Physician Leaders Feel the Economic Pinch

Compensation growth slows for top execs, but career pathways open

By Deedra Hartung

In this article...

Learn how trends as reported in the eighth biennial edition of the Cejka Executive Search and ACPE Physician Executive Compensation Survey can shape your career path.

Executive compensation in health care is not immune to the pressures felt across all sectors of the economy. This reality is reflected in results reported by 1,985 members of the American College of Physician Executives as published in the 2011 Physician Executive Compensation Survey.

The two-year rate of increase in total compensation—at 5.9 percent—is well below the 11.6 percent increase reported in 2009 and the lowest since the 2001 survey reported a 5.0 percent increase. Higher-ranking physician executives experienced a greater reduction in the rate of growth in total compensation than those in other roles.

A closer look at changes in compensation among executives reveals that four top titles, also among the largest response samples, experienced the lowest two-year growth rate in median total compensation. In particular, the 2.5 percent increase for chief executive officers between 2011 and 2009 contrasts significantly with the 13.0 percent increase between 2009 and 2007.

For the first time since 2001, when CEOs reported a 4.2 percent two-year increase compared with 5.0 percent for all respondents, the CEOs in 2011 reported:

- The lowest two-year increase
- An increase lower than the average for all physician executives
- An increase below those in the other top-level positions

TABLE 1

Physician Executive Median Compensation: Two-year and Ten-year Comparison

					% Change	
Physician Executive Title	Response	2011	2009	2001	2-year	10-year
All Physician Executives	1,985	$305,000	$288,000	$210,000	5.9%	45.2%
Chief Executive Officer/President	166	$393,152	$383,500	$250,000	2.5%	57.3%
Chief Medical Officer	437	$343,334	$324,750	$225,000	5.7%	52.6%
Department Chair/Division Chief	195	$340,000	$330,000	$233,000	3.0%	45.9%
Vice President of Medical Affairs	127	$315,000	$299,000	$215,750	5.4%	46.0%
Medical Director	473	$269,050	$250,088	$250,000	7.6%	34.5%

TABLE 2

Two-Year Comparison of Median Total Compensation by Medical Specialty

Specialty	2011 Median Compensation	Responses 2011 %	2009 Median Compensation	Responses 2009 %	% Change Compensation
Family Medicine	$275,000	20%	$250,000	21%	10.0%
Internal Medicine	$300,000	17%	$277,5001	7%	8.1%
Emergency Medicine	$331,250	9%	$320,000	8%	3.5%
Pediatrics	$270,000	7%	$275,000	7%	-1.8%
Obstetrics/Gynecology	$281,000	4%	$289,000	4%	-2.8%
Hospitalist	$275,000	3%	$268,000	2%	2.6%
Anesthesiology	$400,000	3%	$385,000	3%	3.9%
Psychiatry	$274,094	3%	$265,000	3%	3.4%
General Surgery	$322,500	3%	$314,000	4%	2.7%

Risk/reward drives growth up—or down

Margin pressure, reduced volumes, and public scrutiny in tough economic times all contribute to the impact on executive compensation. The average physician CEO's total compensation is substantially based on financial performance and achievement of overall organizational goals. Given that significant components of a CEO's total compensation are variable, it is not surprising to see a lower growth rate.

The physician CEO is more likely to have a high risk/reward compensation profile:

- 67 percent of CEOs report that 50 percent of their bonus is based on financial performance.
- 76 percent have more than 10 percent of their compensation at risk in bonus or incentive pay.
- 16 percent have more than a third of their total compensation at risk.

TABLE 3

Medical Specialty Distribution of Compensation

Specialty	Response 2011 (#)	% of Compensation: Administration	% of Compensation: Clinical
Internal Medicine	330	81%	17%
General Surgery	56	76%	23%
Family Practice	387	75%	23%
Pediatrics	143	75%	24%
Obstetrics/Gynecology	77	74%	38%
Psychiatry	64	63%	34%
Emergency Medicine	166	62%	35%
Hospitalist	67	54%	44%
Anesthesiology	65	54%	45%

- 49 percent include "other income" as part of total compensation, derived from equity sources such as stock options, partnership distributions, pension and/or deferred income.

Chief medical officers were impacted in a similar way, but to a slightly lesser degree, reporting a 5.7 percent two-year increase in 2011 compared with an 11.2 percent two-year increase in 2009. Similar

TABLE 4

Total Compensation Sources

	Without Other Compensation*		With Other Compensation*		
	2011 Response%	2011 Median	2011 Response %	2011 Median	Difference%
Hourly	5%	$277,500	1%	$279,408	1%
Salary	19%	$261,200	8%	$292,750	12%
Salary + Bonus	31%	$300,000	29%	$363,000	21%
Stipend	6%	$292,000	1%	$400,000	37%
Total Reporting	61%		39%		

*Other Compensation defined as: stock options, partnership distributions, pension and/or deferred income

dynamics are at work, considering that half of CMOs have "other income," and two-thirds reported having more than 10 percent of their total compensation in bonus and incentive pay, the majority of which is based on organizational performance.

Reflecting a lower-risk compensation profile, medical directors fared better than average, reporting a 7.6 percent two-year increase, an improvement compared with 4.9 percent growth between the 2009 and 2007 reports.

Health care reform opens doors

Health care reform and the need for physicians with specialized areas of expertise may be driving greater earning power for physician executives in new roles. For example, there were notable increases for physicians responsible for information management and also for physicians who are full-time consultants.

The need for sophisticated data reporting and analysis has never been greater, so it is not surprising to see a 10 percent increase in median compensation for the combined category of chief information officer or chief medical information officer. However, we cannot draw definitive conclusions about this category of physician executive, as only 47 ACPE members with these titles participated in the 2011 survey. Only five of these 47 hold the title of CIO, a position that carries greater scope of responsibility and higher compensation in most organizations than CMIOs.

Health reform may be driving significant fee revenue for consulting firms. Between the 2011 and 2009 surveys, respondents reporting as "full-time consultants" experienced the highest two-year growth in compensation (13.6 percent).

Notably, 22 percent of consultants derive more than one-third of their total compensation from bonus and incentives. That is a high risk/reward profile. With small numbers of ACPE members reporting in that category (51) it is difficult to identify a trend.

However, in this dynamic environment marked by regulatory uncertainty, reimbursement volatility and high consolidation activity, the demand for consulting services may deliver an upside for physicians who generate a significant share of this work for their firms.

Health care reform is also driving greater focus on patient-centered, coordinated care in which primary care physicians play the pivotal role.

Among the specialties listed in Table 2, anesthesiology, emergency medicine and general surgery reflect the highest median compensation, consistent with the 2009 survey. Yet family medicine (10.0 percent) and internal medicine (8.1 percent), report the highest rate of increase over 2009 and significantly contrast with the small increases or declines in total compensation for other specialties listed.

The increase may reflect greater demand and compensation for leadership positions for primary care physicians as health reform drives the development of physician-driven, patient-centered coordinated care models that emphasize primary care delivery and the coordination of specialty care, therapy and other health care services.

Among the specialties listed below, physician executives trained in the specialties of internal medicine, general surgery, family medicine, pediatrics, and obstetrics/gynecology attribute at least three-quarters of their compensation to administrative responsibilities.

TABLE 5

2011 Median Compensation by Post-Graduate Degree*

	Without a Degree		With a Degree		Compensation	
	Response	2011 Median Compensation	Response	2011 Median Compensation	$ Difference	% Difference
Post-Graduate Degree/Position Title Master of Business Administration						
Chief Executive Officer/President	96	$399,500	36	$423,500	$24,000	6%
Chief Medical Officer	217	$322,000	96	$365,525	$43,525	14%
Department Chair/ Division Chief	129	$340,000	38	$366,600	$26,600	8%
Medical Director	306	$260,200	79	$282,500	$22,300	9%
VP of Medical Affairs	69	$309,900	26	$332,500	$22,600	7%
Post-Graduate Degree/Position Title Master of Medical Management						
Chief Executive Office/President	96	$399,500	20	$362,385	-$37,116	-9%
Chief Medical Officer	217	$322,000	66	$372,500	$50,500	16%
Department Chair/ Division Chief	129	$340,000	10	$262,000	-$78,000	-23%
Medical Director	306	$260,200	40	$284,500	$24,300	9%
VP of Medical Affairs	69	$309,900	17	$315,000	$5,100	2%

*Post-graduate management degrees included: Master in Business Management; Master in Medical Management; Master in Health Administration, Master in Public Health.

Consistent with previous surveys, anesthesiology is representative of specialties that consistently rank among the highest in overall median compensation, but typically have a lower percentage of that compensation attributed to administrative responsibilities.

Equity income is key

In the 2011 survey, a new analysis differentiates the earning power reported by physician executives whose "other compensation" includes stock options, partnership distributions, pensions and/or deferred income.

The majority of respondents (61 percent) fall into the category of respondents whose total compensation does not include these other sources of income. However, for the 39 percent of respondents who do receive equity and other income, their overall earning power appears to be greater and this is likely due to ownership interest.

For example, among physicians earning "a salary plus bonus," those who additionally have "other sources of income" reported 21 percent greater median compensation of $363,000 compared with $300,000 reported by those with salary plus bonus, but no other sources of income.

Scope influences earning power

Consolidation and the growth of health systems offer another path for physician executives to expand their geographic scope of responsibility and earning power.

In the 2011 survey, respondents were given a new option to select "multiple types of areas" as their organization location, which resulted in 21 percent choosing this category and reduced the concentration of respondents selecting "urban areas" (39 percent in 2011 vs. 53 percent in 2009) and "suburban areas" (27 percent in 2011 vs. 33 percent in 2009).

TABLE 6

Level of Engagement in an ACO	Response
Currently are an ACO	4%
Currently participating in an ACO	4%
Planning participation in an ACO	24%
Evaluating participation in an ACO	45%
Not planning to participate in an ACO	23%

1"The Work Ahead: Activities and Costs to Develop an Accountable Care Organization," by American Hospital Association and McManis Consulting; April 2011

TABLE 7

Most Frequently Mentioned Leadership Skill Enhancements

Financial analysis	49%
Strategic planning	40%
Conflict resolution	37%
Information technology	33%
Project management	32%
Collaborative decision-making	30%
Safety/quality	24%
Team dynamics	20%
Governance	16%
Interpersonal communication	15%
Other	2%

Physicians reporting the scope of their individual duties being in "multiple types of areas" earned the highest median compensation, as did those who reported their individual and organization scope as "regional."

Overall, physician executives who work in a "health system corporate office" report the highest median compensation of $385,000, an increase of 8.7 percent compared with compensation of $354,178 reported in 2009. Because of the greater scope of responsibility at the system level, there is a predominance of physicians with higher executive titles reporting from health system corporate offices. System executives in the CMO, chief quality/patient safety officer and other C-Suite categories report higher total compensation compared with their counterparts in other settings.

Together, these findings are consistent with our experience that the pace of integration and system expansion results in greater demand for physician leadership with commensurately broader responsibility and higher compensation.

Management degrees matter for CMOs

Compensation among physicians with post-graduate management degrees revealed another indicator that physician executives with business and management training maintained their earning power advantage.

Key findings in the 2011 survey include:

- All of the selected executive titles show a positive difference in the median compensation for those with an MBA.
- Chief medical officer is the only title that reports a double-digit difference in compensation with an MBA (14 percent) or MMM (16 percent).
- Medical directors follow CMOs in the positive difference (9 percent) in earning power with either an MBA or MMM.

In an otherwise slow-growth period, all physician executives with MBAs earned more than their counterparts, and this is true for CMOs who hold MMMs.

In past surveys, this contrast has been greater, and our practical experience adds support to the evidence that business training improves the physician executive's prospects for advancement and earning power.

Skills that physician executives seek to enhance, such as financial analysis, strategic planning and team-oriented management are embedded into the advanced business management course of study. Physician executives are hungry for opportunities to develop skills that traditionally are not honed in medical school.

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Other trends

In addition to benchmarking compensation, the biennial survey provides an opportunity to gather the insights of physician executives on timely topics:

Progress toward accountable care

The Affordable Care Act challenges physicians and health care organizations to develop more accountable, quality-driven delivery systems that include the formation of accountable care organizations (ACOs). ACOs are intended to "manage the health of a defined population and to be held accountable and reimbursed based on measurable improvements in quality and patient satisfaction plus reductions in cost."[1]

As rules and processes for forming ACOs are still evolving, 77 percent of the respondents report that their organization is at a stage on the continuum between evaluating participation and being actively engaged.

Just 8 percent of respondents are active in an ACO, with 4 percent reporting that their "organization is an ACO" and 4 percent saying that they "participate in an ACO." Another 24 percent are planning to do so. The largest percentage (45 percent) are evaluating their participation in a ACO, while 23 percent do not plan to participate in an ACO.

Matrix management

As organizations grow in scope and complexity, reporting relationships often do, as well. For the 2011 survey, we asked participants to indicate if they work in an organization with a matrix reporting environment, meaning that there are multiple or shared administrative reporting relationships.

Nearly half (45 percent) said they are in such an organizational environment, and 55 percent are not. Among those who are, 59 percent said they are administratively accountable to more than one person, and 41 percent said they have direct reports who are also administratively accountable to another person.

Beyond clinical training

Physician leaders recognize that their medical degree and experience are valued and make them unique among their administrative peers. But clinical achievement is not a proxy for leadership success. Many realize the importance of building skills and experience in areas that are not taught in medical school.

Respondents to the 2011 survey were asked to share the three top areas in which supplemental training has or would enhance their skills as administrative leaders. Three of the top six share the interpersonal dynamics of teamwork: conflict resolution, project management and collaborative decision-making.

Chart your course

Physician executive compensation is not immune to the effect of economic pressures and performance expectations. Yet, these same dynamics create new opportunities for physicians to lead and play new roles in directing the future of health care.

The recurring themes of effective team leadership and serving diverse and dispersed stakeholders reinforce the need for physicians to expand and enhance their skills as they progress through the leadership ranks.

Physician leaders understandably place high value on the compensation benchmarks the survey has provided over more than a decade. But the survey offers more. It is a mosaic that illustrates the evolving profile of the physician leader and how the economic, political and industry factors make the path toward a rewarding and fulfilling career in health care administration a challenging journey.

Lessons from the survey can serve as a map for your journey:

- Pursue projects and course work in business management. Focus not only on the technical aspects of finance and strategy, but sharpen your team leadership skills.
- Look for unconventional roles. New career paths are emerging in response to health reform and accountable care. This can range from consulting, to roles in information technology, to expanded responsibilities at a system level.
- Define your risk/reward profile. It is vital to understand that earning power is a risk/reward equation in which the variables are constantly changing. The industry needs physician leaders to serve in a wide range of roles. Define your personal tolerance for risk, and choose the path that is right for you.

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References

1. "The Work Ahead: Activities and Costs to Develop an Accountable Care Organization," by American Hospital Association and McManis Consulting; April 2011.

Thank-You.

To all ACPE members who participated in the 2011 survey. ACPE members who contributed to the study are eligible for a free copy of the 2011 Compensation survey. The next survey will be in 2013.