

Advancing Leaders. Advancing Practices.™

Keeping a leadership team intact

The word “team” is used freely in today’s healthcare environment yet establishing a group of professionals who work well together, pursue the same goals and work seamlessly to support high-quality patient care is difficult. Once you create that team, the key is to nurture those employees to encourage longevity. An executive benefits package that includes alternate forms of compensation is a key element of a retention package.

Team ROI

Once you have the leadership team that is right for your organization, there is a cost to losing a key member, whether a physician leader or administrator, and a lot to gain from keeping the team intact.

The ramifications of not securing valued executives can be costly. Soft-costs include:

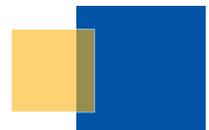
- Office efficiency suffers as others pick up additional interim responsibility
- Existing relationships with patients and vendors are jeopardized
- Familiarity with your organization will take time to develop

In addition, we know that an executive search is costly and that the search and recovery can stretch out for a significant amount of time. In the end, there is no guarantee the new executive will be the right fit for the group, which has myriad implications for short- and long-term success.

Keeping a leadership team intact can pay huge dividends to a practice, including:

- Continuity of care for patients
- Familiarity with local markets (knowing the managed care environment and understanding the referral network) and the patient population, which can yield opportunities and avoid costly mistakes
- Capitalizing on existing relationships
- Building a team environment where administration, physicians and staff function as a cohesive unit

But, once you do have a team that is the right fit, how can you ensure that you can maintain your success and help guarantee that you achieve the organizational results you desire?



Staying power

Executive retention should be the goal of every practice and every business. Executives stay in their current job for numerous reasons including:

- Fair compensation
- Feeling valuable to and appreciated by the organization
- Engagement with the organization and enjoy their work
- Career opportunities to continue growth and development

If you are falling short in one or more of these areas, then you can expect turnover. But, even doing a great job in each of these areas does not prevent your key team member from being approached and offered incentives to leave.

Your Administrator is Key

Administrators seek careers in the medical field because they are motivated to help others, according to MGMA research. They seek ways to improve the patient experience, which is one of the most rewarding aspects of their career. A close second is the trust they earn from the providers for whom they work. Despite long hours and demanding, unpredictable schedules, practice administrators find immense satisfaction in the knowledge that their ability to build and run teams can make life-and-death differences to patients as outlined in the MGMA special issue “Ripple Effects” (mgma.org/ripple-effects).

Administrators are tasked to create and maintain a support network or foundations from which to deliver patient care. At the same time, many organizations find it difficult to recognize these professionals as partners. Some find it difficult to appropriately compensate these professionals, due to a volatile environment that is threatened by uncertain payment, practice mergers and acquisitions, and the ability to increase market share and, as a result, increase income.

For many administrators, tenure with one group results in incremental increases in salary. Significant increases come only with increased responsibility and limited opportunities for advancement might prompt talented professionals to look elsewhere to grow financially or professionally. Administrators might not seek out recognition but they want to know that their contributions to the organization are recognized and appreciated. One way to demonstrate appreciation is through financial compensation.

To balance that equation, organizations are exploring ways to reward valued administrators for their long-term investment in their group’s success. One option is deferred compensation that provides incentives for long-term alliances and gives administrators’ a stake in the group’s financial success.



Guarantees?

So how can a practice provide financial security and job stability to its valued administrator and physician executives when money is often in short supply? There is great uncertainty for the following reasons:

- Rising costs and changing reimbursement methods
- Pressure to maintain cost efficiency
- The uncertainty of potential mergers or acquisitions

There are ways to help ensure that a valued team will stay intact and continue to perform at the same high level. While there is no guarantee that a deferred compensation arrangement will retain a key staff member, you can guarantee you will **not** pay the additional compensation **unless** that person meets the conditions of the contract. Pay of this type is tied into the the long-term profitability of the practice and recognition of the value of all of the team players.

Organizations who want to provide additional financial security for their trusted executives might want to consider compensation programs that reward desired behaviors if certain conditions are met. How does a plan like that work?

- The employer enters into a contract with a key employee that stipulates a future payment based on a defined set of conditions.
- Prudence dictates the employer would reserve the funds required to fulfill the contract, though this is not required.
- If the employee fulfills the specified conditions of the contract, the employer pays what was promised.
- If the employee does not adhere to the conditions, the employer retains the reserve.

A deferred compensation contract recognizes an executive's contributions to the organization and provides the type of financial incentives that some groups might not otherwise be able to offer.

Deferred Compensation

Deferred compensation programs are common executive recruitment and retention tools in industry and large service organizations, but are relatively rare in healthcare. Deferred compensation is the term commonly used for any non-qualified compensation plans that pay benefits in the future, which are so-named because they fall outside of Employee Retirement Income Security Act (ERISA) guidelines.



Non-qualified plans are designed to meet specialized retirement or other future needs for key team members. If these plans are unfunded and limited to a select group of management or highly compensated individuals they are exempt from the most burdensome provisions of title I of ERISA. An overview of non-qualified plans is available from the US Internal Revenue Service at www.irs.gov/Retirement-Plans/409A-Nonqualified-Deferred-Compensation-Plans.

These plans are built on an agreement – an employment contract – which explains the benefit offered to the employee and the conditions the employee must satisfy to gain the benefit. So although the framework is simple the plan can be complex because the employer has the ability to customize these plans for each employee.

There are typically three elements that must be considered. The employer must:

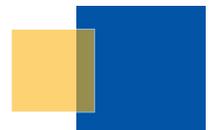
- Determine the benefit
- Determine the conditions
- Determine the best funding options

The employment contract allows the organization to define objectives that a key team member will have financial incentives to achieve. And, if the employee fails to meet the terms of the agreement there is no financial risk to the organization.

Although the organization is not required to set aside reserves in order to pay the benefit when earned, most companies allocate and account for the necessary funds. The assets remain assets of the company and are fully subject to the claims of the companies creditors. Organizations tend to be conservative in their choices and seek a method that is tax-friendly. One of the most commonly used options that can accumulate growth in a conservative environment is a life insurance policy that accumulates a cash benefit that can be paid out at a future date.

This type of incentive can help groups of all sizes keep successful teams intact. All teams, whether in sports or medicine, have significant players who have supportive roles, and are essential to maintaining high performance. An executive benefits specialist can help set up a compensation program that works for you.

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Through its national membership and 50 state affiliates, MGMA represents more than 33,000 medical practice administrators and executives in practices of all sizes, types, structures and specialties. MGMA is headquartered in Englewood, Colo., with a Government Affairs office in Washington, D.C. Please visit mgma.org.

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*Based on revenue as reported by "Fortune 500 ranked within Industries, Insurance: Life, Health (Mutual)," Fortune magazine, 6/16/14. For methodology, please see <http://fortune.com/fortune500/>.

**Individual independent rating agency commentary as of 6/4/14.

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