



# How Does Geography Influence Physician Contract Rates?

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**Our subscribers frequently ask how much physician contracting rates vary by region. We often hear from providers who think their area is unique, with physician rates either higher or lower than national benchmarks.**

MD Ranger analyzes the impact of geography on rates across the entire database each year and runs custom reports for various subscribers several times a year to evaluate the issue.

## **The Evidence**

With the growth of its customer base, MD Ranger has considerable geographic diversity, with hospital contracts from 28 states covering dozens of metropolitan areas, rural and urban areas. To investigate the significance of location, we pool data from the 14,000+ physician contracts and supplement it with data from various state and federal agencies, including CMS cost report data, Bureau of Labor Statistics (BLS) Occupational Employment Survey, and various BLS price indices. A multivariate approach models contract rates on hospital, contract, and market characteristics, using both linear and nonlinear

techniques. After extensive testing of a variety of geographic clusters defined by MSA's and combinations of MSA's, along with urban/rural distinctions, MD Ranger data scientists found no statistically significant geographic variation. This is not to say that MD Ranger has not found characteristics that significantly influence rates. Trauma status, whether the hospital is urban or rural, and its size, measured by both number of beds and average daily census – all of these factors exhibit significant, and consistent, impact on rates.

When physicians with an exclusive contract seek payment for services, determining fair market value can be a challenge. In addition to volume, payer mix and scope of service considerations, it is important to consider the value of the “franchise” they have been granted.

## **Regional Variance: Not as Impactful as You'd Think**

Craig Paxton, Ph.D., chief statistician and economist at MD Ranger, summarizes, “Based on dozens of analyses over five years of data, we conclude that geographic variation, if it is meaningful at all, is so only in markets smaller in size than MSA's”.

What does this mean for executives negotiating physician contracts? While your competitor down the street may decide to compensate doctors above fair market value (FMV), according to government regulations, these payment rates should not affect your organization's rates. It may be unfortunate that your biggest competitor is the hospital that pays above the 90th percentile, but it doesn't mean if you join them in that practice that your rate can be deemed FMV. In practical terms, this underscores the importance of identifying the appropriate MD Ranger "range" that is consistent with your hospital characteristics from a compliance standpoint. Because hospital attributes like bed size and trauma status matter more, the most relevant market data benchmarks for your organization should be from a sample of organizations most like your facility. This is why MD Ranger Benchmarks provide data slices for bed size, ADC, trauma status, urban/rural location, and payer mix. If you find yourself in a competitive situation, you may need to engage an FMV consultant to evaluate other methods for documenting FMV, such as a cost method analysis, or identification of other market characteristics that are truly unique, such as a very small pool of physicians, extreme extenuating circumstances, etc.

### **More Data, More Experiments**

At MD Ranger, more is always better when it comes to data. Every new subscriber brings new data, and we evaluate this data for consistency with current and previous analyses, including geographic sensitivities. Our database and subscriber list is

growing each year, resulting in increasing stability in benchmarks, a growing list of services, and more robust statistical analysis. We will continue to evaluate the importance of geography and report if the findings change.

Consequently, when you become a subscriber and receive your customized MD Ranger report, you can be confident there is an appropriate range for your market, specific to what is most important for "fair market".

Want to discuss your organization's selection of benchmark range with an expert? Email [inquiries@mdranger.com](mailto:inquiries@mdranger.com) or call the office at (650) 692-8873.

