

THE IMPORTANCE OF FAIR MARKET VALUATION (FMV)

*This Knowledge Article summarizes information shared during a **HSG Advisors Lunch & Learn** webinar. Full webinar recording and slides are available exclusively in the Resource center in **HSG Dashboard**.*

WHAT IS FAIR MARKET VALUATION (FMV)

Fair Market Valuation (FMV) refers to the agreed-upon compensation in an arm's-length transaction between well-informed parties (hospitals and/or health systems and providers), without considering any potential business generated through referrals.

WHY DO WE CARE?

Whether your healthcare organization is for-profit or non-profit, you **must** care about FMV and commercial reasonableness to comply with regulations like the Stark Law and the Anti-Kickback Statute, which prohibit financial arrangements that could incentivize inappropriate referrals or violate tax-exempt status.

DIFFERENT APPROACHES TO FAIR MARKET VALUE

Valuation

The valuation approach includes methods like the **cost and income approaches**, which focus on **determining the worth of assets or businesses** based on production costs or income potential (less applicable for compensation evaluations).

Market

The market approach, primarily used for **compensation evaluations**, relies on analyzing market data and industry surveys to establish a **fair market value based on comparable services** and prevailing compensation trends.

WHO CAN DETERMINE FMV?

Compensation and compliance experts who adhere to the Uniform Standards of Professional Appraisal Practice (USPAP), like HSG Advisors, can perform FMVs for organizations and their providers. It is recommended to review compensation arrangements periodically to ensure they remain fair and commercially reasonable.

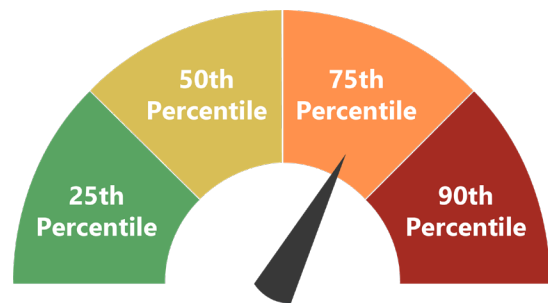
VALUATIONS PROVIDED BY HSG ADVISORS

HSG focuses on providing FMVs that address various compensation structures and arrangements, evaluating clinical compensation, on-call coverage, APP supervision, medical direction, service line co-management, hospital-based service subsidies, and net income guarantees for recruitment.

VALUATION CATEGORIES

- **Clinical Compensation:** Evaluating payment structures for professional services across specialties, ensuring alignment with market benchmarks.
- **On-Call Coverage Compensation:** Assessing fair compensation for physicians providing unrestricted call coverage, considering both FMV and commercial reasonableness.
- **APP Supervision Compensation:** Valuing compensation for physicians supervising and collaborating with APPs.
- **Medical Direction Compensation:** Evaluating compensation for various leadership roles.
- **Service Line Co-Management:** Valuing compensation for physicians managing specific service lines to enhance quality and efficiency.
- **Hospital-Based Service Subsidies:** Assessing compensation for independent groups providing essential hospital services.
- **Professional Service Arrangements:** Evaluating compensation for physicians and APPs providing professional services.
- **Net Income Guarantees:** Determining FMV for recruitment incentives for independent physicians.

HSG uses the 75th percentile as a guidepost for assessing compliance risk, particularly for guaranteed compensation or base salaries. Then we categorize physician compensation into **four risk levels** based on alignment with national benchmarks.



RISK ASSESSMENT CATEGORIES

- **No Concern:** Compensation is within acceptable FMV parameters, with minimal compliance risk.
- **Moderate Concern:** Compensation is above the 75th percentile or total compensation exceeds the 90th percentile, warranting a formal FMV opinion.
- **Significant Concern:** Compensation exceeds the 75th percentile and production benchmarks by more than 10 percentile points, requiring corrective actions.
- **Monitor:** Compensation is below the 75th percentile but has a gap of more than 10 percentile points, suggesting ongoing monitoring.

ABOUT THE EXPERTS



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