

**The Guide to**

**MANAGING**

**YOUR PROVIDER COMPENSATION  
FUNCTION INFRASTRUCTURE**

**Your Provider Compensation  
Function Infrastructure**

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## Contextualizing the Provider Compensation Function within Integrated Healthcare Systems

Increasingly, the provider compensation function is serving a critical role within integrated healthcare systems. The heightened relevancy and sophistication of the function is a manifestation of several related trends, including:

- The continued migration of physician practices away from private settings into employed or contractual-based arrangements.
- The transition of provider compensation plans away from pure productivity models toward more balanced payment approaches.
- Increased regulatory scrutiny and complexity associated with hospital-physician business transactions.

Despite these dynamics, healthcare organizations have struggled to understand the optimal configuration of their provider compensation function. This guide seeks to offer perspectives on the following key points:

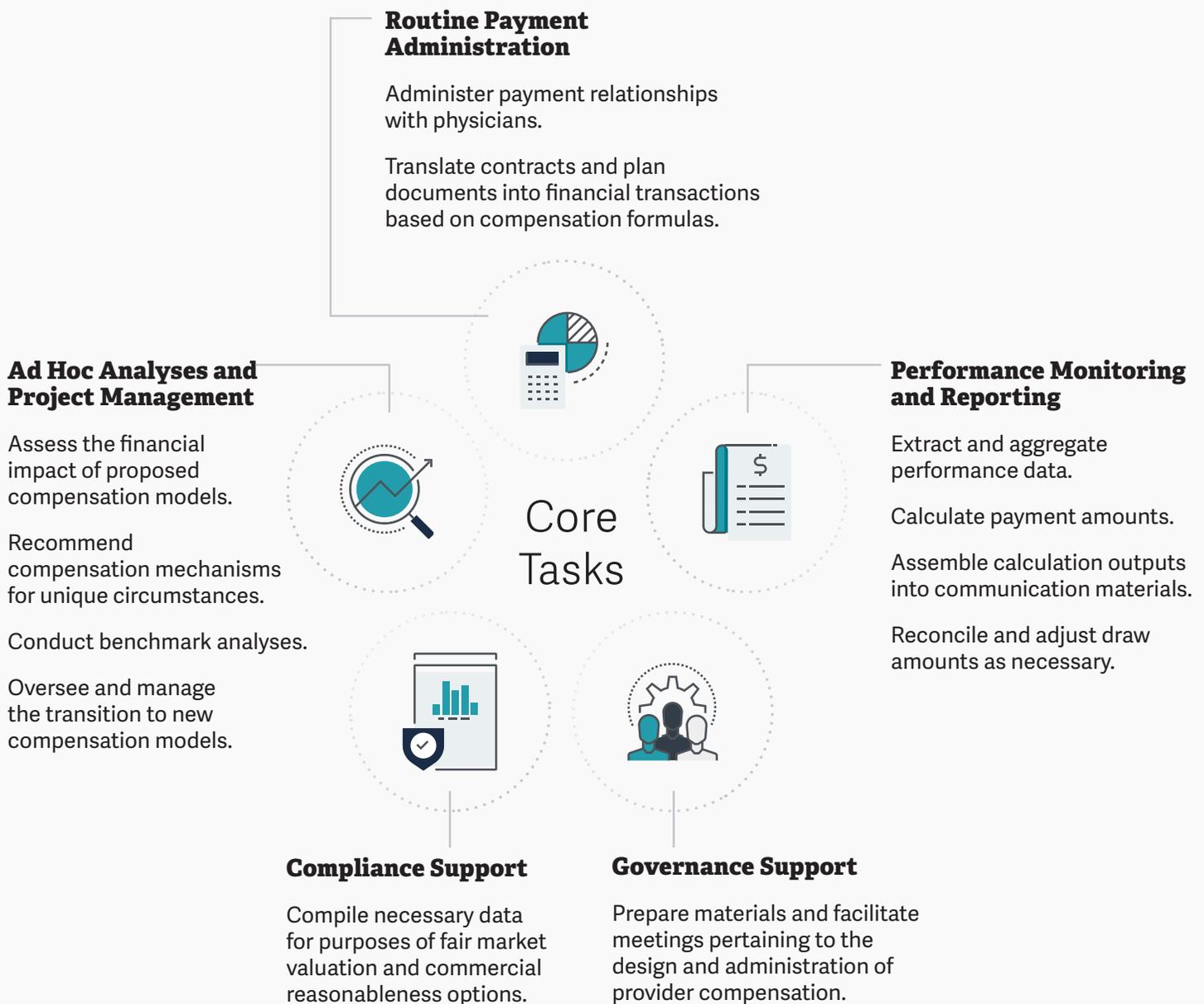
- The core tasks that fall within the provider compensation function
- The number and types of human capital necessary to support the function
- The organization of the function and its relationship with the broader institution



# The Five Core Tasks of the Provider Compensation Function

The provider compensation function is responsible for the development and administration of compensation strategies and plans designed to incentivize performance and align provider behavior with the organization's broader strategic goals. ECG has identified core tasks that generally fall within the provider compensation function.

**FIGURE 1: Provider Compensation Function Core Tasks**



## Routine Payment Administration

A fundamental responsibility of the provider compensation function is to administer existing payment relationships with physicians. You will need to translate documents into discrete financial transactions in accordance with payment formulas and frequency intervals. Make sure to include:

- Physician contracts,
- compensation plan documents,
- Other information sources

This task is most often managed using Microsoft Excel spreadsheets and/or Microsoft Access databases. Payment calculations are made by applying defined logic/formulas to performance data inputs. The successful execution of this task requires close coordination with the organization's payroll function.



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## Performance Monitoring and Reporting

Contemporary provider compensation plans are defined by key performance metrics. The specific number and types of metrics will vary by organization in accordance with their reporting infrastructure and the design of their compensation plan(s). Common extractable performance metrics, such as work RVUs, are often warehoused in organization-wide data repositories. Nonproductivity or quality-based metrics typically require significant manual efforts to aggregate and normalize. The role of the provider compensation function is to:

- Extract performance data (both productivity and nonproductivity) from relevant information systems.
- Aggregate the performance data into a workable format.
- Calculate associated payment amounts based on defined plan logic.
- Assemble the calculation outputs into useful communication materials (e.g., dashboards) to be shared with individual physicians and other relevant stakeholders.
- Calculate adjustments to draw payments based on performance data, as necessary.



## Governance Support

Large, integrated medical groups use one or more governing bodies to design, refine, and administer their provider compensation approaches. These bodies typically meet monthly, quarterly, or annually. The provider compensation function is often responsible for preparing robust meeting materials, facilitating discussion items, and executing relevant decision points.



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## Compliance Support

Given the current regulatory environment surrounding payments to physicians, it is necessary for organizations to seek formal opinions from third-party experts regarding the compliance of proposed arrangements and payment amounts with pertinent regulations. The provider compensation function is responsible for compiling relevant data inputs that are necessary to conduct fair market value and commercial reasonableness opinions.



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## Ad Hoc Analyses and Project Management

The provider compensation function is called upon to conduct a variety of ad hoc analyses and financial modeling. These involve close collaboration with an external partner. Examples of such analyses include:

- Assessing the financial impact of proposed compensation model changes.
- Recommending specific compensation rates/mechanisms for unique circumstances (excess call burden, special roles, practice integrations, etc.).
- Benchmarking provider performance against established industry benchmarks.
- Overseeing and managing the transition to new compensation models.

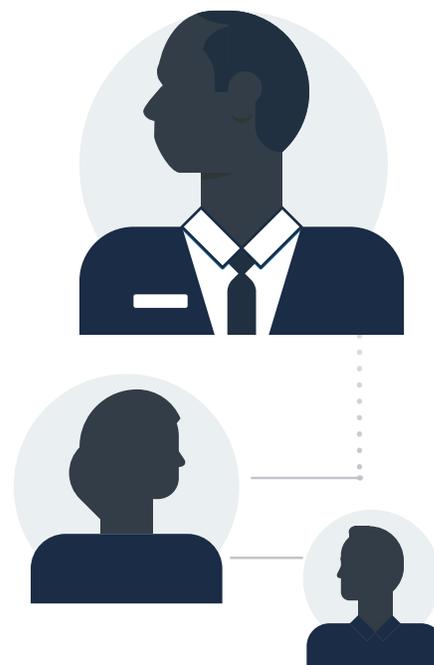


## Human Resource Support Levels

The number and types of human resource support levels for the provider compensation function are primarily driven by two key variables: organizational size and the complexity of compensation arrangements.

### Organizational Size (Number of Contracts)

There is a direct correlation between the number of provider contracts or payment arrangements and the required human resources necessary to support the compensation function. However, the magnitude of incremental resources required for larger numbers of contracts is greatly affected by the complexity of payment arrangements (described below). All other variables being equal, the management of 1,000 contracts does not necessarily translate to twice the required resources of a 500-contract organization. Using the below table you will be able to determine how the number of contracts managed translates into the appropriate number of FTEs.



**TABLE 1: Staffing Support for Compensation Function (Illustrative)**

Organization	Organizational Size (Number of Contracts Managed) <sup>1</sup>	Complexity of Arrangements	Total FTEs
Organization A	500	High ↑	5.0 FTEs
Organization B	600	Moderate →	3.3 FTEs (2.7 analysts)
Organization C	1,300	High ↑	12.0 FTEs (6.0 analysts)
Organization D	1,400	High ↑	9.0 FTEs (7.0 analysts)
Organization E	1,600	High ↑	10.0 FTEs (3.0 analysts)

<sup>1</sup> Represents the number of contracts managed by the core compensation team. For some organizations, midlevel providers and nonemployed physicians may not be included given that those arrangements are managed outside of the core compensation team.

## Complexity of Arrangements

The complexity of payment arrangements is a strong predictor of the human capital levels required to support the provider compensation function. The following variables are key contributors to complexity levels:

- The number of compensation plans and the variability or subjectivity between/within plans
- The complexity of mathematical formulas associated with each plan
- The manual effort required to extract performance data and translate it into a usable format
- The breadth of mission areas covered (i.e., clinical, administrative, research, teaching)
- The frequency of payment reconciliations (i.e., quarterly, semiannual, annual)

The following complexity assessment can help you make predications of the human resource levels required to support the provider compensation function.

**TABLE 2: Sample Complexity Assessment**

Variable	Score (Low/Moderate/High)	Explanation
The number of compensation plans and the variability or subjectivity between/within plans.	High ↑	Significant degrees of freedom are allowed within certain plan types.
The complexity of mathematical formulas associated with each plan.	Moderate →	The APP attribution approach and group model variability involve moderately complex calculation formulas.
The manual effort required to extract performance data and translate it into a usable format.	Moderate →	Nonproductivity performance data requires moderate to high levels of manual tracking.
The breadth of mission areas covered.	High ↑	Responsible for arrangements across all mission areas (clinical, administrative, research, and teaching).
The frequency of payment reconciliations.	Moderate →	Different payment cycles across various departments/ service lines increase complexity.

The translation of factors such as organizational size and the complexity of arrangements into human capital support levels is a nuanced process that typically involves participation from key leaders, at both the physician enterprise and the broader health system levels. ECG has created a conceptual matrix (figure 2) that may serve as a useful starting point. It is important to note that there are no “one size fits all” approaches and that there are many valid reasons why an organization may wish to deviate from the constructs presented in figure 2. Table 2 provides details about the model types referenced in figure 2. Table 3 provides details on staffing models that organizations have deployed to support their compensation function.



# Sample Organizational Charts

The organizational charts in figures 1, 2, and 3 are for illustrative purposes only. Allocation of responsibilities will depend on the needs and complexity of the organization. Based on our experience, most organizations structure the compensation function so that it reports to the chief financial officer. However, some organizations choose to have the function fall under the purview of the chief human resources officer. We recommend the former and advise that the compensation team develop a close working relationship with ancillary departments within human resources.

**FIGURE 1:**

**Model A1** (Small Organization/Low Complexity)

**Note:** Under this organizational structure, day-to-day plan administration and future modeling/special projects will fall under the purview of a manager and analyst.



**FIGURE 2:**

**Model B2** (Medium Organization/Moderate Complexity)

**Note:** Responsibilities may be allocated so that analyst two can flex between the two work streams as necessary

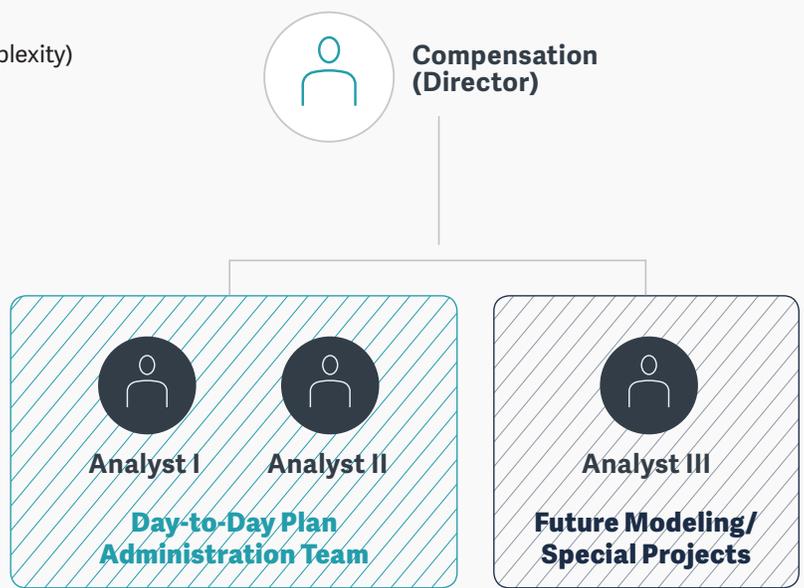
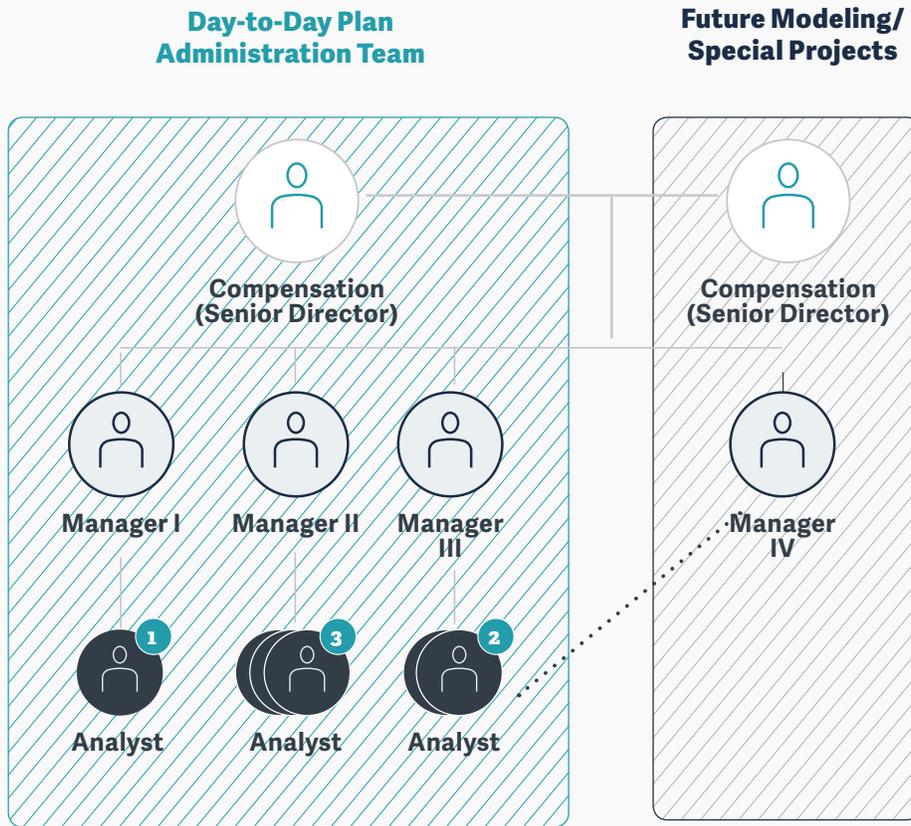


FIGURE 3:

Model  (Large Organization/High Complexity)

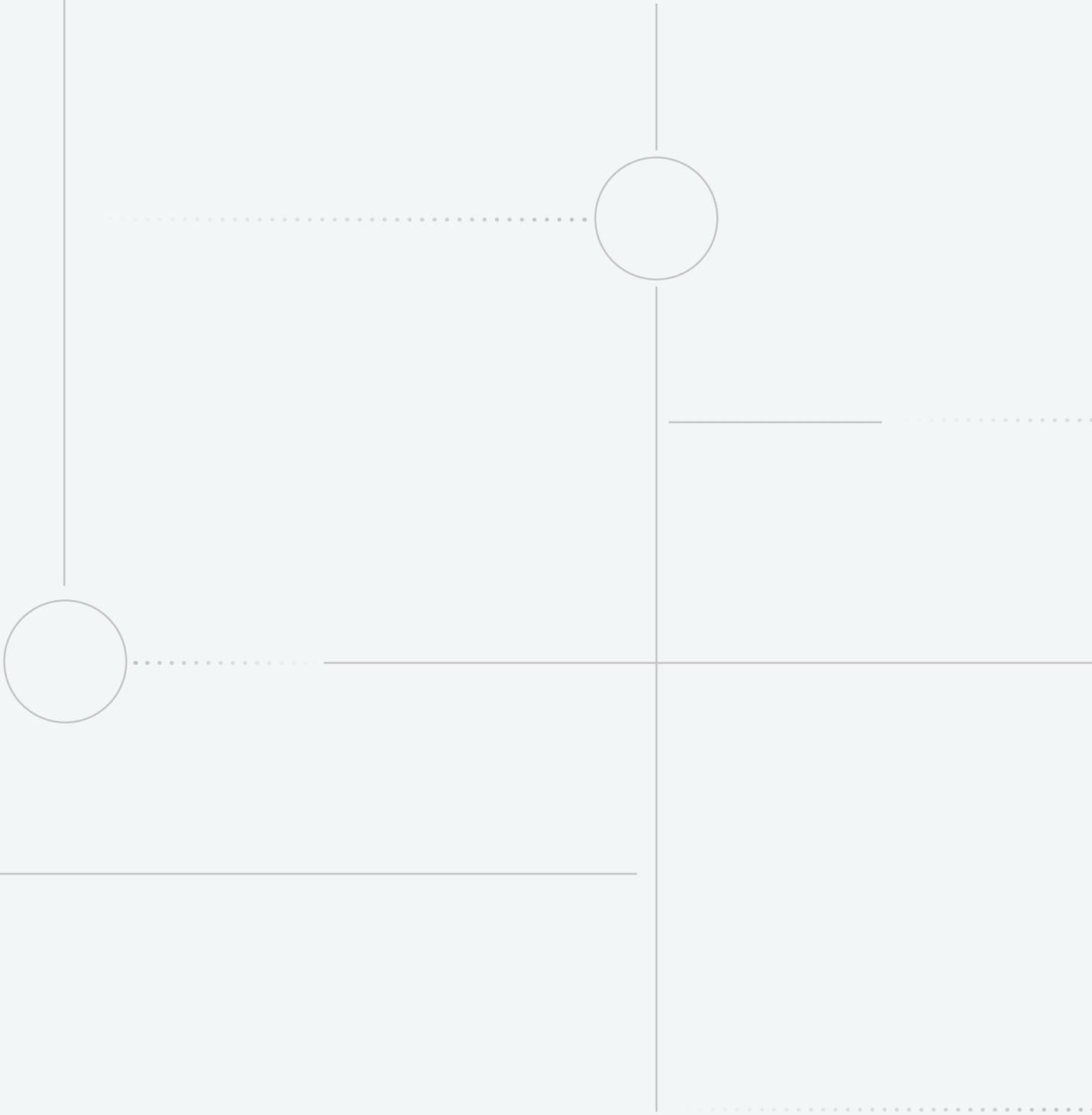


**Note:** A project coordinator/liason position may help the senior directors ensure that the two work streams are collaborating and communicating as necessary. Managers may also interface with the Accounting and Informatics teams for payroll and reporting support, respectively.

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