

Physician Employment Current Compensation Trends and Considerations for Establishing FMV

Presented By

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HealthCare Appraisers
INCORPORATED



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

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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

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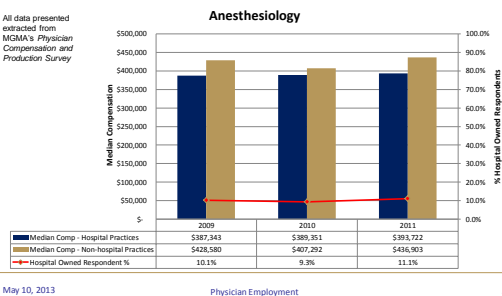
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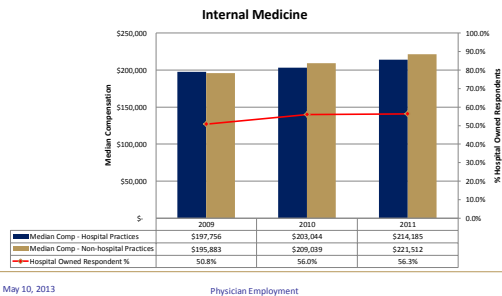
Anesthesiology



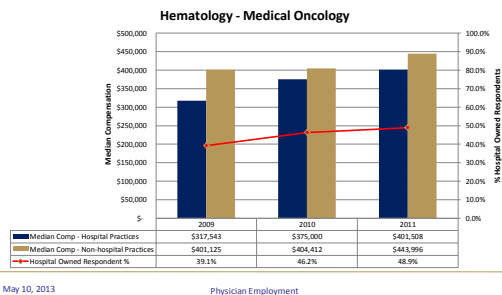
All data presented
extracted from
MGMA's Physician
Compensation and
Production Survey



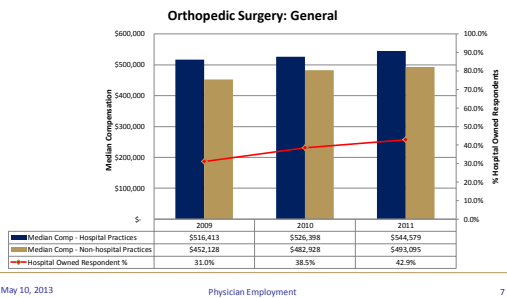
Internal Medicine



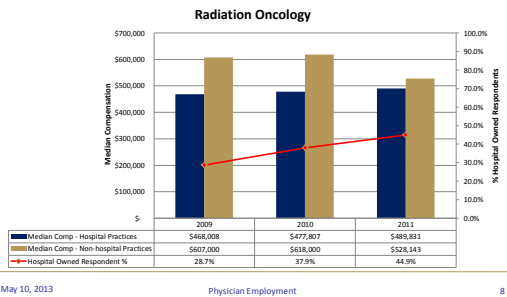
Medical Oncology



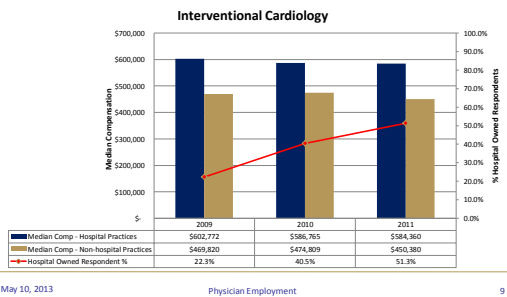
Orthopedic Surgery: General



Radiation Oncology



Interventional Cardiology



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?

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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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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?

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