

Determining Length of Term for Physician Employment

Karin Chernoff Kaplan, Director, Veralon

Health systems continue to employ increasing numbers of physicians. By maintaining a stable pool of physicians, they hope to be able to respond to cost-of-care and quality initiatives under new payment models.

We are often asked, “What is the ideal length of the employment term?” If there is a competitive environment for recruiting physicians and acquiring new practices, hospital employers need to be aware of what other hospitals in the market are offering. Physician decisions about where they want to work are, of course, largely based on competitive compensation and intangibles such as culture and trust, but establishing fair and reasonable terms is another important consideration.



What physicians want depends on their situation:

- Senior physicians may not want a long-term agreement.
- Junior physicians may want long-term job security, or a shorter term to preserve the option to pursue other alternatives.
- Midcareer physicians typically want significant guarantees in term and compensation, as it is difficult for them to “start over.”

Hospital employers want to protect their investment and maintain continuity of patient care. At the same time, they need to monitor the financial performance of the physician enterprise and its impact on the hospital, and be able to make adjustments.

Although the employment term is certainly relevant to both employer and employee, provisions for termination and for compensation adjustment are equally significant.

TERMINATION PROVISIONS

A provision for termination without cause allows an employer to terminate an employee at any time, without reason. A two- or three-year employment agreement that has a

provision allowing the employer to terminate without cause on 30, 60, or 90 days' notice is, in reality, only a 30-, 60-, or 90-day contract.

Without-cause termination can be daunting for physicians. However, it can offer protection for both parties. In the absence of a without-cause provision, each party must abide by the terms of the agreement for the entire term unless able to find cause for termination.

Lengthening the notification period is one way to mitigate the anxiety around a without-cause provision.

Usually this clause is structured so that each party has the right to terminate without cause with the same notice periods. Although there is a risk that the agreement may be terminated at any time, when both parties to the arrangement are largely satisfied, that risk is generally low.

For any agreement longer than two years, there should be provision for compensation adjustments.

COMPENSATION ADJUSTMENTS

We often see long-term compensation agreements with no provisions for adjusting to changing circumstances. For any agreement longer than two years, there should be provision for compensation adjustments. Such a provision protects the hospital against such changes as:

- Yearly changes in work relative value unit (WRVU) values
- Uncertainties surrounding reimbursement
- Impacts of population health management that may potentially change the required mix or number of physicians
- Changing economics of the organization
- Adjustments may be structured to allow the employer to:
 - Reset guaranteed base compensation or conversion factors—i.e., dollars per WRVU
 - Change performance metrics
 - Modify threshold WRVUs

Building these adjustment provisions into compensation agreements can help hospitals avoid the trap of managing their physician enterprise based on yesterday's economics. ●

Article reprinted from the hfm Healthcare Finance Blog, April 2014.



© 2016 Veralon Partners Inc. All rights reserved.

877.676.3600

www.veralon.com

info@veralon.com