

# Determining Physician Compensation for Administrative Services: The Role of Market Data

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Although a determination of fair market value (FMV) depends on the relevant facts and circumstances related to a particular arrangement, reasonable compensation is generally defined as the level of compensation that is consistent with the amount that would be paid by like organizations for comparable services under similar circumstances. Physicians who provide administrative services must be compensated at fair market value (FMV), just as they must for clinical services. In commentary to the Phase III Regulations, CMS stated that an hourly rate “may be used to compensate physicians for

both clinical and administrative work, provided that the rate paid for clinical work is fair market value for the clinical work performed and the rate paid for administrative work is the fair market value for the administrative work performed.” In later commentary, CMS stated, “fair market value of administrative services may differ from the fair market value of clinical services.” With this commentary, CMS recognized a distinction between FMV for a physician’s clinical services and FMV for the same physician’s administrative services.

We use a variety of market data sources to determine compensation commensurate with fair market value. Finding a survey or other data source with the right data for valuing a specific arrangement, however, can pose challenges.

Physician compensation surveys vary widely; each survey uses a different methodology and measures and reports slightly differently. Understanding the pool of respondents for the survey(s) or database is critical. Is it a survey of hospitals, or of independent group practices? Was the data collected for employed physicians or independent contractors? The former is likely to exclude the cost of benefits, whereas those costs may be built in to compensation for contractors.



Consider the geographic distribution of survey respondents. When data is broken down by regions, is the sample size for the relevant region large enough to provide statistically reliable data? Would you be better off using national data? (That is often the case).

In all situations, match physician characteristics most closely to that of the physicians for whom you are seeking administrative compensation comparables.

### **MATCH THE JOB REQUIREMENTS, NOT THE TITLE**

Determination of FMV for physician administrative services is complicated by the fact that the duties associated with physician roles can be quite diverse, which makes valid comparisons among the arrangements challenging. As organizations increasingly rely on physicians to lead clinical transformation and other strategic organizational initiatives, we see more and more positions, roles, and titles for physicians in administrative positions.

While a physician with administrative responsibilities may be called medical director, division chief, or department chair, the job duties of those titles vary with the size and nature of the organization. A department chair in a community hospital may oversee the work of two physicians in a specialty; a medical director in an academic health system may oversee 25. It is essential to utilize market data that will allow a match of compensation to job duties. A service line director at a system level is clearly different from a part time medical director in a small hospital. They both, however, may hold the same title.

A review of the job descriptions and knowledge of the nuances of these positions is critical to establishing the FMV of the services.

### **ANNUAL VERSUS HOURLY MARKET DATA**

Some surveys report administrative hourly rates and others report annual figures.

Using surveys that present annual compensation without associated time commitments, presents a challenge, in light of the fact that many physician administrative roles are part time. A medical director who is paid median annual compensation of \$50,000 and provides 500 hours a year of administrative services is receiving \$100 per hour, which may well be determined to be reasonable. However, if only 50 hours of administrative work are performed per year, the rate is \$1,000 per hour, which is probably excessive. Without the associated time commitment, a market data point of \$50,000 for a particular role is not helpful.

Some agreements contain multiple elements. For example, an arrangement with an independent anesthesia group may contain compensation for administrative services, as well as a subsidy payment. In this example, the respondent may have reported

compensation of \$200,000 to an outside anesthesia group, but only a subset of those dollars are related to the actual administrative services being provided.

## **SUMMARY**

Administrative compensation market data can be valuable if used effectively. The FMV of physician administrative services will vary with specific facts and circumstances. To ensure defensibility of the arrangement, compensation carefully determined using a consistently applied methodology, based on sound market data, and consistent with the definition of FMV contained in applicable healthcare regulations. ●