



# Policy Research Perspectives

## How Are Physicians Paid? A Detailed Look at the Methods Used to Compensate Physicians in Different Practice Types and Specialties.

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### Introduction

This Policy Research Perspective (PRP) provides a detailed examination of how physicians, other than those in solo practice, are compensated by their practices. Using data from the American Medical Association's (AMA's) 2012, 2014, and 2016 Physician Practice Benchmark Surveys, we find that while salary continues to be the dominant method of physician compensation, productivity is also a large and important factor, especially for physicians who are practice owners. We also find evidence that the use of multiple methods to determine physicians' overall compensation has been on the upswing.

In 2016, an average of 52.5 percent of physician compensation came from salary, 31.8 percent from personal productivity, 9.0 percent from practice financial performance, 4.1 percent from bonuses, and 2.5 percent from other sources. Over half of physicians (54.4 percent) indicated that their compensation was based on more than one method, greater than what was observed in 2014 and 2012. Methods of physician compensation varied by ownership status, practice type, and specialty. The average compensation share from salary was higher for physicians who were employees compared to those who were owners of their practice (69.9 percent compared to 30.1 percent). In contrast, the share based on productivity was higher for physicians who were owners compared to physicians who were employees in their practice (44.7 percent compared to 22.3 percent). Physicians in single and multi-specialty practices were less likely to receive a salary and more likely to report productivity as a compensation method compared to physicians who were employed directly by a hospital or who worked in faculty practice plans (FPPs), for medical schools, or in other practice types. Across specialties, the percentage of physicians who were exclusively salaried ranged from 12.0 percent of physicians in surgical subspecialties to 41.0 percent of psychiatrists.

### Data and methods

The Benchmark Surveys contain nationally representative data on U.S. physicians who are post-residency, not employed by the federal government, and provide at least 20 hours of patient care per week.<sup>1</sup> The surveys collect detailed information about the practice arrangements and payment methodologies of participating physicians. The Benchmark Survey was conducted in September of 2012, 2014, and 2016 with approximately 3,500 respondents each year.

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<sup>1</sup> See Kane, 2017 for additional details about the survey methodology.

For this PRP we focus on survey questions related to how physicians were compensated by their practice. Physicians were asked if they received compensation based on any of the following methods: salary, personal productivity, practice financial performance and bonus (unrelated to personal productivity or practice financial performance) and then asked to provide their best estimate of the percentage of their income from each compensation method received.<sup>2</sup> Physicians in solo practice were excluded from this series of questions because their compensation is directly related to personal productivity and practice financial performance. In 2016, physicians were also asked to indicate if any of the following methods were used to determine their base salary: time working at practice (practice tenure), productivity in the previous year (RVUs), patient satisfaction scores, specialty, and scores on clinical “report cards”.

### **Incidence of compensation methods**

Based on data from the Benchmark Surveys, salary and personal productivity were the two most frequently reported compensation methods in 2016 (Exhibit 1). Sixty-five percent of physicians received a salary and 55.3 percent reported that productivity factored into their compensation. A lower percentage of physicians indicated that their compensation depended on practice financial performance (29.7 percent) and bonuses (33.2 percent).

### Differences across ownership status

As expected, there were large differences in the incidence of each compensation method depending on the physician’s ownership role in the practice (Exhibit 1). In 2016, 80.8 percent of physicians who were employees indicated that their compensation was based, at least in part, on salary; this was true for only 44.9 percent of physicians who were owners. In contrast, personal productivity and practice financial performance were cited more often by owners. Sixty-four percent and 47.4 percent of owners indicated, respectively, that productivity and practice financial performance contributed toward their compensation, compared to only 49.4 percent and 19.2 percent of employees. Thus, while employees were more likely to receive a salary, owners were more likely to depend on variable compensation methods, such as personal productivity and practice financial performance. Bonuses, however, which are also variable, were reported more often by employees than by owners (36.9 percent compared to 30.3 percent).

### Differences across practice type

The incidence of compensation methods also varied across practice type (Exhibit 1). There was a substantial difference between the compensation structure of physicians in single specialty or multi-specialty practices and physicians in other practice settings.<sup>3</sup> While 55.1 percent and 67.8 percent of physicians in single and multi-specialty practices received a salary, this share was approximately 90

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<sup>2</sup> Unlike in 2014 and 2016, in 2012 physicians were asked to indicate and estimate the percentage of their income for only the method that accounted for the largest share of their income.

<sup>3</sup> In the 2016 Benchmark Survey, 16.5 percent of physicians were in a solo practice (these physicians were excluded from the analysis as discussed earlier), 24.6 percent were in a multi-specialty practice, 42.8 in a single specialty practice and the remaining 16.2 percent in other practice types (FPP, directly employed by a hospital, medical school, and other).

percent among physicians in FPPs and medical schools as well as among those who were directly employed by hospitals. This is consistent with the fact that physicians in the latter groups tend to be employees who, as previously discussed, more frequently report receiving salaried compensation than owners. In contrast, the percentage of physicians who reported personal productivity as a factor in their compensation was higher among those in single and multi-specialty practices (around 59 percent) than among direct hospital employees (38.0 percent) and physicians in medical schools (44.4 percent) or other practice types (26.6 percent). Finally, about 30 percent of physicians in single specialty practices, multi-specialty practices, FPPs, and medical schools indicated that practice financial performance was a factor in their compensation.

#### Multiple compensation methods and differences across years

Looking across compensations methods, the reported percentages discussed above sum to more than 100 percent (Exhibit 1). This suggests that many physicians—in fact, the majority (54.4 percent)—were compensated based on more than one method. Forty-six percent of physicians were paid by a single method in 2016, down from 49.0 percent in 2014 and 51.8 percent in 2012 (Exhibit 2). In 2016, 30.7 percent were compensated based on two methods, 15.6 percent based on three methods, and 8.1 percent based on four or more methods. Overall, we see that there has been a continued shift towards utilizing multiple payment methods in determining a physician's total compensation.

#### **Average compensation share**

In the Benchmark Survey, physicians were asked to provide their best estimate of the percentage of income that came from each compensation method they received (Exhibit 3). On average, more than half of compensation (52.5 percent) came from salary, 31.8 percent from personal productivity, 9.0 percent from practice financial performance, 4.1 percent from bonuses, and 2.5 percent from other sources.

This distribution looks different for owners and employees. In fact, the average compensation share from salary was 30.1 percent for owners and over twice that amount for employees (69.9 percent). In contrast, the average compensation share from personal productivity was 44.7 percent for owners and about half that amount for employees (22.3 percent). Similarly, the average compensation share from practice financial performance was more than six times higher for owners (18.5 percent) compared to employees (2.9 percent). As noted earlier, the data suggest a contrast between employees and owners, with the former relying more on salary and the latter on variable based compensation methods such as productivity and practice financial performance. The average shares from salary and productivity for independent contractors fall in between those observed for employees and owners.<sup>4</sup>

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<sup>4</sup> Independent contractors account for 5.9% of all patient care physicians (Kane, 2017) and 6.3% of the “non-solo” physicians who are the focus of this PRP.

## **Methods received exclusively, or that account for more than half of compensation**

Earlier, we discussed the incidence of compensation methods (Exhibit 1) and also noted that the majority of physicians received more than one compensation method (Exhibit 2). We also examined the compensation shares from each method for the average physician (Exhibit 3). However, none of these metrics are indicative of how heavily a physician's overall compensation relied on one method over another. In this section, we identify whether physicians received *all of* their compensation from a particular method or only more than half, but not all. These additional metrics provide detail that the average shares do not and show that, despite the widespread use of multiple compensation methods, the compensation of most physicians depends quite heavily on either salary or productivity.

In total, slightly less than 40 percent of physicians were paid exclusively based on either salary or personal productivity, 19.0 percent for the first method and 19.3 percent for the second (Exhibit 4). Thirty-seven percent indicated that more than half but not all of their compensation came from salary and 9.3 percent said the same for personal productivity.<sup>5</sup> In total, more than 85 percent of physicians received more than half of their compensation either from salary or based on their personal productivity.

### Differences across ownership status

The differences between employed and owner physicians in terms of whether they were exclusively salaried or paid based on their productivity were stark. Employees were more than five times as likely as owners to cite salary as their exclusive method of compensation, 28.6 percent compared to 5.2 percent (Exhibit 4). In addition, 46.3 percent of employees indicated that more than half but not all of their compensation came from salary compared to 25.6 percent of owners. Thus, while three-quarters of employees received more than half of their compensation from salary, only 30.9 percent of owners said the same.

In contrast, owners were more than twice as likely as employees to report that their compensation depended exclusively on personal productivity, 27.7 percent compared to 12.4 percent. Further, 14.2 percent of owners compared to 6.4 percent of employees reported that more than half but not all of their compensation depended on productivity. Although these percentages were lower for employees, the fact that almost a fifth of employees reported that the majority of their compensation was based on their productivity is striking.

Finally, practice financial performance was only important in the compensation of owners. Ten percent of owners reported that it was the sole factor in determining their compensation and an additional 3.3 percent indicated that it made up more than half but not all of their compensation. Only about 1 percent of employees and independent contractors indicated that practice financial performance determined the majority of their compensation.

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<sup>5</sup> Compared to 2014, we see a slight decrease in the percentage of those who only received salary and an increase in those that received more than half but not all of their compensation from salary (data found in Kane, 2014). This is consistent with the result discussed earlier: while salary has the highest mean compensation share (Exhibit 3), more compensation methods are being utilized in overall payment (Exhibit 2).

### Differences across practice type

In Exhibit 1, we noted that the incidence for each compensation method often differed between single or multi-specialty practices compared to other practice types. We observe a similar pattern when considering if a single compensation method was received exclusively or accounted for more than half but not all of compensation, as seen in Exhibit 4. Salary appeared to dominate in this regard among physicians who worked in medical schools, FPPs, hospitals, or other practice types. For example, among direct hospital employees, 36.1 percent received only a salary and 47.8 percent received more than half but not all of their compensation from a salary. Thus, 83.8 percent of direct hospital employees indicated that more than half of their compensation came from salary. Percentages were similar among physicians in medical schools, FPPs, and other practice types. In contrast, only 44.7 percent of physicians in single specialty practices and 59.0 percent of physicians in multi-specialty practices indicated that more than half of their compensation came from salary. It was much more common for productivity to be the method received exclusively or that accounted for more than half but not all compensation for physicians in single specialty and multi-specialty practices compared to physicians in other practice types. Twenty-five percent of physicians in single specialty practices and 17.3 percent of physicians in multi-specialty practices were exclusively compensated based on personal productivity. In contrast, among physicians in all other practice types, less than 10 percent indicated that they were exclusively compensated based on personal productivity.

### Differences across specialty

Our work suggests that compensation methods vary greatly across physician specialty. In Exhibit 5, we examine the compensation methods of physicians in 12 specialty groups. The percentage of physicians that were exclusively salaried ranged from 12.0 percent of surgical subspecialists (bottom of exhibit) to 41.0 percent of psychiatrists (top of exhibit). Similarly, the percentage of physicians who were paid exclusively based on their personal productivity ranged from 7.7 percent of radiologists to 33.0 percent of surgical subspecialists. For all specialties except for radiology, well under 10 percent of physicians indicated that the majority of their compensation came from practice financial performance. Nineteen percent of radiologists, almost all of whom were owners, indicated that this was the case.

### **What is salary based on?**

Because salary had both the highest incidence and accounted for the largest share of physician compensation, it is important to know how it is determined. As we found with compensation more generally, physicians reported that a variety of methods contributed to their salary.

Most often mentioned as salary determinants were physician specialty (by 61.1 percent of physicians who received a salary), time worked in the practice (45.2 percent), and prior year productivity (32.2 percent) (Exhibit 6). Because some physicians indicated that their salary was based on prior year productivity, our earlier estimates may actually *understate* the importance of productivity in determining physician compensation. Among physicians who received a salary, 43.4 percent indicated that their salary was based on more than a single factor (data not shown).

Exhibit 6 also shows how salary determinants varied across physician ownership status and practice type, and we highlight some of those differences here. Except for time working at practice, determinants seemed to vary across ownership status and practice type. Sixty-seven percent of employees compared to 44.3 percent of owners reported that physician specialty was a determinant. A higher percentage of physicians in multi-specialty practices compared to single specialty practices reported physician specialty (68.5 percent compared to 47.2 percent) and prior year productivity (39.5 percent compared to 30.1 percent) as salary determinants. It should be noted, however, that despite these variations, specialty, time worked in the practice, and prior year productivity were always the salary determinants cited most often, notably more so than patient satisfaction scores and clinical report cards, regardless of ownership status or practice type.

## **Conclusion**

Using data from the AMA's 2016 Physician Practice Benchmark Survey, this Policy Research Perspective provides a detailed look at how physicians—other than those in solo practice—are compensated by their practices. While salary continues to dominate as a compensation method, personal productivity is also an important factor in compensation, especially for practice owners. Additionally, we found that the majority of physicians are compensated using multiple methods, and that this share increased from 2014.

In 2016, 19.0 percent of physicians reported that their compensation was exclusively based on salary and 19.3 percent indicated the same for productivity. Although there was a high incidence of physicians who received compensation based on practice financial performance (29.7 percent), only 4.5 percent were compensated exclusively from this method.

Compensation methods differed by ownership status. Employees relied more heavily on salary compared to owners, who, in turn indicated a greater dependence on variable based methods, such as personal productivity and practice financial performance. For owners, the average compensation share from personal productivity (44.7 percent) was double the share for employees (22.3 percent). Further, we found that only 5.2 percent of owners were exclusively compensated with a salary while 27.7 percent reported the same for personal productivity. In contrast, 28.6 percent of employees were exclusively compensated based on a salary while only 12.4 percent said the same for personal productivity. An additional 6.4 percent of employees received more than half but not all of their compensation based on personal productivity. Combining those two shares, the fact that almost a fifth of employed physicians—who are often referred to as “salaried”—reported that more than half of their compensation was based on productivity is striking. Thus, even if a physician is an employee, it does not necessarily mean he or she is salaried.

We also observed differences in compensation by practice type. Physicians in single and multi-specialty practices relied more heavily on compensation based on personal productivity than physicians in other practice types. They were more likely to receive compensation solely based on personal productivity (25.2 percent of physicians in single specialty practices and 17.3 percent of physicians in multi-specialty practices compared to less than 10 percent of physicians in other practice types). Among physicians in other practice types, including direct hospital employees and physicians in faculty practice plans and medical schools, around 90 percent received a salary and

between 68.5 percent and 83.8 percent indicated that the majority of their compensation came from salary, higher than what physicians in single and multi-specialty practices reported.

There were also differences in compensation based on physician specialty. The percentage of physicians in each specialty that were exclusively compensated by salary ranged from 12.0 percent of physicians in surgical subspecialists to 41.0 percent of psychiatrists. Further, the percentage of physicians in each specialty that were exclusively compensated based on personal productivity ranged from 7.7 percent of radiologists to 33.0 percent of surgical subspecialists.

Due to the dominance of salary as a compensation method, we also examined the determinants of salary and found that a high percentage of physicians identified specialty (61.1 percent), time working at practice (45.2 percent) and prior year productivity (32.2 percent) as factors that determined their salary. Although the percentages reported varied by ownership status and practice type, we found that these three determinants were always the top three most cited salary determinants regardless of ownership status or practice type

Overall, the Benchmark Survey provides valuable information from physicians on how they are compensated by their practice. Despite the gradual shift toward alternative payment methods in practice payment, at the physician level we see that many are still compensated based on productivity. Further, it is important to note that the extent to which productivity determines physician compensation is potentially underestimated in this PRP. About one-third of physicians who received a salary indicated that it was at least partly determined by productivity in the prior year.

**Exhibit 1. Percentage of physicians who report compensation methods by ownership and practice characteristics (2016)**

|                           | Salary | Personal productivity | Practice financial performance | Bonus | Other | N    |
|---------------------------|--------|-----------------------|--------------------------------|-------|-------|------|
| <b>All physicians</b>     | 64.7%  | 55.3%                 | 29.7%                          | 33.2% | 3.4%  | 2900 |
| <b>Ownership status</b>   |        |                       |                                |       |       |      |
| Owner                     | 44.9%  | 64.2%                 | 47.4%                          | 30.3% | 2.2%  | 1154 |
| Employee                  | 80.8%  | 49.4%                 | 19.2%                          | 36.9% | 2.3%  | 1577 |
| Independent contractor    | 48.4%  | 51.2%                 | 11.7%                          | 18.6% | 20.1% | 169  |
| <b>Type of practice</b>   |        |                       |                                |       |       |      |
| Single specialty practice | 55.1%  | 59.0%                 | 32.7%                          | 28.3% | 2.4%  | 1497 |
| Multi-specialty practice  | 67.8%  | 59.5%                 | 31.1%                          | 37.3% | 2.7%  | 855  |
| Faculty practice plan     | 91.0%  | 54.2%                 | 28.6%                          | 50.5% | 1.6%  | 111  |
| Direct hospital employee  | 89.8%  | 38.0%                 | 13.2%                          | 36.3% | 4.2%  | 253  |
| Medical school            | 91.7%  | 44.4%                 | 30.6%                          | 51.6% | 1.5%  | 61   |
| All other                 | 71.1%  | 26.6%                 | 19.4%                          | 33.0% | 18.5% | 123  |

Source: Author's analysis of AMA 2016 Physician Practice Benchmark Survey. Physicians in solo practices are excluded from the analysis.

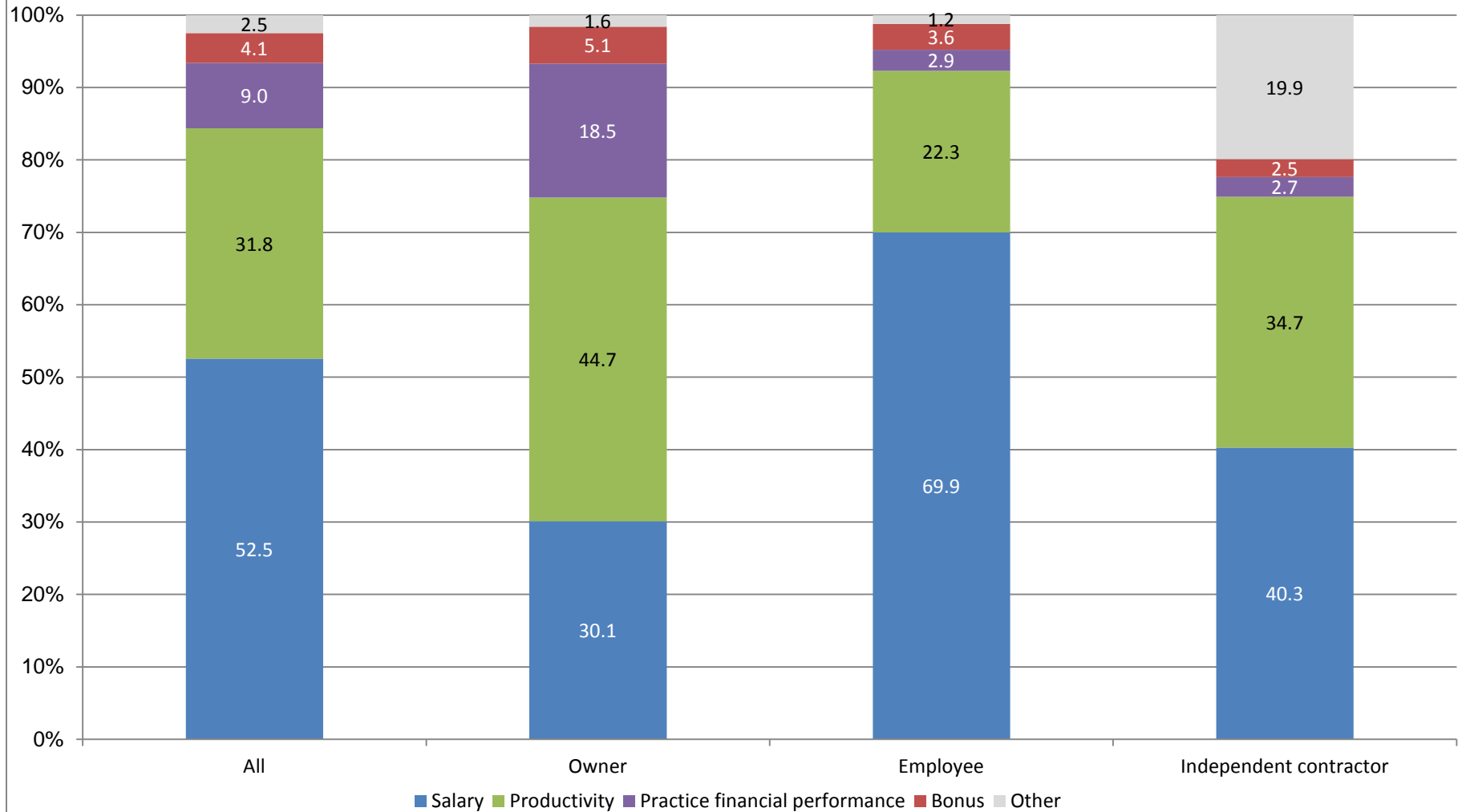
**Exhibit 2. Distribution of physicians by number of payment methods (2012, 2014, and 2016)**

| Number of payment methods that factor into total compensation | 2012  | 2014  | 2016  |
|---|-------|-------|-------|
| 1   | 51.8% | 49.0% | 45.6% |
| 2   | 30.3% | 29.6% | 30.7% |
| 3   | 13.2% | 14.4% | 15.6% |
| 4   | 4.7%  | 7.0%  | 8.1%  |
| More than 4   | 0.0%  | 0.1%  | 0.0%  |
|   | 100%  | 100%  | 100%  |

Source: Author's analysis of AMA 2012, 2014, and 2016 Physician Practice Benchmark Survey. Physicians in solo practices are excluded from the analysis.



### Exhibit 3. Mean compensation shares by physician ownership status (2016)



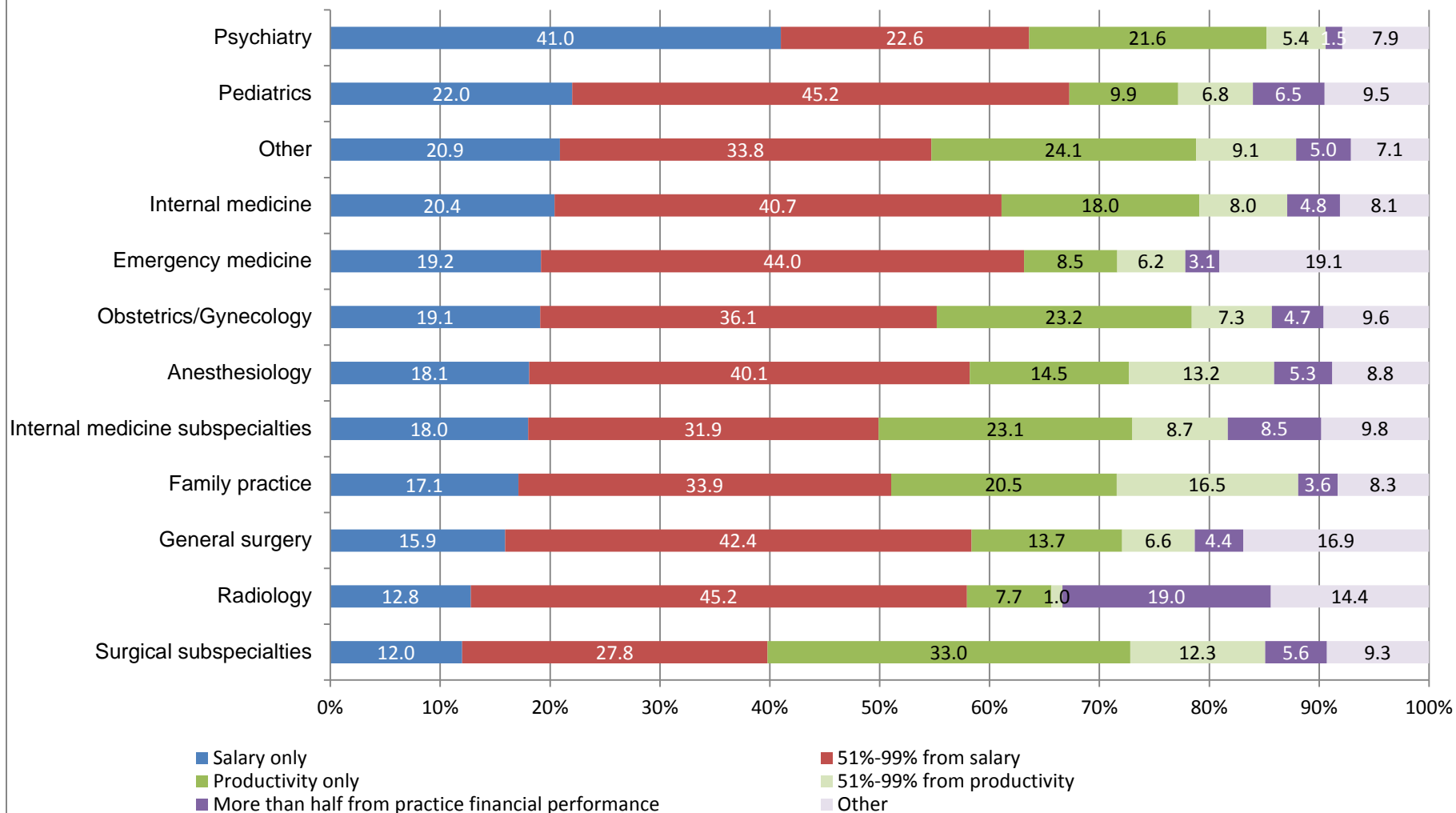
Source: Author's analysis of AMA 2016 Physician Benchmark Survey. Physicians in solo practices are excluded from the analysis.

**Exhibit 4. Distribution of physicians by compensation method (2016)**

|                           | Salary |                             | Personal productivity |                             | Practice financial performance |                             | Other | Total |
|---------------------------|--------|-----------------------------|-----------------------|-----------------------------|--------------------------------|-----------------------------|-------|-------|
|                           | Only   | More than half but not 100% | Only                  | More than half but not 100% | Only                           | More than half but not 100% |       |       |
| <b>All physicians</b>     | 19.0%  | 36.5%                       | 19.3%                 | 9.3%                        | 4.5%                           | 1.4%                        | 9.9%  | 100%  |
| <b>Ownership status</b>   |        |                             |                       |                             |                                |                             |       |       |
| Owner                     | 5.2%   | 25.6%                       | 27.7%                 | 14.2%                       | 10.3%                          | 3.3%                        | 13.7% | 100%  |
| Employee                  | 28.6%  | 46.3%                       | 12.4%                 | 6.4%                        | 0.9%                           | 0.3%                        | 5.2%  | 100%  |
| Independent contractor    | 21.0%  | 19.5%                       | 26.7%                 | 3.9%                        | 0.8%                           | 0.0%                        | 28.1% | 100%  |
| <b>Type of Practice</b>   |        |                             |                       |                             |                                |                             |       |       |
| Single specialty practice | 14.3%  | 30.4%                       | 25.2%                 | 10.6%                       | 6.8%                           | 2.1%                        | 10.5% | 100%  |
| Multi-specialty practice  | 19.8%  | 39.2%                       | 17.3%                 | 11.3%                       | 3.1%                           | 0.9%                        | 8.5%  | 100%  |
| Faculty practice plan     | 17.7%  | 61.7%                       | 6.0%                  | 4.6%                        | 0.0%                           | 0.8%                        | 9.2%  | 100%  |
| Direct hospital employee  | 36.1%  | 47.8%                       | 5.4%                  | 2.5%                        | 1.1%                           | 0.0%                        | 7.2%  | 100%  |
| Medical school            | 22.9%  | 59.2%                       | 4.1%                  | 4.7%                        | 2.7%                           | 0.0%                        | 6.5%  | 100%  |
| All other                 | 33.4%  | 35.1%                       | 9.5%                  | 1.0%                        | 0.0%                           | 0.6%                        | 20.4% | 100%  |

Source: Author's analysis of AMA 2016 Physician Practice Benchmark Survey. N's are the same as in Exhibit 1. The "all other" practice type category includes ambulatory surgical centers, urgent care facilities, HMO/MCOs, and fill in responses. Physicians in solo practices are excluded from the analysis.

### Exhibit 5. Distribution of physicians by compensation method, specialty level results (2016)



Source: Author's analysis of AMA 2016 Physician Benchmark Survey. Physicians in solo practices are excluded from the analysis.

**Exhibit 6. What is salary based on? (2016)**

| Determinant                       | All   | Ownership Status |          |                        | Practice Type   |                  |       |
|-----------------------------------|-------|------------------|----------|------------------------|-----------------|------------------|-------|
|                                   |       | Owner            | Employee | Independent Contractor | Multi-Specialty | Single Specialty | Other |
| Physician specialty               | 61.1% | 44.3%            | 66.9%    | 74.4%                  | 68.5%           | 47.2%            | 76.0% |
| Time working at practice          | 45.2% | 46.4%            | 45.6%    | 31.5%                  | 43.7%           | 42.7%            | 51.3% |
| Prior year productivity (RVU)     | 32.2% | 29.6%            | 33.8%    | 24.0%                  | 39.5%           | 30.1%            | 27.0% |
| Patient satisfaction scores       | 15.3% | 12.7%            | 16.4%    | 13.7%                  | 22.3%           | 11.9%            | 12.6% |
| Scores on clinical "Report cards" | 10.1% | 7.2%             | 11.2%    | 10.8%                  | 14.6%           | 6.9%             | 10.2% |
| Other                             | 9.1%  | 12.9%            | 7.7%     | 6.5%                   | 5.9%            | 12.2%            | 7.6%  |
| N                                 | 1869  | 517              | 1270     | 82                     | 571             | 474              | 824   |

Source: Author's analysis of AMA 2016 Physician Practice Benchmark Surveys. Physicians that indicated they received a salary were later asked to select if any/all of the factors listed in the table were determinants of their base salary. Thus, the percentages listed above are out of only the physicians that indicated they received a salary and the percentages sum to more than 100% since physicians could select more than one determinant. Physicians in solo practices are excluded from the analysis.