

A Success Story

Enhancing Value-Based Physician Compensation Through Payer Contract Alignment

Originally published by the [American Association of Provider Compensation Professionals](#)

Amid the ongoing shift toward value-based care, organizations are under increasing pressure to ensure that physician compensation models effectively support both clinical excellence and financial sustainability. Yet many systems struggle to fully capitalize on payer incentive opportunities due to misaligned metrics, insufficient performance tracking, and limited physician engagement.

This case study of a private, not-for-profit health system illustrates how a strategic restructuring of physician compensation – one anchored in payer contract alignment – can unlock greater revenue potential and increase physician participation in value-based initiatives while also improving quality-based outcomes.



Background and Challenges

Prior to this transformation, the health system faced structural and operational challenges within its physician compensation model. Although the organization participated in multiple payer pay-for-performance (P4P) arrangements, it left substantial revenue unrealized by capturing **only 29% of available incentive dollars**. This misalignment was problematic as the system was spending more than **\$10 million annually on physician performance incentives** while recovering only **\$5 million** through payer awards. The imbalance was not only a financial strain but also raised concerns from the health system and medical group leadership about the sustainability of the compensation model.

Further compounding the challenges, limited performance-tracking capabilities hindered the organization's ability to improve results. Existing systems lacked the depth needed to identify high-value payer contract opportunities or to connect physician actions directly to contract performance. In addition, incentives

were often applied uniformly across specialties, despite varying levels of influence over quality and utilization metrics. As a result, some specialists were unable to meaningfully impact the measures tied to their compensation – which led to frustration or disengagement.

Physician engagement represented another major hurdle.

Only 25% of physicians regularly reviewed their performance scorecards, suggesting that incentives were not clearly understood or not viewed as actionable. Without transparency, relevance, or timely feedback, performance incentives failed to drive meaningful behavioral change which resulted in the inability to realize payer contract incentive dollars.

Strategic Transformation Process

To address these challenges, this organization worked with SullivanCotter to implement a comprehensive **five-phase transformation approach** designed to realign compensation with payer contracts while improving physician engagement and accountability.

The process began with **data analysis and assessment**, including a retrospective review of historical payer incentive performance. The organization identified high-value P4P opportunities across quality, utilization, and patient experience metrics, while also assessing every specialty's ability to influence specific measures. This analysis established a clear baseline for future prioritization.

Next, there was a **goal alignment phase** in which service line objectives were restructured to focus explicitly on identifying additional payer revenue opportunities. The organization incorporated indirect performance metrics—such as care coordination and documentation quality—that, while not directly tied to incentives, significantly influenced overall contract performance. Specialty-specific performance targets were developed to ensure relevance and fairness.

Financial modeling then translated these goals into actionable physician compensation strategies. Detailed financial models were created to project potential impact, established return-on-investment (ROI) thresholds for new value-based measures, and developed risk-adjusted compensation scenarios to balance opportunity with accountability.

Recognizing the importance of physician understanding and buy-in, the organization emphasized **stakeholder engagement** by forming multidisciplinary steering committees and specialty-specific work groups. These forums allowed physicians to provide input, validate assumptions, and understand how compensation changes would be connected to broader organizational goals.

Finally, the **implementation and infrastructure phase** focused on execution. The organization deployed a compensation management technology platform, enhanced reporting capabilities, and established care team support structures to help physicians succeed under the new model.

Key Innovations and Solutions

There were three critical areas underpinning the success of the transformation:

1. **Specialty-specific design** ensured compensation and incentives reflected each specialty's sphere of influence. Metrics were carefully selected to align with specialty-relevant quality measures, and performance thresholds were designed to be motivational – challenging yet attainable.
2. **Technology integration** played a critical role. Advanced performance tracking tools enabled near real-time reporting, while improved data accessibility allowed physicians to monitor progress, identify gaps, and course-correct throughout the performance year—rather than reacting after the fact.
3. Equally important was the development of a **supportive infrastructure**. Dedicated care teams, quality improvement resources, and structured performance review processes helped physicians translate data into action. This support shifted the perception of compensation from a retrospective evaluation tool to a proactive performance management system.

Conclusion

For compensation administrators and health system leaders, this case serves as a practical blueprint for navigating the complexities of modern physician compensation while advancing organizational and clinical goals. Aligning physician incentives with payer contract opportunities is essential for financial sustainability, but success also requires specialty-specific design, transparent performance tracking, and strong operational support. Technology alone is insufficient without physician engagement and the infrastructure needed to drive improvement.

The successful transformation of this health system's physician compensation model demonstrates that intentional alignment between provider incentives and payer contracts can produce measurable gains in both financial performance and care quality. By grounding compensation in data-driven insights, engaging physicians as partners, and investing in enabling infrastructure, organizations can unlock the full potential of value-based care.

Partnering with SullivanCotter

Ready to strengthen the connection between physician performance and payer contract value?

SullivanCotter partners with health care organizations to design aligned compensation strategies that drive engagement, improve outcomes and capture the full potential of value-based incentives.

Contact us to learn more:

sullivancotter.com

info@sullivancotter.com

888.739.7039