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# Paying Providers Correctly and On Time: Yes, It Can Be Done



Suppose a top orthopedic surgeon and leading expert in robotic procedures will soon be joining your medical group. A luminary physician typically merits a compensation plan equally as distinctive. Let's look at some of the components of an example arrangement:

- » Annual base salary paid every 2 weeks
- » Sign-on bonus paid within 30 days of start date
- » Quality bonus paid at year end, based on achievement of specified clinical metrics
- » WRVU productivity bonus paid at year end, with a step increase in the payout rate after 1 year
- » Additional on-call coverage pay for call days taken in excess of contractual agreement
- » Hourly stipend for teaching and mentoring fellows
- » Retention bonus paid within 30 days of completion of year 1
- » Second retention bonus paid within 30 days of completion of year 2

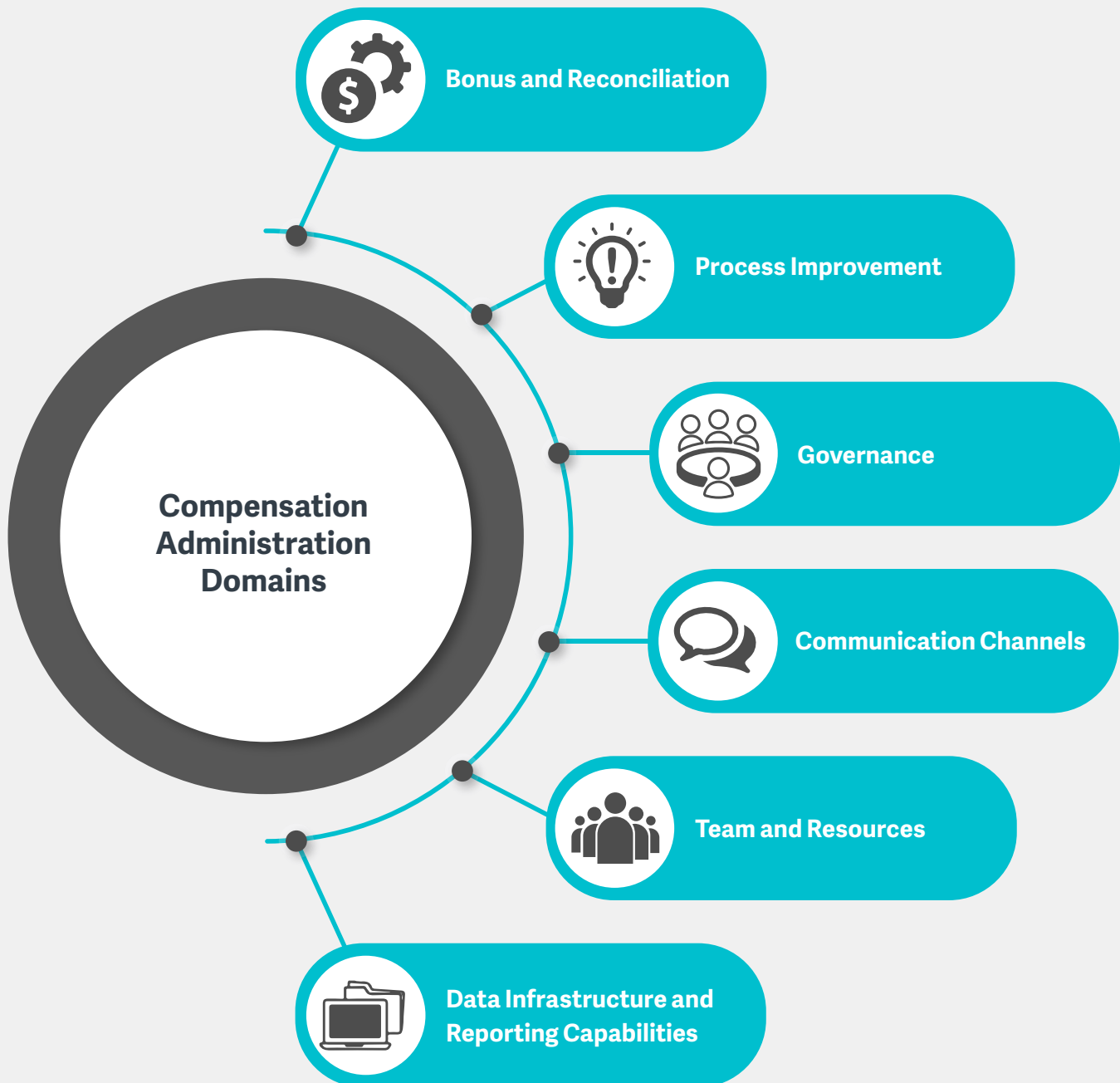
That's a lot of payments to keep track of, not to mention ensuring they're processed according to the contractually specified time period and that reconciliation calculations are performed accurately.

While this example is fictional, the intricacies of administering provider compensation plans are not. The operational mechanics behind paying healthcare providers are unique and nuanced. Even for standard compensation plans, without the additional available compensation categories, the process can quickly become complex and overwhelming for administrators.

Based on our experiences in past project work, and interviews with clients, we have found that the key to effective and sustainable compensation practices is for an organization to conduct ongoing assessments of its compensation administration infrastructure.

We've identified six core compensation domains where health systems and medical groups commonly struggle (see figure 1). Deficiencies in these functions make an organization vulnerable to calculation errors and missed payments.

**FIGURE 1: COMPENSATION ADMINISTRATION DOMAINS**



In this article, we'll explore these compensation domains and demonstrate how one of our clients, a large multispecialty medical group on the West Coast, improved its provider compensation practices through ongoing assessments of these domains.



## COMPENSATION ADMINISTRATION DOMAINS

### Bonus and Reconciliation Processes

#### Impetus for Assessment

Without consistent, hardwired reconciliation processes, organizations often lack a compensation “paper trail,” exposing them to compliance and audit risk. The absence of an established bonus and payment framework opens the door to manual calculations and inadequate documentation, which tend to result in calculations that are incorrect, irreplicable, and undocumented. In addition, many compensation plans contain a handful of one-off or off-cycle payments that can be easily forgotten and missed, or paid and not recorded, when there’s no reliable framework in place.

To illustrate this scenario, a ECG’s provider compensation client urgently needed to assess and redesign its bonus and reconciliation

processes while in a period of high staff turnover. Experienced staff had left the organization, creating knowledge gaps and raising questions when it came time to reconcile provider bonus payments. The organization’s historical reconciliation documents contained manual calculations with no explanation of the methodology.

This lack of consistency and documentation can result in a sense of institutional memory loss, illustrating the need for assessment of these types of processes.

#### High-Performing Characteristics

The mark of a high-functioning compensation administration unit is its ability to replicate and document reconciliations across time periods. Automated modeling and reconciliation templates promote transparent and equitable methodology. Establishing these types of reconciliation tools also aids in the transference of knowledge and seamless continuation of the work stream when staff turnover occurs.



To help eliminate calculation inconsistencies, the development of a predefined exception list that is regularly reviewed helps to document approval of, and explain any deviations from, policy. This, along with the creation of a provider payment schedule in conjunction with the payroll department, helps keep track of one-off or off-cycle payments and offers clarity to providers as to when they can expect payments. The development of fine-tuned bonus and reconciliation workflows is a vital foundation for all successful compensation administration teams.

## Data Infrastructure and Reporting Capabilities

### Impetus for Assessment

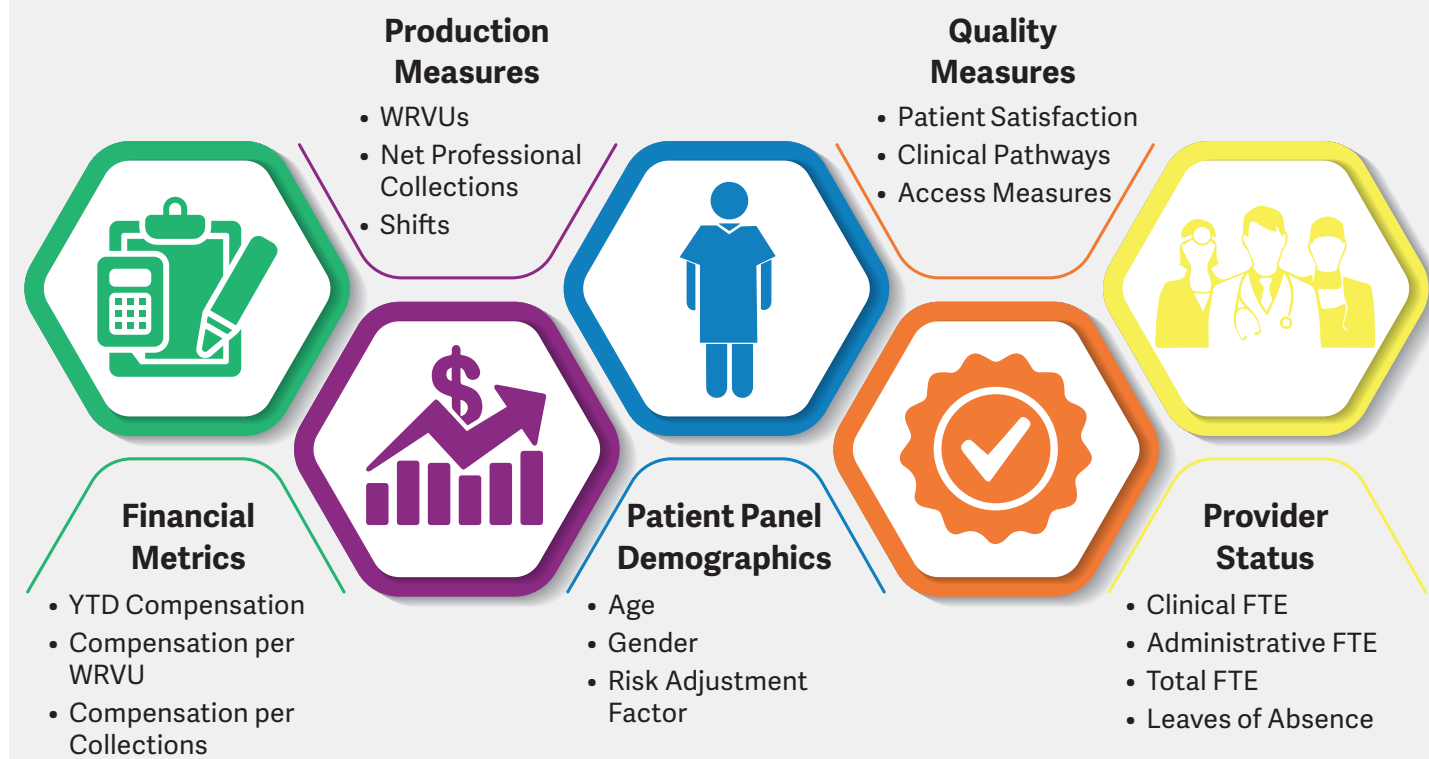
Having too many sources of data can impede an organization's ability to synthesize and capture relevant information. This scenario can also create

the potential for contradiction between data reports when multiple sources are referenced. The integrity and accuracy of data can be questioned if it's not standardized, protected, and managed by the appropriate parties.

For our client, during each reconciliation period, data was pulled from 30 to 40 different sources—a clear sign that an assessment was needed. Not only was this process extremely burdensome from an administration perspective, but the reports consisted primarily of manually entered spreadsheets and database outputs that were subject to edit by multiple individuals. Without a standard reporting system in place, the metric and time period selection varied by provider.

With numerous metrics requiring frequent analysis (see common metrics in figure 2), it is essential to assess the data and reporting infrastructure.

FIGURE 2: COMMON REPORTING METRICS



### High-Performing Characteristics

Central to a high-functioning compensation administration unit is a reporting framework capable of providing timely and accurate data outputs that allow for the proper measurement of all compensation components. Consolidating the number of data sources streamlines the validation process. Ensuring data is protected and not susceptible to tampering also enhances its reliability.

Additionally, this type of infrastructure supports operations by providing insight into key components such as production units and quality metrics. Having the ability to increase reporting accessibility allows organizations to gather actionable insights to inform meaningful analyses and business decisions. Given that many, if not all, of the metrics listed in the graphic above are major components and informers of compensation plans, it is paramount to monitor these regularly and accurately.

Our client took action to preserve the integrity of these key data sources by designating ownership at the department level. When there is a clear delineation of responsibility for monitoring and sourcing specific data metrics, there is greater opportunity to mitigate inaccuracies and bolster credibility.

### Team and Resources

#### Impetus for Assessment

Prolonged understaffing or an ineffective staffing mix, if left unchecked, can lead to staff burnout and an inability to meet payment deadlines. This was the case with our client. In the months prior to our engagement, they had experienced significant staffing changes, leaving the team with a director, two analysts, and a part-time project coordinator—and more than a thousand providers for whom to administer compensation plans.

A high-functioning compensation team is sustainably staffed based on the number of provider FTEs and complexity of the compensation plans.

Unsurprisingly, the team struggled to complete the basic functions in a timely and accurate manner.

Many compensation administration teams lack the appropriate staffing mix needed to satisfy the day-to-day requirements of a large organization. Often, this function is not handled by a dedicated provider compensation team, but instead is allocated among other department teams throughout the organization. This can lead to scenarios where staff members may not be equipped with industry-specific knowledge or technical skills to carry out the basic compensation administration functions, let alone any ad hoc tasks and special projects (e.g., data validation and trend analyses). These shortcomings can lead to a lack of employee engagement while demanding additional oversight and development on leadership's part.

#### High-Performing Characteristics

A high-functioning compensation team is sustainably staffed based on the number of provider FTEs and complexity of the compensation plans. The team is composed of

a suitable number of analytical staff FTEs who possess the technical compensation skills to run and maintain the daily tasks. Leadership-level staff are able to oversee the function as a whole, recognize team deficiencies, and manage organizational relationships, goals, and priorities.

The specific staffing mix will vary according to each organization's needs and evolve over time. For example, larger medical groups (e.g., more than 1,000 providers) with highly complex reconciliation processes may need to anchor their team with leadership representation at both the director and manager levels, overseeing a team of multiple analysts. Smaller groups (e.g., fewer than 500 providers) with relatively standard reconciliation processes may effectively function with a manager and analyst team.

## Communication Channels

### **Impetus for Assessment**

In the absence of proper communication channels, health systems and medical groups are likely to battle inconsistencies in their compensation administration function. For instance, our client dealt with ineffective communication between its compensation administration team and other internal departments. This breakdown in communication was particularly apparent and troublesome when a provider left the organization. The human resources, payroll, and finance departments were often not aware of these departures and thus did not undertake the steps needed to properly end the employment. As a result, incorrect payments were made to providers who were no longer employed by the organization.

Creating strong communication channels, for both in-person and electronic transmission, and filling knowledge gaps created by staff turnover takes considerable time and effort, and any



lingering uncertainty increases the risk of errors in performance measurement and validation. The need for assessment is crucial.

### **High-Performing Characteristics**

Establishing effective communication avenues is essential to streamlining the provider payment process. When all department leaders who are involved in the provider compensation function regularly convene, it facilitates a consistent platform to discuss staffing and process updates within various departments and helps to ensure all necessary parties are aware of this important information. In addition, maintaining regular and timely communication with these department

administrators is paramount to ensure these stakeholders and their teams are able to deliver on their reporting and validation pieces of the data collection work stream.

Furthermore, for provider compensation teams that struggle to maintain communication across their team, designating a department-specific resource account for email messaging contributes to team awareness of work streams and an equitable delineation of work tasks. This funneling of department emails through a resource account helps to ensure messages are not missed when a team member is out of office. Creating these types of forums for open communication and discussion, as well as interdepartmental workflows, encourages cross-team camaraderie, designates clear assignment of duties, and establishes key working relationships.

## Governance

### Impetus for Assessment

Not only is provider compensation heavily regulated, but it is also one of the largest line items in an organization's budget. This duality necessitates a governing body to oversee and approve these transactions. Without this stewardship, an organization risks running afoul of fair market value and commercial reasonableness regulations, inviting financial strain and legal ramifications.

From an operational perspective, failure to inform and secure buy-in from department leaders involved in the provider compensation function can lead to workflow issues related to budgeting, data collection, payroll processing. Our client had recently undergone a series of mergers and acquisitions prior to our engagement, leading to transitory gaps in oversight. The absence of an established governing body to direct the





affairs of a provider compensation team can result in the organization entering into provider agreements that don't align with its overarching compensation principles.

### High-Performing Characteristics

Ensuring that the appropriate representatives are included in the deliberation process establishes the precedent that arrangements are entered into methodically and transparently. The formation of a multidisciplinary compensation committee is key to establishing effective governance over provider compensation activities. Typically, these committees comprise representatives from legal, finance, human resources, and operations departments along with physician leaders. This group is responsible for vetting all provider new hires, salary and bonus structures, ad hoc arrangements, and provider performance.

Bringing together this variety of perspectives when discussing compensation arrangements ensures that multiple stakeholders are committed to due diligence. With approval and guidance from the board of directors, an effective governing body articulates the organization's compensation philosophy and defines how fiscally responsible compensation will align with the group's overarching mission and strategic goals. This approach to compensation is typically documented in a written policy with the purpose of clearly outlining specialty-specific mechanics, definition of market, and administration guidelines.

## Process Improvement

### Impetus for Assessment

Establishing a culture of continuous process improvement is key to sustainable compensation practices. With the ever-changing nature of compensation plans and regulatory standards, organizations need to be actively identifying, targeting, and addressing areas of opportunity now more than ever. Just as providers often

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have quality metrics and program goals they are measuring and tracking, establishing internal compensation team metrics and goals is essential to directing performance improvement efforts so they are achievable.

### High-Performing Characteristics

Proactively identifying potential performance improvement opportunities is paramount for an effective compensation administration department. The performance improvement journey can begin simply by streamlining processes, eliminating waste, and seeking opportunities for automation. For example, many medical groups store obsolete provider information alongside current documents. A manageable performance improvement initiative can start with organizing these types of data repositories by relegating older files that are not frequently accessed to an archive folder. This will immediately enable quicker navigation and file selection.

On the other hand, tackling broader, department-wide work streams requires more up-front commitment and can be time intensive but can certainly yield long-lasting efficiencies. To illustrate, our client was aware that the operational changes they were experiencing would result in disparate and complex reconciliation procedures and enlisted our support for an assessment and redesign of the reconciliation system. Through an iterative process that included a current-state assessment and interviews with key stakeholders, we developed a complete suite of automated tools that helped to decrease the reconciliation team's necessary staffing mix from 9.0 FTEs to 7.0 FTEs, reduced reconciliation error rates by 75%, and improved reconciliation turnaround time by 50%.

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## PROCESS IMPROVEMENT RESULTS

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- 2 Decreased reconciliation error rates by 75%
- 3 Decreased reconciliation turnaround time by 50%

## A FINAL INCENTIVE FOR ASSESSMENT

Our client's experience demonstrates the numerous intricacies of the provider compensation function. Rarely is the process straightforward; it demands ongoing evaluation so that an organization can continue meeting the evolving needs of clinical providers and medical group operations.

While the prospect of dedicating resources to initiating and continuing these assessment

practices can seem daunting, the implications of failing to do so can be devastating. In the realm of provider compensation, errors can come with a million-dollar price tag. This loss not only impedes an organization's financial stability but erodes the trust of providers. From their perspective, the strain of managing personal finances when payments are incorrect or delayed can be a burden that distracts from patient care.

Given that provider compensation is a central component of all physician enterprises, regular appraisal of this function can propel an organization to achieve a sustainable and high-performing compensation administration infrastructure. By assessing the areas of opportunity within each of the six domains we discussed, health systems and medical groups, like our client, can position themselves to ensure their providers are paid correctly and on time.

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## the Authors



**JAMAAL CAMPBELL**

Principal

[jcampbell@ecgmc.com](mailto:jcampbell@ecgmc.com)



**SHANDA KUBATOV**

Senior Consultant

[skkubatov@ecgmc.com](mailto:skkubatov@ecgmc.com)



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