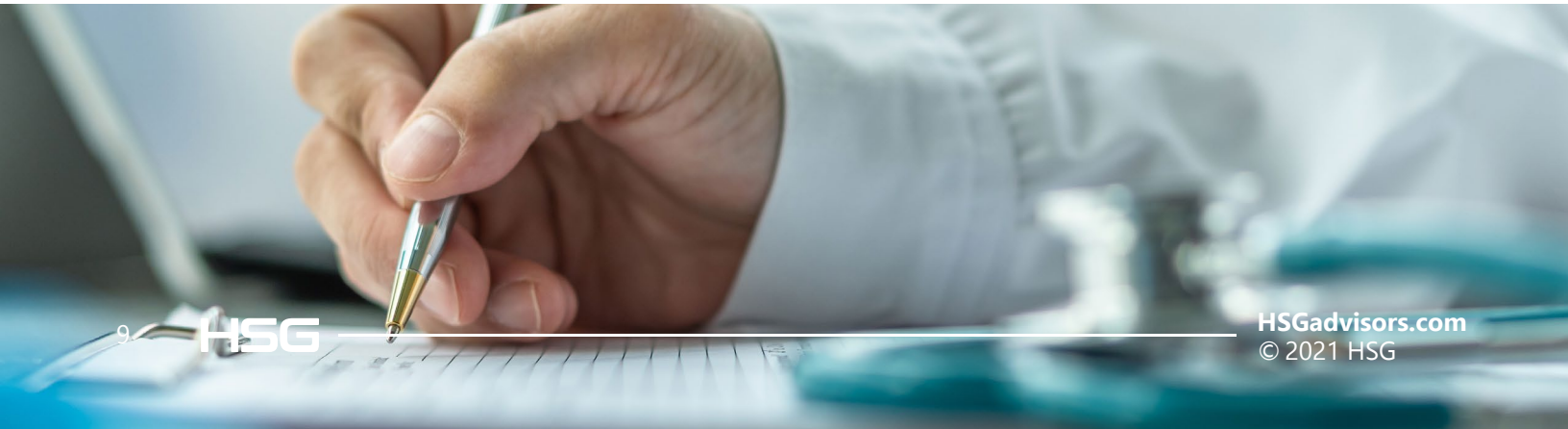
Due to the complexity surrounding this issue, we have observed many organizations continue to utilize the 2020 MPFS to calculate wRVUs for production-based provider compensation plans. In the short term, this ensures providers will continue to earn at current compensation levels for current volume. This also gives organizations time to conduct analysis and develop a strategy for adjusting compensation parameters to coincide with 2021 MPFS implementation.

As shown in Figure 9, 63% of our surveyed organizations took this approach and did not immediately implement the 2021 MPFS.

FIGURE 9: HSG COMPENSATION TRENDS SURVEY RESULTS

WHEN DO YOU PLAN TO IMPLEMENT THE 2021 MPFS wRVU VALUES FOR PROVIDER COMPENSATION?





When organizations do transition to the new fee schedule, they face a range of philosophical approaches for adjusting per wRVU compensation approaches. We see a continuum of approaches, with three key categories:

- **No adjustment.** Compensation rates will remain constant when implementing the 2021 wRVU values. This means providers' compensation will increase in proportion to the increase in wRVU values.
- **Budget neutral.** Most or all of expected revenue increases will be shared with the organization's providers. This means providers' compensation will increase in proportion to the increase in Medicare revenue.
- **Compensation neutral.** Providers will earn the same level of compensation for same level of volume in prior year.

Figure 10 below, shows how a provider's compensation rate can be adjusted to match each of the above philosophies.

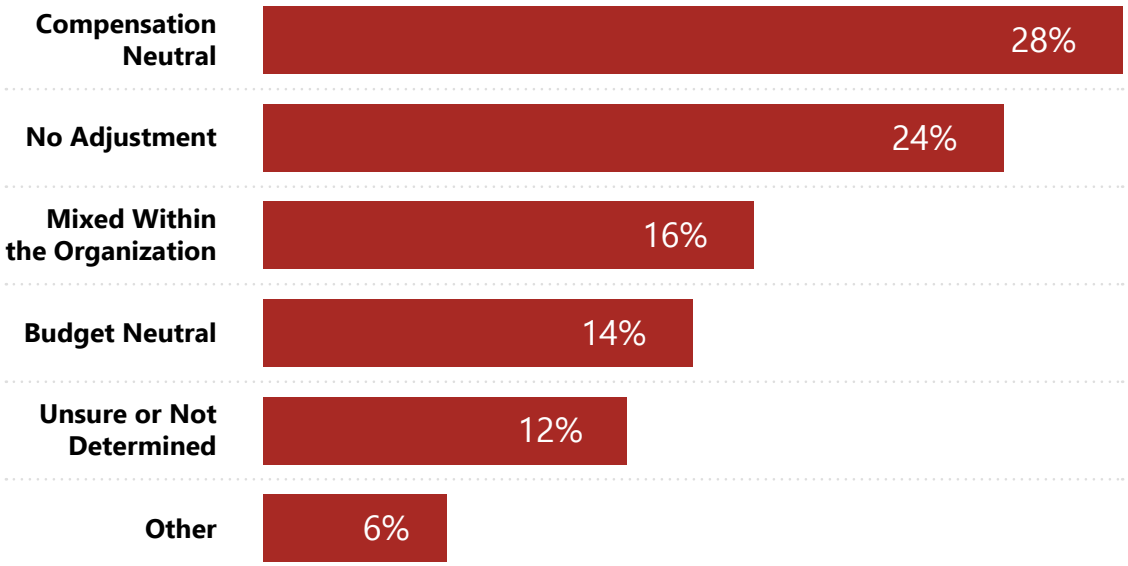
FIGURE 10: EXAMPLE OF RATE ADJUSTMENT APPROACHES AND IMPACT OF PROVIDER COMPENSATION

Status Quo Assumptions Current productivity level and compensation based on 2020 MPFS	Productivity: 5,000 wRVUs
	Compensation: **$250,000** total based on $50 per wRVU
Transition Assumptions Assumes constant volume and transition to 2021 MPFS	Productivity: Increases by 15% to **5,750 wRVus**
	Practice Revenue: Medicare FFS Revenue increases by $12,500
APPROACH #1 No adjustment to rate	Productivity: 5,750 wRVUs
	Compensation: **$287,500** total based on **$50 per WRVU**
APPROACH #2 Adjusting rate to $45.65 based on budget neutral calculation	Productivity: 5,750 wRVUs
	Practice Revenue: **$262,488** total based on **$45.65 per WRVU**
APPROACH #3 Adjusting rate to $43.50 based on compensation neutral calculation	Productivity: 5,750 wRVUs
	Practice Revenue: **$250,125** total based on **$43.50 per WRVU**

The approach applied to a provider, service line, or entire organization depends on a variety of factors including strength of current rates, market benchmarks, the organization's financial strength, and the competitive landscape. As shown in Figure 11, HSG's survey respondents had significant variation in their organizational philosophy when implementing the updated 2021 CMS fee schedule. 28% of respondents were implementing with the intention of keeping compensation levels neutral and 24% have no intention of making any adjustments.

FIGURE 11: HSG COMPENSATION TRENDS SURVEY RESULTS

HOW WAS YOUR ORGANIZATIONAL PHILOSOPHY WHEN ADJUSTING RATES FOR 2021 MPFS IMPLEMENTATION?



> … it is crucial to be **aware of the long-term impact each decision point can have on your health system's financial status.**

Conclusion

A medical group's long-term success is dependent on having productive, engaged, and satisfied physicians and advanced practice providers.

Although there are many issues that affect providers, few a more impactful than compensation. That is why the most successful provider organizations prioritize provider compensation strategy. While provider compensation is never simple, the next few years will be increasingly complicated as a result of the issues outlined in this whitepaper. Organizations must consider the lasting impacts of COVID and the 2021 MPFS when designing or redesigning provider compensation plans. Failure to do so could significantly threaten financial sustainability or provider satisfaction. Avoid this pitfalls by contacting HSG to learn about how we partner with health systems around the nation to develop provider compensation strategies.

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