Tips for Preparing & Negotiating Academic Orthopaedic Faculty Offer Letters

Michael R. Gagnon, MBA
Founder & CEO, Academic Orthopaedic Consortium
Chief Administrative Officer - Emeritus, Duke Orthopaedics
May 8, 2019
Disclosures

• Breg
• Johnson & Johnson/Depuy-Synthes
• SocialClimb
My Background

• Got my MBA and spent 27 years as an administrator in academic medicine working only for Harvard and Duke

• Founded the AOC in 2005 to organize best practices in business and leadership across US Academic Orthopaedic Departments. Over 100 University based Orthopaedic Programs are members and AOC voted the #1 Rated Organization in Academic Orthopaedics.

• Incredible learning from Chairs, Faculty leadership, and especially my peers in the AOC who have taught me everything I ever needed to know.

• Helped make the business case to establish Duke Orthopaedics as a Department in 2010 and then established its administrative structure/team.

• When I arrived at Duke in 1992 we had 15 clinical faculty and 3 APPs...and when I retired this year we had 75 clinical faculty, 50 APPs, and 10 Research Faculty.
I had the **privilege** of working for **7 Chairs** and almost **50 Division Chiefs** and (and numerous others who went on to become Division Chiefs and Chairs).

I have told each one of them the same thing,

“*the most important decision you will ever make in this job is the faculty you hire. The quality and fit of these hires will ultimately determine how good or bad you look and how you spend your time.*”
Discussion Outline

• Approach
• Perspective
• Elements of the Offer
• Benchmarks
Approach –
I prefer “You & Me, Together?” vs “Negotiation”

Historically, I did the following within what is usually a 45 minute discussion (typically over the phone unless a current fellow in your program):

– Act friendly, interested, and genuine

– Introduce myself and explain why I am involved in the process

– Ask the candidate to tell me what he/she has heard regarding the scope of the position and any other specifics that may have been shared.

– Get the candidate to describe his/her ideal state job (I listen to them and weigh if this is truly a “match” and if it isn’t, when it is my turn to speak, I will tell them it may not be and if its is I explain how).
Approach – “You & Me, Together?”

I then lay out what I typically discuss at this stage and ask the candidate what, if any, of this he/she would like to discuss and where he/she would like to begin.

• Where Duke Orthopaedics is today
• Our place within the Duke Health System
• Our vision
• Why the future is bright for Duke Orthopaedics and where our challenges lie
• Specifics about the position and why I think this is a great opportunity
• Reasons why this may not be a great opportunity for a particular candidate
• Compensation basics (as referenced in this presentation)
• Explain to them the process of “negotiation” of our compensation package (below)

If we seem to be on same page, I give them a standard DRAFT offer letter and it is their responsibility to take this and treat it like a “live” document and to modify it to basically frame the job they wish to have and which we can use as starting point for future discussion.

Give them 1-2 weeks to return this. I have took this approach for the last 3 years of my work to eliminate stress of negotiation and to engage them in the process in productive manner...and to assure we are working TOGETHER to align interests. It worked well.
Elements of the Offer letter

– The $$ Pay (Base and Bonus and Benefits)

– Guarantee Period
  i.e. The better of 3 years on guarantee or 2 years on guarantee with transition to full compensation plan (production model) in year 3. Expectation is that it takes 3 full years to develop a “mature” practice that would transition off the guarantee and into a production model going in to 4th year.

– Expectations (clinical, academic, education/research)
  • Effort allocation (ie 80% clinical, 20% research & education)
  • Publications
  • Participation in call schedule
  • Participation in Divisional/Departmental research and societies and associations

– Mentorship assignment(s)
Elements of the Offer letter

Resources provided

- OR block time (ie 1 day per week to start)
- Clinic time (ie 2-4 days per week to start)
- Admin support for clinical and admin
- Office, computer, supplies
- CME (ie $5,000/yr)
- Moving allowance (ie $7,500)

Other

- Rank and tenure
- Date sensitive offer letter
- Payroll does not begin until after all paperwork and credentialing is completed by candidate
- Key personnel contact the new hire prior to arrival to introduce themselves and to begin educating (i.e. coding) and preparing for the arrival (OR equipment, office, etc.)
Starting Compensation
For hires directly out of fellowship

The compensation package (base and bonus) is guided primarily by:

1. General feel for what your academic peers are paying.
   - Academic Orthopaedic Consortium (AOC) benchmarks (MGMA does not have a benchmark for starting salary)

2. What you can afford balanced with internal equity
To respect and improve the national academic landscape by freely providing best practice in business and leadership content to as many academic faculty leaders and administrators as possible to optimize their performance and that of the musculoskeletal enterprises they manage.
Starting Compensation
For hires directly out of fellowship

<table>
<thead>
<tr>
<th>DEPARTMENT LEVEL STATISTICS</th>
<th>FY 16 MIN</th>
<th>FY 16 MAX</th>
<th>AVERAGES</th>
<th>MEDIAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the typical starting base salary that you offer to these hires for someone right out of fellowship?</td>
<td>$230,000</td>
<td>$420,000</td>
<td>$329,531</td>
<td>$342,500</td>
</tr>
</tbody>
</table>
Other considerations
For hires directly out of fellowship

Most Departments have a standard package they offer all new hires (i.e. $325,000 base) with some potential deviation in the amount paid to a new hire (i.e. +10-15%) based on:

1. Scarcity of resource (i.e. Orthopaedic Oncology, Spine)

2. Special case (i.e. unique research interest, NIH funding potential)

Still...it’s ultimately what you can afford balanced with internal equity. *It is not wise to throw equity out of whack even if you can afford to do it financially.*
Thoughts

• You do not need or want to be the highest bidder vs middle of pack or better among peers

• Offer a 2 year guarantee and an option for guarantee in 3rd (all paid at same rate) with migration to full production model compensation during the guarantee if it pays more. New hires like that option.

• All things considered, new hires want the starting salary they accept to be “in the ballpark” of other offers (outliers excluded).

• I don’t like a bonus inclusion during guarantee.

• Future earnings are more important to candidate than pay during guarantee, be prepared to discuss.

• Be prepared to discuss your faculty compensation model
What prospective faculty should ask

1. Is there a signing bonus or a way to get some money up front (ie for down payment on home, paying off debt)

2. Can you tell me why you feel another hire like me is NEEDED? What is prompting this decision? (Be prepared to discuss the business rationale of why you feel there is appropriate volume to support another hire)

3. Can you tell me about the production levels of my future partners in this subspecialty? (The present production levels are a good indicator of how busy the service may be. It is bad if the volumes are low across full-time clinicians (ie < 7,000 WRVU each)).

4. Can you talk to me about what you would expect my clinical production to look like after I come off guarantee and what you would project for pay at the level of production? (If you can’t answer this, it lowers confidence about your knowledge of the market or subspecialty or faculty comp plan...you must be able to speak to this question and it is perfectly fine to suggest that your answer is “not a guarantee of income, but based on what we know today and our current faculty comp plan.”)
What prospective faculty should ask

5. Can you please describe the faculty compensation plan for those not on guarantee?

6. How is non-clinical production rewarded? *(Ideally 5%-10% or more of your pay is derived formulaically to reward academic production. If there is no plan, expect that your academic production would likely come at the expense of your clinical production but without offsetting pay that you would have earned if you had just done cases).*

7. Are CME, parking, dues, license, malpractice, office, and staff expenses paid ON TOP of the pay outlined in this offer letter? *(The answer should be yes)*

8. What happens if my production level would have paid me more than this pay in the guarantee?
Discuss Projected Earning Potential

- New hires are **most interested in future earning potential beyond the guarantee.**
- Share projected collections and earnings estimates across a range of scenarios based on actuals from other partners in same subspecialty.
- This information is a major factor in the decision to accept/reject offer.
Starting Compensation
For hires coming from another practice

The figure is ultimately derived through honest communication around present earnings or needs.

Verify that “honesty” by asking for associated revenue and procedural volume figures that should correspond to supporting such communicated comp figures.

“We want to be able to support your present level of income expectation, which would ultimately be predicated upon your ability to generate revenue to support this income...and our backstopping it until such a time as this occurs...hopefully sooner vs later.”

The practice weighs what it can afford vs urgency of need vs what this would do to internal equity. We have NOT offered these hires more in base comp than existing mature state faculty in same subspecialty.
Starting Compensation

*For hires coming from another practice*

External benchmarks have **nothing** to do with the offer.

It’s rare that these hires are willing to take much of a pay cut (i.e. > 10%) during guarantee without expectation of earning more in the future vs current income.

Financial losses are steeper for these signees since the starting comp is always higher.
Approach – Starting from the Beginning

Projecting the costs of the hire

• Once we determine that a new hire is needed, we put together a 3 year pro-forma and attempt to negotiate backstop support to alleviate the projected deficits. This is modeled on a mature state practice within our group within that subspecialty.

• As a general rule of thumb, given 3 month lag in receivables and nature of starting from zero, I assume 1\textsuperscript{st} year production to be 33\% of mature state practice. By end of year 3 assume production to be 75\% of mature state practice and near break even.

• Deficits for the first 3 years of a new hire are significant. For academics, a 3 year total deficit up to $400,000 is not unusual, especially if the new hire is coming from an existing practice and not out of fellowship.
Ask your institution for $$ to support deficit incurred for new hires. Over 78% of AOC Departments report receiving this kind of support.
Recruiting faculty and discussing offers is like a courtship...it takes time and works best when both sides have mutual desires/goals/interests. TAKE YOUR TIME to get to know each other and to also consider what life looks like “after the guarantee wears off....”

If it doesn’t feel right, don’t do it.
Thank you