How to Use and Not Abuse MGMA and Other Survey Data in FMV Compliance Programs:
Why Flawed Data Usage Leads to Increased Compliance Risk

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Session Overview

Part I: Regulatory/Enforcement Context
Part II: Examining Industry Usage of Survey Data
Part III: The Reality of the Data
Part IV: Appropriate Data Use and Solutions
Part V: Question and Answer
Part I: Regulatory/Enforcement Context

Regulatory/Enforcement Context

2005 OIG Compliance Guidance.

Applicable Guidance (From the Stark Commentary).  
Phase I (2001) – Flexible Methods: To establish the FMV of a transaction that involves compensation paid for assets or services, we intend to accept any method that is commercially reasonable and provides us with evidence that the compensation is comparable to what is ordinarily paid for an item or service in the location at issue, by parties in similar transactions who are not in a position to refer to one another.  
Phase I (2001) – Internal vs. Independent Surveys: We agree that there is no requirement that parties use an independent valuation consultant for any given arrangement when other appropriate valuation methods are available. However, when internally generated surveys can be appropriate as a method of establishing FMV in some circumstances, due to their susceptibility to manipulation and lack of independent verification, such surveys do not have strong evidentiary value and, therefore, may be subject to more intensive scrutiny than an independent survey.

Regulatory/Enforcement Context

Applicable Guidance (From the Stark Commentary).  
Phase II (2004) – No Bright Line Standard: We appreciate the commenters’ desire for clear “bright line” guidance for determining FMV. However, the statute covers such a wide range of potential transactions I] that it is not possible to set out appropriate benchmarks or objective measures for each. Moreover, the definition of FMV in the statute and regulations is understood in ways that do not necessarily comport with the usage of the term in standard valuation techniques and methodologies.

Phase III (2007) – Burden of Documenting FMV: The statute and regulations provide a definition of FMV for purposes of section 1877 of the Act. The parties to a transaction or an arrangement are in the best position to ensure that the remuneration is at FMV and to document it contemporaneously. If questioned by the government, the burden would be on the parties to explain how the transaction meets the FMV compensation exception requirements.
Recent Enforcement Actions Involving Physician Compensation

<table>
<thead>
<tr>
<th>Name</th>
<th>Total amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York Heart Center</td>
<td>$1.33 million</td>
</tr>
<tr>
<td>Infirmary Health System</td>
<td>$24.5 million</td>
</tr>
<tr>
<td>All Children’s Health System</td>
<td>$7 million</td>
</tr>
<tr>
<td>Eden Hospital</td>
<td>$10 million</td>
</tr>
<tr>
<td>King’s Chatham Health Center</td>
<td>$49.0 million</td>
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<tr>
<td>Tuomey Healthcare System</td>
<td>$72.4 million</td>
</tr>
<tr>
<td>Advent Health System</td>
<td>$7.1 million</td>
</tr>
<tr>
<td>North Broward Hospital District</td>
<td>$45.6 million</td>
</tr>
<tr>
<td>Columbus Regional Health</td>
<td>$35 million</td>
</tr>
<tr>
<td>Dr. Andrew Pippas</td>
<td>$425 thousand</td>
</tr>
<tr>
<td>Westchester Medical Center</td>
<td>$18.8 million</td>
</tr>
<tr>
<td>Citizens Medical Center</td>
<td>$21.8 million</td>
</tr>
<tr>
<td>Roseland Medical Center</td>
<td>$13.6 million</td>
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</tbody>
</table>

Reference to survey data is prominent in enforcement cases

- Government’s expert in the Tuomey and Halifax cases
- Tuomey’s expert in the Tuomey case
- Citizens’ Medical Center Case
- Citizens’ expert questioned mark warm market value, not FMV
- Judge relied against motion to dismiss, concluding practice losses and pay increases created doubt about FMV, regardless of survey benchmarking
- Benchmarking above 75th and 90th percentiles mentioned frequently in whistleblower complaints as evidence of compensation paid for referrals.

Citing practice losses is becoming the leading economic indicator of compensation exceeding FMV in recent enforcement cases

Part II: Examining Industry Usage of Survey Data
Examining Industry Usage of Survey Data

Using survey data to define the US market
- Thinking the survey data fully represents all US physicians
- Thinking the survey data fully represents a specific local market based on national or regional data

Using specific percentiles of survey data to set floors and ceilings for physician compensation
- Defining market compensation based on specific percentiles

Assuming wRVUs (or collections) are the definitive driver of physician compensation
- One-to-one relationship based on reported percentiles
- Median rate x wRVUs = market compensation

Basing FMV solely on survey data using one or two production-based methods

Examining Industry Usage of Survey Data

Using survey data to define the US marketplace
- Physician employment by health systems
- Using MGMA percentage of reporting physicians employed by health systems
- Used by media outlets, industry presentations, etc.
- Specific percentiles as national rates
- Survey median as US national median
- Over the 90th percentile as “most highly paid in the US”

Respondent characteristics
- ACO participation, value-based payments, etc.
- Industry searching for data; surveys provide such data on respondents

Selection of specific percentiles for FMV
- Medians
  - “It’s going to take the median to hire a replacement physician.”
  - “Physician should be able to move somewhere and make the median compensation per wRVU rate.”
- Specific percentiles or range of percentiles
  - “FMV is up to the 75th percentile.”
  - “Physicians over the 90th percentile are not FMV.”

Support for selecting percentiles
- “This is true everyday in our practice.”
- “I heard it at a conference or webinar it must be true.”
Examining Industry Usage of Survey Data

Matching compensation and production

- Percentile matching: total compensation
  - Total compensation should match with the benchmarked level of production
  - Example: physician at the 65th percentile for wRVU production should be paid the 65th percentile total compensation
- Stacking analysis: problem if total comp from all elements (clinical, call, admin) benchmark higher than production
  - Example: total comp at 85th percentile, but production at 65th
- Percentile matching: compensation rate
  - Compensation rate (per wRVU or collections %) should match with the benchmarked level of production
  - Example: physician at the 65th percentile for wRVU production should be paid the 65th percentile compensation per wRVU rate

Note: This presentation will critique the above usage.

Part III: The Reality of the Data

Inferential statistics
- Sample of a population is analyzed
- Characteristics of sample are extrapolated to the population: sample reflects the population
- Requires a representative sample of the population
- Requires randomized or other sampling techniques to provide for a representative sample

Descriptive statistics
- Description of a given data set
- Presents analysis of a given data set
- Sample not developed as an "academic, statistically significant" representation of a population

Primer on Statistics
Primer on Statistics

Surveys are a description of a nonrandom sample of U.S. physicians

- Voluntary participation
- Trade associations or client relationships
- Concentrations in characteristics of respondents
- Large multispecialty groups and health system practices

- MGMA provides filters for reporting data based on specific characteristics

Implications for using survey data

- Not based on randomized or representative sampling methods
- Not an "academic, statistically significant" representation of the U.S. physician marketplace
- Provides a broad picture of the range of compensation and production for responding physicians who are a part of the U.S. physician market
- Requires informed use and judgment in making inferences and conclusions about specific physicians relative to survey data

Physicians Employed by Health Systems

<table>
<thead>
<tr>
<th>Year</th>
<th>AMA and PAI</th>
<th>MGMA</th>
<th>AMGA and SCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>16%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2013</td>
<td>14%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>2014</td>
<td>14%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>2015</td>
<td>15%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>2016</td>
<td>16%</td>
<td>17%</td>
<td>18%</td>
</tr>
</tbody>
</table>

*This analysis is based on the data year and not the year of publication

Implications of Survey Sample Analysis

Limits "truth claims" made based solely on survey data

- Survey percentiles as US marketplace benchmarks
- Ranges of compensation and production may be different
- Patterns and relationships between compensation and production may be different
- Limitations in making inferences about all US markets, local markets, and specific physicians
- Characteristic trends
- Alternative payment model trends

Improper usage leads to an inaccurate market analysis

- Misinformed FMV or CER analysis based on only survey trends
Survey Data Tables

**Cardiology: Noninvasive Compensation and Work RVUs**

![Cardiology: Noninvasive Compensation and Work RVUs Graph]

**Family Medicine (without OB) Compensation and Work RVUs**

![Family Medicine (without OB) Compensation and Work RVUs Graph]
Cardiology: Noninvasive Grouped by Work RVU Quartiles

Family Medicine (without OB) grouped by Work RVU Quartiles

Hospitalist: Internal Medicine grouped by Work RVU Quartiles

Source: MGMA DataDive Provider Compensation 2016 Quartile Report
Orthopedic Surgery: General grouped by Work RVU Quartiles

The Reality of the Data

Testing the Relationship between Total Compensation and wRVUs Using Regression Analysis for MGMA - All Respondents

R-squared values: wRVUs explain or predict X% of total compensation

If X = 0.35, wRVUs explain or predict 35% of total compensation

The Reality of the Data

Ratio of Experience New-Hire to MGMA Median Compensation
The Reality of the Data

- Wide dispersion of compensation levels relative to production
  - Wider range of compensation per wRVU at any given level of production
  - Median compensation rate varies by level of production
  - Percentile matching is not supported by the data
  - Selecting percentiles as universal rates of FMV does not comport with the dispersion of the data
  - Most newly hired physicians don’t make the median total compensation as a starting salary
  - wRVU production does not explain or predict the majority of total compensation for all respondents without appropriate parameters in place
  - May explain even for certain subgroups

Factors driving wide dispersion of compensation levels relative to production
- Local market commercial payer rates
- Payer mix
- Service mix
- Ancillaries
- Nonproduction services: call coverage, administrative
- Profits on nonphysician providers
- Cost efficiency

Ignoring these other factors in using survey data can lead to practice issues

Part IV: Appropriate Data Use and Solutions
Avoid Common Misuses of MGMA Data

Inappropriate use of MGMA Data includes:

- Using total compensation as a benchmark, and adding on-call, incentives, etc. on top
- Defaulting to high percentile benchmarks when not appropriate to the situation
- Not applying data filters when applicable
- Dividing across tables to get ratios
- Matching productivity percentiles to ratio percentiles
- Using total compensation for newly hired physicians

Best Practices for Survey Usage

Remember to:

- Pay attention to survey data definitions
- Use survey data as a guide, and use multiple sources
- Use the median as the central point of a dataset; not the mean/average
- Start with current practice realities and level-set physician expectations
- Apply necessary filters to specific scenarios
- Utilize the Pay to Production Plotter and Quartile Tool for both data applications and education
- If in doubt, contact Data Solutions for data clarification

FMV Usage and Solutions

Valuation is not based on prescribed formulas

- IRS Revenue Ruling 59-60 (influential valuation text)
- “No formula can be devised that will be generally applicable to the multitude of different valuation issues…” (§ 3.01)
- “Because valuations cannot be made on the basis of a prescribed formula….” (§ 7)
- Key to the market approach is comparability of the subject to the market data
  - Comparable services
  - Comparable conditions and markets
  - Independent parties (without referral relationships)

Comparability of survey data

- Respondent characteristics
- Definitions of reported metrics
- Valuation is not based on prescribed formulas
Benchmarking and robust multifactor economic analysis to evaluate comparability

- Multiple metrics: production, revenue, cost
- Physician compensation is not singularly determined by wRVUs
- Multiple factors affect physician compensation and economics of physician practices
- Every physician and practice is not supposed to be at the median
- By definition, most will not be!
- The median is neither a floor nor a ceiling!
- High or low benchmarking in and of itself is not deterministic of operational or compliance issues
- Do you understand the key economic drivers of the subject physician’s practice relative to survey data?
- Do you know why your health system’s practices lose money?
- Rigorous economic analysis is needed

FMV Usage and Solutions

Standard appraisal methodology
- Consideration of three approaches to value
  - But, current healthcare compensation valuation practice ignores the cost and income approaches
  - Outside of healthcare, the rest of the valuation world uses market data along with the cost and income approaches
  - Use IRS Reasonable Compensation Job Aid
  - Value of professional services = net earnings generated
  - Tax court cases using the independent investor test
  - Use the cost and income approaches too
  - Earnings-based compensation with adjustments
  - RBRVS model – every dollar collected has a job
  - Proportion for work = physician comp and benefits
  - Proportion for practice expense = malpractice = overhead
  - It’s CMS’ own payment allocation methodology!

Misnomers about cost and income approaches
- Involves valuing referrals – Not True!
- Income approach values each service separately – must estimate each earnings stream individually and stack them
- Survey data includes profits on ancillaries – it’s baked into the compensation levels at undetermined levels
- Misuse of survey data can lead to practice issues
- Become informed data users not abusers
Question and Answer

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