

Case Study

Anesthesiology Subsidy Arrangement

A large regional healthcare system (“System”) was seeking to obtain physician and certified registered nurse anesthesiologist anesthesia coverage for multiple facilities by entering into a professional services agreement (“Agreement”) with a large anesthesia provider group (“Group”). The System was seeking a fair market value opinion of the compensation payable to the Group under the Agreement for regulatory/compliance purposes and to aid in negotiations.

Situation

The System was seeking to obtain coverage of its various anesthesia service lines by qualified anesthesiologists and certified registered nurse anesthetists (CRNAs). Through the Agreement, the Group would bill and collect for the professional services rendered by its providers at the System’s facilities, and the System would pay the Group an annual coverage subsidy to cover the Group’s projected shortfall of professional collections to expenses incurred to cover the subject anesthesia service lines. The System was seeking valuation services from an independent, third-party valuation firm with extensive experience with hospital coverage arrangements. The System engaged VMG Health to perform a fair market value (FMV) analysis of the compensation to be stated in the Agreement.

Solution

VMG Health conducted an FMV analysis of the anesthesia coverage services consisting of cost and market approaches. The cost approach entailed a build-up of provider costs based on market compensation survey data for anesthesiologists and CRNAs, along with an analysis of the provider full-time equivalents (FTEs) required to cover the service lines based on prospective onsite and on-call coverage schedules. The market approach entailed a benchmark of projected American Society of Anesthesiologists (ASA) units and professional collections by provider type against market survey data to determine a conclusion of value for the provider costs. After assessing provider costs from two different lenses via the cost and market approaches, the analysis included a provision for billing and collection costs and other indirect costs (back-office overhead, practice management, etc.) to be incurred by the Group to provide the coverage. The analysis then deducted projected professional collections from total projected Group costs to arrive at a conclusion of value for the subsidy payment.

The analysis included assessment of compensation and productivity survey data for anesthesiologists and CRNAs from four national provider compensation and productivity surveys, a review of the historical and projected production of the Group providers, a review of the proposed Agreement and coverage schedules, and assessment of overhead data from public physician staffing companies. VMG Health used this information to derive the final FMV indications.

Success

VMG Health determined the FMV compensation payable by the Hospital to the out-of-market physician for the provision of urology call coverage services by considering the specific details of the subject arrangement, market dynamics, and urology call compensation trends. After issuance of the FMV analysis, the Hospital was able to enter into a professional services agreement with the out-of-market physician, reducing their locum tenens spend and allowing for improved continuity of care for urology patients.

Services Provided

➤ Fair Market Value Analysis

Does your organization have a valuation, strategy, or compliance need? Reach out today for a complimentary assessment from a VMG Health expert.

Contact

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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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