



COVID-19 impact on physician compensation



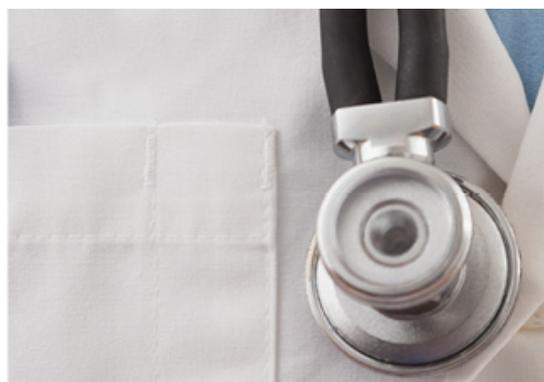
COVID-19 has created significant disruption to all aspects of the U.S. health system and the financial impact on hospitals and other providers has been staggering. Health systems in particular are facing numerous financial and operational challenges, including volume recoverability and cost-cutting measures. Integral to both these efforts is physician engagement and compensation. This article will highlight the impacts of COVID-19 and the factors to consider when addressing changes to physician compensation, including the opportunity to re-design and standardize compensation plans and a potential shift to additional value-based contracting, all with a lens on fair market value compliance.

Since the arrival of the COVID-19 crisis, many hospitals and health systems have experienced double-digit declines in revenue and profitability as elective surgical and other procedures performed in both inpatient and outpatient settings were delayed to create capacity for high volumes of COVID-19 patients, where reimbursement is largely from Medicare and Medicaid or at lower commercial rates than elective procedures. A recent study by Kaufman Hall in March reported, based on a survey of 800 hospitals, that Q1 2020 operating margins were down 150 percent year-over-year while occupancy rates declined 53 percent. Some major health systems such as Tenet, HCA, and CHS have recently pulled 2020 guidance due to the impact of the disruption.

The current challenge left health systems scrambling to create capacity to fulfill the high volume of COVID-19 patients, while simultaneously implementing cost-cutting measures to mitigate the financial impact. Part of the former included measures such as repurposing ambulatory surgery centers (ASCs) and other specialty outpatient centers into inpatient intensive care units (ICUs) to treat spillover COVID-19 volume from inpatient hospitals. A major part of the latter has been employee reduction by way of either layoffs or two- to four-month furloughs, particularly relating to those employees not directly involved in treating COVID-19 patients in the ICU.

Ramifications for physicians

Physicians have not been immune to these measures. Many surgeons and physicians that lost significant patient volume due to the postponement of elective procedures have experienced furloughs or reductions in salary. Primary care physicians were asked to join the COVID-19 front lines and forgo their nonurgent, preventive visits, which is their primary source of collections.



Physicians that were up for partner promotion in several independent medical groups have seen their verbal commitments rescinded due to reduction in earnings and newly hired physicians are seeing delayed start dates.

Many health systems attempted to mitigate the hardship on physicians by implementing some of the following strategies:

	Setting up telehealth platforms for noninvasive procedures to allow physicians to practice social distancing while still serving a percentage of their patient volume
	Redeploying lower utilized physicians to either the ICU or other applicable roles to avoid furloughs and layoffs.
	Instituting a temporary adjustment to the compensation structure such as offering a lower guaranteed base salary versus a production based salary tied to work relative value units (RVUs).

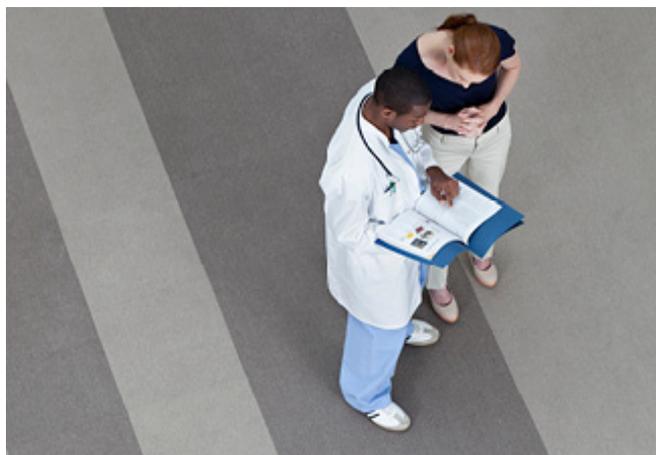
Additionally, the Centers for Medicare & Medicaid Services (“CMS”) issued blanket waivers of sanctions under the Stark Law to provide health systems the flexibility to respond to clinical and financial pressures during COVID-19, lifting some of the physician contracting regulations to prioritize clinical response to the crisis. However, despite the breadth of these measures, many health systems were still forced to send physicians home. In some cases, furloughed physicians were promised full salary for a month or two and subsequently encouraged to use remaining accrued vacation time. In other instances, furloughs were avoided by enforcing across-the-board pay cuts. Some health systems have instituted temporary pay cuts with the intention to return to previous salary levels at a later date. This can be done through an incremental true-up on a rolling quarter basis (i.e., increasing salary over multiple quarters until historical salary is reached) or based on gradual productivity increases to targeted survey data percentiles (e.g., as the physician gradually returns to historic levels of productivity, the physician’s salary is increased accordingly). In some cases, physicians may be facing a permanent decrease in salary, depending on the contractual terms between the health system and the physician.

In addition to salary cuts, incentive bonuses and 401k matching were largely eliminated. Some examples include the following:

	<p>Atlantic City, N.J.-based AtlantiCare has furloughed some of its workers due to the COVID-19 pandemic, according to NJ.com. In addition, the system has asked staff members, including nurses and physicians, to voluntarily take a furlough or a reduction in their hours, according to Press of Atlantic City. The staffing changes began taking place March 30. The changes are considered temporary, and affected employees will keep their benefits.¹</p>
	<p>Massachusetts-based Atrius Health placed many staffers on a one-month furlough, while simultaneously withholding a percentage of working physicians' paychecks, saying they plan to pay them back at a later date.²</p>
	<p>Alteon Health, which employs about 1,700 emergency medicine doctors and other physicians who staff hospital emergency rooms across the country, announced it would suspend paid time off, matching contributions to employees' 401(k) retirement accounts, and discretionary bonuses in response to the pandemic.³</p>

Future outlook for physician compensation

Health systems and physicians have both experienced short-term financial hardships due to COVID-19. Certain parts of the country have begun to "flatten the curve" and certain state governors have suggested that elective procedures can now gradually resume in their states once adequate testing procedures are in place. We anticipate some higher acuity physicians may engage in discussions with health systems to be reimbursed for lost pay during this time. Some health systems may engage in these discussions to negate physician turnover and related disruption. Others will be seeking to reduce costs after the pandemic subsides and may be less willing to explore this option.



In the past, disruptive events have served as a beacon of change in the healthcare industry, improving upon or creating new best practices. In the near term, we anticipate some physician enterprises will work to renegotiate compensation agreements with their physicians to account for any future potential disruptions similar to the one posed by COVID-19. Longer term, we believe COVID-19 will present healthcare providers with the impetus to simplify any disparate physician contract management systems and cumbersome gross compensation calculation

¹ 206 hospitals furloughing workers in response to COVID-19, April 7, 2020, Alia Paavola, Becker's Hospital Review

² Firings, furloughs, and pay cuts in advance of COVID-19 surge, April 1, 2020, Sheila Mulrooney Eldred

³ Amid coronavirus, private equity-backed company slashes benefits for emergency room doctors, Lev Facher, April 1, 2020

processes. Furthermore, many will view this as an opportunity to redesign and standardize compensation plans across the physician enterprise, not only for current physicians but also for new physicians joining the organization. Appropriately addressing the need for a comprehensive physician compensation strategy and structure will also allow healthcare entities to speed up the slow moving transition from volume- to value-based contracting, thereby incorporating quality incentives that align with population health and a healthcare entity's overall goals.

While CMS's blanket waivers will remain in place for the duration of this public health emergency, future arrangements will once again need to maintain compliance with reinstated Stark Law and Anti-Kickback Statute guidelines, including fair market value parameters. We anticipate many health systems will take a fresh look at certain existing contracts as it relates to fair market value and also put more rigor around the process for new physician contracts. The KPMG Economic & Valuation Services group offers fair market value services for physician compensation and other provider arrangements.



Contact us

Chris Ober

Managing Director, Tax

Economic & Valuation Services

T: 949-885-5443

M: 714-483-4221

E: cober@kpmg.com

Peter Lyster

Principal, Tax

Economic & Valuation Services

T: 206-913-4948

E: plyster@kpmg.com

Brian Hackman

Senior Manager, Tax

Economic & Valuation Services

T: 949-885-5789

E: brianhackman@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. NDP093971-1A

The KPMG name and logo are registered trademarks or trademarks of KPMG International.