VERALON

HEALTHCARE MANAGEMENT ADVISORS

Assigning Proxy wRVUs for Physician Activity: Pros and Cons

Richard Chasinoff, Director

Monica Nuñez, Manager

As hospitals and health systems continue to evaluate how they compensate physicians, some have expanded upon their work relative value unit (wRVU) based compensation models to include activities for which wRVUs may not currently be assigned. We are seeing this trend applied to administrative activities—such as attendance and participation in committee meetings—and clinical activities that have not been assigned wRVUs, including emerging procedures, cosmetic procedures, and unique cash-based encounters like executive or sports physicals.

In addition, the American Association of Medical Colleges (AAMC), through its Mission-based Management (MBM) Program, proposed a metric developed to create RVUs for education activities by faculty members in medical schools. This system has been adapted by some academic medical centers to allocate resources for the various activities that serve the institutional missions such as publishing and teaching.

Assigning “proxy WRVUS” is an area where leaders have sometimes gotten creative, and this creativity may inadvertently introduce certain difficulties which could impact the fair market value of a particular agreement.

While ascribing proxy wRVUs to activities which don’t have assigned wRVUs may solve the immediate need to compensate physicians for activities not otherwise reflected in an existing production-based compensation model, there are multiple considerations for leaders and pitfalls to avoid.

Three key questions help to identify these issues.

No. 1: Should the physician be paid for this work? On one hand, “Of course physicians should be paid for doing all types of work.” But with further thinking that leader might reach a different conclusion. With respect to compensation for procedures that do not have associated wRVUs, leaders must decide whether those procedures should be

performed in the organization, perhaps also considering the associated reimbursement. And with respect to compensation for administrative services, such as meetings, leaders must consider the hospital's expectations for such activities as a condition of full-time employment (e.g., "This is a duty we expect physicians to undertake for the good of the organization") or whether physicians are contractually bound to participate (e.g., under pay-for-performance contracts). Successful use of a proxy RVU system requires a careful analysis of the level of contribution in terms of degree of effort and relation to the overall institutional goals.

As always, leaders must also consider the equity across all physicians in the organization, avoiding the "slippery slope".

No. 2. How should proxy wRVUs be assigned? There are many ways to determine the proxy wRVU values – each with its own considerations and challenges.

One way to assign proxy wRVUs for a specific procedure is based on the wRVUs already established for a similar procedure. However, identifying similar procedures could pose its own difficulty. For example, you may think that a laparoscopic procedure for one organ is similar to that of a similar organ—intestine vs. stomach, for example—only to find that one procedure is far less intricate and takes less time than another. In this scenario, a health system could unintentionally overcompensate or undercompensate a physician for the work performed. When this happens, the system might never know that it has made a critical error.

Alternatively, proxy wRVUs might be based on the collections for the procedure (for example, if reimbursement is typically $100 per wRVU and a particular procedure is reimbursed $500 it could be determined that the procedure is worth 5 wRVUs). However, in this case determining the reimbursement per wRVU which serves as the denominator in this calculation may prove challenging to assure that the correct underlying data is reviewed, and that data reflects the procedure under consideration.

And, in the case of administrative services, time is converted to wRVUs which poses its own challenges to develop the underlying estimates.

In each case, it is important to note that even if an organization chooses to pay physicians for these contributions, it doesn't have to do so in the form of a wRVU. One option for administrative services is to pay a flat fee based on a minimum number of hours of administrative work for the year, separate from incentive payments. Another is to pay an hourly rate. These payment structures may provide a more straightforward compensation methodology – more closely tied to available market data.

No. 3: What data should be used in determining the proxy wRVUs? This is a common area of struggle for hospitals and health systems as the market data are not necessarily intended to be converted to alternative measures and internal measures may

not be consistent with the market. For example, when leaders rely on a collections-based methodology to establish the wRVUs for a particular procedure it is more appropriate to use actual collections experience rather than market data; and in selecting actual collections experience the calculation must select reliable data. Further, if relying on a time-based methodology, calculations may be based on annual work effort, the actual time for certain similar procedures, or market data reporting typical procedure times; different sources will provide different results. Relying on data that is outdated or has been taken from the wrong source may lead to the risk of compensating physicians at a rate that falls outside of fair market value k.

SUMMARY

The use of proxy wRVUs to compensate physicians for various activities allows employers to use existing productivity-based compensation models to provide compensation for various types of activities. However, ascribing wRVU value to these activities can be complicated and potentially problematic. Leaders and organizations intending to use proxy wRVUs as part of a production-based compensation model must:

- Identify and understand the activities for which proxy wRVUs will be ascribed and measure the time and resources required for each;
- Consider that crediting one physician with proxy wRVUs may result in the need to do this for another (or all) physician in the organization;
- Be thoughtful about what activities require separate additional compensation and which are compensated as part of the existing employment package (i.e., what are the expectations of our employed physicians?);
- Be cautious of the difficulties surrounding ascribing wRVUs to activities for which wRVUs have not been ascribed;
- Consider the methodology and underlying data (e.g., market data or internal data) to be used to ascribe proxy wRVUs – different methodologies could yield different results;
- Be sure that the selected model is understood by the physicians who will benefit from it and by the staff who need to implement it; and
- Yield compensation must be consistent with FMV and be commercially reasonable.

In addition to the determination of wRVUs posing a challenge, physicians whose total compensation includes a meaningful portion from proxy wRVUs may not be easily comparable to compensation and productivity market data where the reported values likely do not include wRVUs derived through a proxy wRVU methodology.

Care to continue the conversation? Contact us.