2020/2021: Provider Compensation Lessons for Today and Tomorrow

JANUARY 27, 2022

Company **Overview**

HSG builds high-performing physician networks so health systems can address complex changes with confidence.

Headquarters: Louisville, KY

Formed: 1999

Focus: Health Systems and Physician Network Strategy and Execution

SERVICES

Physician Strategy

Driving a common strategic focus with engaged physicians.

Physician Leadership

Identifying and engaging strong physician leaders is integral to the network's development and success.

Performance Improvement

Improving the performance of employed physician networks.

Network Integrity

Leveraging Physician Network Integrity Analytics™ to create and monitor strategies for patient acquisition and retention.

Physician Compensation

Aligning physician compensation with health system and employed network goals.

Agenda

- Review challenges imposed upon provider compensation models, physician and advance practice provider contracting, and fair market value determination for 2022 by:
  - Environmental factors:
    - 2020's COVID-19 pandemic and
    - 2021's Medicare Physician Fee Schedule (2021 MPFS).
  - Organizational response to environmental factors.
- Outline potential approaches to fair market value determination, despite the challenges discussed, and recommend approaches we believe are best, and which approaches we believe are problematic or should be handled with care.
- Offer our view of seven lessons COVID-19 and the 2021 MPFS taught us as we consider provider contracting and compensation fair market value determination in 2022 and beyond.

HSG **Team Members**

NEAL BARKER

MBA

PARTNER

Expertise in:

- Fair Market Value and Compliance
- Provider Compensation Models
- Physician Strategy Development
- Practice Performance Improvement

PROFESSIONAL EXPERIENCE

Mr. Barker's practice focuses on assisting hospitals and health systems in contractually securing needed clinical/professional services, call coverage, medical direction, and physician leadership through compliant and appropriately aligned financial incentives and compensation programs. Mr. Barker also advises healthcare organizations in physician strategy development, physician network growth and development, service line strategy and network growth and development, service line strategy and expansion and physician practice performance improvement.

EDUCATION

Neal is a member of the American College of Healthcare Executives and a candidate member of the American Society of Appraisers. He holds a Master's Degree in Business Administration with a concentration in Healthcare Administration from the University of Louisville.

BETH SIMPSON

MHSA

SENIOR MANAGER

Expertise in:

- Performance Improvement
- Fair Market Value & Compliance
- Independent Physician Alignment Models

PROFESSIONAL EXPERIENCE

Mrs. Simpson's passion for healthcare is rooted in her personal desire to help others, especially when they are most vulnerable. She enjoys utilizing her operations and analytical background to assist clients in identifying opportunities for improvement within practice operations and revenue cycle. In addition, Beth has contributed extensively to the completion of hundreds of fair market value and commercial reasonableness opinions for physician and advanced practitioner compensation, hospital-based services subsidies, medical directorships, on-call coverage compensation, asset valuations, and overhead sharing arrangements.

Prior to joining HSG, Beth was a Quality Care Analyst at Rocking Horse Community Health Center in Springfield, Ohio and Business Manager at University of Cincinnati Medial Center. She completed her Administrative residency at Mayfield Clinic in Cincinnati, Ohio.

EDUCATION

Beth holds a Bachelor of Science in Fitness and Wellness Management from Eastern Kentucky University and a Master of Health Services Administration from Xavier University of Ohio.

Current Challenges

- **Environment.** Two environmental issues will create problems as organizations develop and implement provider compensation plans.
  - Reduced volume during the COVID-19 pandemic will lead to artificially high per wRVU compensation rates in surveys based on 2020 data.
  - For many specialties, changes to the 2021 MPFS will result in wRVU production that is significantly higher than levels reported in surveys using data from prior years.

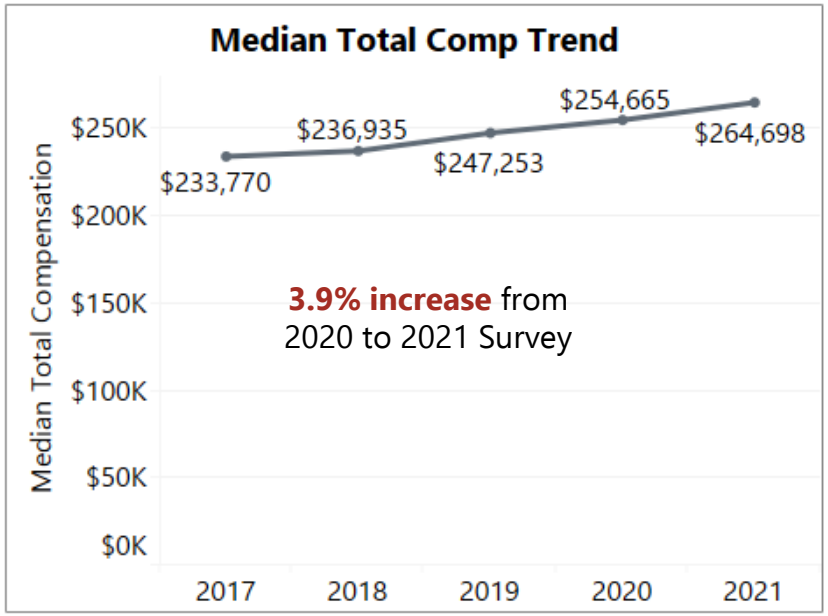
- **Response.** COVID-19's impact on patient volume and the 2021/22 MPFS changes, coupled with the philosophy by which provider groups and physician networks respond to these issues impacts current and future survey data.

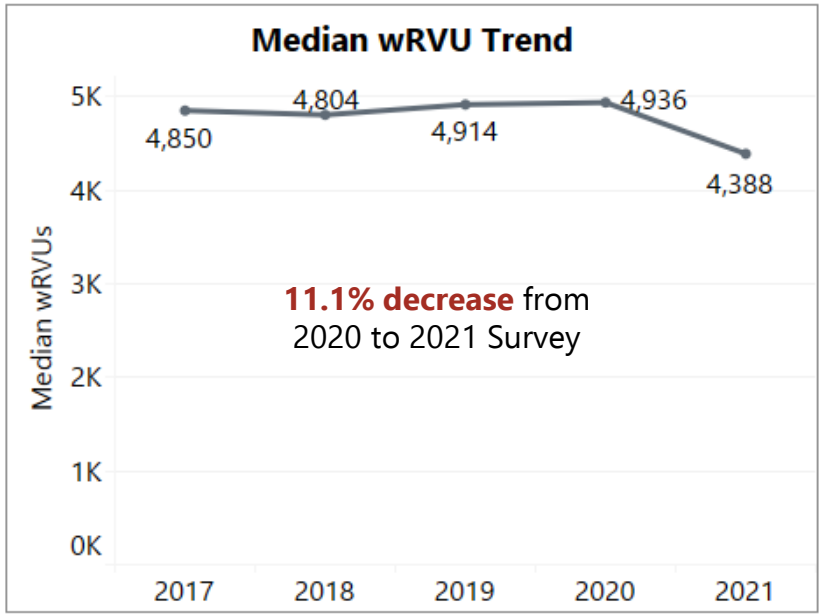
- All of which makes fair market value determination even more challenging.

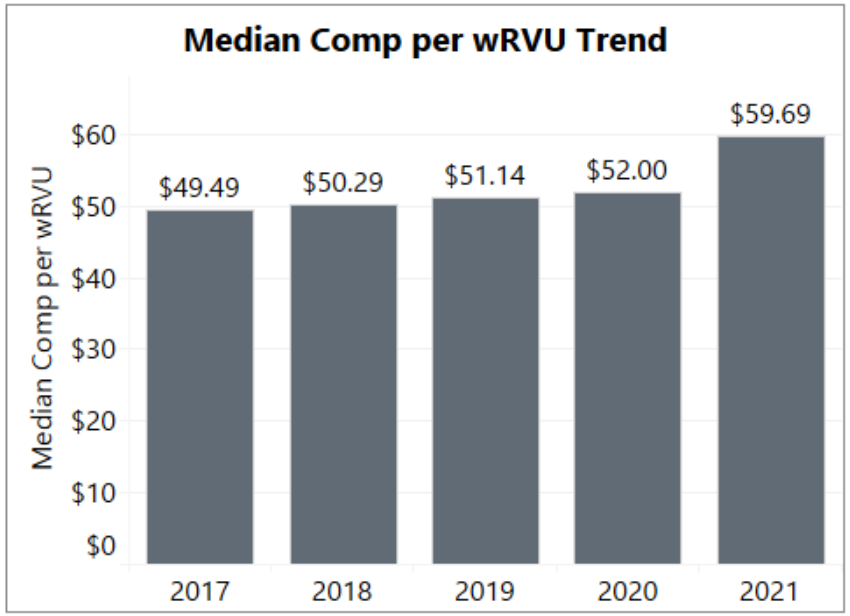
Current Challenges: Environmental

The Impact of COVID-19 on per wRVU Rates

National MGMA Data[1]: Family Medicine (without OB)







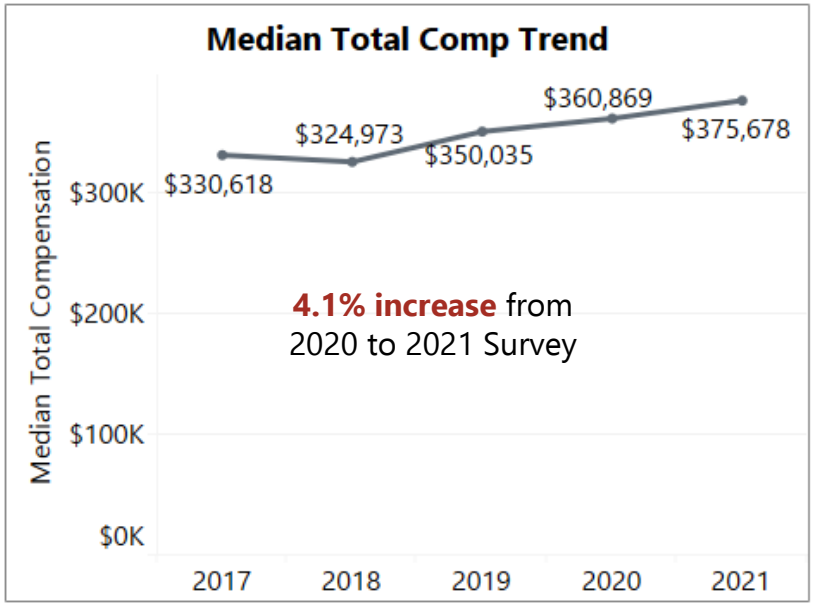
14.8% increase from 2020
to 2021 Survey Report

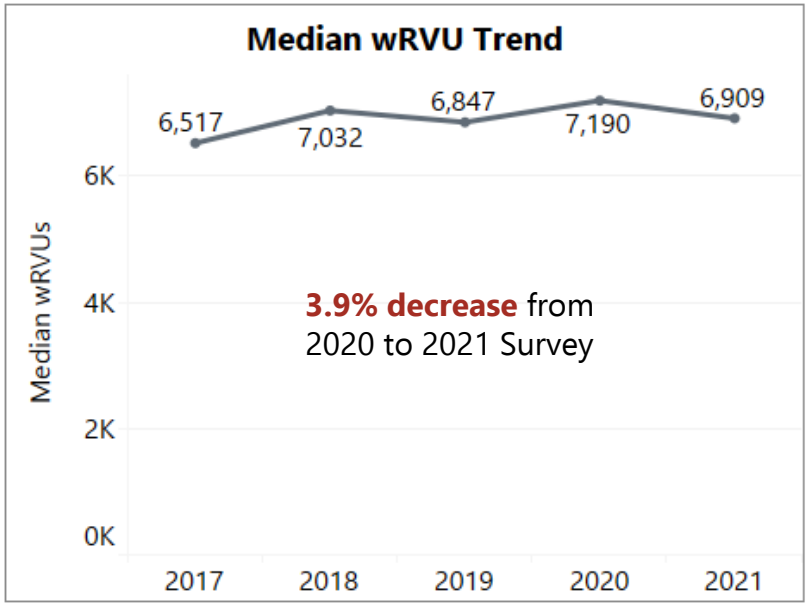
1: MGMA 2021 Provider Compensation Survey Report

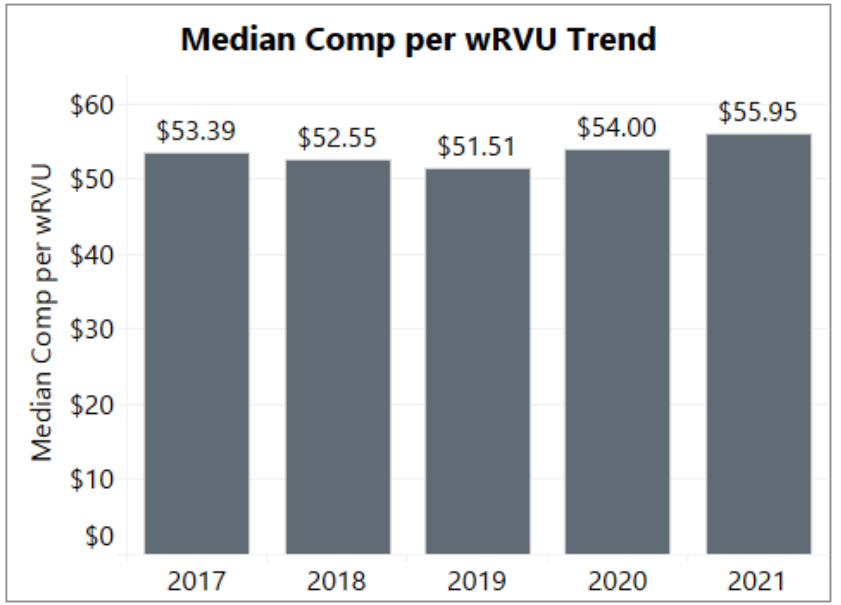
Current Challenges: Environmental

The Impact of COVID-19 on per wRVU Rates

National MGMA Data[1]: Nephrology







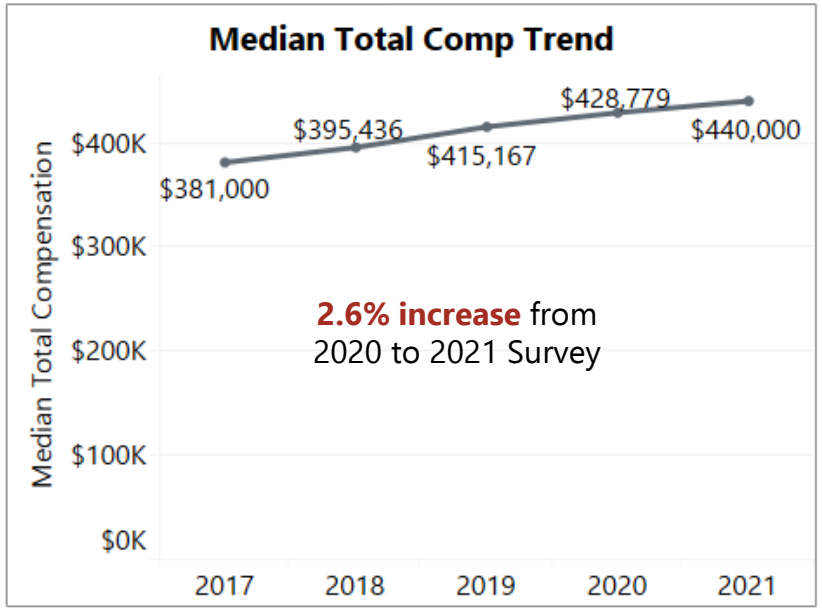
1: MGMA 2021 Provider Compensation Survey Report

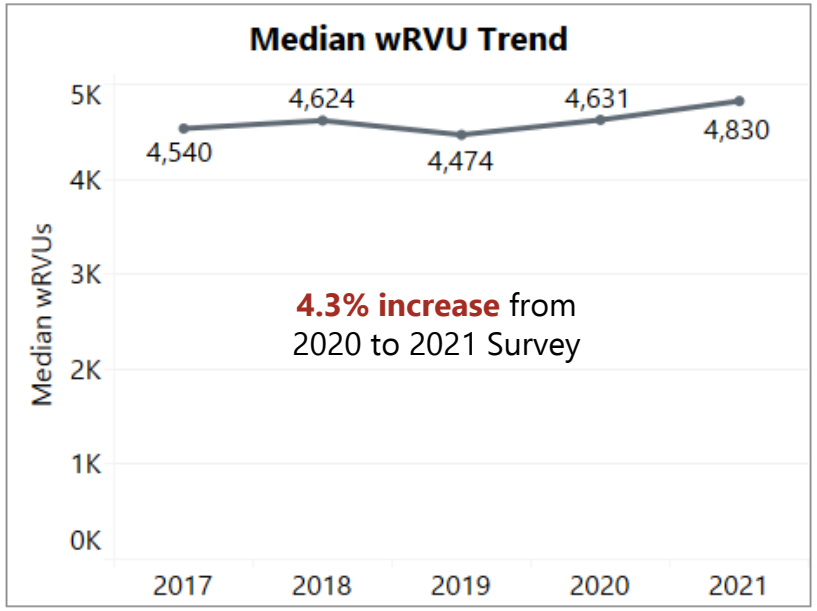
3.6% increase from 2020 to 2021 Survey Report

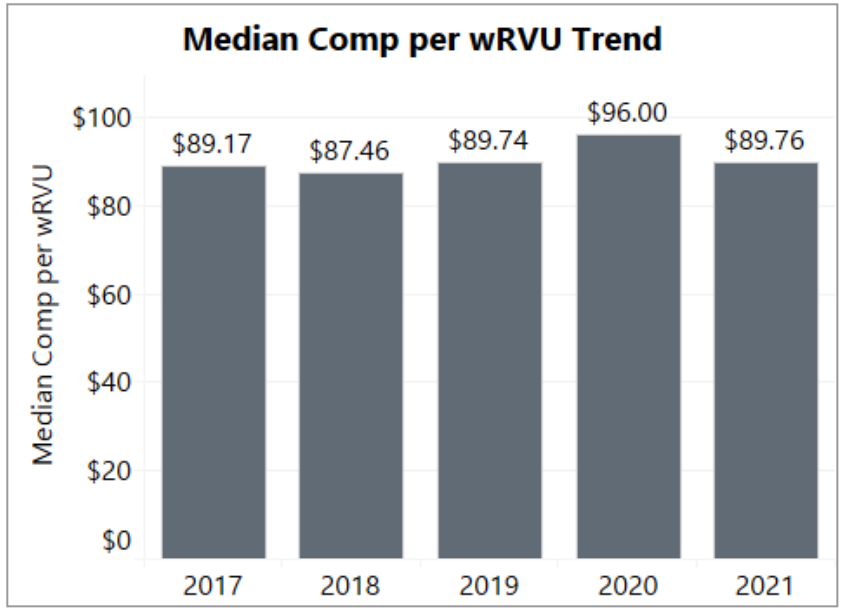
Current Challenges: Environmental

The Impact of COVID-19 on per wRVU Rates

National MGMA Data[1]: Critical Care: Intensivist







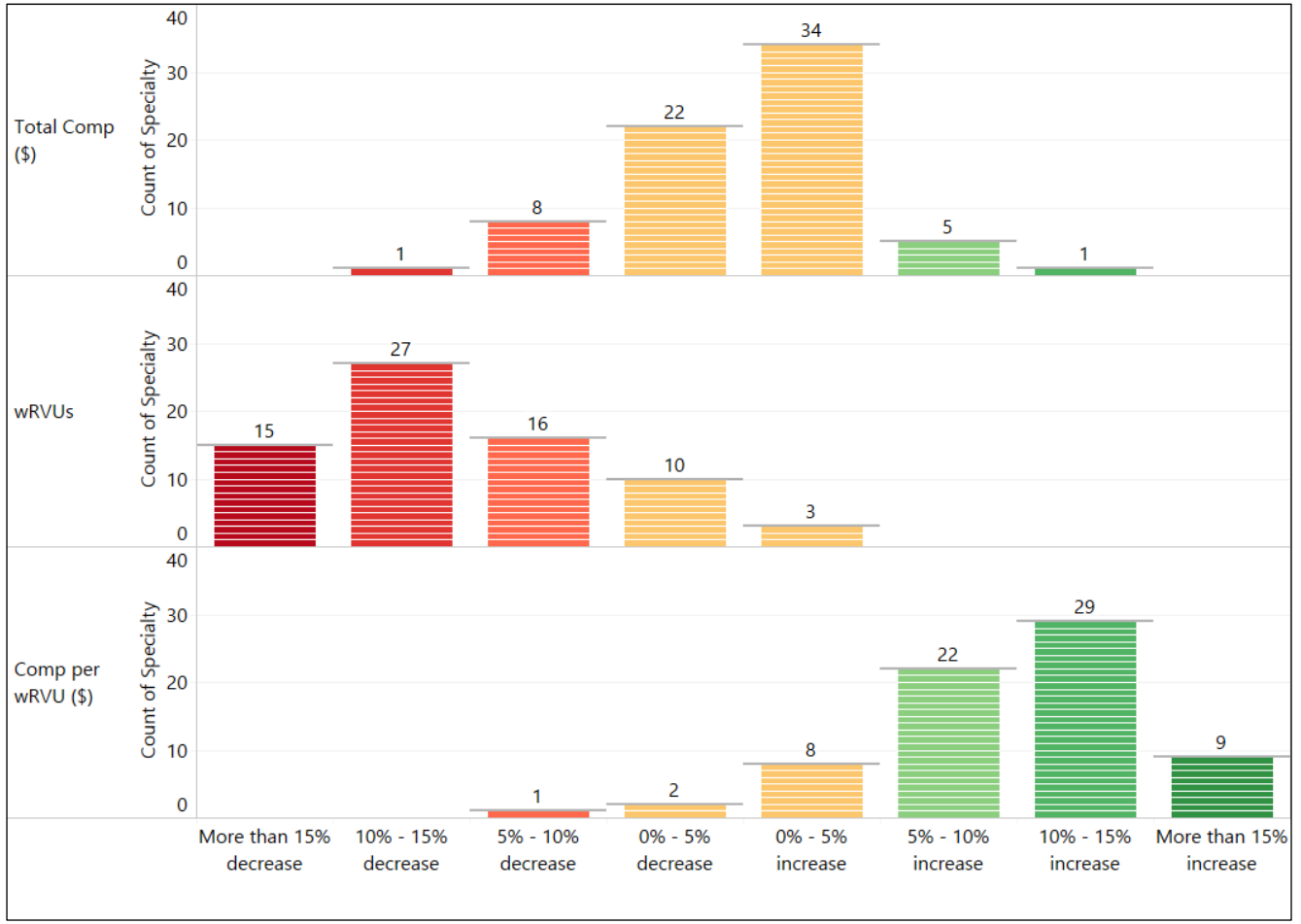
1: MGMA 2021 Provider Compensation Survey Report

6.5% decrease from 2020 to 2021 Survey Report

Current Challenges: Environmental

The Impact of COVID-19 on per wRVU Rates

- Analysis of MGMA[1] national median values for 71 specialties.
- Percent increase/decrease category reflects change from median as published in MGMA 2020 report (based on 2019 data) to median as published in the MGMA 2021 report (based on 2020 data).
- Increased or stable compensation (Numerator) ÷ decreased wRVUs (Denominator) = Increased compensation per wRVU.



1: MGMA 2020 and 2021 Provider Compensation Survey Reports

Current Challenges: Environmental

The Impact of MPFS Updates on wRVU Production & Comp

Changes introduced in the 2021 MPFS:

- **Conversion Factor decreased by 3% to $34.89 (2020-2021)**
- **Conversion Factor decreased by 0.8% to $34.61 (2021 -2022)**
- **Office E/M coding changes**
- Telehealth services
- Scope of practice
- Communication Technology-Based Services (CTBS)
- Remote Physiologic Monitoring (RPM)
- Clinical Laboratory Fee Schedule (CLGS)
- Appropriate Use Criteria (AUC)
- Rebase and revise FQHC Market Basket
- Medicare Shared Savings Program (MSSP)

These changes significantly impact organizational revenue

CPT	CY2020 wRVU Value[1]	CY2021 & 22 wRVU Values[2]	Percent Change
99202	0.93	0.93	0%
99203	1.42	1.60	13%
99204	2.43	2.60	7%
99205	3.17	3.50	10%
99211	0.18	0.18	0%
99212	0.48	0.70	46%
99213	0.97	1.30	34%
99214	1.50	1.92	28%
99215	2.11	2.80	33%

1: 2020 CMS Physician Fee Schedule
2: 2021 and 2022 CMS Physician Fee Schedules

Current Challenges: Environmental

Specialty Impact

Specialty	Medicare Allowed Charges (mil)[1]	Legislative Impact – CY2021[2]	Changes in wRVU Credit CY 2021 MPFS Final Rule[3]	Differences in % Change wRVU v. Reimbursement
Cardiology	$6,871	3%	9%	6%
Critical Care	$378	-1%	2%	3%
Endocrinology	$508	13%	21%	8%
Family Medicine	$6,020	11%	19%	8%
Gastroenterology	$1,757	2%	6%	4%
General Surgery	$2,057	0%	6%	6%
Heme/Onc	$1,707	13%	19%	6%
Infectious Disease	$656	0%	3%	3%
Internal Medicine	$10,730	6%	11%	5%
Nephrology	$2,225	11%	16%	5%
Neurology	$1,522	7%	12%	5%
Neurosurgery	$811	0%	5%	5%
Orthopedic Surgery	$3,812	2%	7%	5%
Otolaryngology	$1,271	8%	14%	6%
Psychiatry	$1,112	8%	12%	4%
Pulmonary Disease	$1,654	3%	7%	4%
Rheumatology	$548	13%	22%	9%
Urology	$1,810	9%	15%	6%
Total	**$97,008**	**4%**	**11%**	**5%**

1: From Table 106: CY 2021 PFS Estimated Impact on Total Allowed Charges by Specialty, Federal Register/Vol. 85, No. 248

2: Combined Impact without G2211 in CF & with an additional 3.75% CF Increase

3: Calculated by HSG by applying the CMS 2020 and 2021 PFS to the CMS Provider Utilization and Payment Data CPT Data

Current Challenges: Environmental

The Impact of COVID and MPFS Updates on wRVU Production & Compensation

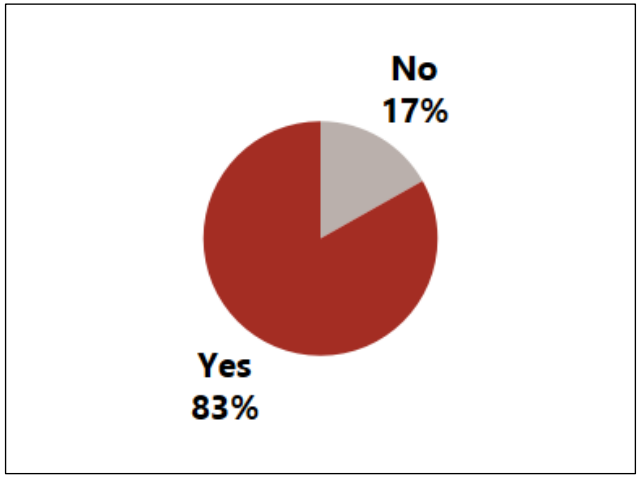
Key Takeaways

- COVID suppressed patient volume in 2020—meaning that 2021 survey reports, based on 2020 data, reported abnormally lower wRVU volume for many specialties.
- Reported compensation for 2020 (2021 surveys) did not change equal to the level of reported wRVUs for many specialties.
- CMS' wRVU adjustments apply to all specialties, based on service mix, regardless of payer (organizations typically do not alter wRVU values based on payer).
- Increases in revenue apply only to Medicare, which is merely a subset of professional revenue, for most organizations.
- Economically, this results in overall wRVUs (hence wRVU-based compensation) increasing at a higher rate than total professional revenue—in some instances, at a much higher rate.
    - This dynamic threatens financial sustainability—which varies by specialty, service mix, and payer mix.
- Due to the economic impact and challenges, organizations will have to respond. Timing and degree of organizational response will vary.
- Contracts that have compensation, production, and bonus rates tied to benchmarks can be extremely problematic.

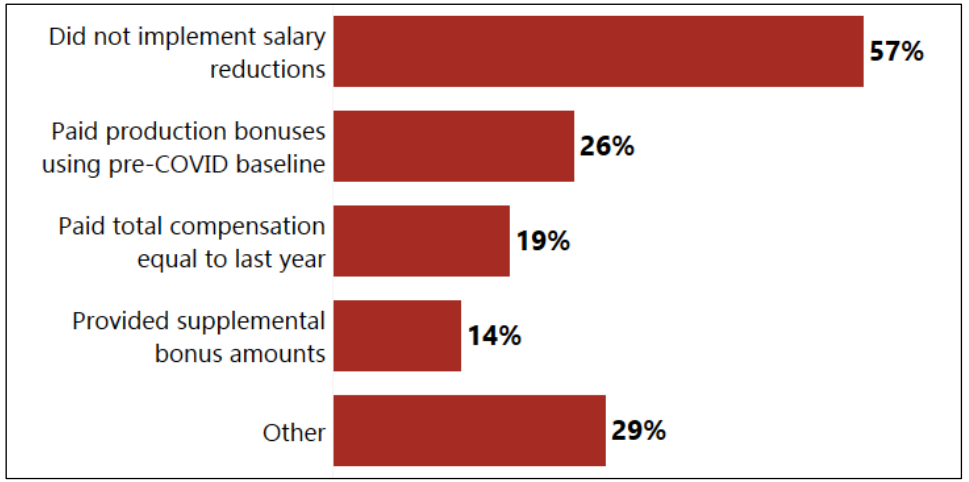
Current Challenges: Responses

The Impact of COVID-19 on per wRVU Rates

Measures taken to mitigate negative impact to provider compensation: **yes/no**



Among yes respondents: types of mitigations



Responses from HSG Compensation Trends Survey Conducted During July and August 2021
N = 68

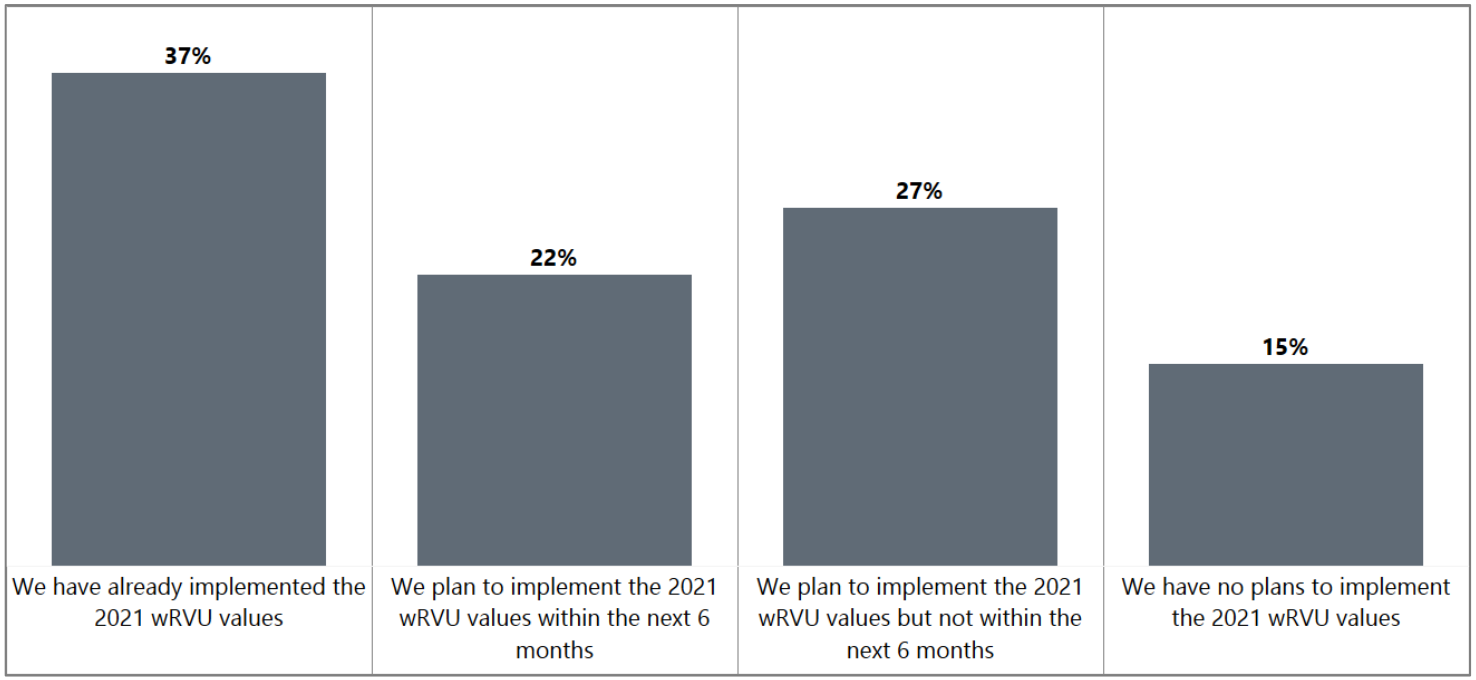
Current Challenges: Responses

The Impact of MPFS Updates on wRVU Production & Comp

Reported plans to implement the 2021 wRVU values

Responses from HSG Compensation Trends Survey Conducted During July and August 2021

N = 60



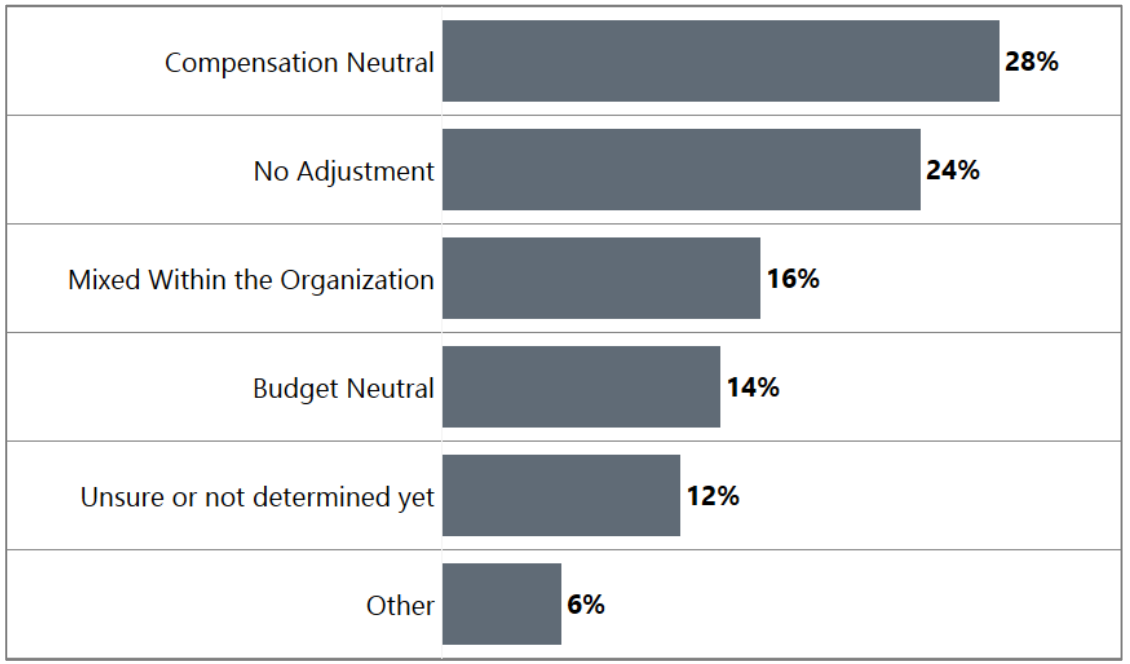
Current Challenges: Responses

The Impact of MPFS Updates on wRVU Production & Comp

Selected rate adjustment philosophy

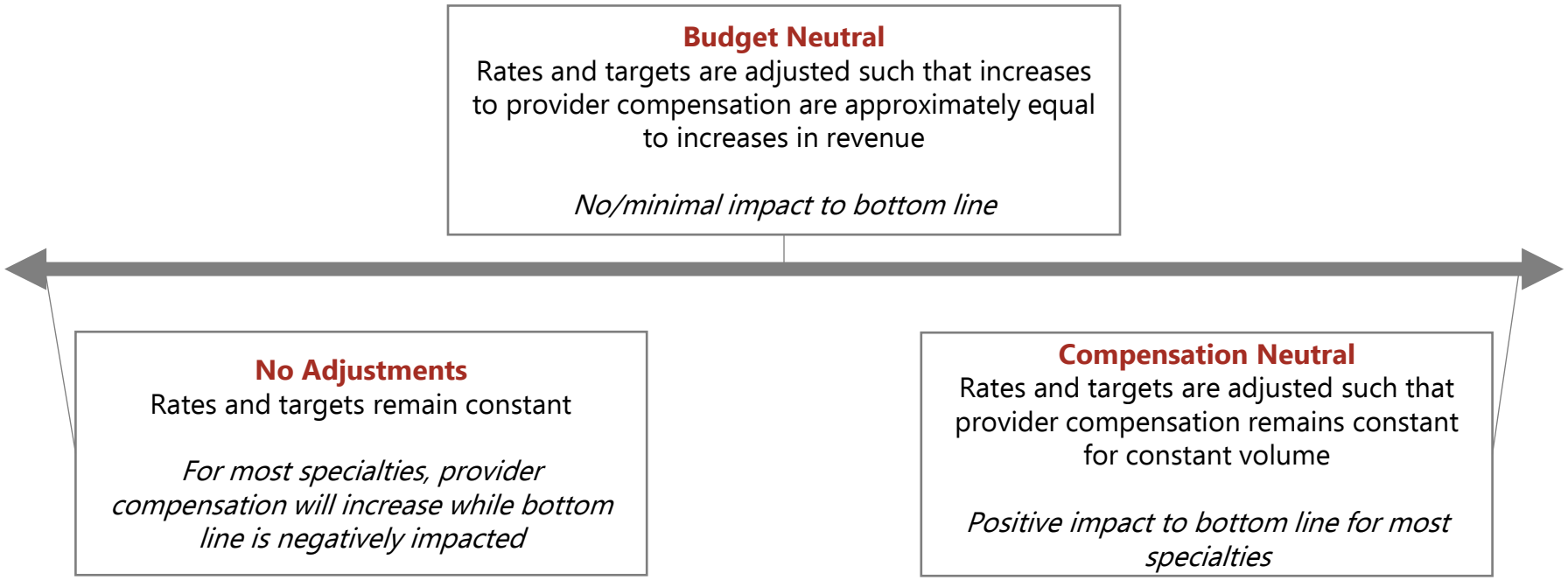
Responses from HSG Compensation Trends Survey Conducted During July and August 2021

N = 50



Current Challenges: Responses

The Impact of MPFS Updates on wRVU Production & Comp



Current Challenges: Responses

Rate Adjustment Examples: Status Quo (2020 MPFS Baseline)

Status Quo Assumptions

Parameter	Details
Productivity	**5,000 wRVUs**
Revenue	$125,000 Medicare FFS $250,000 All Other Payers **$375,000 Total**
Compensation	$250,000 total based on **$50 per wRVU**

Practice Impact Summary

	Assumed Current
Total Revenue	$375,000
Total Productive Compensation	$250,000
Direct Contribution	**$125,000**

Current Challenges: Responses

Rate Adjustment Examples: Transition Assumptions

Transition Assumptions

Parameter	Assumption	Details
Productivity	• Constant volume with 15% increase to wRVUs	**5,750 wRVUs**
Revenue	• 10% increase to Medicare FFS payments • Payments held constant for all other payers	$137,500 Medicare FFS $250,000 All Other Payers **$387,500 Total**
Compensation	**Dependent on approach selected** • No adjustment to rates • Budget neutral adjustment • Compensation neutral adjustments	

Current Challenges: Responses

Rate Adjustment Examples: **No Adjustments**

Approach Assumptions –
No Adjustments to Rate

Parameter	Details
Productivity	**5,750 wRVUs**
Revenue	$137,500 Medicare FFS $250,000 All Other Payers **$387,500 Total**
Compensation	**$287,500** total based on **$50 per wRVU**

Practice Impact Summary

	Estimated	Difference
Total Revenue	$387,500	$12,500
Total Productive Compensation	$287,500	$37,500
Direct Contribution	**$100,000**	**($25,000)**

Current Challenges: Responses

Rate Adjustment Examples: **Budget Neutral Adjustments**

Approach Assumptions – **Adjusting Rate to $45.65 (Budget Neutral)**

Parameter	Details
Productivity	**5,750 wRVUs**
Revenue	$137,500 Medicare FFS $250,000 All Other Payers **$387,500 Total**
Compensation	**$262,488** based on **$45.65 per wRVU**

Practice Impact Summary

	Estimated	Difference
Total Revenue	$387,500	$12,500
Total Productive Compensation	$262,488	$12,488
Direct Contribution	**$125,012**	**$12**

Current Challenges: Responses

Rate Adjustment Examples: **Compensation Neutral Adjustments**

Approach Assumptions –
Adjusting Rate to $43.50 (Compensation Neutral)

Parameter	Details
Productivity	**5,750 wRVUs**
Revenue	$137,500 Medicare FFS $250,000 All Other Payers **$387,500 Total**
Compensation	**$250,125** based on **$43.50 per wRVU**

Practice Impact Summary

	Estimated	Difference
Total Revenue	$387,500	$12,500
Total Productive Compensation	$250,125	$125
Direct Contribution	**$137,375**	**$12,375**

Current Challenges: Responses

Bringing it all Together: A Cautionary Tale

- Consider an organization that utilizes productivity-based compensation models and updated per wRVU rates in 2018.
  - Based on data in the 2018 MGMA report, the organization selected a rate of $50 per wRVU for primary care physicians.
  - A physician producing 5,000 wRVUs in this model would earn $250,000 in compensation.
- Three years later, the organization updates its rate to **$60 per wRVU** based on the 2021 MGMA report.
  - The previously mentioned physician's current patient volume is in line with 2018/2019 levels.
  - Due to increased wRVUs values for office visits introduced by the 2021 MPFS, the physician can generate **20% more wRVUs for the same patient volume.**
  - The physician produces **6,000 wRVUs and earns $360,000, a 44% increase in compensation** for the same patient volume.

Family Medicine (Without OB)		
Metric	MGMA 2018 Survey Report Median[1]	MGMA 2021 Survey Report Median[2]
Total Compensation	$ 236,935	$ 264,698
wRVUs	4,804	4,388
Total Compensation per wRVU	$ 50.29	$ 59.69

1: MGMA 2018 Provider Compensation Survey Report
2: MGMA 2021 Provider Compensation Survey Report

Current Challenges: Responses

The Impact of Responding

Key Takeaways

- wRVUs reported in 2021 should reflect CMS' changes in the 2021 MPFS.
- Due to CMS' E/M wRVU changes and the lack of corresponding increase in professional revenue, many organizations are considering, have considered, or will consider changes to their compensation structure. The economics require they do so.
- Response will vary from organization-to-organization and specialty-to-specialty.
- Organizational response will impact survey data going forward. What that will look like remains to be seen. We can estimate and project, but we do not know for sure.
- In determining FMV in 2022, all these factors (COVID, wRVU changes, and organizational response) must be considered.

FMV Approaches

Typical standards:

- Generally, guaranteed compensation should be below 75th percentile, unless exceeding is warranted by extreme and unique circumstances.
- As guaranteed (and total) compensation moves up the percentile scale, especially past the 75th percentile, the need for compensation-to-production alignment progressively increases.
- At 75th percentile and above, need to see alignment of compensation and production, (unless unique circumstances).
  - Production percentiles can exceed compensation percentiles.
  - Compensation percentiles can match production percentiles.
  - Compensation percentiles should not exceed production percentiles by more than 10 percentiles (unless warranted by unique circumstances).
- When using published compensation per wRVU rates, appropriate wRVU bonus conversion factors are typically 25th percentile or less. Occasionally, approaching the median, but rarely economically sustainable or fair market value above the median.
- Recent, multiple data sources, with enough respondents, should be used when benchmarking an organization's data.
- Complex arrangements or high levels of compensation may warrant the need of a third-party FMV opinion.

FMV Approaches

Potential approaches to fair market value determination, given current challenges:

a) Do nothing and use 2021 surveys as is.

b) Use 2020 production and 2020 compensation per wRVU, and 2021 compensation (or an average of 2020 and 2021 compensation).

c) Just use 2020 production, 2020 compensation per wRVU, and 2020 compensation.

d) Adjust 2020 reported production data to account for 2021 MPFS changes.

FMV Approaches

Our recommendation: Evaluate based on "b" and/or "c"…if possible, consider the impact of "d" as well.

- Caveat with "d": Adjusting 2020 surveys' 2019 production data to account for 2021 MPFS changes is a reasonable approach but could lead to overestimation of production increases and underestimation of compensation per wRVU. Many organizations are making changes to rates and structure, and some are doing nothing. It is difficult to predict exactly what organizations are doing related to compensation (response) and how that will be reflected in the resulting data for 2022 and beyond. This assumes that everyone makes a "Compensation Neutral" adjustment. We do believe adjusting 2019 production data for 2021 wRVU changes can be an informative exercise that gives another datapoint to inform FMV determination.
- The truth is likely somewhere in between b, c, and d.
- "a" doing nothing and just utilizing the 2021 surveys is not a prudent or realistic approach. Doing nothing could lead to overestimation of FMV and unsustainability from a financial perspective.

FMV Approaches

Survey Source	Survey Specialty	Count	wt	Percentile 25th	50th	75th	90th
AMGA 2020: National	Family Medicine	9,369	36%	4,117	5,033	6,033	7,206
MGMA 2020: National	Family Medicine (without OB)	6,932	27%	4,027	4,936	5,947	7,237
Sullivan Cotter 2020: National	Family Medicine	9,459	37%	3,917	4,907	5,886	6,929
(A) Weighted Average wRVUs (Unadjusted)		**25,760**	**100%**	**4,019**	**4,961**	**5,956**	**7,112**
CMS projected % increase in wRVUs (See Slide 11)				**19%**			
(B) Weighted Average wRVUs (Adjusted)				**4,783**	**5,903**	**7,088**	**8,464**

Survey Source	Survey Specialty	Count	wt	Percentile 25th	50th	75th	90th
AMGA 2020: National	Family Medicine	10,813	32%	$230,000	$269,860	$317,160	$382,854
MGMA 2020: National	Family Medicine (without OB)	8,848	27%	$216,839	$254,665	$306,817	$376,509
Sullivan Cotter 2020: National	Family Medicine	13,718	41%	$220,141	$257,131	$315,501	$373,118
(C) Weighted Average Compensation (Unadjusted)		**33,379**	**100%**	**$222,460**	**$260,601**	**$313,736**	**$377,171**
(D) Unadjusted Comp divided by Adjusted wRVUs ((C) divided by (B))				$46.51	$44.15	$44.27	$44.56
(E) Adjusted wRVUs times Unadjusted Comp per wRVU ((B) times (F))				**$264,727**	**$310,115**	**$373,346**	**$448,833**
(F) Unadjusted Comp divided by Unadjusted wRVUs (Unadjusted Comp per wRVU) ((C) divided by (A))				$55.35	$52.53	$52.68	$53.03

Comp Neutral

Doing Nothing

Reality is likely somewhere in between. Again, another informative datapoint, not the sole source of truth.

Lessons Learned

1. Contractually, do not tie compensation rates (compensation per wRVU ratios) or production thresholds to annual survey data. There are inherent issues with this, but as 2020/2021 have shown, anything can happen in one snapshot in time (i.e., a global 100-year pandemic and the most significant changes to RBRVS in the last 20 years). The wRVU values are just as much a part of the wRVU-based compensation calculation as the compensation per wRVU rate we are all conditioned to focus on.
2. Contractually, give your organization the flexibility to change, or stay on, wRVU tables on your schedule. Make sure you have time to assess, educate, and implement.
3. Educate providers regarding the value of the wRVUs themselves, the tables being utilized, and total compensation as much as the compensation per wRVU rate. Communicate challenges and philosophy and plans to address them.
4. Stay away from 2021 survey production and compensation per wRVU data as it reflects the 2020 COVID-related downturns.
5. If adjusting production data, be careful assuming you understand the corresponding relationship it has with compensation given the variety of approaches in the market. Perhaps scenario modeling is necessary.
6. Challenges present opportunity. It is a great time to bring about change and start to incorporate nonproduction-based incentives and right size models that have historically been questionable.
7. Seek the advice of an experienced health care compensation valuation expert.

HSG | Questions