MDRANGER FOR CONSULTING FIRMS

9 Factors That Influence Physician Contract Rates

Determining a new physician contract payment rate can be challenging. While there are benchmarks available to help you determine FMV, it can be difficult to decide what market range is most appropriate for a particular service and facility. Many factors affect physician contract rates. While some factors may be fairly straightforward and discretely measurable, others may be more nuanced and require closer evaluation.

9 Factors That Influence Physician Contract Rates

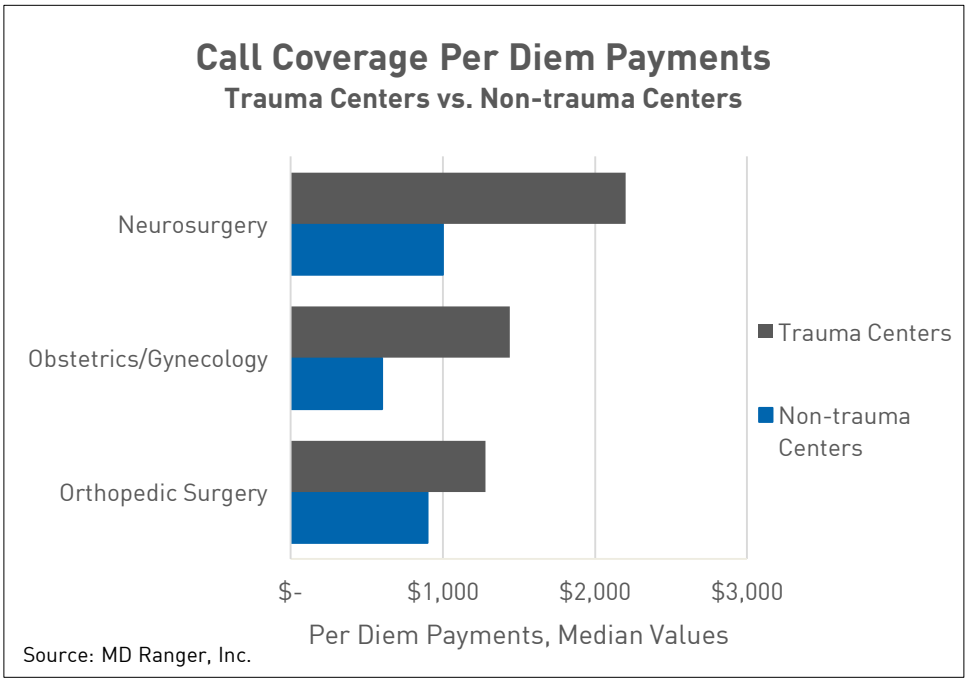
Determining a new physician contract payment rate can be challenging. While there are benchmarks available to help you determine FMV, it can be difficult to decide what market range is most appropriate for a particular service and facility. Many factors affect physician contract rates. While some factors may be fairly straightforward and discretely measurable, others may be more nuanced and require closer evaluation.

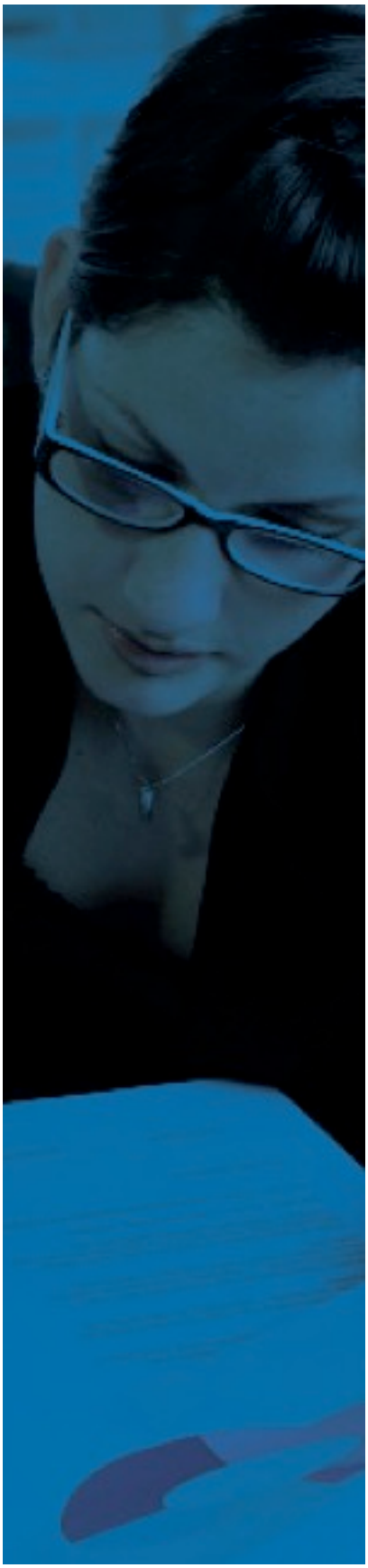
Particular Hospital and Contract Characteristics

Drawing from the MD Ranger database of over 24,000 contracts in 2016, we analyzed the effect of discrete hospital characteristics on payment rates. Trauma status, hospital average daily census (ADC), the number of facilities the contract covers, if the hospital is independent, and whether the physician is restricted while on call all have a statistically significant impact on payment rates.

Trauma Status

When it comes to call coverage per diems, being a trauma center costs more. Trauma center certification requires more restrictive call coverage and quicker response times than non-trauma centers, and the burden of call is typically higher. On average, trauma centers paid 32% more than non-trauma centers for call coverage per diems.





Restricted Call

When a physician's activities are restricted while on call, they agree not to perform other clinical duties. This restriction may result in an economic hardship if clinical revenues suffer. A general surgeon who is on a restricted call coverage shift may not schedule and perform procedures, missing out on valuable income opportunities. A typical restricted call coverage contract pays 50-100% more than a non-restricted contract.

Hospital Size

Size matters when it comes to both coverage and administrative contracts. Higher emergency room volume results in higher call burdens. Additionally, a larger facility likely indicates more work for medical directors which often requires more hours and higher pay. For every 100 additional beds in a hospital's ADC, expect to pay 22% more for call coverage and 15% more for medical direction.

Multi-facility Arrangements

For health systems, replacing single-facility physician contracts with multi-facility arrangements can have positive, measurable impacts. We have found that adding a second campus to one coverage position increases the cost of a single-facility agreement by only 33%. For example, if two hospitals are each paying $100 for coverage by two risk if the contract or employment agreement do not pass the fair market value and commercial reasonableness test.

Multi-facility medical directorship and administrative agreements also trim costs. A single physician contract for the same service across two campuses typically costs just 18% more than a comparable position for each campus.

A Note on US Regional Geography

Our subscribers frequently ask about the impact of regional geography on payment rates. After extensive testing of a variety of geographic clusters defined by Metropolitan Service Areas (MSAs) MSAs and combinations of MSAs, along with urban/rural distinctions, MD Ranger's data scientists have not found that region significantly influences rates.

More Nuanced Factors

While it is straightforward to identify whether your facility is a trauma center or how many beds it has, there are other factors that influence physician rates that will need to be considered on a contract-by-contract basis. These factors may have to do with the particular situation, like the

credentials of a physician or the size of a service, or even the local market where your facility is located.

Burden of Call

In smaller facilities and for less emergent services, the burden of call coverage may be lower. In these situations, you may be able to negotiate a lower per diem rate or even consider paying per episode. Conversely, in larger hospitals with high volume emergency departments, it may be necessary to pay physicians a higher rate for the larger burden of call coverage.

Granting exclusive rights to a physician group to provide a hospital-based service does have economic value, a factor cited by the US Office of Inspector General in several Stark settlements. In general, there are three possible approaches to determining what value exclusivity has in hospital-based agreements:

1. Perform a cost valuation of the contract and include exclusivity as a consideration in determining the rate(s).
2. Negotiate terms with the group that are in the lower range of fair market value. This helps account for the exclusivity of the terms.
3. Discount payments between 5-15% to reflect exclusivity.

Physician Supply

The market for physicians is just like any other market: when the supply is low, you may have to pay more to acquire services. Though overall economic conditions are beyond control, it is important to understand the market as you negotiate a contract. Low supply can mean a higher call burden, but it also means a physician or group is able to demand a higher price. In these situations, you may need to go to bid to other groups in the region to document that the payment rate is reasonable. Further, consider overall market conditions on a case-by-case basis; if there is a short supply of gastroenterologists, that doesn't necessarily mean that there is also a shortage of trauma surgeons.

Physician Characteristics

Not all physicians are the same: some physicians have strong community or national recognition that brings value to a program. Exceptional credentials or a unique program may justify higher pay rates. Documentation of those characteristics will be important to document compliance of the appropriate payment rate.

Documentation of Unique Circumstances

If negotiations result in rates that exceed market benchmarks, the need for documentation increases. Issuing a credible Request for Proposals to

outside groups for the contracted service may be needed to demonstrate that the hospital went through a competitive process to get the best rate. The RFP should be sent to several groups if possible and all responses should be reviewed. If your local group is the only respondent, then that may be the best price available, but it is important to extensively document the process for your files for future audits and compliance reviews. Seeking a third party to conduct the process, or prepare an independent FMV analysis of the situation may be your only option for some difficult situations.

****

In conclusion, there are a lot of variables that go into negotiating a fair rate for a physician contract. After weighing the many factors involved in determining a rate, it is essential to document the decision and the rationale behind it, including all pertinent benchmarks and relevant information about the specific contract.