

It matters how your practice is paid. A primer for young doctors.

MAY 12, 2022

Timothy M. Smith

Senior News Writer

It might be tough for many U.S. medical schools and residency programs to find space in their congested curricula to cover how doctors get paid, but knowledge of it is central to the transition to practice. Lots of physicians today enter the workforce unclear on how health care is paid for, how payments influence the decisions they make and even how their practice's payment types can affect their career goals.

An AMA STEPS Forward[®] toolkit explores the pros, cons and other details of practices by payment type. It also provides breakdowns of the pros and cons of various practice settings and the steps to take to decide where to practice.

The toolkit, "What to Look for in Your First or Next Practice," is a free online module and is designated by the AMA for a maximum of 0.5? *AMA PRA Category 1 Credit*[™].

Fee-for-service

Long the cornerstone of the U.S. health care system, fee-for-service doles out payments based on the number of appointments or procedures a physician provides.

Pros: It gives physicians control over their salaries and their scheduling too. It also allows for variations in work effort and style.

Cons: It incentivizes volume over quality and fails to reward decisions not to treat.

"Fee-for-service *sounds* really good," said Brandi Ring, MD, associate medical director of ob-gyn at the Center for Children and Women Southwest, in Houston, a health plan capacitated multi-specialty center. Her first job out of residency was a salaried position in a small fee-for-service private practice.

“What you don't realize is that it's hard to know what a high-reimbursement procedure is,” Dr. Ring said. “That's determined by a complex equation involving how much you charge for a visit, how much the insurance company pays you for doing it, and your overhead, such as rent and salaries. The devil is in those details.”

Capitation

Practices receive a set amount of money per patient per month, no matter how many visits those patients make. This is also known as value-based care.

Pros: It may allow for smaller panels and more time with patients.

Cons: Physicians may feel pressure to limit costly medications, diagnostics and referrals. In addition, they might not be in control of the outcomes used to calculate bonuses, and flawed risk adjustment methods may cause stinting on care for high-need patients.

“There has to be someone in charge of controlling the budget,” Dr. Ring said. “Capitation has to cover the salaries of physicians, who bring in revenue, but it also has to cover the salaries of folks who don't bill for their time, such as social workers, nutritionists and care coordinators.”

Hybrid

This is a blend of fee-for-service and capitation.

Pros: It provides multiple income streams and may give flexibility in practice.

Cons: Juggling two models can reduce the financial benefit from both.

“The only way hybrid models really work is by having a large enough workforce to calculate the metrics you get paid on,” Dr. Ring said. “In my five-physician private practice, to measure how many of our pregnancy patients had more than 10 visits, we would have had to pull every single chart.”

Direct primary care

Also known as concierge practice, in this case the physician collects annual fees from patients for all of their primary care needs. Insurance is not involved.

Pros: It may allow for more time with patients and inflict less administrative burden.

Cons: Practices are limited to primary care. They also have to build large panels, be available 24/7 and persuade patients to pay a subscription fee.

“Concierge practices often do house calls,” Dr. Ring said. “It’s kind of like going back in time.”