

Case Study

Orthopedic Surgery Service Line Agreement Change Transitioning from Cost Savings to Quality Metrics

A large not-for-profit regional hospital (“Hospital”) wanted to change an existing gainsharing arrangement with a physician group (“Group”) for its orthopedic surgery service line. Specifically, the Hospital was exploring the idea of replacing the incentive compensation metrics from savings achieved to quality outcomes.

Situation

Historically, the Hospital contracted directly with the Group to provide cost savings related to certain medical devices and supplies on orthopedic surgery cases. Under this arrangement, the Group was eligible to receive a portion of the actual savings achieved. Having been in place for a few years, the targeted savings under this arrangement had been realized thereby leaving little-to-no compensation to be awarded to the Group despite continued efforts to keep costs low without sacrificing patient clinical quality outcomes. Therefore, the Hospital was seeking a fair market value opinion (FMV) and analysis of the maximum incentive compensation that could be paid to the Group based on quality outcomes at the service line.

VMG Health Service Provided

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Contact

Jen Johnson, CFA

Managing Director
Compensation Arrangements
jen.johnson@vmghealth.com
214-545-5882

Contributor: Nicole Montanaro, CVA

Solution

VMG Health first suggested updating the metrics in the agreement to substantiate FMV compensation for quality outcomes, as opposed to savings alone. This entailed strengthening the quality gates listed in the existing agreement and considering new metrics that would align with the market. VMG Health conducted an in-depth review of the proposed quality metrics from a valuation perspective, which included detailed feedback and guidance of what creates a valuable quality metric based on VMG Health’s extensive market research on various value-based payment models in the market and how physicians are compensated for quality of care. VMG Health also worked closely with the Hospital and its counsel in discussing potential compliance considerations and pitfalls to avoid when selecting quality metrics. The FMV conclusion for the new incentive compensation considered market data for quality bonuses paid to physicians and included a reasonableness test of the maximum incentive compensation pool.

Success

VMG Health determined the value of the maximum incentive compensation pool for quality metrics and provided feedback for the Hospital to use in selecting and determining quality metrics that were consistent with value-based care arrangements in the market. The deliverable was then used by the Hospital to support the maximum incentive compensation amount to be stated in the go forward arrangement and for regulatory and compliance purposes.

Client Results

92%

Client Satisfaction
Rating

About VMG Health

VMG Health is a leading, national, full-service healthcare strategy and transaction advisory firm providing solutions exclusively for the healthcare industry with a long-standing reputation of excellence in client service. Whether you need assistance with traditional transactions or emerging physician compensation models based on value and performance, VMG Health provides the expertise you can rely upon.

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