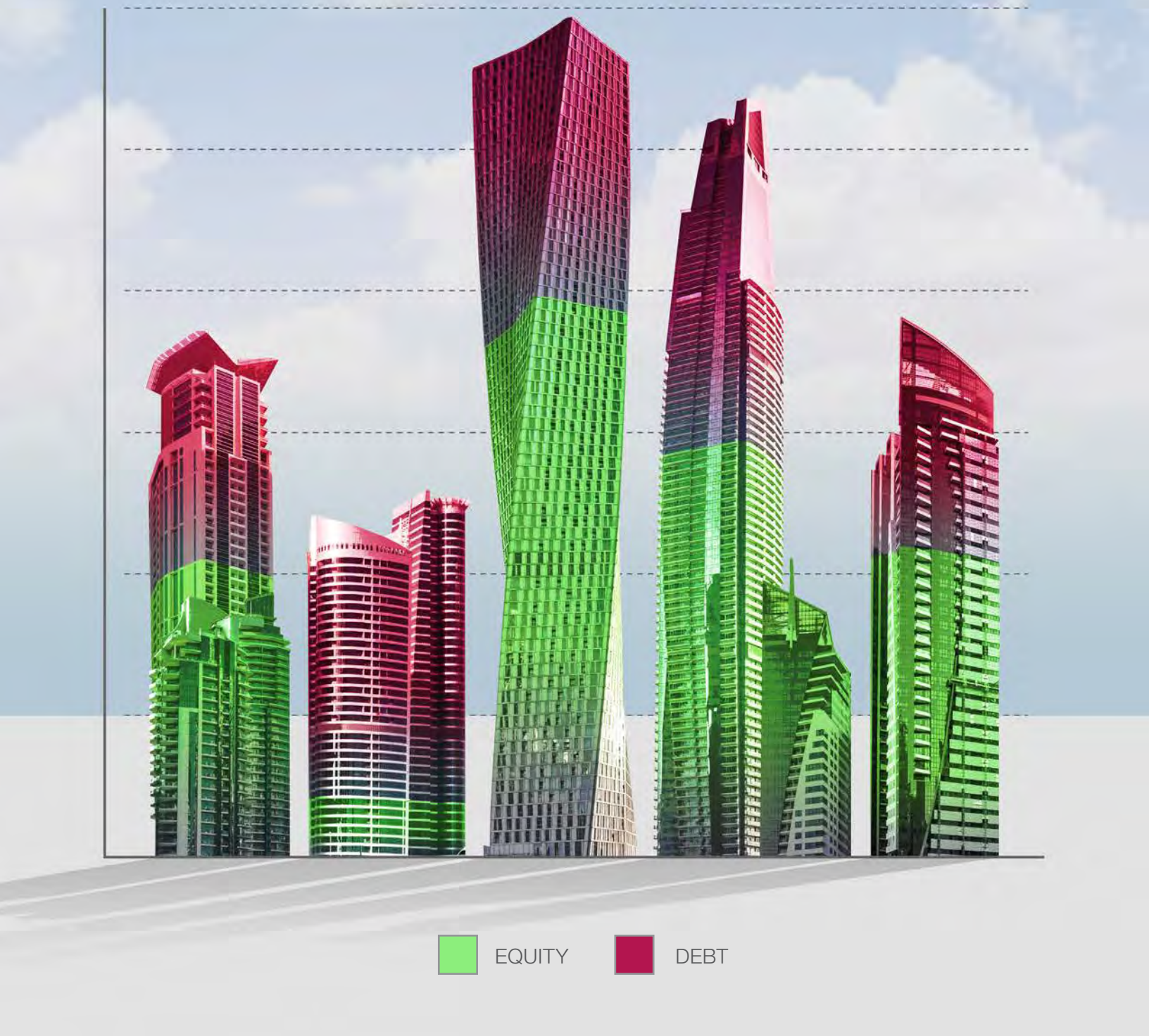
JULY/AUGUST 2022

The Value Examiner®

A PROFESSIONAL DEVELOPMENT JOURNAL *for the* CONSULTING DISCIPLINES



Physician Compensation Surveys: Is the "New Normal" Here?

By Todd Zigrang, MBA, MHA, FACHE, CVA, ASA, and Jessica Bailey-Wheaton, Esq.

It is the most wonderful time of the year—survey season! Beginning in late May, several industry normative benchmark production and compensation surveys published the most recent year's reports. They include surveys conducted by the Medical Group Management Association (MGMA), American Medical Group Association (AMGA), SullivanCotter, and Gallagher (formerly known as Integrated Health Strategies). Each year, these surveys report specific types of physician compensation and productivity metrics across the country for various specialties, and are widely used by valuation professionals in valuing compensation arrangements.

The surveys show that, historically, physician compensation has generally increased year-over-year. However, the COVID-19 pandemic, coupled with changes to the Medicare Physician Fee Schedule (MPFS), resulted in physician compensation aberrations in 2020 and 2021. These aberrations raised significant concerns in the valuation industry: using compensation surveys to value physician compensation potentially results in overcompensation for productivity-based compensation arrangements. These concerns may end up being short-lived, however, according to initial indications from the first of the recently published 2022 compensation surveys (reporting 2021 data).

The valuation implications of using and relying on these surveys are significant. Many business valuations require the normalization of business earnings, which involves the normalization of owner compensation. In healthcare, owners are often physicians, so the normalization process includes the determination of physician owners' fair market value compensation, or replacement cost.

The pandemic wreaked havoc on the U.S. healthcare delivery system, negatively affecting almost every healthcare provider. Surgical specialists saw decreases in their work with the cancellation of nonelective procedures, and office-based physicians saw a substantial decrease in office visits.[1] However, this productivity decrease was largely short-term, as physician productivity appears to have rebounded by the end of 2020, continuing into 2021.

To add insult to injury, the Centers for Medicare & Medicaid Services (CMS) made changes to the MPFS, effective 2021. The MPFS is the annually updated fee schedule Medicare uses to reimburse physicians. Each procedure in the MPFS is assigned a number of relative value units (RVUs) based on the resources required to perform each procedure. There are three categories of resources: (1) physician work (wRVUs), (2) practice expense, and (3) malpractice expense. Pertinent to the subject of this article, the wRVU component represents the physician's contribution of time and effort to the completion of a procedure. The higher the value of the code, the more skill, time, and work it takes to complete.

The 2021 MPFS final rule increased the wRVUs for common evaluation and management (E/M) office visits. CMS's final rule, and the subsequent Consolidated Appropriations Act of 2021, not only reduced the Medicare conversion factor by 3.3 percent (from $36.09 to $34.89), but, maybe more importantly, rebased (increased) wRVU values for the E/M office visits listed in Table 1.

1 Medical Group Management Association, *COVID-19 Financial Impact on Medical Practices*, April 2020, https://www.mgma.com/getattachment/9b8be0c2-0744-41bf-864f-04007d6adbd2/2004-G09621D-COVID-Financial-Impact-One-Pager-8-5x11-MW-2.pdf.aspx?lang=en-US&ext=.pdf.

Table 1: Comparison of 2020 and 2021 MPFS wRVU Values

CPT	Description	2020 wRVUs	2021 wRVUs	% Change
99203	Office/Outpatient Visit New	1.42	1.60	12.7%
99204	Office/Outpatient Visit New	2.43	2.60	7.0%
99205	Office/Outpatient Visit New	3.17	3.50	10.4%
99212	Office/Outpatient Visit Est.	0.48	0.70	45.8%
99213	Office/Outpatient Visit Est.	0.97	1.30	34.0%
99214	Office/Outpatient Visit Est.	1.50	1.92	28.0%
99215	Office/Outpatient Visit Est.	2.11	2.80	32.7%

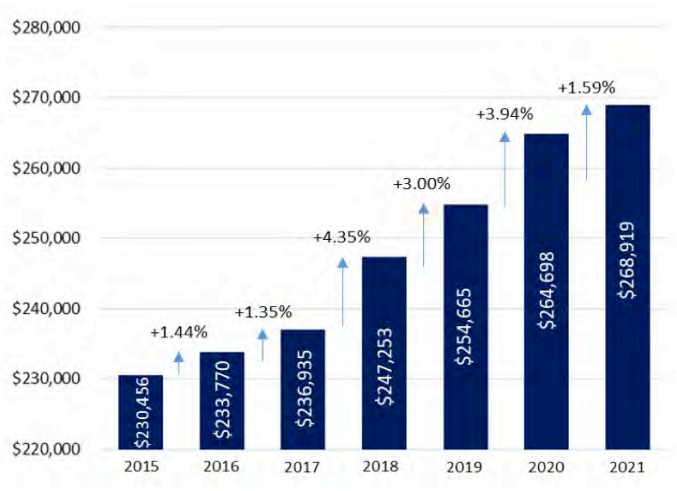
Source: Medical Group Management Association.

As illustrated in Table 1, beginning in 2021, physicians performing the same volume of E/M office visits in 2021 as they did in 2020 generated anywhere from 7.0 percent to 45.8 percent more wRVUs. This rebasing had a bigger impact on primary care providers, whose work is largely based on E/M office visits, than on surgical specialists, whose work is largely procedure-based.

Despite the shift toward value-based reimbursement, the majority of physician compensation models are still productivity-based.[2] Therefore, physicians' decreased productivity due to COVID-19, together with the rebased RVU rates, might have resulted in much lower compensation, had their employers (mostly hospitals) not taken measures to ensure these front-line workers were made whole for the provision of medical care during a global pandemic. These measures included freezing compensation at 2019 levels, continuing to use 2020 MPFS RVU weights, and other changes.

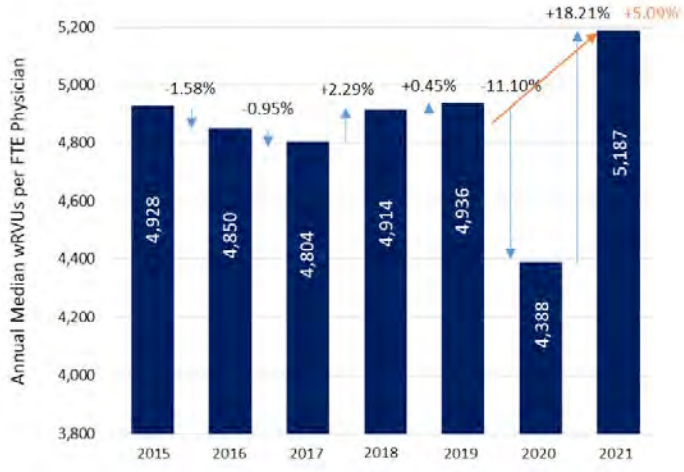
The combination of the pandemic's effects on healthcare delivery and the 2021 MPFS also resulted in a spike in the compensation-to-wRVU ratios (both in reality and as reported in the 2021 compensation surveys). This was due to the steady compensation (numerator) and the reduced wRVU productivity (denominator), a departure from historical ratios, which had risen steadily year over year.[3] For an illustration of this issue, see Figures 1, 2, and 3, which report the past seven years of physician compensation (numerator), productivity measured in wRVUs (denominator), and compensation per productivity unit (quotient) for family medicine.

Figure 1: Total Compensation



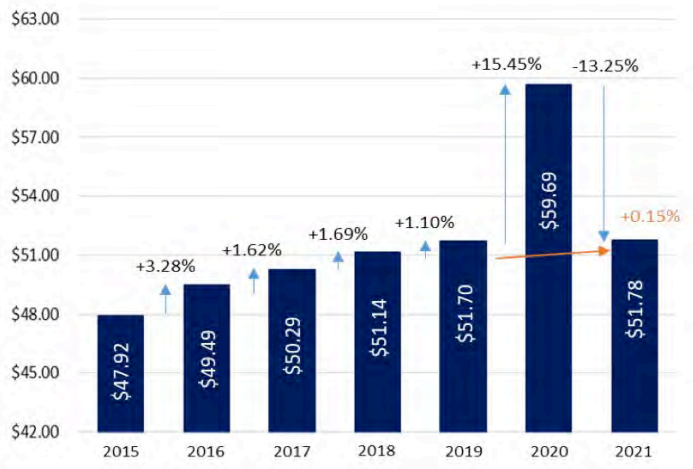
Source: Medical Group Management Association.

Figure 2: wRVU Production



Source: Medical Group Management Association.

Figure 3: Compensation per wRVU Ratio



Source: Medical Group Management Association.

2 Rachel O. Reid, et al., "Physician Compensation Arrangements and Financial Performance Incentives in US Health Systems," *JAMA Health Forum*, January 28, 2022, https://jamanetwork.com/journals/jama-health-forum/fullarticle/2788514.

3 As reported in 2021 market surveys (based on 2020 data).

Looking at the change over the last two years across multiple specialties shows that while there were significant changes across the board between 2019 and 2020, the compensation and change in median wRVUs for most specialties has largely right-sized (see Table 2).

Table 2: Compensation and Productivity Variation by Specialty

Specialty	2019-2020		2019-2021	
	Change in median total compensation	Change in median wRVUs	Change in median total compensation	Change in median wRVUs
Cardiology: Invasive	2.61%	-5.45%	2.82%	3.57%
Family medicine (without OB)	3.94%	-11.10%	5.60%	5.09%
Gastroenterology	0.67%	-13.70%	4.66%	1.81%
Hospitalist: Internal medicine	0.14%	-6.79%	2.55%	0.37%
Internal medicine: General	2.73%	-10.93%	4.57%	2.44%
Neurology	1.44%	-11.68%	3.48%	-0.85%
Obstetrics/Gynecology: General	0.35%	-7.24%	3.64%	0.69%
Orthopedic surgery: General	1.67%	-11.65%	6.88%	7.31%
Pediatrics: General	6.00%	-11.76%	1.77%	-3.50%
Surgery: General	0.40%	-11.19%	3.15%	-0.53%

Source: Medical Group Management Association, "Provider Pay and the Pandemic: Realizing Recovery," May 2022, https://www.mgma.com/getmedia/c2138d86-7c9b-4466-99e3-8944f3ff3efe/ProviderComp-DataReport-May2022-FINAL-(1).pdf.aspx.

Notably, the 2022 MGMA survey instrument required survey participants to report 2021 wRVUs using the new MPFS weights.

In reviewing these compensation surveys and using them in your valuation engagements, it is important to understand which wRVU weighting the physician compensation model uses. As 88 percent of medical practices had not modified their physician contracts to account for the MPFS E/M updates as of 2021,[4] it may be necessary to convert their wRVU weights to the 2021 MPFS weights in order to make an apples-to-apples comparison.

The first indications from the 2022 surveys (reporting 2021 data) are that the healthcare industry is returning to the production and compensation trends that were exhibited prior to the pandemic. This may mark the beginning of the "new normal." While the normalization process continues to be an important function of healthcare valuation engagements, the process itself has become more difficult. Valuation professionals in the healthcare industry need to remember that these salaries are just a starting point. To support their valuation opinions, they should understand the survey data (and survey instrument) they rely on, use an evidence-driven methodology that includes both qualitative and quantitative assessments of the specific facts and circumstances related to the transaction, document their consideration of these facts and circumstances, and articulate their ultimate applicability to the transaction. VE

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4 Medical Group Management Association, "Navigating the Physician Compensation Impacts from E/M Office Visit and 2021 Medicare PFS changes," MGMA *Stat*, July 1, 2021, https://www.mgma.com/data/data-stories/navigating-the-physician-compensation-impacts-from.