

Determining Appropriate Physician Compensation Levels

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Providers and valuers often are tasked with determining the fair market value (FMV) of employee compensation arrangements. Although each arrangement has unique issues, most valuation processes start by looking at quantitative measures. Creating a buttoned-up analysis supported by published benchmarks is relatively simple. However, qualitative factors also influence compensation FMV.

THE QUANTITATIVE STANDARD

Using work relative value units (wRVUs) and compensation per wRVU to evaluate FMV is standard operating procedure. Comparing projected wRVUs and compensation with published benchmarks creates an apparently logical relationship between production and compensation.

Using a similar approach with collections is sometimes more difficult, due to the challenges with collections benchmarks and to variations by market in payment levels. Nonetheless, evaluating productivity in terms of collections is important as a means of gaining insight into the economic reality of the practice.

Even when both collections and wRVU productivity are examined, they may not correlate strongly with compensation levels. We often need to look at “softer” information to determine FMV.



THE QUALITATIVE REALITY

Executives making a deal sometimes say, “I know that the production doesn’t support the compensation, but this is a highly skilled physician who can really improve our program.”

They may be right. Despite the comfort offered by published data, more qualitative factors also help determine FMV compensation for a physician.

These factors are both physician-specific and market-specific.

Physician-specific factors. These factors include reputation and stature, experience, specific training, and published works or speaking engagements. In some cases, there may be specific patient outcome data to consider, as in success rates for cardiac surgery.

Specialty-specific market factors. Examples include the available pool of candidates in a particular specialty and whether the recruiting pool is local or national. Regional compensation variation and the level of recruitment activity in the market also may play a part.

Local market factors. Influences on compensation from this category may include payer mix or payer leverage.

Other elements. Unique aspects of the underlying arrangement, such as unusual call coverage requirements, also may have an impact.

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The challenge is in knowing how to incorporate these factors into a compensation analysis without having an established road map. The desires of the deal-making executive are understandable, but giving excessive weight to such considerations in the valuation process could expose the healthcare organization to regulatory risk.

In other words, there must be a basis to support compensation levels; relying solely on qualitative factors may make compensation more difficult to defend, should an arrangement be questioned by a regulator. At the same time, blind adherence to quantitative factors fails to consider the legitimate impact of qualitative factors.

This is where experience and judgment come into play. Experience with multiple arrangements, markets, and valuations allows the valuator to incorporate such factors into an FMV analysis fairly, objectively, and independently. ●

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