



Medical Director Contracts: Challenges and Opportunities



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Selecting a strong medical director to oversee a service, specialty, or program can advance the clinical agenda or provide a foundation to build clinical service lines. Key tasks may include clinical oversight, policy development, staff training, quality review, regulatory compliance, committee participation, protocol development, budgeting, and program development.

Choosing the best physician for the job is important for both the hospital and the program. When reviewing candidates, consider the physician's training, technical expertise, experience, and relationships with physicians and community members. The roles, responsibilities and time commitment should be spelled out in a contract, as required by federal regulations.

Defining the Duties of a Medical Directorship

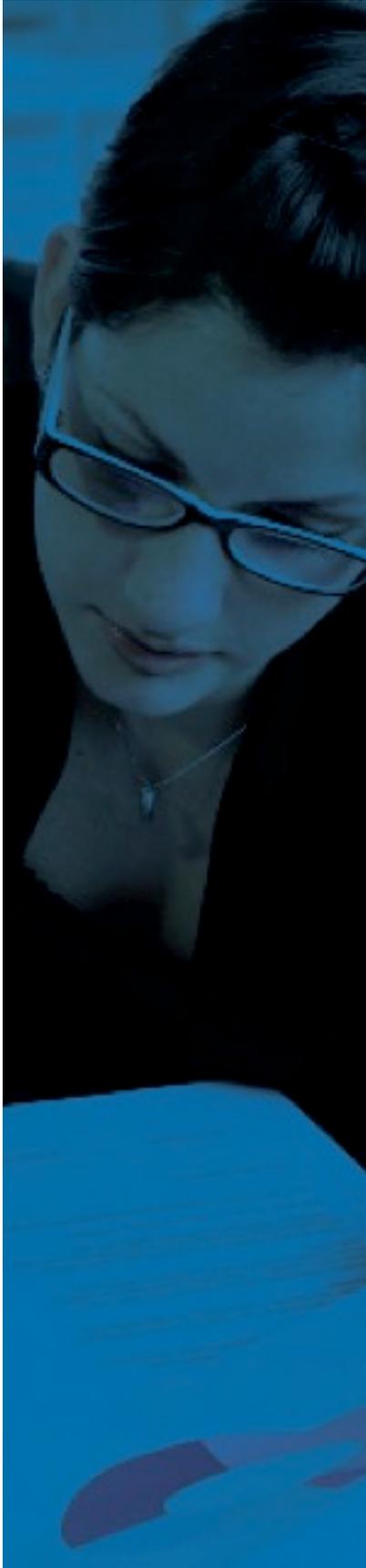
The job's specific requirements must be carefully considered at the start of the agreement and with subsequent renewals. The job description should help achieve the organization's clinical agenda, and each duty should be described as specifically as possible.

For example, if the job description states "physician will support community outreach", consider being more specific:

"Physician works with leadership to represent hospital at community events supporting heart health, including events hosted jointly with the American Heart Association and the hospital's "Heart Healthy" program. Physician will be paid for time at event and travel time to and from the event."

Such clarifications will help avoid misunderstandings and conflicts.

BEST PRACTICE: Have a library of preferred "duty descriptions" so that details are explicit and well defined. Resist the temptation to write unique duties for each position since this can make monitoring and approval of timesheets more difficult.



When and How Much to Pay

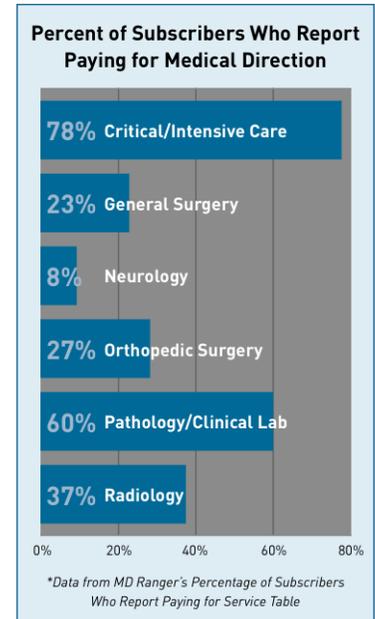
Commercial Reasonableness

Before compensating a physician, you must determine if payment for the service is “commercially reasonable”. MD Ranger reports the percent of subscribers paying for a position, as well as the distribution of the number of paid positions by specialty. If the percent paying is low, it is particularly important to document why payment is necessary.

It is common to have two or more medical director positions in some specialties, such as cardiology, whereas in others it is rare.

Payment Methods

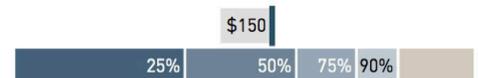
Most medical directorships pay by the hour, with the minimum and maximum number of hours per week, month, or year outlined in the contract. Some administrative or medical staff leadership positions, particularly roles like chief of staff, pay monthly or annual stipends without a defined hourly rate. It is typical to have contract language that allows for periods of high and low activity to account for vacations, holidays, JAHCO surveys, etc.



If a medical directorship is paid hourly, ensure that all components of the contract are compliant (hours, hourly rate, annual pay) and that *actual payments* are consistent with the signed contract. A low or reasonable hourly rate could mask an unreasonable number of hours worked, resulting in exceptionally high annual payments. If the physician’s hours vary significantly from benchmarks, review the job duties and determine if the scope is greater or less than a typical hospital. It may be reasonable to require more hours for a new program, a program undergoing review, or a center of excellence with a large referral program, significant outpatient components, or a large medical staff. In addition, if a physician has exceptional credentials such as a national recruitment for a large regional program, higher payments may be justified. Documentation of exceptional differences like these is essential to maintaining a strong compliance program.

Hourly Rate

Comparison Service: Obstetrics
All Hospitals



Annual Hours of Service

Comparison Service: Obstetrics
All Hospitals





Fair Market Value (FMV) Considerations

Most FMV experts suggest that payment rates below the 75th percentile of market rates are generally compliant, however many organizations choose to pay closer to the median, especially if they are not in an area with high cost of living or they are not a large tertiary medical center. If you must pay a rate above the 75th percentile, be sure to document the reasons why it is necessary and the steps taken to negotiate a lower rate. You may also consider obtaining a formal FMV analysis and opinion. If the hourly rate is compliant and the job duties are extensive, a higher annual rate may be justified.

Physician Qualifications

Some but not all directorships require a physician of a particular specialty. While the director of the cardiac cath lab needs to be a cardiologist, the director of EHR implementation or the chief of staff could be a physician of any specialty.

Specialty may or may not influence payment. Although it may seem logical that an orthopedic surgeon should be paid more than a pediatrician serving in the same role, most market data do not support a pay differential unless the directorship or leadership position significantly reduces the physician's practice commitment and clinical income. This is often referred to as "opportunity cost", and it is only relevant in some situations. An independent valuation may be advisable if payment rates exceed standard benchmarks for the particular position.

Monitoring Physician Agreements

Even if the terms of a medical directorship agreement are compliant, your organization could still be at risk if payments are made for services not defined in the contract. Health care organizations should implement processes to monitor the services performed, time records submitted, and payments requested.

Approving Time Logs

An accountable executive or leader should review each time log before processing for payment. The review is twofold: to check that the duty was performed as outlined in the agreement (and reported by the physician) and to ensure that the requested payment is within contract specifications.

1. *The duty as recorded by the physician must be part of the contract.* If the physician writes one hour of peer review, it is important to confirm his/her agreement contains a peer review duty. This verification process can be time consuming as the agreement duty list should be consulted.



2. *Check the numbers.* Make sure that the check you write is within the terms of the agreement. If a physician is to be paid a maximum of 10 hours a month, at \$100 an hour, no monthly payment should exceed \$1,000 even if the physician works 12 hours, unless there are specific terms that allow averages over time with an annual payment maximum.

To reach organizational goals and mitigate risk, it is important to explicitly define the duties necessitated in a medical director role. Once the agreement is signed, meticulously review every time log to ensure the duties reported are those defined in the agreement and the requested payment complies with what is outlined in the contract.

A strong and compliant physician contracting process is essential to risk management. Tools for documenting contract compliance with market rates as well as ongoing monitoring of time and payments may facilitate the process.

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