Timely, Tough, or Tricky: “Hot Topics in FMV & Physician Compensation to Kick off Your Summer” – Webinar Transcript

SPEAKERS
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Outline

Physician recruitment and retention strategies, fair market value compensation, and reconciling disparities in compensation between hospitals

- Lyle Oelrich and Carol Carden discuss fair market value and physician compensation with webinar attendees.
- Speaker 2 discusses strategies for improving physician recruitment and retention, including fair market value compensation and compensation for travel time.
- Speaker 2 highlights the disparity in physician compensation between hospitals and health systems, and private equity, and how it can be reconciled.

Physician recruitment and retention strategies.

- 50% of physicians expect to leave their organization in the next 18 months.
- Early recruitment and sign-on bonuses becoming more common in healthcare.
- Residents and fellows prioritize clinical support staff, while physicians prioritize practice ownership model.
- Top retention issues for physicians include call coverage, productivity, work-life balance, charting, and staffing.

Compensating physicians for travel time.

- Physicians seek compensation for travel time, considering opportunity costs and benchmark data.
- Clinical and administrative rates of pay for travel time should be documented and justified.
- Consider physician's FTE status, travel time impact on clinic hours, and existing compensation mechanisms when determining travel pay.

Private equity vs. health system acquisition offers for physician practices.

- Speaker 3 explains how private equity and health systems differ in compensation offers for physician practices.
- Physicians' motivations and needs vary when evaluating competing offers, and understanding these factors is crucial for negotiation.
- Speaker 3 explains private equity firms' motivations for acquiring medical practices, including economies of scale and higher appetite for multiple compared to health systems.
- Speaker 2 discusses the importance of considering the buyer and seller perspectives when evaluating fair market value, highlighting private equity firms' focus on short-term gains and hospital's long-term approach to meeting community needs.

Private equity offers and fair market value for physician practices.

- Speaker 2 explains private equity offers in fair market value, emphasizing importance of valuation.
- Speaker highlights importance of considering PE firm presence in physician compensation surveys.
- Clients consider fair market value, commercial reasonableness, and volume of referrals in deals.

SUMMARY KEYWORDS

physicians, physician compensation, compensation, offers, fair market value, surveys, question, clients, travel, slide, years, recruitment, market, hospital, private equity, administrative, perspective, pay, purchase price, pe

SPEAKERS

Lyle Oelrich, PYA Moderator, Carol Carden

PYA Moderator 00:05
Thank you for joining us. The webinar will begin shortly.

PYA Moderator 00:28
Good afternoon everyone, and welcome to today's webinar hosted by PYA. Today we are continuing our timely, tougher tricky physician compensation and fair market value topic series. With a presentation on hot topics in F m v, and physician compensation to kick off your summer. PYA is happy to present today's webinar on this important topic, you will have the opportunity to submit questions to today's presenters by typing a message into the questions pane of the control panel. We'll collect these and address them via email after the webinar. And all our webinars are recorded and released with a copy of the slides after the event. With that, I would like to introduce PYA principles. Lyle auric and Carol Carden. Both Lyle and Carol consults with physician practices, hospitals, healthcare systems and other entities including private equity in the areas of compensation planning, fair market value compensation and commercial reasonableness. Lyle and Carol have many years of experience in

these areas as well as in advising clients on their strategic financial and operational issues such as physician recruitment.

Lyle Oelrich 01:41
Thank you, Trevor, a friendly welcome to each of you on this nice hot summer day. And certainly for some of you welcome back to this timely, tough and tricky, fair market value and physician compensation webinar series. We are delighted that you're here with us today. And joining us again, for this series. Again, as you listen here today.

Lyle Oelrich 02:07
And as you think about other topics that may be of interest, keep in mind that this is actually our third season. So we've covered numerous topics throughout the last two and a half years or so. And if you have any interest in seeing those, I'll ask the moderator to chat in a link at this time to the series and feel free to visit that website at your particular convenience. But today, as advertised, we're gonna be talking about strategies and tactics to improve physician recruitment and retention while ensuring fair market value compensation. We're also going to be talking about compensating physicians for travel time. And then we're going to be talking about how you can reconcile the disparity in physician compensation on first between hospitals and health systems and private equity. And certainly that the last topic is a really hot item that we've seen a lot of activity on over the last one, two, maybe three years. And by way of example, I think in 2019 2020, there was a survey that was conducted by the Physician Advocacy Institute, indicating that over 30,000 physicians had been acquired by PE during that time period. And for comparison purposes, there were only about 20,000 for hospitals and health systems. So really a hot topic that we're excited to talk with you here about today. And we'll go through each of these questions, we'll describe them. And certainly we'll share some of our experiences and some of how our clients are dealing with this particular issue. But finally, two quick logistical items to take care of before we jump right in. First. You know, today's session is intended to be for general educational purposes only. So certainly nothing that we talked about here today is intended to issue some form of an opinion on the matter which would be based off of a particular set of facts and circumstances. And then also, Second, keep in mind, we'd love to hear from you. We survey a large multitude of people at the beginning of each season to figure out what your top topics are that you'd like for us to be covering. And certainly if there's one that you'd like, we'd love to hear from you. And certainly you can always feel free to call Caroli as well. As we delve into these issues and sometimes, like today, we may not have nearly enough time as well to cover all these items, but we'd love to talk with you at any point in time as well. So, jumping right in then let's talk about the first question that we indicated from our agenda. You know, what are the tactics strategies on physician recruitment and retention that we can use that are being successfully used. And just for perspective, PYA actually conducted a poll in January of this year. And I found some of the results. Particularly interesting. And one that I wanted to share with you all, as it relates to this particular topic is that 50% of the respondents believed that about 20% of their physicians would be leaving their organization in the next 12 to 18 months. And that just really, to me tiza up the significance of this particular topic that we're going to cover here today. Because it's obviously one that many organizations are facing here. So on the slide here, and we're going to focus on this slide as it relates to recruitment, but you're gonna see a

word cloud. And we've done a significant amount of research to create this particular slide and the word cloud. And this is just some but not all of the recruitment strategies and tactics that we're seeing our clients and others use. And certainly, there's a one, there's a no one size fits all kind of aspect to this to where what works in one organization may not work for another, or you may want to combine several of these as you think about how you go about recruiting your physicians on a day to day basis. And certainly you'll see some sort of basic items here, such as sign on bonuses, relocation assistance. We're seeing that, particularly in very high demand markets and almost nearly every offer that's made to physicians, we've also seen Educational Loan reimbursement being in there a significant amount, nearly half of the offers that we're seeing have about half that educational loan reimbursement. And of course, I don't want to pull away from the compensation and benefits being very competitive, flexible schedules being a significant requests by physicians, and then shared decision making. And as simple as that may sound, it's not always out there. And that's what we're hearing from the physicians as they're seeking their next job, they really want to be a part of the decision making. So creating a message around those few items, I think is particularly important. And while I'd love to go through all of these, we just don't have time today, I do want to share perhaps just a few that we're seeing that in my mind are a little bit more creative. We're seeing sort of these, these channels for physician recruitment beginning earlier and earlier. In a physician's career, I think a few years ago, we probably would have seen that kind of in the college ranks. But now it's going back to even the high school years where juniors and seniors are being connected. And we're trying to make sure if they want to be in the community, they are aware of a particular healthcare institutions. So it's just really getting a lot earlier. On the topic of starting earlier as well. We're seeing the sign on bonuses get paid early on earlier, some of them are being paid. When these physicians are back in their fellowships. Of course, you want to make sure it's structured properly. So you have a clawback in the event, something occurred or something like that. But going out and meeting these individuals, much more earlier, I think is a theme that we're seeing here. Of course, continuing to attract physician dependents. Recruit recruiting spouses is always one that people don't always think of, but they are particularly informative as it relates to decision making, perhaps as to tuition reimbursement for a physician, son or daughter. So those are some things that we're seeing out there. And, and on top of that, one of the things that we're seeing is is more and more recruitment is going outside of an institution's local market. So whereas you may be in a market with two or three competitors, and you're used to competing with those, we're seeing more entities go outside of that local market to find their next physician to fill fill a particular role. On this slide, we wanted to talk for just a moment about physician retention. And I really, really like this slide. It's a study that was conducted by MGMA and the Jackson research group. But as you look at it, what's in formative to me is it really talks about residents and fellows and what's important to them and their first position. And then also goes on to talk about why physicians leave, or why they stay. And so there's tons of information here. Again, the slides are available to everybody. So you can take, take your time walking through this, just a couple that I wanted to walk through real quickly that were caught my eye as I was looking at this, a PP clinical support staff is one. Sometimes physicians earlier in their career don't realize how much help they may need going through and day in and day out basis. But they certainly do as they get older. And so while there's a small tick up there, in our experience, it's even more sort of emphatic as it relates to being able to provide those resources to the physicians. Calm, of course, is always going to be on the list very important to residents and fellows, not as

important to the physicians as to why they leave or stay. But then the practice ownership model as well, you'll see a significant increase there on why physicians leave organizations. And we're going to spend a little bit of time talking about that.

Lyle Oelrich 11:17
For comparison purposes, I mentioned that that py EA did some surveys earlier in this year, another poll that we conducted on physician retention issues. The top five that came back from our poll was call coverage, productivity, pressure work life balance, charting and staffing issues. And so you'll see several there, the flexibility concept that I talked a little bit earlier, kind of matching up with a work life balance, again, the staffing issues, charting wasn't necessarily on this particular survey that was done by MGMA in Jackson research, but that's certainly one that we're hearing about being able to respond to those pressures. And that particular, I guess, administrative burden is something that's significant to these physicians as well. So, with that being said, I'm going to pause for just a moment, hand it over to Carol, and she's going to talk about our second question. Thanks,

Carol Carden 12:22
Lyle. So our second question,

Carol Carden 12:26
get the slides to go oops, bar. How do you compensate physicians for travel time? So we all know, it's not unusual that physicians might provide their services in more than one location? We don't usually see this question posed if they're driving across town, you know, five miles and covering a different clinic location, but we do see it post frequently. If they're covering an outlying clinics. So hospital system that might have some like rural outreach. And so the question becomes, well, if you're going to pay them for that travel time, you know, what's the right rate to pay that ad and from the physicians perspective, they're usually thinking of it more in terms of opportunity costs. So I'm not in my clinic, seeing patients now if I were could be generating X amount of collections or work or views per hour, and they want to be paid under that kind of methodology. So unfortunately, the benchmark data that we subscribe to doesn't really report travel time rates, right. It reports clinical compensation, it reports administrative compensation. traveltime doesn't really fall squarely into either one of those, but probably has more features and characteristics more similar to administrative compensation. So there's several different ways we see clients address this. If you already have some employee physicians who are being compensated for travel, then that's certainly one place to look because consistency and a right like this is not a bad thing. Right. So that's one thing you could do. If you have seen it, addressed in a litigation context, that's always something to take a look at, too. So did did someone, did this become an issue in a litigation case? And if so, what what was the conclusion on the right rate to pay? But what we typically see proposed or a question asked to us is paying it at 50% 50% of what is has been the question so 50% of an administrative rate of pay, or 50% of a clinical rate of pay. So if you're going to pay it on a clinical rate of pay, I just we just would remind you that there's some very specific language in the stark regulations that say, clinical rates of pay for clinical work, administrative rates of pay for administrative work, and like I had mentioned earlier, this probably has features a little more

similar to administrative there could be specific facts and circumstances that you're dealing with that make 50% of a clinical rate of pay completely appropriate.

Carol Carden 15:00
We would just encourage you to document that really well. And you know, contemporaneously as to when you're entering into it what your thought process was and establishing that. The other way we've seen some clients handle it is through work or via proxy. So basically, take a study for that particular specialty, maybe how many worker views per hour are generally generated. And for each hour of travel town give a proxy worker view, that, of course, is mimicking more the clinical rate of pay. So if you're going to use a methodology like that, again, you would want to document why that's the appropriate way to do it. And then the other way that we've seen it handled is through a study of Tom value units. So if we think about work, our views, those are established by CMS, those are not really intended to be time based measurements, they're more a measure of intensity, complexity of patient care, as compared to time value units, which are a study done more specific to that actual practice. So that practice studying what are the different types of generally administrative work, so work our views based on clinical effort, Tom value units more based on administrative effort, and will usually see this done in regards to leadership of the practice or educating and mentoring new clinicians or marketing the practice. So that's another possible way to handle the travel time issue. And then what we have on this slide is just some things that to think about if you're going to pay a physician for travel time, first and foremost, you want to make sure that it wasn't already contemplated in the base compensation. So when this physician was being recruited, was there already a provision made in how the base was established to recognize that the physician would spend some amount of time travel because if that is the case, then you don't want to then pay a travel rate over and above that, because you'd be paying twice for the same effort. We also want to think about the physicians FTE status. So obviously, a physician who's spending 40 plus hours already in a clinic and then traveling over and above that, is probably a little bit stronger, more defensible argument than someone who's maybe only doing 30 hours. And this travel time kind of becomes part of what gets this person to a full time status. We also want to think about, you know, when is the travel happening? So is it happening in a time that it's taking the physician otherwise out of the clinic, and this is kind of a two sided argument, because if it's taking them out of the clinic, that's where the physicians usually come from the opportunity costs. But if it's if they're doing it after hours, that's also burdens, right? So you just want to make sure that you have a good understanding and document when the travel is happening, and how that factors into your right that you're determining. And then the final thing that we want to think through is, is the physician getting some other recognition of this travel effort through work review credit, or already a stipend, kind of along the same lines of understanding how the base compensation was determined, you want to make sure that there's not another mechanism already in place to compensate the physician for travel before you enter into a separate rate for the travel time. So those are the things that we generally see in regards to travel Tom. Then our third question, how do you reconcile the apparent disparity in physician compensation offers between health systems and private equity. So for simplicity, and in the interest of time for this presentation, we're going to talk about these differences in regards to private equity, but also recognizing that in some markets, the payers are also heavily involved in transactions and acquiring physician practices. And in some regards, the way that payers tend to structure their offer

also mimics more how private equity tends to structure their offers. So for simplicity, like I said, the examples we're going to talk about here, we're going to use private equity as our reference point. So we just did a really super simple example here, what we generally see is if the term sheets coming from a health system, you might have a lower upfront purchase price. But then compensation might be equivalent to what you had on private practice, sometimes even maybe a little bit more, because you may be taken on some additional responsibilities as compared to what we typically see when we see like a private equity offers that might have a much larger upfront purchase price, but a smaller salary offer going forward. Now, there can be you know, legitimate reasons for why these are different. But one thing that's very important to understand and to help the physicians navigate because usually when this question comes to us, it's coming from a health system I'm saying how do we compete, because the physician see the big purchase price. And it's like dollar signs, and they get really interested in that. So it's very important to understand where the physicians are in it, it may be where the whole group is, or it might be where individual physicians within the group are because physicians who are older and may be nearing retirement, it might be more attractive to them to have the big upfront payment, they're not as concerned about the level of compensation going forward, because they know they won't be working that many more years, as compared to younger physicians who might still be servicing medical school debt have younger families, they're more interested in the higher compensation amount going forward. So it's very important to really have a good understanding of what where the physicians motivations are coming from when they're evaluating competing offers like this. So we do that, just a quick little hypothetical here. And we've actually done this for several clients who were in this situation. So we did a comparison of what's the total amount of cash coming to the physicians in terms of purchase price and ongoing compensation, over a seven year period between the two offers. So even though they're structured very differently, what at the end of the day, how much total cash over a seven year period. And basically, they were pretty equivalent, they were $5,000 off on a $6 million total package. And reasons for that, some of the reasons for that the reasons that the the private equity many times will come with a larger upfront offer. If you think about what their motivations are, they're usually rolling up practices onto a platform. So there's going to be some economies of scale there, they might be generating management revenue and a separate entity that they're going to take into consideration. And they the compensation difference that I mentioned, is also part of the calculus there. But they're there, they may have a higher appetite for a multiple than maybe a health system does, because they also don't have the same regulatory constraints that health systems do. And here in a moment law is going to talk about, do all of those differences, make that offer fair market value or not consistent with fair market value?

Carol Carden 22:19
For law, let me turn it over, because that's an important thing for our audience to really think through. So let me turn that over to you to talk about that.

Lyle Oelrich 22:29
Yeah, as we transition into that, for the audience, of course, a think when you think about fair market value, from a stark perspective, notably, you really have to think about the buyer and the seller. And it's really important from our perspective, that when we're doing it, we're putting ourselves in the shoes of

each individual. So that we can see all sides of the equation here and you know, pe s are coming together, you know, they're focusing on scale, they're focusing on efficiencies, they're generally in it for short term periods. I mean, I think we're seeing something in our example here that we have on the slide here, it's seven years, but we've seen sort of as short as three years. And so they're really kind of coming in getting into it, trying to effectuate some changes, either on the revenue side or on the expense side, and then they're often exiting the market. And a lot of times that can be to another private equity firm. And so that's just a unique set of facts and circumstances that you need to think about. Now, on the hospital side, if you're thinking about employment, hospitals are typically focused on meeting community need, they've performed some sort of physician supply and demand study, and they know that they need a certain number of, let's say, family practice physicians in their communities to meet the need. And so they're thinking much more long term about some of these. And so that just kind of gives you some flair for where these offers are coming from what they're trying to incentivize. But certainly, you know, it's often referred to as the hair cut, which is this lower amount of compensation that's being paid after the transaction begins and in the PE world, after they've got sort of a larger upfront purchase price. But you know, in this case, and this isn't too far off from a particular actual example that we've helped a client with, it is a $5,000 over roughly $6 million. Now that's before accounting for the time value of money as well. So that's an important aspect not to not forget here. But just a few more thoughts on on private equity offers in fair market value first. Some people aren't aware that we have some reference to this in the stark wall that went fine. No and effective January 19, of 2021. And there's a quote here hospital may not value a physician services at a higher rate than a private equity investor or another physician practice. Put another way, the value of a physician services should be the same regardless of the identity of the purchaser of those surveys. And so I wanted to maybe break that down a little bit for this group, as we talk about it here today. And fair market value, then from a Stark law perspective, is not what can be referred to as strategic or investment value. And so sometimes you'll hear those terms when you're, when you're talking with valuators. And the like, they are not the same when you talk about strategic or investment value, and that's often what PE uses to come up with their offers, when they're able to. It talks about how that firm believes that they can effectuate some component of the revenue or some component of the expenses where they see more value perhaps, than what others in the market may see. And that's where we have to be careful from a fair market value, because we have to be thinking about all of the willing buyers and sellers. And can they effectuate those same changes. Sometimes they can if a practice is being mismanaged, for example. And we can, we can expect any willing buyer to be able to fix those management issues, we can model that out from a valuation perspective and give that due consideration, but not all of them can. And then likewise, one of the things that we're encouraging our clients to be thinking about too, is when you're looking at market data. And so for those of you all that are familiar with the various physician compensation and product turret productivity surveys that are out there, we need to be thinking about, as the PE firms continue to have more and more presence overall, as it relates to the number of physicians that they employ. If they are reporting that data to these benchmark surveys. And they're following the similar example that we use before and they are experienced, the physicians are experiencing these haircuts, so to speak, depending on how you're structuring your deal, some of that benchmark data may be artificially lower than it would have been if these deals would have been structured the way that they have been historically. And so that's really important, as you're using these

surveys to understand what data is going into him. Certainly, if you can give some consideration to perhaps the percentage of PII that might be in that respondent population. It's really, really important to get into the weeds as you use that data or any data set. And so, you know, finally, you know, again, putting yourself in the buyer and the seller situation here. There are pros and cons to every type of transaction. But you know, often we hear our clients saying, Well, what does this look like and in three to seven years, where are we going to be, and giving that consideration into what you're willing to pay for or accept from a value perspective. And then also, what type of strain might be created by a particular transaction coming together, by way of example, and this is solely just an example. We had one client who was dealing with the physician, it was a hospital client that was dealing with a physician practice entertaining P E. Ownership, literally say if you if you go on board with that PE firm, we're going to recruit our own specialists in your specialty and directly compete with you. So all of these things, their fair market value, but some of them are business and advisory as well. It's just really important to stop and put yourselves in the shoes of each of those particular individuals. And think through how these deals need to come together, both from a commercial reasonableness perspective, a volume or value of referrals perspective, and certainly a fair market value perspective. So with that being said, I'm going to ask our moderator to close this out. And we thank everybody for joining us here today.

PYA Moderator 29:44
Thanks to our presenters Lyle and Carol, if you have any questions, their presentation and contact information will be emailed to you along with the recording of today's webinar. Also, if PYA can provide assistance with audit, tax compliance valuation or physician search services, call or email us. You may also visit our website@pyapc.com for more details about our specific specific areas of expertise or to subscribe to receive py insights. On behalf of PYA. Thank you for joining us and have a great rest of your day.