

Carnahan Group Special Topics Review

Examining the Effects of COVID and the Medicare Physician Fee Schedule Change on Provider Compensation Data

March 2023

Introduction

The COVID-19 pandemic has dramatically impacted healthcare systems worldwide, including the compensation of physicians and advanced practice providers (collectively, “Providers”). The pandemic has brought about significant changes in healthcare delivery, resulting in a shift in the demand for and delivery of healthcare services. Additionally, the Medicare Physician Fee Schedule (“MPFS”), a payment system that determines payment rates for Providers who provide services to Medicare beneficiaries, underwent significant changes in 2021, primarily related to the work relative value unit (“wRVU”) of evaluation and management current procedural terminology (“CPT”) codes and an adjustment of the conversion factor. Furthermore, the current inflationary environment has further complicated the compensation environment for healthcare Providers due to the high demand for their services and the phenomenon of travel coverage, allowing Providers to command even higher premiums for their services. This report aims to analyze factors impacting Provider compensation data and provide insights into the benefits of reviewing single-year data versus a multiyear blend.

Background

Valuation firms typically rely on the latest year’s compensation and productivity survey data to form their opinions. However, due to the pandemic’s severe impact on survey compensation data¹, many firms transitioned to a three-year blended approach to minimize COVID’s effect, which was most prominent in 2020. The compensation data for 2020 compared to 2019 exhibited lower median productivity (for 248 out of 275 specialties), resulting in lower median compensation (for 171 out of 275 specialties). In 2022, Carnahan Group, like many other valuation firms, opted for a three-year blended approach, incorporating data from 2018, 2019, and 2020 to smooth out inconsistencies from the 2020 data.

However, for the 2023-year, new surveys were released containing data from 2021, and the question arose whether to continue the three-year rolling blend or return to a single-year approach. The 2021 data reflected the ongoing impact of COVID and the introduction of a new fee schedule, which increased productivity values for E&M codes. For 2021 data collected, Survey Companies¹ instructed respondents to provide wRVU values from the 2021 MPFS. The Survey Companies converted the values for respondents who didn’t use the newer MPFS. After analyzing the latest survey data from 2021, Carnahan Group discovered that wRVU productivity data began to normalize compared to 2020, but remained lower than in 2019, especially after considering the artificial rise in productivity related to the 2021 MPFS. Compensation data for 2021, compared to 2019, exhibited lower median productivity for (for 187 of 275 specialties) but higher median compensation (for 205 of 275 specialties).

¹ Carnahan Group utilizes a blend of MGMA, AMGA, and ECG Management Consultants Provider survey reports for clinical compensation data.

Single Year vs Three Year Blended Data Approach

March 2023

Page 2 of 3

It is important to acknowledge the advantages and disadvantages of both the blended and the single-year data approaches. Carnahan Group elected to utilize the single-year approach in 2023, as it provides some isolation of impacts from the new MPFS, includes recent compensation trends, and we believe it would be easier to interpret versus the three-year blend. Carnahan Group has summarized below some of the considerations in choosing a single-year versus a three-year approach.

Table 1

	Single Year Approach	Three Year Blended Data Approach
<u>Advantages</u>		
- Easier to Interpret	✓	
- Can capture unique events of that year	✓	
- Consistent fee schedule used to measure productivity	✓	
- Smooth out data fluctuations		✓
- Contains a normal year data that offsets covid impacts		✓
<u>Disadvantages</u>		
- More Susceptible to outliers and bias	x	
- Contains Outdated data that may not reflect market conditions		x
- More difficult to validate data used		x
- Mixed factors lead to difficult interpretation		x

Conclusion

As experts in healthcare valuation, Carnahan Group is uniquely positioned to guide clients in making informed decisions based on their specific circumstances. We encourage clients to contact us for tailored advice to help them navigate the complexities of the compensation environment for their healthcare providers.

How We Can Help

Carnahan Group is a boutique national healthcare consulting firm specializing in providing transformative strategic, business, and compensation valuation services to the healthcare industry. With extensive experience in hospital and private practice transactions, our team of healthcare business experts has achieved over 30 years of unparalleled success across multiple industry segments. At Carnahan Group, our professional focus centers on physician compensation, regulatory compliance, and establishing effective hospital-physician relationships. Our firm's ultimate goal is to better serve physicians and health organizations, particularly as the industry shifts towards a value-based delivery model. We are proud to

Single Year vs Three Year Blended Data Approach

March 2023

Page 3 of 3

work with a diverse clientele, including large integrated and academic health systems, physician practices, ambulatory care providers, rural hospitals, and pharmaceutical and medical device companies. Please contact Carnahan Group for additional information or a focused analysis of a particular arrangement.

Prepared by Dan Fraser.