Valuation Implications of the 2020 Compensation Surveys

January 13, 2022

2:00 – 3:30 PM ET

AMERICAN HEALTH LAW ASSOCIATION

Brought to you by AHLA's Hospitals & Health System Practice Group, Fraud & Abuse Practice Group and FMV Affinity Group

Today's Webinar Panel

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Part 1

Background & Regulatory Issues

Joseph N. Wolfe

Health Care Regulatory Practice Group Leader

Hall Render

Background & Regulatory Issues

Key Developments in 2020, 2021 and 2022

- **COVID-19 productivity, compensation model and staffing disruptions**
  - "Blanket Waivers" may provide some protection during the PHE
- **New Stark and Anti-Kickback regulations**
  - Clarifications to the "Big 3" (FMV, commercially reasonable and volume/value) Stark standards
  - New value-based framework
  - New group practice and directed referral rules

Background & Regulatory Issues

Key Developments in 2020, 2021 and 2022

- **Medicare Physician Fee Schedule ("MPFS") Adjustments**
  - wRVU Impact - Material increases in allocations associated with certain E&M codes
  - Reimbursement/collections impact – Decrease in Medicare conversion factor
- **Market Survey Data**
  - Changes impact both the FMV analysis and the mechanics of compensation model implementation

Background & Regulatory Issues

Assessing Physician Compensation Strategies

- **Understand your current state**
  - What actions have you taken during the COVID-19 Pandemic? Can you rely on the “Blanket Waivers”?
  - What MPFS fee schedule are you utilizing to calculate wRVUS?
  - What market survey data do you rely on for FMV assessments and model implementation?
  - Are key stakeholders engaged (e.g., internal stakeholders, outside counsel, appraisers)?

Background & Regulatory Issues

Assessing Physician Compensation Strategies

- **Proactively assess potential options/scenarios**
  - Model out potential productivity and compensation scenarios and determine defensibility of potential strategies
  - Specialty specific approaches may be needed - wRVU and survey data adjustments may impact some specialties more than others
  - Examine current contractual language
  - Consider options (e.g., implement, freeze, adjust) and seize on opportunities to innovate

Background & Regulatory Issues

Important Regulatory Considerations

- Regardless of the ultimate strategy chosen, compensation must be defensible under the “Big 3” (FMV, commercially reasonable and volume/value) standards.
- Which MPFS and which market survey data years (2020, 2021, 2022) will be utilized for compensation plan implementation? Are the approaches in sync?
- What (if any) adjustments must be made to language in the actual contracts and compensation models (wRVU thresholds, market survey data references, MPFS references)?
- Key stakeholders should be engaged to weigh business, compliance and contract considerations.
- When and how will implementation occur?
- Explore how policies, processes and/or contractual language be developed to account for future disruption and material adjustments.

Part 2

Valuation Implications

Todd A. Zigrang, ASA, CVA, FACHE

President

Health Capital Consultants

Valuation Implications

Valuation of Compensation Engagements

- Valuation of Hospital Employment and Professional Services Arrangements
- Valuation of Healthcare Enterprises
    - *Normalized Earnings resulting after consideration of the "reasonable amount for the services performed by the owner or partners engaged in the business."*
- Fair Market Value

Valuation Implications

Valuation of Compensation Engagements

- Valuation Approaches
  - Income Approach
  - Cost Approach
  - Market Approach
    - Advantages
    - Challenges

Valuation Implications

Perfect Storm

COVID-19

- Reduced Volume during pandemic may lead to artificially high compensation/production rates

Changes to the MPFS

- Changes to wRVU value to procedures may lead to higher wRVU production for similar or even reduced procedure volume (or “work”)
- Changes to reimbursement may impact available funds for physician compensation from that surveys reported

Shift to Value-Based Care

- Compensation is increasingly becoming based on value of care rather than volume of care

Impact on Industry (Market) Physician Compensation Survey Data

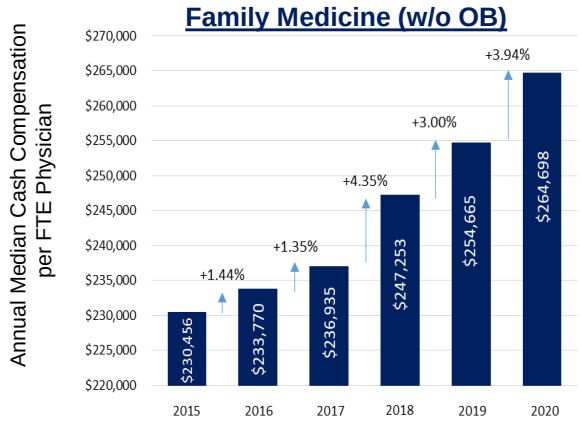
Valuation Implications

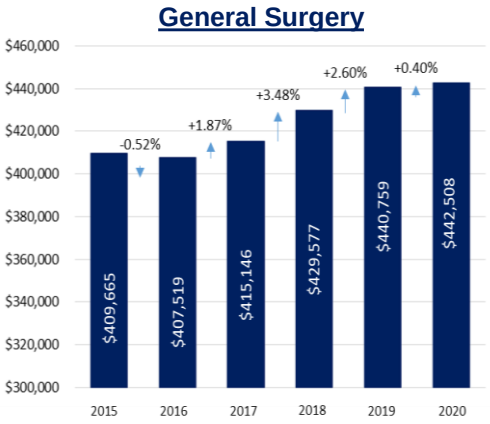
Market Survey Data Results

- Physician compensation has generally increased year-over-year
- In 2020, median provider compensation increased by 0.76% from 2019

Change in Annual Compensation, 2019 to 2020

- Primary Care Physicians +2.6%
- Advanced Practice Provider (APP) +1.25%
- Specialist Physicians -1.91%
- Surgical Specialists -0.89%
- Non-Surgical Specialists -1.29%



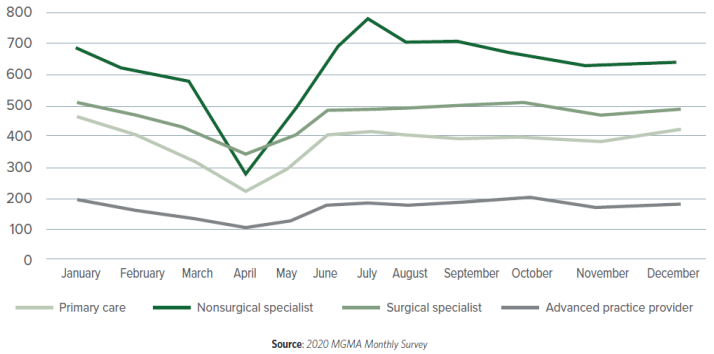


Valuation Implications

Market Survey Data Results

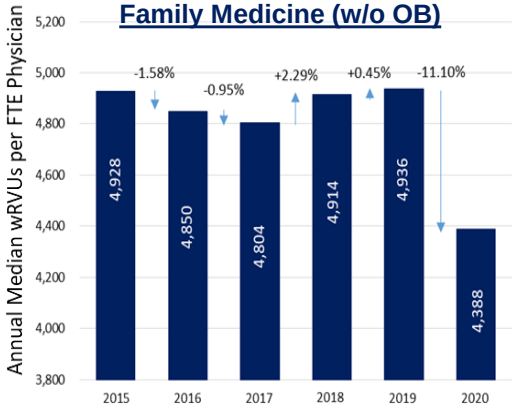
- While physician productivity (as measured by work RVUs) has had varying year-over-year trends, but not to extent experienced in 2020 !
- wRVU productivity appears to have rebounded by the end of 2020

2020 Monthly wRVUs for Full Time Physicians and APPs

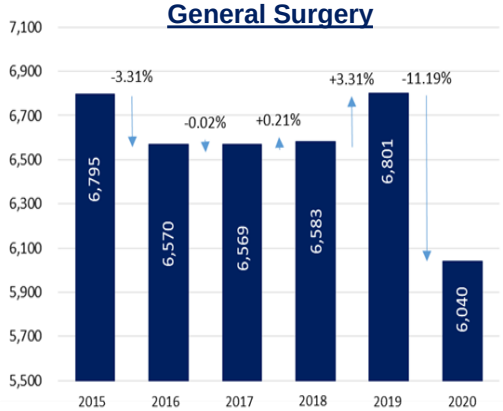


Source: *2020 MGMA Monthly Survey*

Family Medicine (w/o OB)



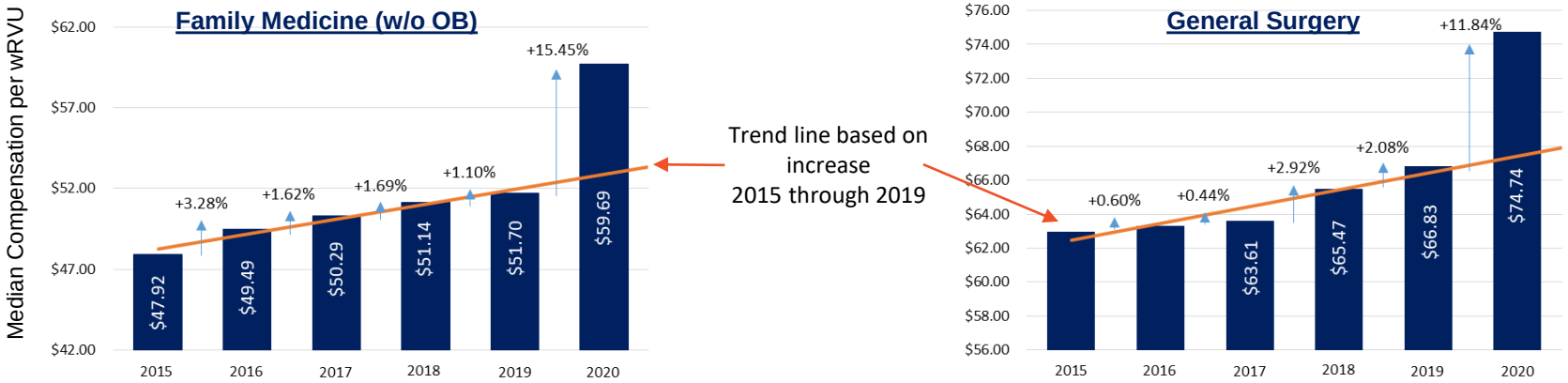
General Surgery



Valuation Implications

Market Survey Data Results

- A spike in the compensation-to-wRVU ratios as reported in 2021 market surveys (based on 2020 data) resulted from the steady compensation (numerator) and the reduced wRVU productivity (denominator)
- Prior to 2020, compensation-to-wRVU ratios for most specialties have risen year-over-year



Valuation Implications

Impact of COVID-19 and MPFS on the Market Survey Data

- Many compensation arrangements based on production
- Basing valuation on 2020 survey results in potential overcompensation
- Need for Normalization

Valuation Implications

Sample Normalization Process – Family Medicine

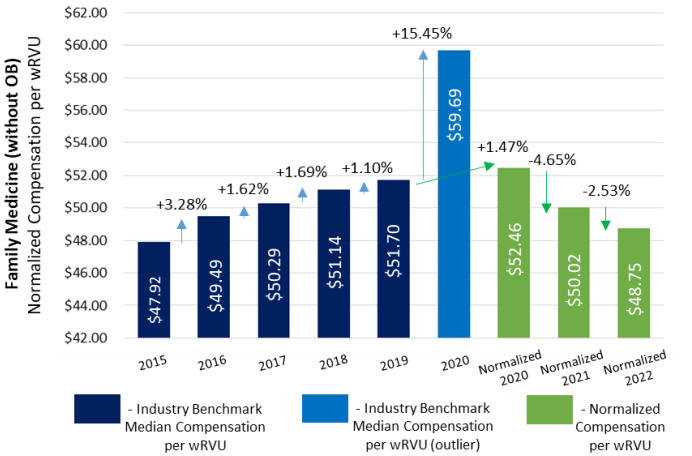
- Eliminate the Impact of Nonrecurring Impacts (COVID-19)
- Adjusted for Potential/Probable Impacts (MPFS and other factors)

	Family Medicine (without OB)		Notes	A	B	C	D	E	F	G	H	I
				Historical Data						Normalized Data		
				2015	2016	2017	2018	2019	2020 as Reported	2020	2021	2022
1	Annual Procedures Performed by the Physician		# of procedures and procedure mix performed in 2015 assumed to remain unchanged	5,873	5,873	5,873	5,873	5,873	5,873	5,873	5,873	5,873
2	MPFS Impact	Total Annual wRVUs performed	Based on the MPFS	4,928	4,928	4,928	4,915	4,915	4,918	4,918	5,929	5,929
3		Change in wRVUs from previous year	% Change in Line 2 from Previous Year		0.00%	0.00%	-0.28%	0.00%	0.07%	0.07%	20.57%	0.00%
4		Total Medicare reimbursement for procedures	Based on the MPFS	$337,323	$336,088	$338,250	$338,275	$340,601	$342,414	$342,414	$389,746	$376,118
5		Change in Medicare reimbursement from previous year	% Change in Line 4 from Previous Year		-0.37%	0.64%	0.01%	0.69%	0.53%	0.53%	13.82%	-3.50%
6	MGMA Survey Data and Adjustments	Industry (Market) Benchmark Median Compensation	Reported MGMA Data	$47.92	$49.49	$50.29	$51.14	$51.70	$59.69			
7		Expected Compensation/wRVU (adjusted for MPFS Impact)	Previous Year Line 6 Adjusted for Lines 3 and 5		$47.74	$49.81	$50.43	$51.49	$51.94			
8		Historical percent change for Unknown Factors	Calculated Difference between Lines 6 and 7		3.66%	0.97%	1.40%	0.40%	14.92%			
9		Normalized Compensation per wRVU - Only MPFS Changes	Previous Year Adjusted for Lines 3 and 5							$51.94	$49.52	$48.27
10		Normalization Percentage Change for Unknown Factors	Assumption based on Column A - E, Line 8							1.00%	1.00%	1.00%
11		**Normalized Compensation per wRVU**	**Line 9 Increased by Line 10**							**$52.46**	**$50.02**	**$48.75**
12	Total Compensation	Expected Compensation based on MPFS Impact Only	Line 2 x Line 7 (Historical) or Line 9 (Normalized)		$235,298	$245,470	$247,862	$253,062	$255,438	$255,438	$293,655	$286,221
13		Compensation based on Unknown Factor	Line 15 - Line 12 (Historical)		$8,602	$2,374	$3,472	$1,024	$38,119			
14			1.00% of Line 12 (Normalized)							$2,554	$2,937	$2,862
15		Annual Compensation per MGMA Data (as Reported)	**Line 2 x Line 6**	**$236,163**	**$243,900**	**$247,843**	**$251,334**	**$254,086**	**$293,558**			
16		Annual Compensation per MGMA Data (Normalized)	**Line 12 + Line 14**							**$257,993**	**$296,592**	**$289,083**

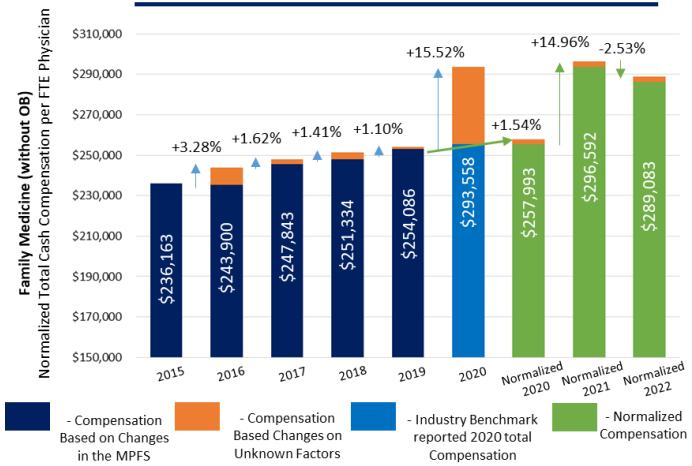
Valuation Implications

Sample Normalization Process – Family Medicine

Normalization of 2020 Survey Data + Adjusted for Potential/Probable Impacts (MPFS and other factors)



Resulting Compensation from Reported/Normalized Median from Market Surveys



Valuation Implications

Sample Normalization Process – General Surgery

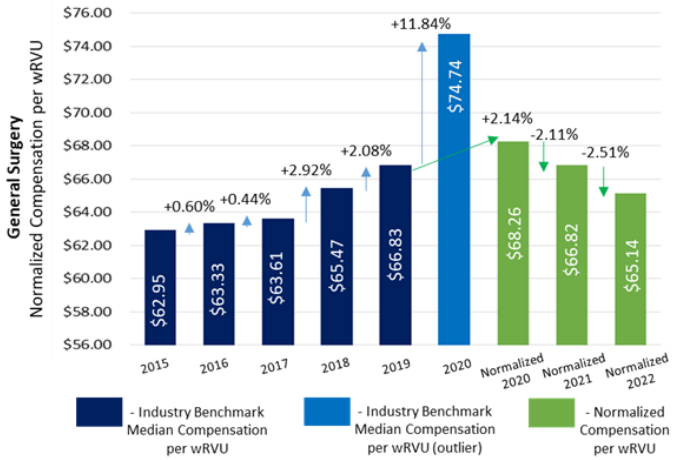
- Eliminate the Impact of Nonrecurring Impacts (COVID-19)
- Adjusted for Potential/Probable Impacts (MPFS and other factors

General Surgery			Notes	A	B	C	D	E	F	G	H	I
				Historical Data						Normalized Data		
				2015	2016	2017	2018	2019	2020 as Reported	2020	2021	2022
1		Annual Procedures Performed by the Physician	# of procedures and procedure mix performed in 2015 assumed to remain unchanged	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875
2	MPFS Impact	Total Annual wRVUs performed	Based on the MPFS	6,795	6,795	6,717	6,690	6,690	6,690	6,690	7,234	7,234
3	MPFS Impact	Change in wRVUs from previous year	% Change in Line 2 from Previous Year		0.00%	-1.15%	-0.39%	0.00%	0.00%	0.00%	8.13%	0.00%
4	MPFS Impact	Total Medicare reimbursement for procedures	Based on the MPFS	$530,459	$527,731	$516,822	$519,160	$523,031	$528,911	$528,911	$554,314	$535,044
5	MPFS Impact	Change in Medicare reimbursement from previous year	% Change in Line 4 from Previous Year		-0.51%	-2.07%	0.45%	0.75%	1.12%	1.12%	4.80%	-3.48%
6	MGMA Survey Data and Adjustments	Industry (Market) Benchmark Median Compensation	Reported MGMA Data	$62.95	$63.33	$63.61	$65.47	$66.83	$74.74			
7	MGMA Survey Data and Adjustments	Expected Compensation/wRVU (adjusted for MPFS Impact)	Line 6 Adjusted for Lines 3 and 5		$62.63	$62.74	$64.15	$65.96	$67.58			
8	MGMA Survey Data and Adjustments	Historical percent change for Unknown Factors	Calculated Difference between Lines 6 and 7		1.12%	1.38%	2.06%	1.32%	10.59%			
9	MGMA Survey Data and Adjustments	Normalized Compensation per wRVU - Only MPFS Changes	Previous Year Adjusted for Lines 3 and 5							$67.58	$66.16	$64.50
10	MGMA Survey Data and Adjustments	Normalization Percentage Change for Unknown Factors	Assumption based on Column A - E, Line 8							1.00%	1.00%	1.00%
11	MGMA Survey Data and Adjustments	**Normalized Compensation per wRVU**	**Line 9 Increased by Line 10**							**$68.26**	**$66.82**	**$65.14**
12	Total Compensation	Expected Compensation based on MPFS Impact Only	Line 3 x Line 8 (Historical) or Line 10 (Normalized)		$425,556	$421,443	$429,187	$441,289	$452,149	$452,149	$478,604	$466,586
13	Total Compensation	Compensation based on Unknown Factor	Line 15 - Line 12 (Historical)		$4,782	$5,811	$8,836	$5,833	$47,894			
14	Total Compensation		1.00% of Line 12 (Normalized)							$4,521	$4,786	$4,666
15	Total Compensation	Annual Compensation per MGMA Data (as Reported)	**Line 3 x Line 7**	**$427,757**	**$430,339**	**$427,255**	**$438,023**	**$447,122**	**$500,043**			
16	Total Compensation	Annual Compensation per MGMA Data (Normalized)	**Line 12 + Line 14**							**$456,671**	**$483,390**	**$471,252**

Valuation Implications

Sample Normalization Process – General Surgery

Normalization of 2020 Survey Data + Adjusted for Potential/Probable Impacts (MPFS and other factors)



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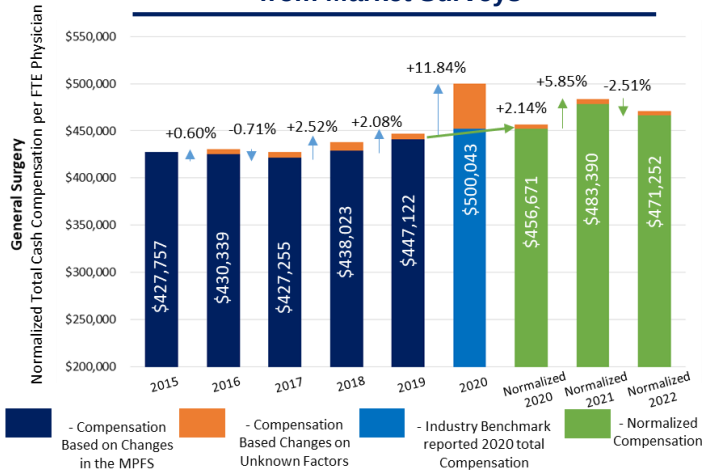


Valuation Implications

Reliance on Market Survey Data in the Near Future

- There is no indication for the need to abandon the use of Market Survey Data
  - – Just additional caution and care is warranted
- Need for Normalization of Survey Data
- Compensation Valuation Process is Otherwise Unchanged
  - Market Approach is a Starting Point/Frame of Reference
  - Consideration/Employment of Other Valuation Methods (Income and Cost Approaches)
  - Other Considerations
- Commercial Reasonableness Opinions

Part 3

Practical Strategies & Considerations

Roger W. Logan, MS CPA/ABV ASA CMPE

Chief Physician Services Development Officer

Bon Secours Mercy Health

Practical Strategies & Considerations

Bon Secours Mercy Health Profile

Who We Are

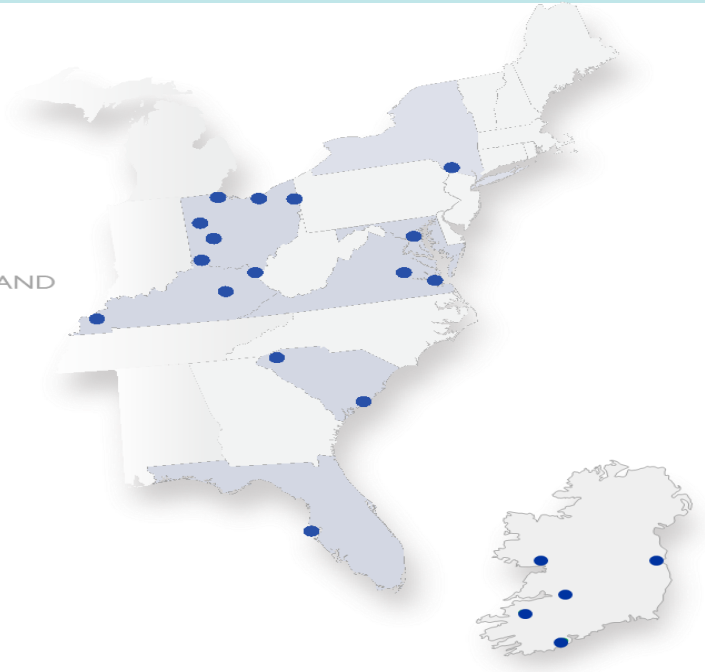
ONE OF THE 5 LARGEST
Catholic health care systems in the US,
the LARGEST private provider in Ireland

MORE THAN **1,000** SITES OF CARE IN THE US AND IRELAND

MORE THAN **$10 BILLION**
in pro forma net operating revenue

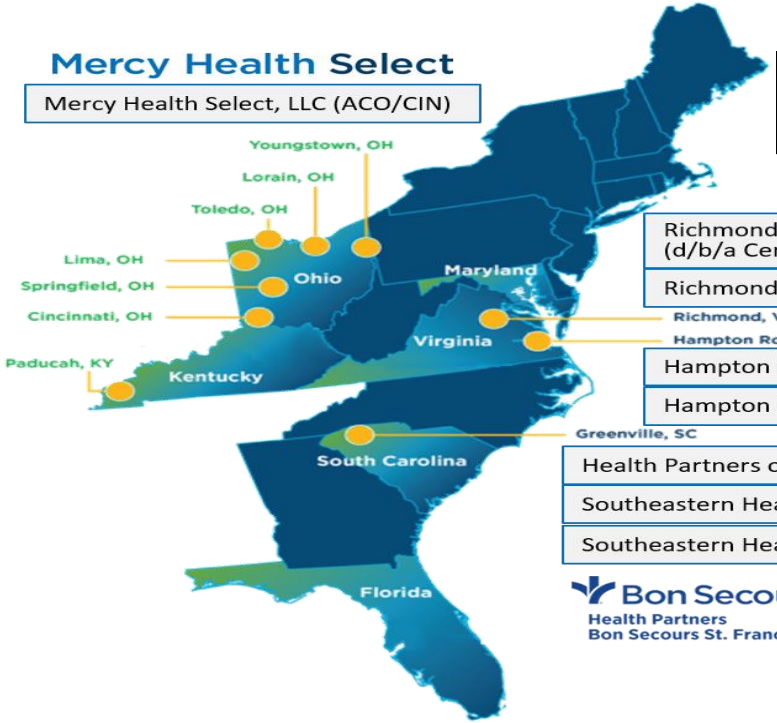
MORE THAN **$2 MILLION** A DAY
IN COMMUNITY BENEFITS

MORE THAN **2,600** PROVIDERS IN THE US
450 CONSULTANTS IN IRELAND
MORE THAN **60,000** TOTAL ASSOCIATES



Practical Strategies & Considerations

Bon Secours Mercy Health Profile - Continued



Providers & Lives Under Management

	Employed	Affiliate	Total	Lives
BSMH Totals	3,393	2,101	5,494	704,817

Richmond CIN, LLC
(d/b/a Cenergy Health Partners)

Richmond Good Help ACO, LLC

Richmond, VA

Hampton Roads, VA

Hampton Roads Good Help ACO, LLC

Hampton Roads CIN, LLC

Greenville, SC

Health Partners of Bon Secours St. Francis, LLC (CIN)

Southeastern Health Partners, LLC (CIN)

Southeastern Health Partners Medicare ACO, LLC

CENERGY HEALTH PARTNERS

goodhelp ACO—Richmond

goodhelp ACO—Hampton Roads

Bon Secours Health Partners
Bon Secours St. Francis

Southeastern Health Partners

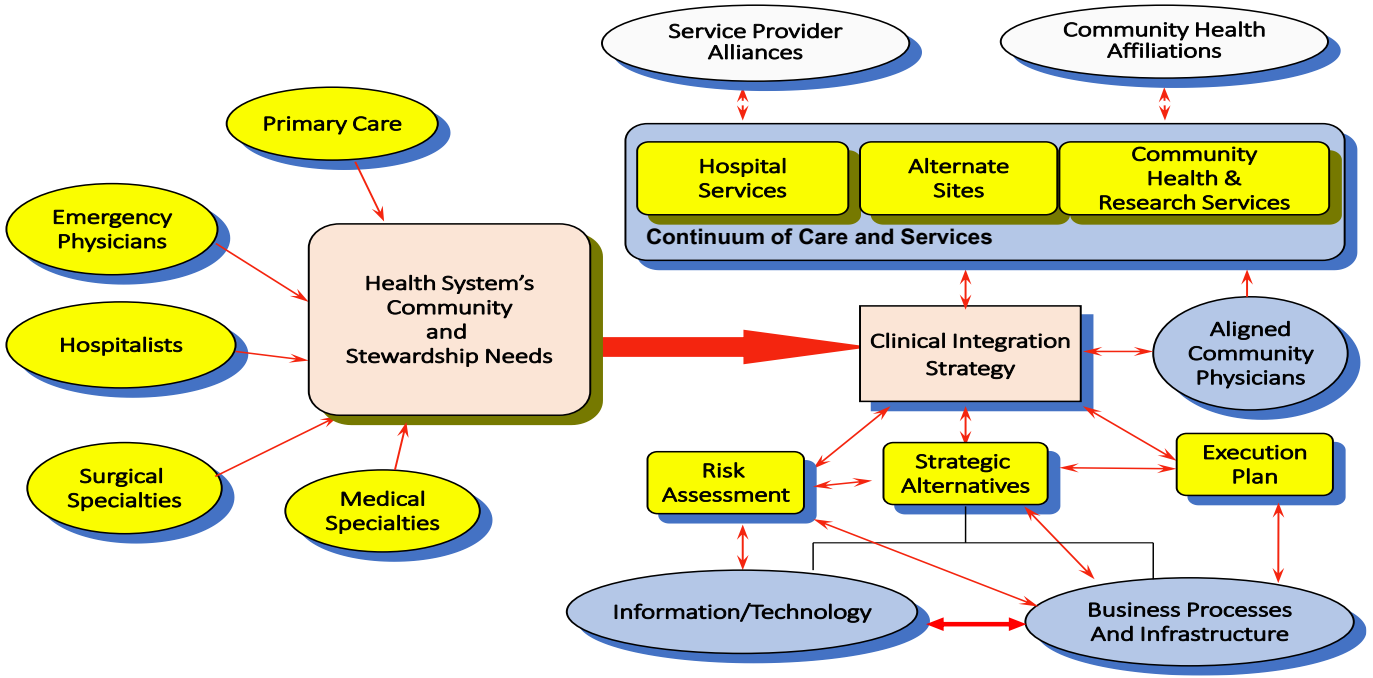
Practical Strategies & Considerations

CYs 2020/21 – COVID 19 Dominated But Wasn't the Whole Story

- CV19 dominated the headlines – the Good, Bad and Ugly
- CV19 Vaccine Roll-out New Standard in Resource Deployment, Attention and Expectations
- The Human Response and Cost of CV19: The Real Story is Yet to be Told
- Party Politics: Priorities, Players, and Perspective
- The Tele-Health, Tele-Medicine and Tele-Triage: Continuity, Communications, Capacity & Convenience
- The Haves and Have-Nots: Disparities in Access, Availability and Affordability
- Cohesiveness and Consistency among and between Payors, Providers and Patients
- Site of Care Shifts – New Era of Ambulatory Service Delivery the new stage for Post-CV19
- The Health Heroes: The Mattel Perspective
- Coming to Grips with the Importance of the Supply Chain on Healthcare Delivery and Costs

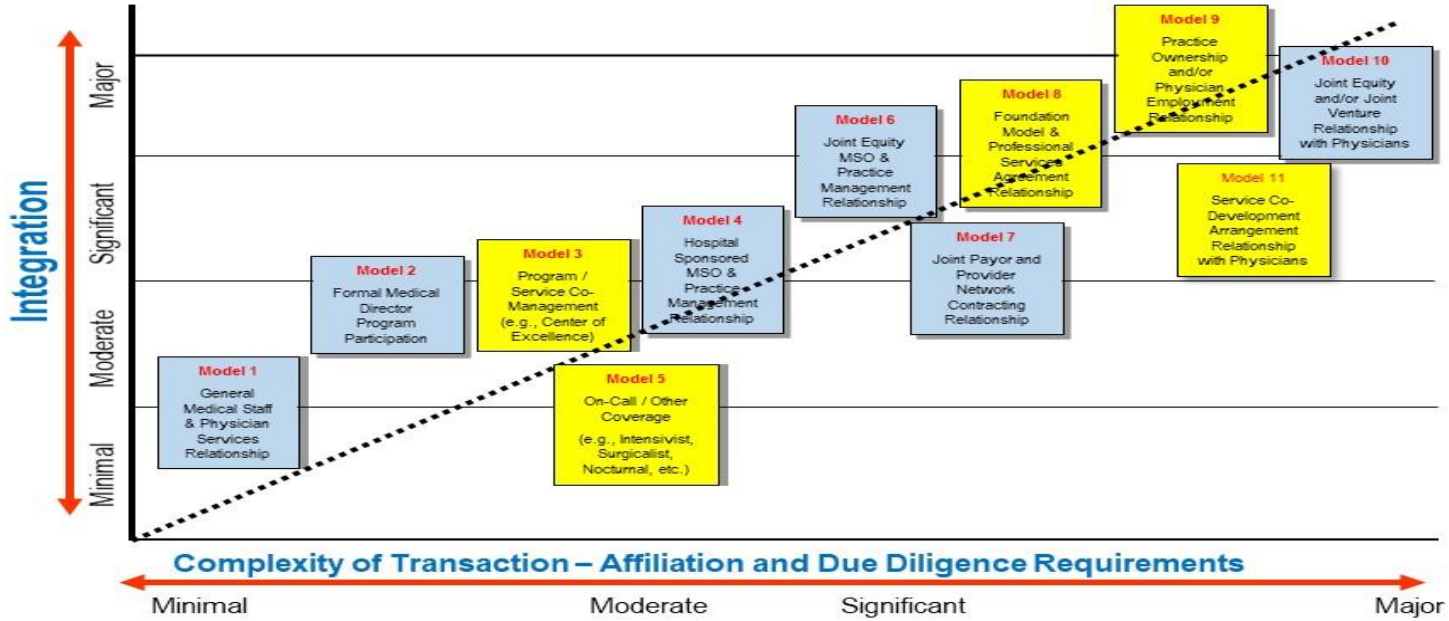
Practical Strategies & Considerations

Now, Near and Far: A Continued Focus of Clinically Integrated Networks



Practical Strategies & Considerations

Now, Near and Far: A Continued Focus on the Right Relationship and Affiliation



Practical Strategies & Considerations

3-D Perspective of Provider Alignment, Compliance and Service Needs

Practical Strategies & Considerations

Mercy Health Physicians - Overview

Primary Care Physicians:

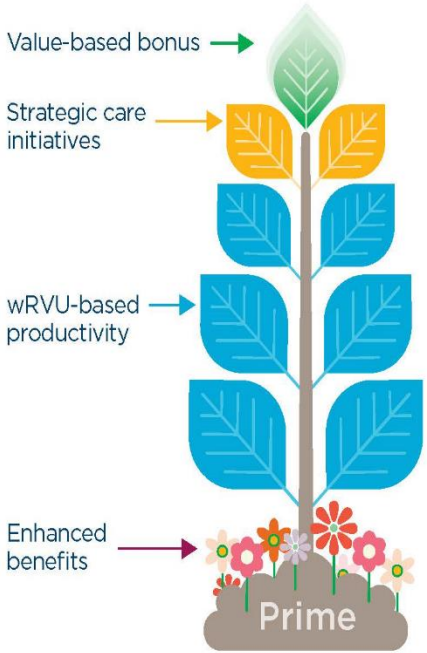
- Productivity among primary care providers with 3+ years in practice averages 64th percentile.
- Average productivity is the same as 2020, but down from 72nd percentile in 2019 – a change directly attributable to COVID-19 as we continue to observe patients choosing to delay non-urgent care.

Specialty Physicians:

- Productivity among specialty providers with 3+ years in practice averages 78th percentile.
- Average productivity is up from 73rd percentile in 2019 and 2020, likely attributable to patients choosing to proceed with care they delayed in 2020 which, in turn, may have exacerbated their healthcare needs.

Average Compensation Per Physicians:

- The Medical Group monitors average payout rate per wRVU (total annual clinical compensation* divided by wRVUs generated) compared to national benchmarks.



Practical Strategies & Considerations

A 3-D Look Ahead at CY 2022 – 2023 (The 2020/2021 Hangover)

Practical Strategies & Considerations

A Look-Back and Ahead Factors that have and will Impact Pay Practices

A Look-Back	A Look Ahead
• Froze wRVU and Compensation Thresholds through CY 2021 • Income Floors and Alternative Substitute Service Options (with Exposure Incentives) • Specialty Specific Income Guarantees and Protection • Suspension or Reduction of Quality and Care Initiative Payment • Minimal Reduction in Force or Furloughs (unless requested) • Early Retirements • Supplemental Services by APCs and APPs • Virtual and Telehealth Redefining Service Delivery	• Short-term Guarantees into CY 2022 and Return to Normal in CY 2023/24 • Continuation of 2020 wRVU weights into 2022 • Recalibration of wRVUs Thresholds, Compensation Conversion Factors ($/CF), Productivity Targets and Quality Components • Recalibrating Budgets and Compensation Expectations (Business Means Testing) for Budget Neutrality • Targeting Provider Compensation Durability and Stability to maintain needed Clinical Service Workforce • Market Competitive Compensation is being Reset

Practical Strategies & Considerations

Key Summary and Takeaways

Provider Compensation Data and Benchmarks	Hospital, Medical Group and Health System Response
• Volatility in survey data will continue for the next 24-36 months • Expanded Importance of the Use and Utility of CPT Level Data in Health System data verification • Impact of Telehealth and Virtual Health Services on Clinical Productivity and Reported CPT Codes • Impact on the CY 2021 CMS wRVU weight changes on Income Recalibrations • Impact on charges and collections and crosswalk to Compensation, Production and $/CF reported results	• Continued mandated "stand-still" approach for CY 2022 and possibly CY 2023 for majority of hospitals and health systems • Need for "normalization adjustments" in the near term Need to consider prior contractual obligations and amendment to avoid legal challenges by Physicians and Providers • Use and utility of multi-year trending and multi-organizational survey data versus one year/one survey static data • Use and utility of technical consultants and advisors will be important for "fresh-eyes" assistance and market dynamics

Practical Strategies & Considerations

FMV and CR Updates and Considerations

Prior FMV and CR Compliance	New FMV and CR Compliance
• Use of survey percentiles as FMV markers and boundaries • Reliance of on any valuation method as "government approved" • Reliance on market data involving business-related parties • Valuing a hypothetical doctor in a hypothetical service arrangement • Basing FMV on factors that only relate to hospitals and health systems • Ignoring local market factors • Ignoring the issue of practice losses	• Focus on local market dynamics for physician and provider compensation • Buyer-neutral analysis • Focus on the economics of the subject arrangement and services being performed • Using survey benchmarking for analysis and not as the sole basis for FMV and CR • Evaluate and address practice losses ("Business Means Testing") • Using other valuation methods besides survey data (time and effort; beneficial return, etc.) • Earnings-based compensation (wRVU method)

Panel Discussion

Questions?

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