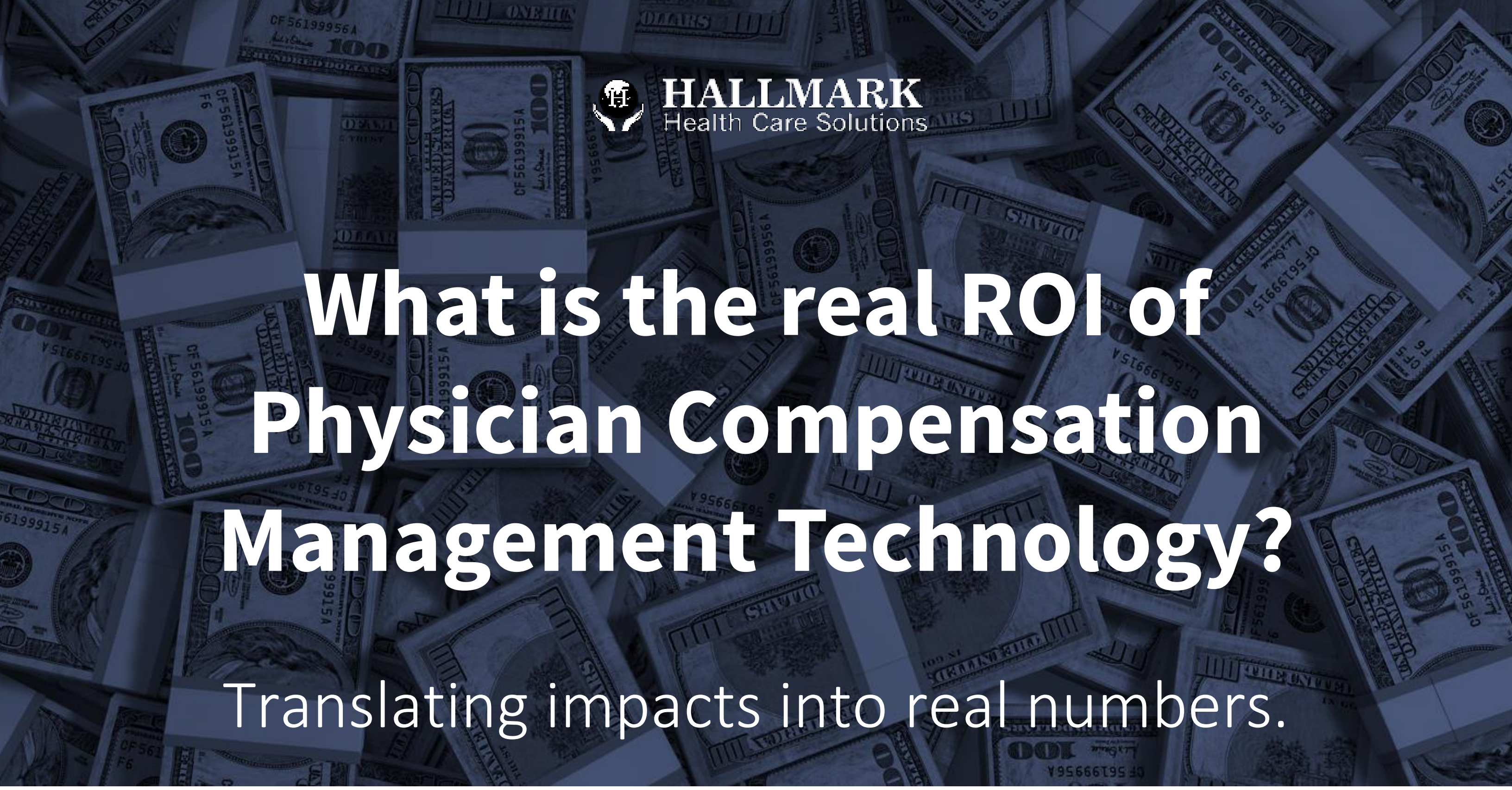

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What is the real ROI of Physician Compensation Management Technology?

Translating impacts into real numbers.

A physician compensation technology platform can have profound impacts on health system operations, physician relationships (including turnover and retention), and even patient experience, delivering return on investment (ROI) in areas that organizations don't typically consider technology as a means to mitigation. But how does that ROI translate into real returns, including quantifiable cost savings? Can such systems truly pay for themselves?

Answering these questions can pose a serious challenge. There are so many ways to peg ROI, especially when preferred performance indicators can differ by client based on geography, size, and organization type. Furthermore, ROIs are only as good as users successfully leveraging the system.

Yet, physician compensation technology has undeniably profound benefits that are well-defined, and it's straight-forward to translate operational and process improvements into actual dollars.

What is physician compensation software? This technology minimizes the manual processes of administering, measuring, and managing the performance of physician compensation plans. It automates the calculation and adjudication of physician compensation, provides real-time feedback to both administrators and physicians, and dramatically improves information transparency for all stakeholders.

In this paper, we assess the ways that organizations can "cost justify" such an investment in compensation management systems. We look at common challenges that medical groups experience and then detail the potential ROIs that they can reasonably expect from leveraging physician compensation technology.

1: Cost benefits from significantly **reducing error rates**.

Physician compensation is complex, making it ripe for error.

First, the variables that affect it can be legion – the number of patients they see, the quality by which they meet with each patient, bonuses based on a lack of readmissions, and on and on. There are a lot of moving parts in a provider's contract, which will contain all of the specific requirements. Worse, it's entirely possible that no two contracts in an organization will be exactly the same.

Then, the contract may not be readily available to the people calculating and processing the payment. The lack of connection between the contract's discrete pay element level data, and the engine by which it's calculated, is wrought with opportunity for error.

That's because that "engine" is usually just Microsoft Excel or some other spreadsheet or database program. Spreadsheets are notorious for inaccuracies, which most organizations just take for granted as a cost of doing business. Ninety percent of organizations use Excel to manage compensation, according to a WorldatWork/Deloitte study,[i] but as many as 94% of spreadsheets contains errors, with error rates ranging between 1.2% and 2.5%.[ii] A Dartmouth researcher found spreadsheet errors with cost impacts as high as $110 million. Indeed, it doesn't take much for major discrepancies to creep in. As Sae Evans, a CPA with accounting and HR advisory group Warren Averett, told *Birmingham Medical News*, "When it comes to billing, little oversights can make a huge difference over time and can significantly impact physician compensation."[iii]

Altogether, manual intervention, disconnected processes, and disparate systems can often lead to incorrect information and miscalculations. Provider arrangements are intricate, requiring organizations to track, maintain and issue sign-on bonuses, income guarantees, relocation bonuses, as well as the overall RVU calculation and payments. Managing all aspects in an accurate and timely manner is a major challenge.

Where does compensation technology fit in?

Compensation management technology will both store the provider's contract and complete any calculations, referencing the discrete pay element-level data listed within the agreement. That way, the technology can maximize the accuracy of each group's calculations and automate compensation activity.

Further, it becomes impossible for Dr. Smith to be paid $2,500, when under the terms of her agreement she should be paid $2,600. Faced with such an error, the system would either (1) disallow the entry until appropriate approval or (2) generate an automated alert or discrepancy report.

Altogether, automated triggers and alerts for specific payment types, amounts, thresholds, frequency, and adjudication of calculation against the payroll system should produce a reduction in payroll errors by a minimum of 2%. Given that the average physician's annual starting salary is $231,000, that results in a four-digit ROI, as described in Table 1 below.

Payment Accuracy Metric	Annual Cost
Organizational Physician Spend for 400 physicians (Avg. Annual Comp Per Provider of $231,00)	$92,400,000
2% error rate in compensation	$1,848,000
Compensation technology exposes and adjudicates payroll errors	**$1,848,000**
Est. annual cost of compensation technology for a 400-provider group	$(120,000)
Annual Net Savings	$1,728,000
Annual ROI of compensation system	**1,440%**

Table 1

2: Cost benefits from **reducing physician turnover** and **increasing retention**.

Hard costs of turnover
Recruitment
Executive search firm fees around \$20k to \$25k (10% of average starting salary, which is [\$231,000] for a family physician).
Onboarding
Costs for onboarding, training, credentials, etc. can go as high as \$300,000 per provider.
Lost Revenue
Per *Beckers Hospital Review*, the average primary care physician "generates about \$1.4 million in revenue for his or her affiliated hospital" annually.

Soft costs of turnover
Patient Interactions
With fewer providers to take on additional patients, the quality of patient interactions can erode.
Patient Outcomes
If remaining providers lack the specific skillset or expertise of departing doctors, the quality of patient outcomes can also suffer.
Physician Dissatisfaction
Remaining providers facing a heavier workload may experience increased dissatisfaction and potential burnout, which is itself a \$17 billion problem.

Turnover is a critical problem in health care.

The median turnover for care providers in adult groups is 8%, with costs that range anywhere from hundreds of thousands of dollars to over a million dollars per provider (see sidebar).[iv] That means, even at conservative figures, a medical group with a few hundred providers likely faces annual turnover costs in the millions (see Table 2 on the next page for a cost and ROI calculation).

Turnover is a multifaceted problem, one often rooted in physician dissatisfaction with compensation protocols. One of the most common problems: a lack of transparency that fosters a "culture of distrust" between providers and administrators.

For groups with no single compensation solution, facing costs as significant as these, even incremental improvements can yield massive cost savings.

Where does compensation technology fit in?

Single-source compensation management technology reduces distrust. It brings clarity, manages expectations, and acts as the pathway for organization-wide standardization in compensation.

In short, it eliminates the lack of transparency and the causes of irregularities in physician compensation that can contribute to physician frustration and the culture of distrust.

That distrust and frustration, in turn, is what makes turnover more likely and more frequent. Whether providers feel they are not being compensated (1) fairly, as agreed upon, or (2) under the circumstances they expected, the situation comes down to a basic but perennial challenge: communication and transparency.

Those are problems all stakeholders would like to eliminate. Health systems *want* to communicate clearly and accurately just as much as physicians do. They simply don't have the capability to do so without a single-source technology solution in place. The good news is, once such a system is put into place, it can eliminate the communication issues that lead to provider unhappiness and increase turnover. A technology solution can provide a single source of truth where all KPIs can reside and be reported on and communicated out to everybody in the group, providing total clarity and transparency.

How expensive is turnover?

As the sidebar above shows, the cost of turnover can be staggering, easily exceeding seven figures *per provider*.

That's because it's not just direct costs associated with replacing lost staff members; since empty seats produce no income for the organization, the costs include lost revenue. Further, because turnover strains other resources and providers, it can have deleterious effects on patients. In some cases, it can contribute to a culture of physician burnout and increased churn among patients.

In short, turnover is, indeed, a serious problem.

Physician Turnover Metric	Annual Cost
Average cost of physician turnover per physician	$600,000
400 providers, with industry standard 8% annual turnover	32 providers
Annual spend for physician turnover	$19,200,000
5% reduction in turnover expense	**$960,000**
Est. cost of compensation technology	$(120,000)
Annual Net Savings	$824,000
Annual ROI of compensation system	**605%**

Table 2

What happens when a compensation solution is deployed?

Given the costs described above, how does such technology generate actual return on investment? The impact has multiple layers.

First, while turnover has many contributing factors, culture and pay are two of the most critical.

Indeed, a mismatch between physician expectation and organizational culture is one of the most commonly acknowledged causes behind physician turnover. Transparency of compensation and compensation data, thus, can improve overall administration/provider communication and provide a foundation for a culture of trust. In turn, physician satisfaction and relationships can improve.

The table above demonstrates the expected cost savings for a medical group with just over 400 physicians, with a conservative estimate of 5% reduction in total turnover expense.[v]

3: Cost benefits from significantly **reducing manual labor**.

One health system recouped 36,051 labor hours per year, thanks to process automation.

Turnover is not the only avenue of cost savings born from using provider compensation solutions. Process automation also reduces reliance on costly manual labor, providing efficiency gains against the direct cost of compensation analysts.

These savings can be significant; the University of Missouri Health system integrated its medical devices after observing staff used inefficient data entry processes. As a result, they realized a total time savings of 36,051 hours per year. The same principle applies to any form of process automation that can reduce the manual labor required of administrators. Whatever labor compensation management requires in your organization – in our experience, approximately one full-time equivalent employee (FTE) is required for every 100 physicians, on average – you can reduce the man-hours required and redeploy valuable staff members to more productive initiatives.

4: **Other forms of ROI** derived from compensation management technology.

Compliance and regulatory peace of mind

Non-compliance with appropriate benchmarks and other statutory requirements can bring severe – and unpredictable – penalties. In one case, a 45-hospital health system was forced to pay over $100 million over improper physician compensation.[vi] Consequently, a tool that yields 100% compliance in your compensation administration can bring profound peace of mind. That's particularly true if it eliminates an unhealthy reliance on a single or small number of workers responsible for these tasks, while retaining the ability to communicate and catch errors faster.

Easy and straightforward auditability

When you use Excel, data is spread across many disparate systems. In fact, 41% of healthcare orgs indicate they must use two or three systems to gain a complete view of compensation.[vii] Technology that integrates these systems provides full auditability, accountability, and tracking capabilities. In turn, this can improve provider satisfaction and retention, while giving the organization clarity into the effectiveness of their compensation models.

Building a culture of trust

Physicians often have to wait for weeks after payments to understand why they were paid what they were paid. Plus, traditional payroll solutions often have only a limited number of pay codes that can be configured, so multiple critical elements of a provider's compensation must be combined into a single code when reporting. This prevents the provider from truly understanding their compensation and starts eroding trust. Compensation is complicated enough, so providers should not have to struggle with understanding why they received the payment they did. Many physicians also have pre-existing concerns about their pay (one in five say they "work too many hours for too little pay") that this lack of transparency worsens.[viii] A system that alleviates concerns about payment fairness and accuracy, yielding clear data and explanations more easily, can contribute to a newfound culture of trust.

Standardization in compensation

The culture of hospital physician hiring breeds variation, which creates significant management challenges. Today, if there are 500 providers, there are 500 different variations of each arrangement. Technology provides single-source access with easier and more reliable tracking of arrangements and their variation. More than that, it yields the ability to model various alternate scenarios, creating a new opportunity to standardize. As discussed in the sidebar below, this is a major way in which hospitals who are losing money on providers can begin to return to profitability on their investments.

Are you losing money on your providers?

Data from the Medical Group Management Association (MGMA) indicates that hospitals' multi-specialty physician groups are losing almost $196,000 per employed physician, generating "nine-figure" operating losses annually. The core of the problem is that "compensation plus practice expenses and over-head are exceeding their collections, often by far." They also indicate that a lack of standardization, effective scheduling systems, high error rates in coding, mismatched compensation and incentives all play a role as well. Technology can help remediate these issues, generating real ROI.

The **ROI is real** for physician compensation management technology.

The returns that your organization will realize from any technology implementation will be unique to you. It depends entirely on your goals and which KPIs you monitor. Your needs and situation will drive the benefits you experience.

But as you eliminate whatever pain points your organization may be facing – like a lack of transparency in information, communication problems with physicians, insufficient automation, etc. – you can begin to establish a clear ROI. By reducing turnover, manual labor, and errors, process automation technology can yield dramatic benefits. And those returns don't even speak to the intangible gains that can be realized, including the ability to get in front of challenges that have historically left hospitals and medical groups in a reactive, defensive posture. In other words, beyond immediate savings, they empower organizations to prevent staffing, compliance, and operational problems that would tax personnel and resources further.

Ultimately, even if your unique situation causes the calculations to differ from those presented in this paper – which are all based on generalized industry average data – one thing should be clear by now: the ROI of a physician compensation solution is both multifaceted and multilayered. It comes from many different directions; and, given the high costs involved, even incremental improvements can yield clearly measurable rewards.

About Hallmark Healthcare Solutions

Hallmark Healthcare Solutions is a global healthcare solution and IT firm with offices located in New Jersey, New York, Michigan, and India. Hallmark offers a unique approach inclusive of both strategy and technology to achieve the desired outcome. The technology component positions organizations to use real-time data for improved decision making with regard to leveraging human capital. Over the years, Hallmark has helped organizations optimize and save millions in labor expenses, improve their efficiency, and achieve fiscal responsibility through best-in-class software and strategic workforce solutions. Visit http://www.hallmarkhealthcareit.com for more.

About the Author

Dave Butcher, VP, Strategic Solutions

With 19 years of client acquisition and consulting experience in healthcare and finance, Dave is strategically well-versed in bench-marking processes, sales system development, and software project roll-outs while upholding a "seek first to understand" methodology for prospect/client interaction and provide appropriate solutions and services to meet need.

Contact Us

www.hallmarkhealthcareit.com
info@hallmarkhealthcareit.com

200 Motor Parkway, Suite D-26
Hauppauge, NY 11788
(856) 231 5340

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