



# **PULSE CHECK ON YOUR PHYSICIAN SPEND**

THE TOP FINANCIAL PRIORITY FOR  
HOSPITAL EXECUTIVES



# INTRO

Over the last few decades, hospital executives have implemented aggressive physician alignment initiatives — both employing and contracting with independent physicians — to grow their businesses and elevate their competitive positions in the market. Although these initiatives were designed to strengthen relationships between hospitals and their physician partners, they also resulted in the emergence of vast physician networks governed by complex contractual agreements.

As complexity increases, hospitals find it more difficult to manage their physician contracts and ensure appropriate compensation to physicians. Further, hospital executives have limited visibility into the money allocated toward physician contracts, also known as “physician spend,” which is a crucial financial metric required to evaluate the effectiveness of a hospital’s physician alignment strategy. With physician spend representing approximately 5-10% of the average hospital’s net patient revenue and projected to grow at 5.4% annually, visibility into physician spend is an imperative financial goal for hospital executives.

## Physician Spend 101

Physician spend represents every dollar a hospital spends on their contracts or arrangements with their physician partners – employed and independent. It includes all physician compensation, bonuses, value-based incentives, productivity payments, and payments for hospital-based professional services, such as emergency department (ED) coverage and anesthesia. Physician spend also includes compensation for administrative work, such as: medical directorships, co-management, on-call coverage, research and training.



## Did you know...

An average community hospital spends nearly \$20,000,000 on physician spend annually, and employed physician payroll is usually only 50% of this spend. You can calculate a rough estimate of your hospital's entire physician spend with the following formula:



**Investor-owned Hospital Physician Spend =**  
Physician payroll costs x 1.2  
(120% of employment number)

**Not-for-Profit Hospital Physician Spend =**  
Physician payroll costs x .8.  
(80% of the employment number)

# Why Is Measuring and Managing Physician Spend So Difficult?

Measuring physician spend requires a hospital to aggregate a record of every payment made to every physician partner based on the contract they have in place with that doctor. However, this information is typically siloed and scattered throughout an organization with no single person, department or system within a hospital managing all of it. Consequently, to get a full and dashboard-like picture of physician spend, a hospital executive may need to cobble together hundreds of general ledger line items and other documents.



## Complex and Disparate Contracts

Physician contracts are often complicated and complex. Within a single hospital, there can be hundreds of contract variations, each with unique attributes and calculation requirements. Further, the language in these contracts is difficult to interpret by non-legal professionals and problematic to effectuate due to vague contract parameters.



## Lack of Visibility Across the Entire Process

In addition to sitting across multiple departments, the processes required to facilitate payments to physicians permeates every layer of the organizational chart. Executive decision makers have little visibility into nuanced, but corresponding operational tasks, such as approval processes for physician time logs.



## Increasing Regularity and Compliance Burdens

To comply with Stark Law and Anti-Kickback regulations, both hospital administrators and physicians are tasked with a growing burden of administrative tasks, responsibilities and paperwork.



## Did you know...?

Processing a single physician payment can require at least 18 manual touchpoints and weeks of shuffling documentation and data between departments.

These processes and workflow challenges not only make it difficult to understand and improve physician spend, but they constrain resources, increase errors, heighten regulatory exposure, slow physician payments and disgruntle both hospital administrators and physicians.



## Why Now is The Time To Act

Most laws that have an impact on hospital-physician relationships, namely Stark Law and the Anti-Kickback Statute, were implemented in the late 80's; however, with increasingly complex physician alignment strategies, these laws have more substantive implications for organizations today than when they were originally enacted. In fact, some hospitals have been forced to pay hundreds of millions of dollars in fines stemming from related violations. At the same time, the hospital industry faces a number of headwinds and tailwinds that have pushed their strategic relationships with physician partners into the spotlight of both board rooms and court rooms:



- Hospitals are facing **razor thin margins**, as
- revenue growth has declined from 6.1% in 2017 to 4.6% in 2018.<sup>1</sup>



- Provider shortages are rampant and
- **physician burnout** is on the rise.<sup>2</sup>



- Acquisitions of physician practices by hospitals
- has fundamentally shifted hospital and provider
- relationships with **more than 40%** of physicians
- now employed by hospital systems.<sup>3</sup>



- Administrative service contract
- expenditures for hospitals are **up by 30%**
- since 2018.<sup>4</sup>

All of these factors exacerbate the difficulties in creating and evaluating physician alignment strategies, including physician spend management. Without a clear focus on creating streamlined processes for managing physician spend — and more specifically, how an organization pays their doctors based on their individual contract terms — the administrative burden and compliance risks will increase and physician satisfaction will decline. Now is the time to implement new policies and programs that help streamline physician spend.

## Gain Insight Into Your Physician Spend

While there are ad hoc analyses hospital executives can conduct to better understand their physician spend; ongoing and sustainable visibility into physician spend requires a strong operational foundation across all physician contracting and payment processes. The steps below not only help you lay a strong foundation for understanding your physician spend, but will help you improve physician alignment:



### Create better ownership and alignment

It is imperative to recognize and empower the individuals with day-to-day physician contract and payment operations knowledge before any physician spend management initiative can begin.

First, identify the employees within your organization that are involved in managing physician contracts. Do you have a repository or contract management system, and who uploads contracts into that system? Who manages physician time logs? Who processes physician payments? All of these people are important to loop in before implementing new policies and systems. Ideally this will include stakeholders from various departments, such as Physician Leadership, Medical Affairs, Finance, Legal and Compliance. Once you have the list of these individuals, form a committee or internal team that will be responsible for championing initiatives to improve visibility into physician spend.



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## Gain visibility into current processes and pain points

Leverage your newly formed committee to hold a working session where you map physician contracting and payment processes as they exist today. Take time to understand the workflows and pain points of each stakeholder.

It is important to remember that everyone will come to the table with different pain points, so be sure to probe for that detail. Understanding these unique perspectives will help you see existing strengths and weaknesses regarding measuring and managing physician spend, and what needs to change.

### Common pain points in physician contracts and payments



#### FINANCE

“I’m frustrated that I have to deal with mountains of excel spreadsheets, check requests and the rework required to execute payroll and accounts payable processes.”



#### CEOs

“I’m concerned about increasing compliance violations stemming from our physician contracts, which could result in millions of dollars for my organization if we’re not diligent about this.”



#### PHYSICIANS

“I’m constantly stressed by the amount of work that goes into documenting and turning in manual time sheets to comply with regulations.”



#### COMPLIANCE

“Poor time log and payment documentation prevent me from conducting effective and timely audits – putting my organization at risk.”



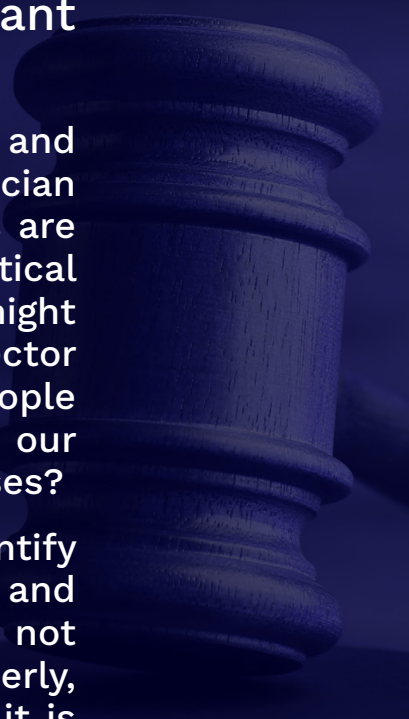
#### LEGAL

“I’m overburdened by the lack of standardization in legal agreements and concerned about the potential hornet’s nest of issues waiting to happen due to vague terms in our physician contracts.”

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## Aggregate your physician contracts

Aggregating physician contracts is often the most time-consuming and undervalued task when implementing physician spend initiatives. If your hospital has a contract management system, hopefully these agreements are all housed in this system. However, many hospitals find that these records are incomplete. Consequently, a detailed analysis of accounts payable and payroll data is required to get a holistic view of all contractual payments made to physicians and then a manual effort is required to hunt down missing contracts and addendums.



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## Ensure your contracts are compliant and actionable

Conduct a 360-degree review with legal and compliance teams of your existing physician contracts. Identify where physician contracts are vague or key information is missing. Ask critical questions, such as: What payment issues might expose our organization to an Office of Inspector General (OIG) investigation? Who are the people approving time logs and payments within our organization, and how sound are their processes?

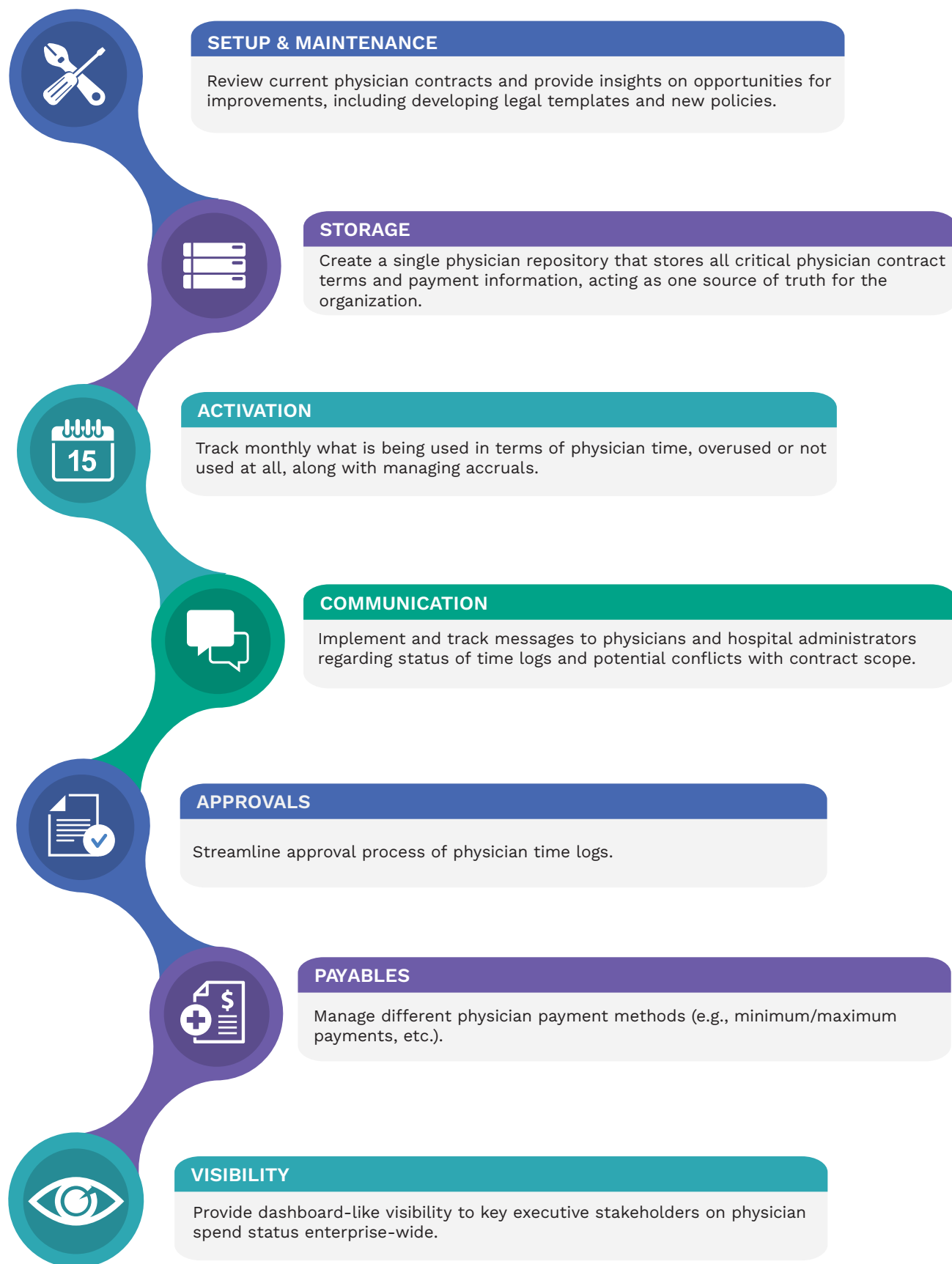
Work with legal and compliance groups to identify where new policy might tighten contracts and develop templates that guide your team in not only setting up a new physician contract properly, but also maintaining it over time – ensuring it is always within fair market value (FMV), Stark Law, etc.

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## Streamline physician payment processes

It's critical to put systems and processes in place to help streamline manual processes, such as time logs, and create visibility throughout the entire process. Hospitals who have achieved clear visibility into their physician spend often leverage third-party expertise and solutions to supplement their internal teams. This helps them more quickly and cost effectively get organized, implement initiatives and ensure processes are properly maintained going forward. There are technology and service vendors that can help with every stage of the physician spend process and specifically the following key areas:

# 7 Steps to Streamlining Physician Payments



# Why Hospital Executives Feel It's Imperative to Manage Physician Spend



PAM HESS, CPA  
CHIEF FINANCIAL OFFICER  
SAINT THOMAS MIDTOWN  
HOSPITAL AND SAINT  
THOMAS WEST HOSPITAL  
(ASCENSION)

Having everything related to physician contracts in one place and automating the math behind physician spend is not only fiscally responsible but it gives compliance and legal teams some much needed peace of mind.

Understanding physician spend helped us identify areas where we were paying too much. Specifically, it allowed us to do a better job checking on-call agreement rates, how groups were billing us, and how we were paying (and sometimes overpaying!) doctors.



TERRY METZGER,  
SYSTEM CHIEF FINANCIAL  
OFFICER,  
ST. VINCENT HEALTH  
(ASCENSION)



## Conclusion

Hospitals can no longer afford to delay gaining visibility into physician spend. Doing so leaves hospital executives with a glaring blind spot and can lead to compliance violations, costly settlements, increased administrative burdens, loss in revenue and diminished physician relationships. By taking a closer look at internal processes and putting structure in place to measure and manage physician spend, hospitals can stay ahead of the game and set themselves apart in 2020 and beyond.

Ready to evaluate the “health” of your hospital’s physician spend? Contact Ludi at [info@ludiinc.com](mailto:info@ludiinc.com).

## Sources

[1] “National Health Expenditure Projections, 2018–27: Economic And Demographic Trends Drive Spending And Enrollment Growth.” Health Affairs, February 20, 2019.

[2] “After Increasing for Several Years, Physician Burnout Shows Modest Decline.” AJMC, February 22, 2019.

[3] “Report: Employed Physicians More Dissatisfied than Independent Doctors.” Geneia, LLC, 2018.

[4] “2019 Benchmark Report.” MD Ranger, 2019.

# About Ludi



Ludi, Inc. is a healthcare technology company making it easier for hospitals to pay physicians. Our award-winning flagship product DocTime® Suite automates the payment process for any type of physician arrangement, from a signed contract to payment. Since 2012, our team of physician advocates has helped hundreds of hospitals and health systems nationwide save billions of dollars, eliminate manual operational processes and stay within key compliance regulations.

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