

“Hospital Name”

Employment Term Sheet and Compensation Model

Physician Name: _____

Date: _____

1. Term. Three-year employment contract with a two year renewal option. The anticipated effective date of the employment contract is _____. During the first year of the employment agreement, the physician may not terminate the agreement without approval of “Hospital Name”. Following the initial year, either party may terminate by giving three months notice of termination.
2. Employer. The employer is to be “Hospital Name”.
3. Practice Requirements. Physician will be available for office hours at the facilities designated by Employer at such times as Employer reasonably requests in order to fulfill the needs of the patients and to satisfy administrative responsibilities, with the exception of scheduled time off for vacations, and other approved absences. Physician will provide primary care services on a “full-time” basis, which means a minimum of forty (40) hours per week for office-based and outpatient hospital practice, consultations, follow-up care and all related patient care requirements.
4. Compensation. In years one through three, the Physician receives a base salary with productivity incentives, and is subject to salary reductions based on the below terms. The total base salary in year 1 equals one hundred and eighty thousand and 00/100 dollars (**\$180,000**) and is further explained in section 4 a) and section 5 below. Years 2 and 3 salary will be subject to potential salary reductions based on the below terms.
 - a) Physician will earn a base compensation of one hundred and eighty thousand and 00/100 dollars (**\$180,000**) (“Base Salary”). The Base Salary will be payable as follows:
 - i. The Base Salary of \$180,000 will be payable in equal bi-weekly payments in accordance with the employer's normal payroll process. The Base Salary for year one will be prorated for any partial period of employment.
 - ii. Potential productivity bonuses will be calculated and considered for payment quarterly. Therefore, the annual wRVU target in year 1 of 5,000 will be divided into quarterly amounts (1,250 per quarter). The wRVU target is calculated based on a base conversion factor of **\$36.00 per wRVU**.
 - iii. The Physician will be **eligible** to earn additional compensation through productivity bonuses that are based on the calculated difference of actual physician wRVUs produced by the Physician less a wRVU target times a bonus conversion factor of **\$38.00** in years 1 through 3.
 - iv. Potential productivity bonuses will be paid according to the lesser of the quarterly wRVU production in excess of the quarterly target or the cumulative wRVU production in excess of the cumulative target. For example, if Physician's quarterly target is 1,250 and Physician only produces 1,150 in quarter number one (100 wRVUs below the target), then no bonus is paid for quarter one. Then in quarter two, Physician produces 1,300 in wRVUs (50 wRVUs above the quarterly threshold), still

- no bonus is paid because on a cumulative basis Physician is still 50 wRVUs below the cumulative target for the first two quarters.
- v. Work RVUs will be calculated and reconciled within 30 days of the last calendar day of the quarter and will be calculated at a rate of **\$38.00** per wRVU in years 1 through 3 (bonus conversion factors) for all wRVUs exceeding the annual target. Example calculations are provided in "**Exhibit A**" attached to this document.
 - vi. Work RVUs included in the calculation will only include professional services (i.e., office visits, consults, procedures, interpretations, and vaccine and injection administrations) performed by the Physician.
- b) In year 1, the Physician's base salary will be guaranteed. In years 2 and 3, if the Physician's level of production does not reach the target number of wRVUs for two consecutive quarters, then the Physician's base salary will be reduced by the wRVU deficit multiplied by the base conversion factor of \$36.00 (see "**Exhibit B**"), but not to exceed a 20% reduction in base salary in any given contract year. **Note:** Annual and quarterly wRVU targets will not be changed during a contract year.
- i. Example reduction calculation:
 - 1) Cumulative quarterly wRVU target (through 2 quarters): 3,000
 - 2) Cumulative quarterly wRVUs actually produced (through 2 quarters): 2,800
 - 3) Difference: 200 wRVUs
 - a. Calculated dollar value of the shortfall: $200 * \$36.00 = \$7,200$
 - 4) Reduce the remaining clinical base salary: $\$90,000 - \$7,200 = \$82,800$
 - 5) Quarterly amount of reduced clinical base salary: $\$82,800 / 2 = \$41,400$
 - ii. In order to guarantee the integrity and fairness of the compensation model, there will be an "End of Year Reconciliation," calculated at the end of the fourth quarter. This reconciliation will calculate the Physician's earned total annual compensation, which includes base salary, quality bonus and productivity bonus. Under this model, the Physician has the opportunity to recoup any salary reductions taken during the year if the Physician meets or exceeds the established annual wRVU target. Any amounts due the Physician will be paid accordingly. If the Physician does meet or exceed the annual wRVU target, the following year's base salary will be returned to the original level.
 - iii. If the Physician has **NOT** met or exceeded the annual wRVU target, the following year's base salary will be established at the reduced level. Accordingly a new annual wRVU target will be calculated. The new wRVU target will be calculated by dividing the reduced base salary by the base conversion factor of \$36.00 per wRVU in years 2 and 3. Quarterly reviews and bonus calculations or salary reductions will be determined based on Physician productivity. The year-end reconciliation will determine the Physician's base compensation level going forward.

- iv. The wRVU conversion factors will be adjusted annually to reflect the change in the Medicare Part B Physician Fee Schedule conversion factor from the previous year. The basis for year one of the contract shall be the 2014 Medicare conversion factor of \$35.8228. The percentage change in the Medicare conversion factor will be applied to the Physician's conversion factors. An example of the method for recalculating the base conversion factor is included in "**Exhibit D**" attached to this document.
5. Quality Bonus. The Physician has the potential to earn up to twenty thousand and 00/100 dollars (**\$20,000**) in a quality bonus each year for years 2 and 3 based on quality metrics established by "Hospital Name". Quality metrics will be determined at a later date. At the end of years 2 and 3, "Hospital Name" will review the most recent twelve months to determine if all metrics were achieved to earn the full quality bonus of \$20,000. If it is determined that certain metrics were not met, then the quality bonus, which is paid bi-weekly, will be adjusted down, accordingly. If by year-end, the physician catches up on the shortfall in quality metric performance, then the physician's quality bonus will be paid in full for the year.
6. Sign-On Bonus. Physician is eligible for a twenty thousand and 00/100 dollars (**\$20,000**) sign-on bonus at the beginning of contract year 1.
7. Benefits. The Physician will participate in the employer's employee benefit program, which includes health insurance, dental insurance, life insurance and cancer coverage.
8. Withholding. Payments to the Physician will be net of Federal income taxes, social security insurance contributions (FICA), other withholds and other payroll deductions required by law, elected by the Physician, or otherwise permitted by this Agreement.
9. Modification to Compensation Plan Based on Changes in Law. "Hospital Name" and the Physician acknowledge that the payment of compensation hereunder and the method of determining compensation hereunder is at all times intended to be in compliance with applicable law, including in particular the physician self-referral law known as the "Stark Law" and the regulations promulgated thereunder. If upon adoption of final regulations under the Stark Law the hospital in consultation with legal counsel determines that the method of determining and/or paying compensation hereunder should be modified, "Hospital Name" through the Board shall adopt a new compensation formula and/or payment mechanism designed to preserve the principles underlying "Hospital Name" cash flow compensation model to the extent possible consistent with applicable law. The Physician shall be consulted in connection with the development and implementation of any such modifications, which, if implemented, shall govern the Physician's compensation hereunder.
10. Modification to Compensation Plan Based on Changes in Medicare Reimbursement Changes. "Hospital Name" and the Physician acknowledge that the payment of compensation hereunder and the method of determining compensation hereunder is based on Medicare reimbursement methodology in place for calendar year 2014. If CMS should drastically alter this current methodology through health care reform, and "Hospital Name" determines that the method of determining and/or paying compensation hereunder should be modified, "Hospital Name" through the Board shall adopt a new compensation formula and/or payment mechanism designed to preserve the principles underlying the "Hospital Name" cash flow compensation model to the extent possible consistent with applicable law. The Physician shall be consulted in connection with the

development and implementation of any such modifications, which, if implemented, shall govern the Physician's compensation hereunder.

11. Practice Schedule. Physician will work a minimum of forty (40) clinical hours per week and is expected to work Monday through Friday.
12. Compensation Cap. Compensation will be capped at the MGMA 90th percentile each contract year. If Physician's total compensation reaches the MGMA 90th percentile, "Hospital Name" will review the overall compensation plan to determine if increasing the Physician's compensation in the same contract year is warranted. Compensation is subject to provisions outlined in section 9 above.
13. Employment offer is Contingent Upon:
 - a) Approval by the "Hospital Name" Board
 - b) May require review by outside legal counsel, at the discretion of "Hospital Name" General Counsel
 - c) Note: "Hospital Name" employment offer can be accepted only upon execution of a written Physician Employment Agreement to be provided by "Hospital Name". This term sheet is intended for discussion purposes only and attempts to summarize the material terms and conditions of a "Hospital Name" employment offer. This document is not a contract and shall not serve as the actual written employment agreement to be executed by "Hospital Name" and physician. Once a Physician Employment Agreement is executed, its terms and conditions will govern the physician's employment with "Hospital Name".

Source: HFMA's Value Project, *Strategies for Physician Engagement and Alignment Toolkit*, provided courtesy of Healthcare Strategy Group.

Physician has 45 days from the date of this term sheet to sign below, acknowledging acceptance of the above terms and the desire to move forward into a formal employment contract. If the term sheet is not signed within 45 days and delivered to "Name", this term sheet is null and void.

Agreed and Accepted by:

Physician Name

Date

SAMPLE ONLY

Source: HFMA's Value Project, *Strategies for Physician Engagement and Alignment Toolkit*, provided courtesy of Healthcare Strategy Group.

Exhibit A

Sample Calculation of Potential Bonus Based on wRVUs (Physician Meets Target)

		Year 1
Quality Bonus	Based on Achieving Metrics	\$0
Base Salary	Guaranteed in Years 1 and 2	\$180,000
Sign-On Bonus	Year 1 Only	\$20,000
Total Base		\$200,000
Productivity Bonus	Annual wRVU Target	5,000
	Base Conversion Factor	\$36.00
	wRVUs Performed	5,300
	wRVUs Above Target	0
	Bonus Conversion Factor	\$38.00
	Productivity Bonus	\$0
Total Compensation		\$200,000
Compensation to w/RVU		\$37.74

Exhibit B

Sample Calculation of Bonus and Salary Based on NOT Meeting wRVU Targets

In year 1, the Physician's base salary will be guaranteed. In years 2 and 3 and future years, if the Physician's level of production does not reach the target number of wRVUs for two consecutive quarters, then the Physician's base salary will be reduced by the wRVU deficit multiplied by the base conversion factor of \$36.00, but not to exceed a 20% reduction in base salary in any given contract year. Annual and quarterly wRVU targets will not be changed during a contract year.

In order to guarantee the integrity and fairness of the compensation model, there will be an "End of Year Reconciliation," calculated at the end of the fourth quarter. This reconciliation will calculate the Physician's earned total annual compensation, which includes base salary, quality bonus and productivity bonus. Under this model, the Physician has the opportunity to recoup any salary reductions taken during the year if the Physician meets or exceeds the established annual wRVU target. Any amounts due the Physician will be paid accordingly. If the Physician does meet or exceed the annual wRVU target, the following year's base salary will be returned to the original level.

If the Physician has **NOT** met or exceeded the annual wRVU target, the following year's base salary will be established at the reduced level. Accordingly a new annual wRVU target will be calculated. The new wRVU target will be calculated by dividing the reduced base salary by the base conversion factor of \$36.00 per wRVU in years 2 and 3. Quarterly reviews and bonus calculations or salary reductions will be determined based on Physician productivity. The year-end reconciliation will determine the Physician's base compensation level going forward.

Source: HFMA's Value Project, *Strategies for Physician Engagement and Alignment Toolkit*, provided courtesy of Healthcare Strategy Group.

Example wRVUs Shortfall Target

Base Salary: \$ 180,000
Quarterly Base Salary: \$ 45,000

Base Conversion Factor: \$ 36.00
Bonus Conversion Factor: \$ 38.00
 wRVU Target Level **5,000**

	Target	Actual
1st Quarter Target for wRVUs	1,250	1,250
2nd Quarter Target for wRVUs	1,250	1,150
3rd Quarter Target for wRVUs	1,250	1,150
4th Quarter Target for wRVUs	1,250	1,250
Total	5,000	4,800

	Quarter	Cumulative	Quarterly Difference	Cumulative Difference	Potential Bonus or (Reduction)	Productivity Bonus	Base	Actual Base + Bonus
1st Quarter Actual for wRVUs	1,250	1,250	-	-	\$ -	\$ -	\$ 45,000	\$ 45,000
2nd Quarter Actual for wRVUs	1,150	2,400	(100)	(100)	\$ -	\$ -	\$ 45,000	\$ 45,000
3rd Quarter Actual for wRVUs	1,150	3,550	(100)	(200)	\$ (7,200)	\$ -	\$ 41,400	\$ 41,400
4th Quarter Actual for wRVUs	1,250	4,800	-	(200)	\$ -	\$ -	\$ 41,400	\$ 41,400
End of Year Reconciliation Amount:	4,800	4,800			\$ -	\$ -	\$ 172,800	\$ 172,800

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Exhibit C

wRVU Calculation Details

Physician's wRVU totals are calculated by obtaining a Current Procedural Terminology (CPT) productivity report from the Physician's practice management system. This report will detail the service performed and billed by the Physician (as represented by an applicable CPT code) and the number of each CPT performed and billed (the frequency for each CPT) during the period.

Total annual wRVUs will be reconciled and, if necessary, adjusted for claims that have been refunded or denied. This will be completed as a part of the end of year reconciliation described above.

The "End of Year Reconciliation" will be completed within forty-five (45) days of the last weekday of the fourth quarter of the fiscal/contract year.

Exhibit D

Clinical Base Conversion Factor Calculation After Year 1

The base conversion factor shall be calculated annually by using the percentage change in the Medicare Physician Fee Schedule conversion factor. The 2014 Medicare conversion factor of \$35.8228 is to be used as the base number in calculating the percentage change.

Calculation:

1. 2015 Medicare conversion factor divided by the 2014 Medicare conversion factor calculates the percentage change.
2. The percentage change multiplied by the base conversion factor of \$36.00 per wRVU calculates the 2015 base conversion factor used in the physician compensation model.

Example Calculation:

2015 Medicare Conversion Factor (example)	\$35.00
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2014 Medicare Conversion Factor (actual)	\$35.8228
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Calculated percentage change	0.977031
Base conversion factor	\$36.00
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Multiplied by percentage change	X 0.977031
= 2015 Base Conversion Factor	= \$35.17

Source: HFMA's Value Project, *Strategies for Physician Engagement and Alignment Toolkit*, provided courtesy of Healthcare Strategy Group.

Exhibit E

Sample Physician Compensation (Years 1 through 3)

		Year 1	MGMA %	Year 2	MGMA %	Year 3	MGMA %
Quality Bonus	Based on Achieving Metrics	\$0		\$20,000		\$20,000	
Base Salary	Guaranteed in Years 1 and 2	\$180,000	28%	\$180,000	28%	\$180,000	28%
Sign-On Bonus	Year 1 Only	\$20,000		\$0		\$0	
Total Base		\$200,000		\$200,000		\$200,000	
Productivity Bonus	Annual wRVU Target	5,000	56%	5,000	56%	5,000	56%
	Base Conversion Factor	\$36.00		\$36.00		\$36.00	
	wRVUs Performed	4,000	32%	5,000	56%	5,700	72%
	wRVUs Above Target	0		0		700	
	Bonus Conversion Factor	\$38.00		\$38.00		\$38.00	
	Productivity Bonus	\$0		\$0		\$26,600	
Total Compensation		\$200,000	42%	\$200,000	42%	\$226,600	58%
Compensation to w/RVU		\$50.00		\$40.00		\$39.75	

Source: Compensation is subject to change based on level wRVU production and achievement of quality metrics. MGMA %'s were taken from the 2014 MGMA Compensation and Production Survey for 'Family Medicine (without OB).'