Compensation up, fees down? Signs point to a tight labor market

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Despite widespread complaints about physician reimbursement, two major practice surveys show physician compensation trending up substantially in 2023. While on the surface that's good news, it may simply mean doctors are working harder, which may exacerbate another common complaint — physician burnout — and lead to other problems. But experts suggest ways to carry the volume more efficiently.

Physician reimbursement — particularly through the Medicare physician fee schedule (PFS), which influences fee schedules among private payers — has been trailing inflation for years, and physician advocates are increasingly vocal about it. The AMA says that low rates have made medical practice "unsustainable for physicians," and the advocacy group endorses a plan proposed by the Medicare Payment Advisory Commission (MedPAC) to peg Medicare payments to the rate of inflation (*PBN 3/25/24*).

But despite reports of weak fees, recent practice surveys from the Medical Group Management Association (MGMA) and physician service network Doximity show average reimbursement increasing between 2022 and 2023.

MGMA's Provider Compensation Data Report, released in May, shows median total compensation in four provider categories going up — from a modest 1.8% rate for nonsurgical specialties to an impressive 6.5% for advanced practice providers (APP), with primary care and surgical specialties in between at 4.4%.

Most individual specialties' rates rose, from dermatology (10.2%) to psychiatry (2.9%). Only emergency medicine rates fell (-1.7%).

MGMA further finds, based on previous reports, that these numbers show a meaningful advance from pre-pandemic compensation; provider categories, apart from non-surgical specialists, posted double-digit compensation growth between 2019 and 2023.

At the same time, Doximity showed median compensation falling by 2.4% in 2022 but rebounding by 5.9% in 2023. Categorized by organizational type, Doximity found average compensation highest among medical practices, with single-specialty at $461,368, multi-specialty groups at $447,546 and solo practices at $443,274. Health systems and hospital-based groups were trailing.

More work, more money

The natural inference when lower rates result in higher compensation is that more work is being done, and MGMA specifically cites increased productivity as a cause, with increased median work RVUs across the board in most physician-owned practice categories and, to a lesser extent, in hospital-based practice categories as well. MGMA also sees practice productivity gains in collections and total encounters; the group refers to a previous poll that found "more than two-thirds (67%) of medical groups [are] exceeding (19%) or on target (48%) to meet their productivity goals for the year."

MGMA's 10-year graph of RVU productivity gains among physician-owned multispecialty groups per FTE physician started to surge in 2019, took a pandemic hit in 2020, but recovered enough to post a striking 42% rise in 2022.

MGMA's David N. Gans suggests that one likely explanation for the increase in productivity is technological innovation or improved technology management, or "automating existing functions and expanding their capabilities," as he puts it.

Yet the RVU numbers suggest that fewer physicians are doing more work (*PBN 4/10/23*). Doximity focuses on a well-known side effect of big physician workloads: Burnout (*PBN 10/31/22*).

"Overall, the majority of physicians do not believe their pay matches the level of effort and expertise required in their role," Doximity reports, "and negotiation attempts are often unsuccessful or nonexistent." Some 60% of physicians tell Doximity more compensation would be a solution for their overwork-and-burnout issues.

Fewer docs, different models

Experts agree that productivity is up, and the general shortage in physicians is a big part of the picture.

"The bigger drivers of compensation are classic supply and demand issues," says Eric Passon, founder and CEO of Ancore Health, a consultancy in Brentwood, Tenn. "You have a shortage of physicians, especially in key specialties like primary care or anesthesiology, that are just naturally going to increase compensation."

Tara Osseck, regional vice president of recruiting at Jackson Physician Search in Alpharetta, Ga., agrees: "When you consider factors like population growth, aging demographics, and specific community health disparities, it is becoming increasingly difficult to attract and retain the highest caliber of providers."

"You're seeing [this trend] across all sectors with highly skilled professionals in this economy right now," says Andy Colbert, senior managing director with the Ziegler investment firm in New York City. "A lot is driven by the inflationary period we're in — combined with a higher-than-normal retirement rate among physicians coming out of COVID. When you've got the government putting trillions of dollars into the economy, I think people feel, generally speaking, wealthier than they did before, and that has encouraged people to step back from their jobs perhaps sooner than they might have otherwise."

But there are other related factors, including how and by whom the remaining physicians are employed. Independent physician numbers are dwindling as more and more doctors choose the certainty of employment models (*PBN 1/29/24*).

"You've got private equity rolling up orthopedic, cardiology, dermatology, GI É and wrapping ancillaries around them, which boosts not just W-2 compensation, but also distributions from ASCs, imaging, etc.," Passon says.

Passon notes that with interest rates up, a lot of private equity players "have really slowed down [acquisition], and they're trying to get their existing portfolio companies profitable by returning to business fundamentals. It's a rationalization that I think is good for the industry."

But many PE firms are holding onto their practices waiting for the right offer. Some of the biggest, such as "publicly traded corporate entities, like Optum, Amazon/One Medical, Walgreens/Village, Surgery Partners," Passon says, have what he characterizes as "a longer-term horizon; they're not looking to flip [quickly]." Instead, they're seeking to build networks long-term.

Also, more physicians are following a mixed compensation model that may go beyond their RVUs and involve quality and cost metrics, both in government-backed quality care/ACO models and private payer versions. One sign of this is the growth of advanced alternative payment model (APM) as a MIPS alternative in the Quality Payment Program (*PBN 6/3/24*).

"Candidly, long term doctors make more money keeping people out of the hospital," Colbert says. Under these models, when physicians lower the cost of care, they get a pay bump.

How to fill the gaps

But fewer docs performing more patient encounters is still a big chunk of the compensation piece, and practices need to find ways to make it sustainable without increasing burnout.

"Increasing use of APPs in both surgical and non-surgical specialties" can help, Osseck says. "We do a lot of recruitment in very, very rural communities and without APPs it would be increasingly difficult for these communities to have the access to health care they so desperately need. And in more suburban or metro markets, APPs can function as physician extenders in some specialties — allowing a surgeon, for example, to spend more time doing procedures."

Colbert suggests physician groups can try to get more for less, and negotiate better rates not only with payers but also with suppliers and other third parties.

But that requires scale and muscle, Colbert says, and if you don't have at least 50 physicians you likely can't get in the door. "While private equity may not be the optimal path for all groups, it's certainly a great vehicle to keep independent groups independent and facilitate investments in ambulatory care settings outside the hospital," he says.

Resources

- AMA, "Latest Medicare physician pay cut shows desperate need for overhaul," March 6, 2024: *www.ama-assn.org/practice-management/medicare-medicaid/latest-medicare-physician-pay-cut-shows-desperate-need*
- MGMA, "Provider Compensation Data Report," May 2024: *www.mgma.com/datadive/provider-compensation*
- Doximity, "Physician Compensation Report," May 23, 2024: *https://assets.doxcdn.com/image/upload/pdfs/doximity-physician-compensation-report-2024.pdf*

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