



“Compensation Approach Determines the LTD Product Recommendation”

One of the most compelling factors that affect the design of a Physician LTD program is how compensation is determined. It has been said that there are three compensation plans a group develops; the one they are currently using, the prior plan and the next plan. How they pay each other or divide the pie differs from group to group. There are however some general similarities. One approach to income sharing is to divide the group net revenue equally. Another option is to determine compensation on pure productivity –and split the funds on a pro-rata basis. Obviously, a third option is a combination of these two approaches.

A complicating factor revolves around the issue of seniority. Often there are levels of “partners” or “shareholders.” Physicians who have been in the group longer may take out a greater share of the available revenue. This in effect creates “junior” partners and “senior” partners. There are also new physicians, who may be employed with a guaranteed first or multiple year salary. In medical groups, these relationships- between the older physicians, newer physicians, and those who joined the practice along the way, create a constant tension that drives changes to the compensation formula. A further complicating factor is the desire of older physicians to slow down, and often with a request not to reduce their income. Sometimes, it seems to me, it would be easier for the administrator just to throw the money on the table and then leave the room as quickly as possible.

Another aspect of physician compensation is the “draw” or advance, which is provided bi-weekly or monthly. Often the draw is low enough to produce a “bonus” at years end or provided, in part, at other times during the year. Keep in mind how this variable may affect the values need in the LTD product.

To complicate things even further, the benefit design of some groups speaks to funding disability. The group may be self-funded for 30, 60 or 90 days. Beyond this time frame some groups look to or may even require the individual physician to provide insurance. They may also have imbedded in their compensation plan some payout to the physician beyond the 90 days, up to, say, a year at a reduced level. Another option is to blend a portion of the practice or the individual’s accounts receivable with a disability policy to cover part or all of the salary. For example, the accounts receivable could be used to account for up to 40% of compensation and the policy could cover the rest.

All these factors play a significant role in determining the value of LTD benefits. Each option within the framework of the compensation model for the particular group will affect the individual physician's need in the LTD market. Obviously, and therefore, the fabric of the compensation approach determines the LTD product recommendation.

The intricacies of comparing different approaches either self-funded, fully insured or a combination usually falls to the administrator/group practice executive or an advisor/consultant. The expertise of an insurance professional is not only welcomed, but essential and critical to sorting out available options and then helping determine the best approach within that particular practice compensation model. Also, advice will be sought by individual physicians relative to their standing in the compensation model and their individual approach to LTD insurance. Not to mention, the need to build in some flexibility with the LTD product to help accommodate changes in the compensation model.

It is clear to me that an opportunity exists to be of great service to this market. While gaining an understanding of how the factors noted above affect a group of physicians or an individual physician is time consuming, the end result is building a valuable relationship with the consumer group, the individual physician, and the practice administrator/executive. Your knowledge will not only assist the group but will have the affect of making your advice most valued and desired.

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