Valuation of Compensation for Healthcare Services: Physician On-Call Services

(Part Three of a Four-Part Series)

As discussed in Part One of this series, healthcare services may be divided into two general categories, i.e., clinical related and nonclinical related, with these categories further defined by the specific tasks, duties, responsibilities, and accountabilities (TDRAs) involved in each.\(^1\) Due to the many permutations and combinations of TDRAs that may be present in various healthcare service roles, careful analysis is warranted to ensure that the subject services (i.e., those services under consideration in the valuation engagement) are classified into an appropriate category for benchmarking and other valuation related purposes.\(^2\)

One subcategory of healthcare services that mandates careful consideration by the valuation analyst is physician on-call services, which denotes the requirement that a physician be responsible for providing professional clinical services to patients who may need care during a time other than typical physician practice office hours (e.g., on evenings, weekends, and holidays) at various sites of services, including hospital emergency departments, trauma centers, and birthing centers.\(^3\) This third installment in the four-part Health Capital Topics series on the classification and valuation of physician compensation for healthcare services will focus on physician on-call services in the healthcare industry.

Similar to the valuation of compensation arrangements for other physician clinical services (discussed in Part One of this series), the economic value analysis for determining Fair Market Value (FMV) for physician on-call services should be focused on the economic benefits reasonably expected to be derived from the use or utility of the services in the future, bounded by the cost of an equally desirable substitute, or one of equal utility, for each of the elements of economic benefit (or utility) to be derived from the right to control the services to be performed.\(^4\)

As set forth in two Advisory Opinions by the Office of the Inspector General of Health and Human Services (May 2009 and March 2013), compensation for physician on-call services should be based on services actually rendered.\(^5\) Further, reliance on the physician’s “lost opportunity cost” as the sole basis for determining physician on-call services compensation may not be considered an efficacious methodology for determining whether a compensation arrangement meets the regulatory thresholds of FMV and commercial reasonableness.\(^6\)

In developing the valuation analysis related to physician on-call services, the valuation analyst will need to obtain the requisite documents related to the proposed compensation arrangement(s), including:\(^7\)

1. The proposed agreement(s) for on-call services (including a detailed description of all TDRAs related to the services to be performed);
2. The time requirements, e.g., the number of hours or number of shifts per week anticipated under the proposed arrangement;
3. The number of times the current (specialty specific) on-call physician was (a) paged and (b) required to be present at the hospital for the last two years;
4. The curriculum vitae for each physician performing the on-call services;
5. Documentation as to the board certification, qualifications, and tenure of those providers performing on-call services under similar agreements;
6. The medical staff bylaws and roster;
7. Agreements for other similar positions at the employer entity, including the scope of services to be performed under each of those agreements;
8. Documentation as to the size of the employer, number of patients, acuity levels of patients, and specific needs related to the organization; and,
9. Documentation of historical clinical productivity, measured in work Relative Value Units (wRVUs), gross charges, net revenue, or count by Current Procedural Terminology (CPT) code for an applicable time period (typically the last two years or more, depending on the facts and circumstances) to establish a relevant trend for forecasting purposes.

The valuation analyst utilizes this data to identify and classify the types and number of tasks and duties, along with the level of responsibility and accountability held by the provider, associated with the subject arrangement for physician on-call services. Similar to clinical-related services, once the TDRAs for the physician on-call services to be provided are established, the proposed compensation arrangement

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should be compared to applicable, external benchmarking survey sources reflecting similar TDRAs in order to assess whether the compensation arrangement meets the regulatory thresholds of FMV and commercial reasonableness. This “benchmarking analysis” for physician on-call services should include the following steps to ensure that the most relevant external benchmarking data is used for comparison purposes:\(^1\)

1. Determine the specific characteristics of the arrangement, including:
   (a) Specialty/subspecialty of the provider;
   (b) Applicable job training and education level of the provider, relevant to the position;
   (c) Number of years of experience and reputation of the provider;
   (d) Site of service (e.g., hospital emergency departments, trauma centers, and birthing centers); and,
   (e) Geographic location where the subject services are to be provided;

2. Establish the homogenous units of economic contribution to be used as the metric(s) of comparability. Typically, compensation arrangements for physician on-call services are based on time metrics (e.g., annual, monthly, hourly); and,

3. Develop the range of applicable, normative benchmark industry data, which should include measures within the range (e.g., 10th percentile, 25th percentile, 75th percentile, 90th percentile), as well as measures of central tendency (e.g., mean, median) and measures of dispersion (e.g., standard deviation). The range of normative benchmark industry data is typically compiled by taking a weighted average of the selected benchmark data from external sources that report the specified metric(s) of comparability. The percentage of consideration assigned to each data source, used to compile the range of normative benchmark industry data, should include contemplation of the following statistical and descriptive survey characteristics:\(^9\)
   (a) Size of the data population sample included in the external benchmark survey;\(^10\)
   (b) Dispersion of the data – it should be noted that a useful metric for comparing the relative dispersion between data sets for the purposes of determining an applicable weight of consideration in calculating a range of applicable, normative benchmark industry data is the coefficient of variation (for information regarding this statistical technique, please reference the September 2016 Health Capital Topics article entitled “Statistical Methods – Co-Efficient of Variation”);

(c) Geographic proximity in relation to the area in which the subject services will be provided; and,

(d) Other areas of comparability between the external benchmark survey source and the subject services (e.g., whether the external benchmark survey source includes elements of compensation not present in the subject physician on-call services, the date the external benchmark survey was compiled).

It should be noted that some compensation arrangements for physician on-call services allow the physician to be compensated for the services provided, as well as to bill and collect for the professional clinical services provided while “on-call.”\(^11\) Other compensation arrangements for physician on-call services compensate the physician only for the on-call services component, while the entity location bills and collects for the professional services.\(^12\) This may be particularly true of hospital-employed physicians (e.g., radiologists, anesthesiologists, pathologists, emergency department providers, and hospitalists) who do not receive compensation based on a productivity formula.\(^13\) Because some benchmarking surveys report compensation levels based on the ability of the physician to bill and collect for his or her professional services while performing on-call services, adjustments to the benchmark data may be necessary when comparing on-call arrangements where the physician is not entitled to collect for the professional services provided.\(^14\)

The final article in this four-part series on the valuation of compensation for healthcare services will discuss the valuation of medical director compensation arrangements in the healthcare industry.

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2 Ibid, p. 867.
3 Ibid.
Mr. Zigrang holds a Master in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Institution of Chartered Surveyors (FRICS – Royal Institution of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Certified Valuation Analyst (CVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors).


Robert James Cimasi, MHA, ASA, FRICS, MCBA, CVA, CM&AA, serves as Chief Executive Officer of HEALTH CAPITAL CONSULTANTS (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious “Shannon Pratt Award in Business Valuation” conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS). In 2016, Mr. Cimasi was named a “Pioneer of the Profession” as part of the recognition of the National Association of Certified Valuators and Analysts (NACVA) “Industry Titans” awards, which distinguishes those whom have had the greatest impact on the valuation profession.

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 20 years of experience providing valuation, financial, transactional and strategic advisory services nationwide in over 1,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

John R. Chwarzinski, MSF, MAE, is Senior Vice President of HEALTH CAPITAL CONSULTANTS (HCC). Mr. Chwarzinski’s areas of expertise include advanced statistical analysis, econometric modeling, as well as, economic and financial analysis. Mr. Chwarzinski is the co-author of peer-reviewed and industry articles published in Business Valuation Review and NACVA QuickRead, and he has spoken before the Virginia Medical Group Management Association (VMGMA) and the Midwest Accountable Care Organization Expo.

Mr. Chwarzinski holds a Master’s Degree in Economics from the University of Missouri – St. Louis, as well as, a Master’s Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. He is a member of the St. Louis Chapter of the American Society of Appraisers, as well as a candidate for the Accredited Senior Appraiser designation from the American Society of Appraisers.

Jessica L. Bailey-Wheaton, Esq., is Vice President and General Counsel of HEALTH CAPITAL CONSULTANTS (HCC), where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the Journal of Health Law & Policy.

Kenneth J. Farris, Esq., is an Associate at HEALTH CAPITAL CONSULTANTS (HCC), where he provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services, and tracks impact of federal and state regulations on healthcare exempt organization transactions. Mr. Farris is a member of the Missouri Bar and holds a J.D. from Saint Louis University School of Law, where he served as the 2014-2015 Footnotes Managing Editor for the Journal of Health Law & Policy.