Physician Employment
Current Compensation Trends and Considerations for Establishing FMV

Presented By
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May 10, 2013
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
All data presented extracted from MGMA’s *Physician Compensation and Production Survey*.

### Median Compensation

<table>
<thead>
<tr>
<th>Year</th>
<th>Hospital Practices</th>
<th>Non-hospital Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$387,343</td>
<td>$428,580</td>
</tr>
<tr>
<td>2010</td>
<td>$389,351</td>
<td>$407,292</td>
</tr>
<tr>
<td>2011</td>
<td>$393,722</td>
<td>$436,903</td>
</tr>
</tbody>
</table>

### Hospital Owned Respondent %

- 2009: 10.1%
- 2010: 9.3%
- 2011: 11.1%
Internal Medicine

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Compensation - Hospital Practices</th>
<th>Median Compensation - Non-hospital Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$197,756</td>
<td>$195,883</td>
</tr>
<tr>
<td>2010</td>
<td>$203,044</td>
<td>$209,039</td>
</tr>
<tr>
<td>2011</td>
<td>$214,185</td>
<td>$221,512</td>
</tr>
</tbody>
</table>

Hospital Owned Respondent %

<table>
<thead>
<tr>
<th>Year</th>
<th>Hospital Owned Respondent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>50.8%</td>
</tr>
<tr>
<td>2010</td>
<td>56.0%</td>
</tr>
<tr>
<td>2011</td>
<td>56.3%</td>
</tr>
</tbody>
</table>
Hematology - Medical Oncology

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Compensation - Hospital Practices</th>
<th>Median Compensation - Non-hospital Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$317,543</td>
<td>$401,125</td>
</tr>
<tr>
<td>2010</td>
<td>$375,000</td>
<td>$404,412</td>
</tr>
<tr>
<td>2011</td>
<td>$401,508</td>
<td>$443,996</td>
</tr>
</tbody>
</table>

Hospital Owned Respondent %
- 2009: 39.1%
- 2010: 46.2%
- 2011: 48.9%
Orthopedic Surgery: General

<table>
<thead>
<tr>
<th>Year</th>
<th>Hospital Practices Median Comp</th>
<th>Non-hospital Practices Median Comp</th>
<th>Hospital Owned Respondent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$516,413</td>
<td>$452,128</td>
<td>31.0%</td>
</tr>
<tr>
<td>2010</td>
<td>$526,398</td>
<td>$482,928</td>
<td>38.5%</td>
</tr>
<tr>
<td>2011</td>
<td>$544,579</td>
<td>$493,095</td>
<td>42.9%</td>
</tr>
</tbody>
</table>

The graph shows a comparison of the median compensation for Orthopedic Surgery: General in hospital and non-hospital practices from 2009 to 2011, along with the percentage of hospital-owned respondents.

- Hospital Owned Respondent: 31.0% in 2009, 38.5% in 2010, 42.9% in 2011
Radiation Oncology

Median Compensation:

- Hospital Practices:
  - 2009: $468,008
  - 2010: $477,807
  - 2011: $489,831

- Non-hospital Practices:
  - 2009: $607,000
  - 2010: $618,000
  - 2011: $528,143

Hospital Owned Respondent %:

- 2009: 28.7%
- 2010: 37.9%
- 2011: 44.9%
## Interventional Cardiology

### Median Compensation

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<tr>
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<th>Non-hospital Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$602,772</td>
<td>$469,820</td>
</tr>
<tr>
<td>2010</td>
<td>$586,765</td>
<td>$474,809</td>
</tr>
<tr>
<td>2011</td>
<td>$584,360</td>
<td>$450,380</td>
</tr>
</tbody>
</table>

### Hospital Owned Respondent %

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<tr>
<th>Year</th>
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<tbody>
<tr>
<td>2009</td>
<td>22.3%</td>
</tr>
<tr>
<td>2010</td>
<td>40.5%</td>
</tr>
<tr>
<td>2011</td>
<td>51.3%</td>
</tr>
</tbody>
</table>
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!

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Physician Employment
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?