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NAVIGATING THE LABYRINTH: ACADEMIC MEDICAL CENTER FLOW OF FUNDS

Fair market value considerations for clinical, operational, and mission support funding for AMCs

Health
Systems

Medical
Practices

Schools of
Medicine

AMC Overview

Academic Medical Centers (AMCs) weave together patient care, education, and research in a complex ecosystem. **Financial arrangements within this interwoven structure present a unique challenge.** The flow of funds between health systems, medical groups, and schools of medicine is complex, and **reliable benchmarks for these types of funding arrangements are scarce.** Further, AMCs operate in a highly regulated environment with compliance considerations that range from healthcare fraud and abuse laws to IRS inurement regulations to the rules that govern Medicaid supplemental payments.

THE THREE PILLARS: DISTINCT ENTITIES, SHARED MISSION

At the heart of an AMC lies three distinct entities:

Health Systems: Healthcare providers responsible for delivering patient care through hospitals and clinics, generating revenue through patient charges and insurance reimbursements.

Medical Groups: Physicians and other healthcare professionals providing care to health system patients, either as employees of or under contract with the health system.

Schools of Medicine (SoM): Academic institutions with physician faculty who train future physicians and conduct research, relying, in part, on tuition, endowment, and grant funding.

While separate, these entities share a common mission: advancing healthcare through education, research, and quality patient care – and this is where the complexity arises: **as each entity pursues its mission, financial resources flow freely across them, blurring lines and creating potential for misalignment.**

To add further complexity, ownership of the three distinct entities varies across AMCs:

- Frequently, AMCs are fully integrated, where each distinct entity is owned by one common parent organization, usually a major university.
- More often, one or more entity has a separate, non-academic owner (typically the health system, but independent physicians and group practices can hold faculty positions at the SoM as well).

While flow of funds is an important consideration for fully integrated AMCs, designing and documenting compliant financial structures becomes crucial in multi-owner situations.

AMC Services Arrangements

The flow of funds across AMCs occurs in a myriad of ways, primarily through services provided by the medical group and SoM to the health system. In fact, **the arrangement between the health system and the medical group resembles large-scale traditional professional services arrangements (PSAs) among healthcare providers.** These arrangements revolve around three defining questions:

What services? In the case of AMCs, the faculty medical group/SoM provides the health system with a variety of services including direct patient care (from both full-time providers and residents), resident supervision, medical directorships, and call coverage, among others.

Where? The services are typically, but not always, provided onsite at health system facilities.

Who bills? If the faculty medical group bills and collects from payers for their own professional services, any funding from the health system is offset by the revenue generated.

Unlike traditional healthcare services arrangements, AMCs also have a fourth layer: the academic and research (A&R) mission, held jointly by the three entities and primarily housed in the SoM. While the SoM is funded in part by tuition, endowments, grants, etc., A&R mission support from the health system is usually required to help cover SoM expenses.

PRIMARY AMC FLOW OF FUNDS CATEGORIES

AMC funding falls into three main categories, even if the structure and terminology vary widely across service arrangements. Such categories include:

1. Provider Services
2. Operational Support
3. A&R Mission Support

Fair Market Value Considerations

PROVIDER SERVICES

The provider services component typically encompasses a wide range of specialties and services, which can be compared to conventional academic and non-academic physician compensation surveys. The medical group maintains separate employment or contractor agreements with each provider, while the assessment of the arrangement with the health system is usually based on aggregate measures such as FTEs or wRVUs by specialty, and potentially academic seniority. **This approach is necessary due to the impracticality of conducting a fair market value assessment for each individual physician.** Like a traditional PSA arrangement among healthcare providers, the medical group receives a lump sum compensation and has the flexibility to compensate its individual providers as deemed appropriate. Depending on successful negotiation of favorable compensation terms, the medical group may generate a margin from this component of the arrangement.

OPERATIONAL SUPPORT

Operating an academic physician group requires administrative effort, overhead, and operational support (or "institutional support"). Provider services are delivered to health systems and, as such, traditional office-based overhead rates are unsuitable because there are no medical offices, utilities, medical supplies, or onsite support staff to consider. In such cases, **it is more appropriate to utilize overhead rates specific to facility-based physician specialties as a starting point.** Another pertinent factor is the consideration of rates for facilities and administration ("F&A") overhead costs associated with research contracts, clinical trials, and community services. Further, academic institutions widely publish offsite F&A rates, making them a valuable reference point.

A&R MISSION SUPPORT

The A&R mission support funding component is exclusive to AMCs and aims to foster the growth and expansion of charitable clinical, teaching, and research missions within the communities served by the AMC. In collaboration with healthcare financial research firm *Scope Research*, we compiled A&R mission support benchmarks based on publicly reported A&R payment details from relevant AMCs. Our findings reveal that the amount of A&R mission support can vary depending on factors such as the size of the supported academic health system and the extent of provider services included in the affiliation. The high-level results of the 2022 study indicate that, at the median, **A&R mission support accounted for 2.1% of health system revenue and constituted 40% of the combined provider services and operational support funding included in the arrangement.**