

Case Study

Strategic Insights: Fair Market Value Analysis of a Radiology Coverage Arrangement

A regional radiology group sought VMG Health's assistance to conduct a fair market value (FMV) assessment to determine whether additional financial support was justified for their coverage arrangement with a local hospital, due to downward reimbursement pressures, staffing shortages, and provider compensation increases.

Situation

The group asserted that a subsidy was warranted due to their inability to cover service costs associated with the arrangement solely through collected revenues, despite past feasibility. This shift was attributed to trending, declining reimbursement rates and rising costs for physician salaries. A trending decline in reimbursement rates has been observed across the industry for radiology, in part due to CMS' reductions in radiology reimbursement and the introduction of the No Surprises Act. The group sought to assess the need for a subsidy based on an FMV assessment of the services rendered, considering both the market compensation norms for the required coverage services and the reimbursement rates received for those services.

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.

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Solution

VMG Health conducted an FMV analysis of the radiology coverage services, which consisted of an estimation of provider cost based on market compensation data for radiology physicians, and an analysis of the level of physician full-time equivalents (FTEs) that would be required to service the coverage schedule and productivity generated under the arrangement. This required an analysis of the coverage schedule being requested under the arrangement and a benchmarking analysis of expected productivity against market survey data to determine total physician cost of services. VMG Health also considered overhead expenses that the group would be expected to incur in servicing the arrangement (e.g., billing/collection, practice management, etc.). As a final step, the analysis deducted anticipated annual professional collections from the projected group costs to determine what level of subsidy might be supportable under the arrangement.

VMG Health held discussions with the client to help their understanding of the FMV document and the critical inputs to the analysis. Additionally, VMG Health illustrated the analysis results using various reasonability tests for better understanding of the FMV conclusion and its appropriateness for the requested services being provided. This educational process helped the client understand and interpret the findings for more effective discussions with the hospital.

Success

VMG Health determined whether a subsidy could be paid for the services and, if so, what level of a subsidy was supportable by considering the specific details of the subject arrangement, market conditions, and trends in radiology compensation.

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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