Physician Employment

Current Compensation Trends and Considerations for Establishing FMV

Presented By

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Becker's Hospital Review 4th Annual Meeting

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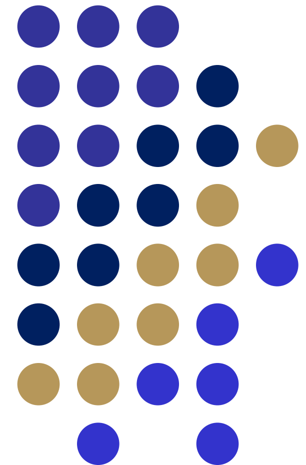
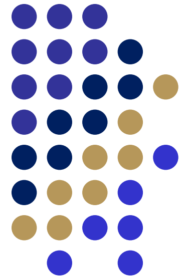
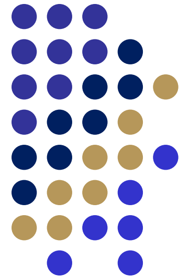


Physician Employment Landscape



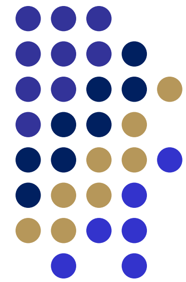
- Massive wave of private practice physicians moving into hospital-affiliated practices over the past five years
  - We did this in the late 90's and it didn't work
  - We contend we're smarter this time
- Some of the reported drivers of this trend include:
  - Falling reimbursement
  - Lifestyle considerations
  - Heightened importance of hospital-physician alignment and formation of ACOs
  - All my competitors are doing it and if I don't act, there will be no private docs left
- Many physicians transitioning into employment have been able to fix compensation for some period of time at levels equivalent to or higher than what they earned in private practice
- All of these factors have created some aberrations in physician compensation
- As a result, appraisers likely will need to make significant departures from current approaches to determine FMV compensation in the future

Private Practice Exodus

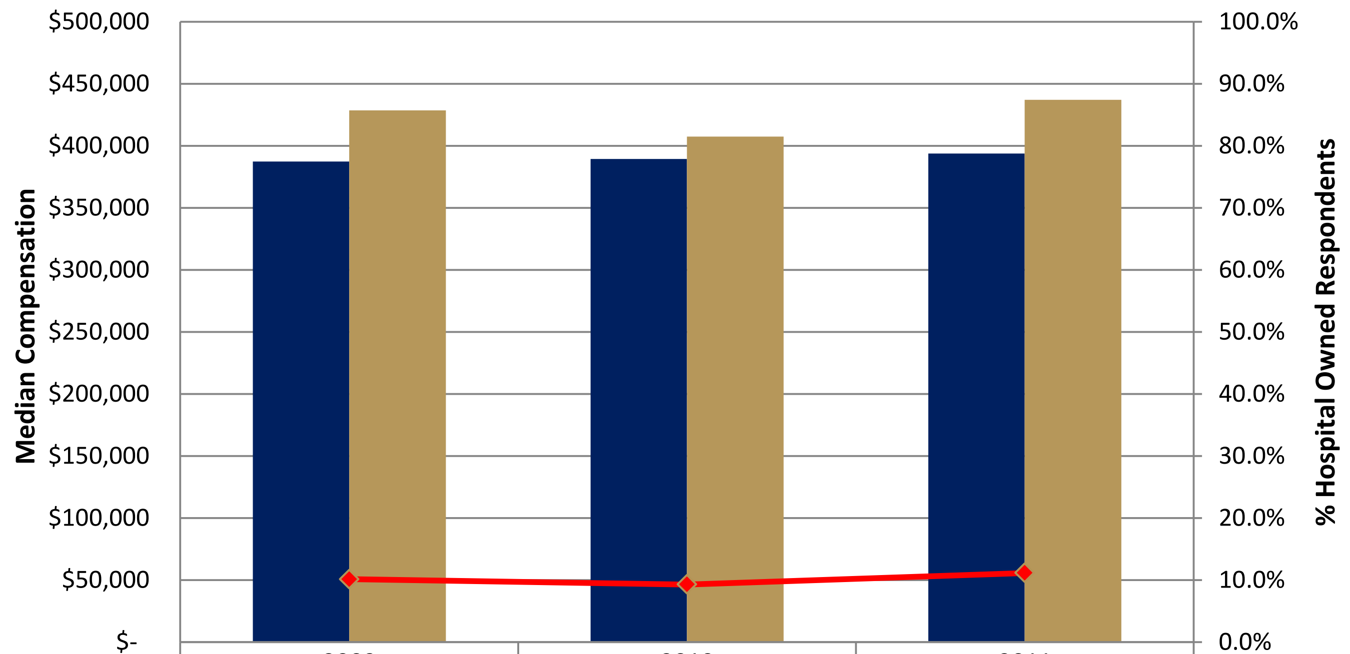


- Demographic shift of the respondents to MGMA's Physician Compensation & Production Survey
  - 2008 Survey: 55% MD-owned; 34% hospital-owned; 11% other
  - 2010 Survey: 46% MD-owned; 43% hospital-owned; 11% other
  - 2012 Survey: 41% MD-owned; 49% hospital-owned; 10% other
- The percentage of providers employed by hospital-affiliated practices increased for every major specialty between 2009 and 2011
  - Invasive Radiology: 19% to 41%
  - Electrophysiology: 31% to 53%
  - Orthopedic Trauma: 30% to 55%
  - Interventional Cardiology: 22% to 51%
- Divergent trends between compensation of independent and hospital-employed physicians emerged in many specialties
  - Those specialties with uniform trends typically had a small change in the number of hospital-affiliated physicians

Anesthesiology

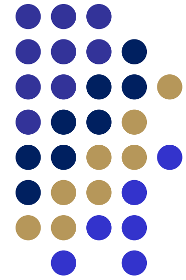


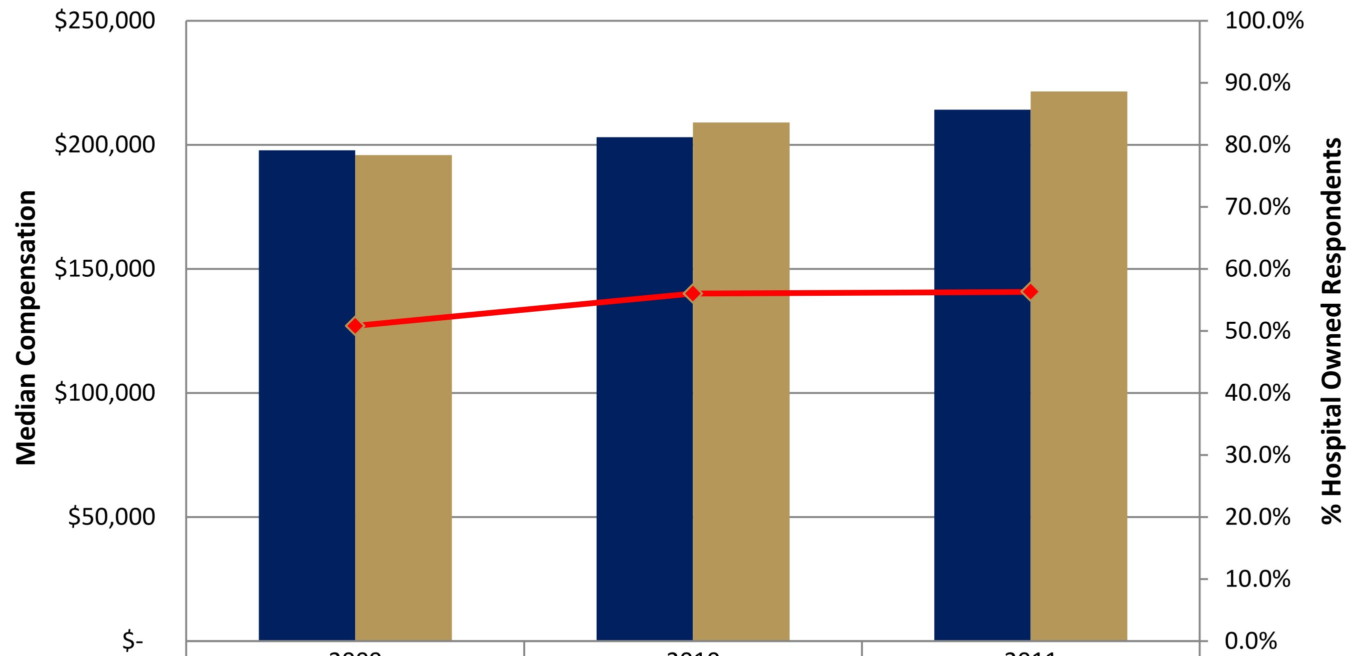
All data presented extracted from MGMA's *Physician Compensation and Production Survey*



	2009	2010	2011
Median Comp - Hospital Practices	$387,343	$389,351	$393,722
Median Comp - Non-hospital Practices	$428,580	$407,292	$436,903
Hospital Owned Respondent %	10.1%	9.3%	11.1%

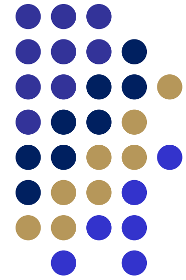
Internal Medicine

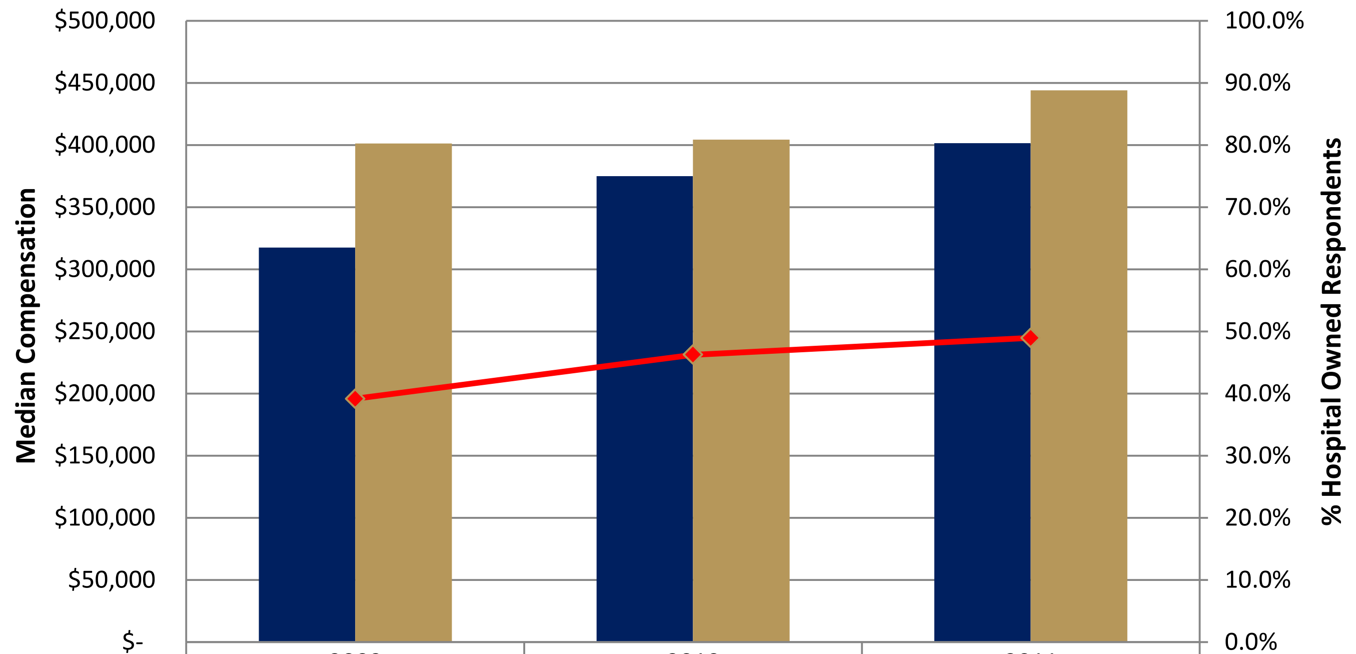




	2009	2010	2011
Median Comp - Hospital Practices	$197,756	$203,044	$214,185
Median Comp - Non-hospital Practices	$195,883	$209,039	$221,512
Hospital Owned Respondent %	50.8%	56.0%	56.3%

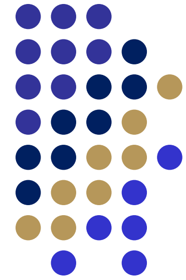
Medical Oncology

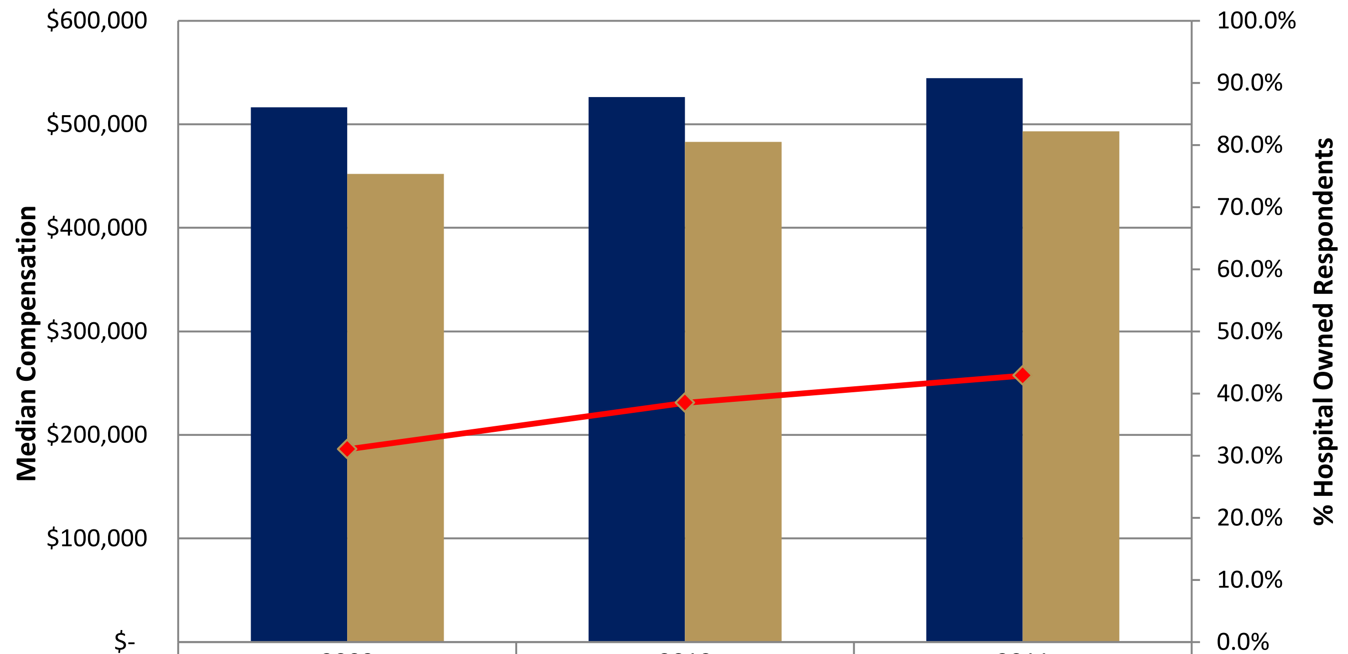




	2009	2010	2011
Median Comp - Hospital Practices	$317,543	$375,000	$401,508
Median Comp - Non-hospital Practices	$401,125	$404,412	$443,996
Hospital Owned Respondent %	39.1%	46.2%	48.9%

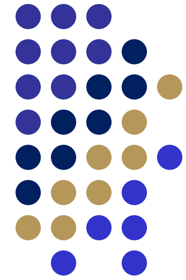
Orthopedic Surgery: General

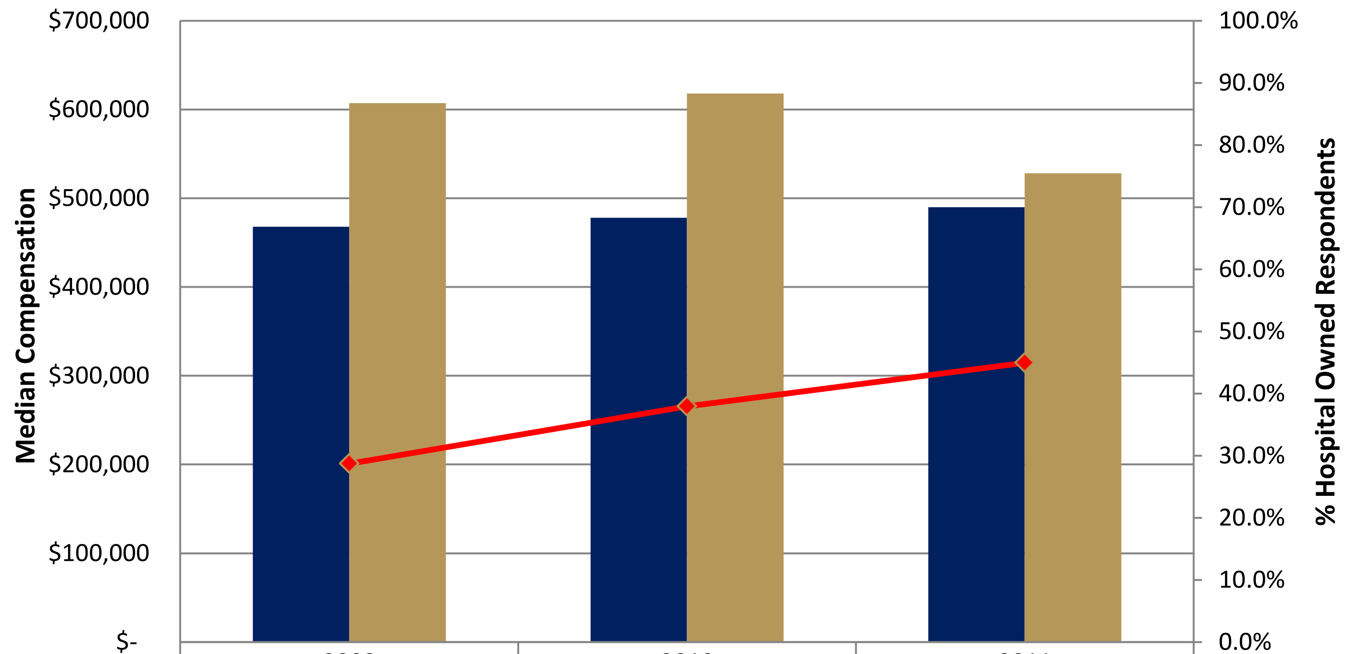




	2009	2010	2011
Median Comp - Hospital Practices	$516,413	$526,398	$544,579
Median Comp - Non-hospital Practices	$452,128	$482,928	$493,095
Hospital Owned Respondent %	31.0%	38.5%	42.9%

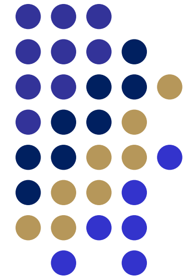
Radiation Oncology

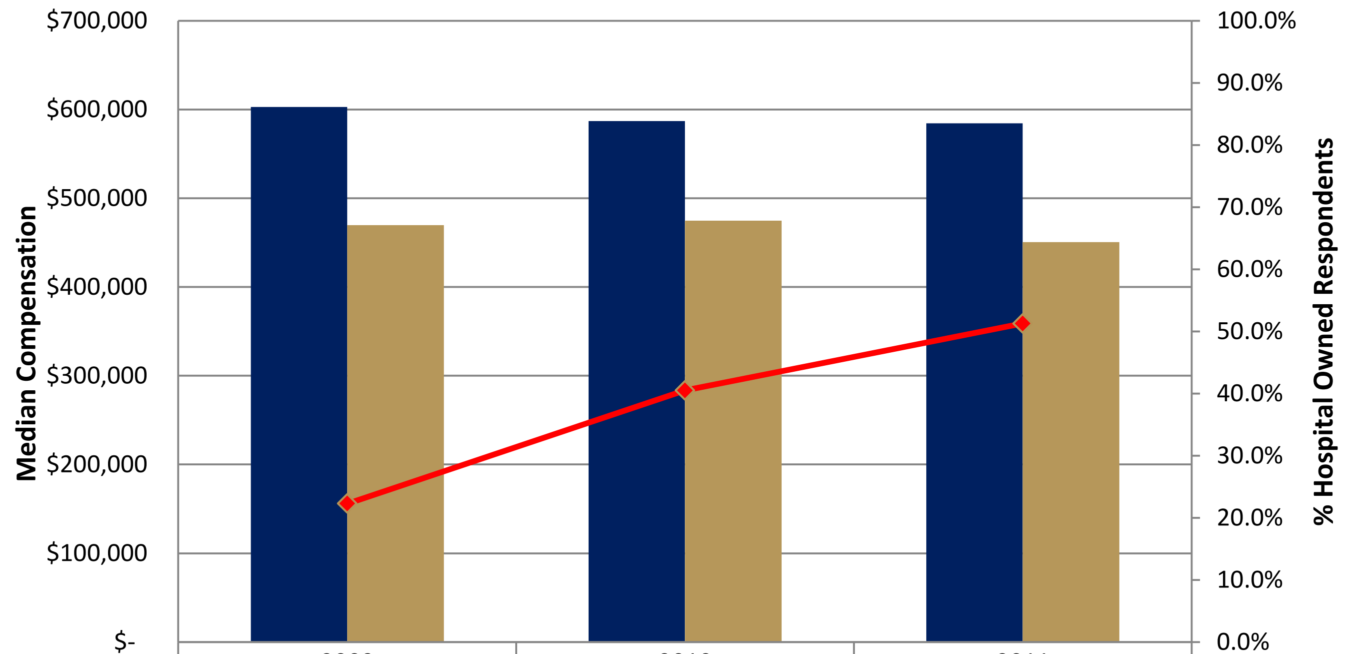




	2009	2010	2011
Median Comp - Hospital Practices	$468,008	$477,807	$489,831
Median Comp - Non-hospital Practices	$607,000	$618,000	$528,143
Hospital Owned Respondent %	28.7%	37.9%	44.9%

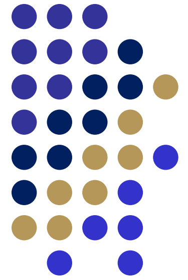
Interventional Cardiology





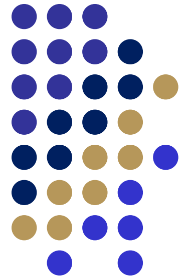
	2009	2010	2011
Median Comp - Hospital Practices	$602,772	$586,765	$584,360
Median Comp - Non-hospital Practices	$469,820	$474,809	$450,380
Hospital Owned Respondent %	22.3%	40.5%	51.3%

Are We *Really* Smarter This Time?



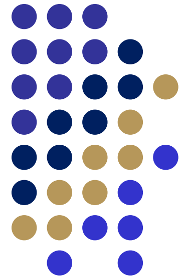
- Compensation growth rapidly outpacing reimbursement growth in many specialties creating unsustainable practice economics
  - Primary Care
    - Change in Median Collections (2007-11): 2.95%
    - Change in Median Compensation (2007-11): 16.75%
  - Specialists
    - Change in Median Collections (2007-11): 0.73%
    - Change in Median Compensation (2007-11): 15.65%
- Shifting of in-office ancillaries to hospital outpatient departments distorting industry practice benchmarks
  - 2012 MGMA Cost Survey reported a median loss of $260,000 per FTE physician for cardiology practices
    - Half of the responding practices actually did worse than this!
    - In 2010, the same benchmark was *income* of $1,700
- Those practices that have remained independent must now compete aggressively with hospitals to recruit new physicians
  - Translates into lower comp for practice owners
  - Will this be the last straw for them too?

What Does This Mean for FMV?



- Market Approach – use of market “comps”
  - Predominantly production-based methods in context of employment compensation
  - Have the physician compensation surveys become a self-fulfilling prophecy?
- Cost/Income Approaches – “revenue less expenses” models
  - Is it reasonable for two providers performing same services in same market to be compensated differently based on differences between their practices?
    - Is it any more reasonable to use “benchmark” revenue/expenses in the model to produce an artificial, but palatable, result?
  - Not viable for practices with ancillaries that have been converted to hospital outpatient departments in connection with employment transactions
    - Cardiology
    - Medical Oncology
- Appraisers are going to be forced to rethink their methods!

What Does This Mean for FMV?



- Increased focus on the commercial reasonableness of the arrangement, including the financial implications of the compensation plan
  - If downstream referrals aren't taken into account, many proposed physician compensation plans result in perpetual losses for the owner of the practice
  - Would any business outside of healthcare hire an employee that it expected to generate losses for the company during the entire term of employment?
- Stark requires market approach analyses to exclude transactions where the parties to the transaction are in a position to refer to one another
  - If more than 50% of respondents to physician comp surveys don't meet this criteria, are surveys (in their current form) still reliable for Stark-compliant valuation analyses?
  - Reliance on data from private practices (where economics still make sense) may become essential
    - Not all surveys provide this granularity
    - Decreasing sample size
- As reimbursement models move from fee-for-service toward patient-centered care and clinical outcomes, do we change the market approach paradigm?
  - Do quality measures replace the wRVU as the predominant measure of professional services?
  - Will surveys begin reporting quality data?