Call-Pay Solution Discussion Outline

The Issue

Compensation issues related to paying for on-call coverage has been described as the leading edge of the next major crisis in the healthcare industry. According to recent studies, if you have not had to address this issue yet, you most likely will at some point in the near future. The discussions are painful and the topic engenders heated debates but if left unattended, the situation will likely get worse before it gets better. There is no consensus regarding this issue and the divisions are wide but there is agreement that the problems associated with the issue of "on-call coverage" is impacting the way hospitals deliver quality healthcare to their communities.

The traditional approach to "on-call coverage" is being reshaped by the changing healthcare landscape. Physicians are under pressure to stay in practice and hospitals are hurting from the shortages of medical specialist available and willing to take "unassigned call". Trends suggest that it is becoming more common to pay physicians for "on call coverage". However, the question of whether or not to pay for call is largely debated but the impact of the problem is undeniable. Perhaps the real issue is finding the right solution.

Our Firm

MaxWorth Consulting Group, LLC specializes in the design and implementation of effective "compensation" strategies. Essentially we use compensation as a platform to help companies design creative ways to recruit, reward, motivate and retain key people.

Background

We view the situation in the healthcare industry as very similar to other industries where the issues are how to align the vision and needs of the organization with that of the key people that drive the company's revenues and profits.

As emergency rooms are experiencing dramatic increases in the number of uninsureds and underinsured, mal-practice lawsuits are escalating and medical liability insurance rates are rising in today's litigious environment. The historical view of "on-call coverage" as a social obligation, an ethical responsibility and a means of building a practice is being altered by the conditions of our times.

These pressures and others have given rise to the growth of competing ventures where physicians are taking away considerable revenue from the hospitals. The need to exchange staff privileges for "on-call coverage" is being diminished by alternative practice venues advances in technology and other factors.

But the refusal to take unassigned call is in direct misalignment with the unfunded federal mandate imposed by EMTALA regulations. So in the reality of today's rapidly changing

regulatory, technological and financial landscape, the misalignment widens as the associated problems accelerate.

Existing Solutions

Misalignments give rise to a variety of responses from both groups who are both invested deeply in this issue. As competing hospitals lure doctors away by paying for call, other hospitals refuse to consider approaching such a slippery slope but risk having to watch as they witness specialty groups open competing ventures, serving paying patients through such venues as outpatient clinics and specialty surgery centers operated by the private practices.

The situation is complicated and opinions regarding the problem vary widely. However, for those that have put some form of pay-for-call program in place or for those who might be considering implementing a program, we will comment on a few of the options in order to compare those programs with our approach.

But first, it is important to recognize that regardless of the industry most compensation plans fail to accomplish the stated objectives of the plan primarily because the participants don't grasp the relationship with two key issues – the needs and vision of the organization and the participant's personal financial needs. This usually happens either because the incentive compensation plan is designed incorrectly or because the plan is not communicated effectively, promoted and reinforced.

In other words, a grade "B" compensation plan well communicated, promoted and reinforced is more effective than a grade "A" plan that is poorly communicated.

Even though our approach, the "Call-Pay-Solution" can co-exist with other approaches, we would suggest that other approaches have some serious drawbacks -

1. The *cash-for-call* approach or stipends have many inherent disadvantages, including but not limited to the following…
    a. Analyst say that immediate rewards are not effective long-term solutions
    b. Taxation of the reward diminishes the value
    c. The "blur effect" – where did that money come from and what did I do to get it?
    d. Constant re-negotiations for the amount or formula for determining who is included in the plan.
    e. Tracking the impact of the result – what are you getting for the money spent?
2. Employing staff or hospitalist can help relieve the strain of covering call but these approaches have disadvantages which include –
    a. The staff is usually limited to internal medicine practitioners and family practice areas.
    b. When private practice specialists see that hospital resources are used in this manner, they become more misaligned with the interest of the hospital and allege that the hospital could have used the resource to provide

equipment or facilities or the money could have been used to pay specialist for taking call. Many of these types of situations have been played out in the local press creating ill will toward the hospital.
    c. This approach, while increasing the hospital's budget does not resolve the primary issue of paying for critically needed medical specialist.
3. Engaging outside companies to manage the on-call programs is a way of separating the hospital from direct involvement with the problem but the strain on the bottom line still exist; in other words, it is still a line-item in the budget but does not always align the interest of the hospital thus not creating a real economic return for the money invested. This service often comes with a premium further increasing the cost of paying for call.

The Call Pay Solution – Philosophy and Process

The Call-Pay-Solution is a philosophy and a process and not simply a "product" solution. Both the philosophy and process exist to ensure that the call-pay program creates the desired outcomes in "turn-key" fashion.

The program is *a strategically structured compensation philosophy* created by the unique and specific needs and objectives of the hospital. We work with the executive teams and the advisory boards of the hospitals along with Dan Mulholland, of Horty Springer to craft a process that has two fundamental operating principles –

1. The reward will be contingent upon a set of criteria that is consistent with the needs of the hospital.
2. Guided by Dan Mulholland, the reward will be based on a set of legally permissible standards created by a participatory process involving the medical staff, ED department and hospital executives to assure broad-based acceptance.

Technical Application

The Call-Pay Solution is a patent pending series of approximately **40 strategic steps** that we believe are essential for the proper design and implementation of the solution. Within the solution we use a uniquely designed *non-qualified deferred compensation platform* as the structure for the compensation element. Some of the technical design features and benefits include the following:

1. Non-qualified deferred compensation is a common form of incentive compensation for leading public and private companies around the globe and these plans are used extensively to attract, reward and retain key talent.
2. The plan is designed to meet current federal regulations regarding both for-profit and not-for-profit organizations.
3. A deferral of the compensation for participating in the comprehensive call-pay program clearly identifies compensation as a reward for participating in the program.
4. The deferral feature multiplies the impact of the reward by compounding the accrual of cash awarded on a tax-deferred basis.

5. The “401(k)” like investment menu creates a tangible benefit that the participating physician can view, monitor and can be linked to their personal financial planning.
6. This approach allows the hospital to keep the cash throughout the deferral period and the cash remains an asset of the hospital even though the cash has been set-aside in a “sinking fund” to offset the obligation.
7. The program is subject to a *plan design* that includes a set of criteria that aligns the interest of the hospital with the plan criteria.
8. Many non-qualified deferred compensation plans are “informally funded” with a special form of life insurance known as Corporate Owned Life Insurance or COLI. This form of life insurance is “balance sheet friendly” and creates a recovery vehicle for the expense associated with paying for call. Over time, because of the feature of this funding approach, the hospital receives the death benefits that essentially “fund” the plan. There is no other approach that will actually reimburse the hospital for paying for call.
9. In our model the formula for determining the actual reward received is based on the specialty tier grouping and the reasonable and customary reimbursement rate (Reasonable Compensation Equivalent limits).

In conclusion

The key to the successful implementation of the Call-Pay-Solution is how the plan is designed, communicated, promoted and reinforced. Instituting a pay-for-call strategy that aligns the hospitals needs with the physician’s interest creates considerable “good will” in the local medical community.

Our approach is more than creating a non-qualified deferred compensation plan; it is creating a compensation philosophy and process. We meet with each eligible physician and discuss the plan design and how it applies to their personal situation. We guide them in a discussion of their options and as they choose the various vesting options, they link the pay for call to a life event that is meaningful to them such as college education, buying a vacation home or retirement. As much as this issue is a financial matter, it is also a psychological and emotional.

This approach not only addresses the issue, it creates a competitive advantage for the hospital by assisting in recruiting critically needed medical specialists and helps the hospital provide quality healthcare to the community. Additionally, the design provides a cost recovery element to allow the hospital to recover the investment made in paying for call.

If we can help, or if you would like more information, please let us know.

Steve V. Worthy
steve@maxworthconsulting.com