



FMVantage Point™

HealthCare Appraisers' Industry Insight

FAIR MARKET VALUE OF CHIEF MEDICAL OFFICER COMPENSATION

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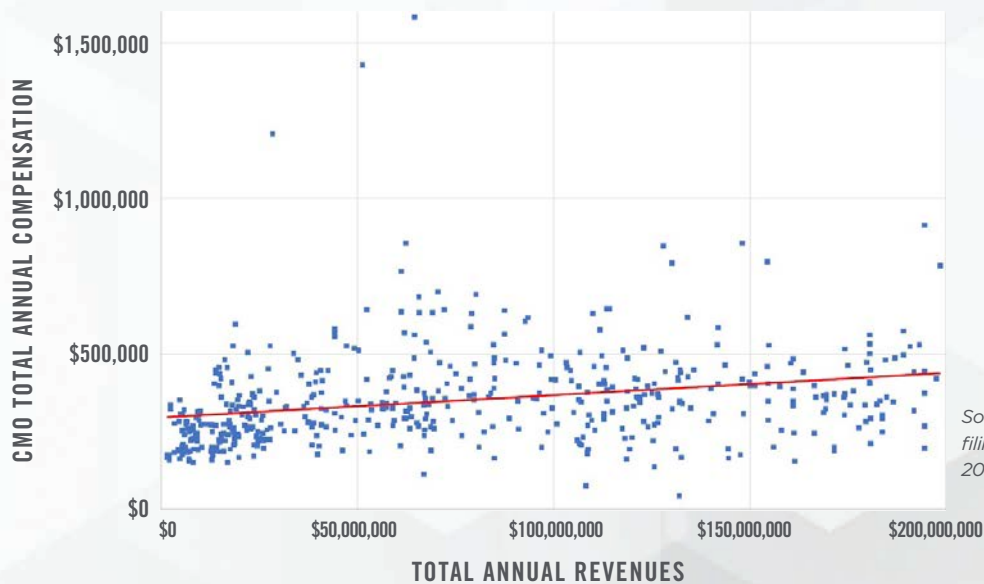
OVERVIEW

Chief Medical Officers (CMOs) play a critical role in the success of healthcare organizations, tasked with standards of care, quality improvement, and medical staff affairs. Accordingly, CMOs often rank amongst the highest paid individuals within healthcare organizations. While competitive compensation is crucial to obtaining and retaining qualified CMOs, such compensation must comport with current healthcare regulations and guidance regarding fair market value, as well as each organization's unique operational goals and objectives.

ORGANIZATION SIZE

Total annual CMO compensation, including base salary, bonuses, deferred compensation, nontaxable benefits, and other forms of compensation, is positively correlated with employer organization size, as measured by annual revenue. Organizations with less than \$200 million in annual revenue demonstrate

**FIGURE 1: CMO COMPENSATION VS REVENUES (<\$200M)
2017-2019 (N=513)**



Source: Form 990 tax filings for hospitals 2017-2019

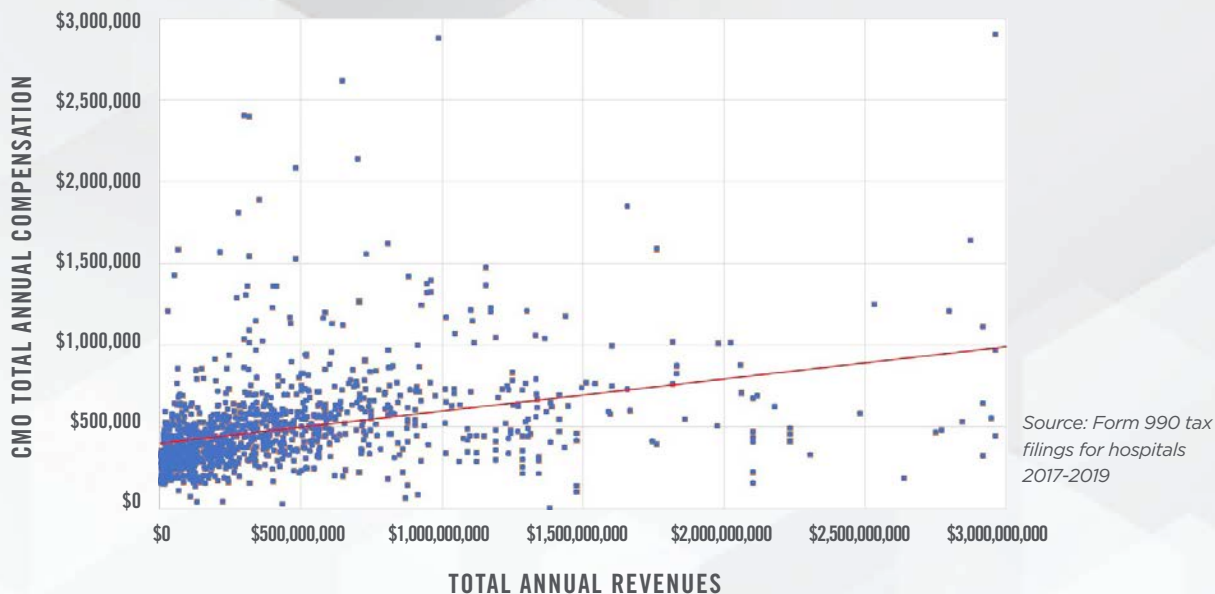


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moderately increasing ranges of total annual CMO compensation with increases in revenue, as evidenced in **Figure 1**. The responsibilities and hours necessary to fulfill the duties of the CMO are likely correlated with organization size, as measured by revenue.

Above \$200 million in annual revenue, CMO compensation rises slightly more aggressively with increases in revenue, and routinely exceeds \$1 million for organizations with over \$1 billion in annual revenue. The largest healthcare organizations in **Figure 2** represent health systems with dozens or more of affiliate organizations.

**FIGURE 2: CMO COMPENSATION VS REVENUES (<\$3.0B)
2017-2019 (N=1,238)**



Seeming compensation outliers, not explainable by differences in employer size alone, are often explainable by performance-based compensation and CMOs serving double duty roles as practicing physicians.

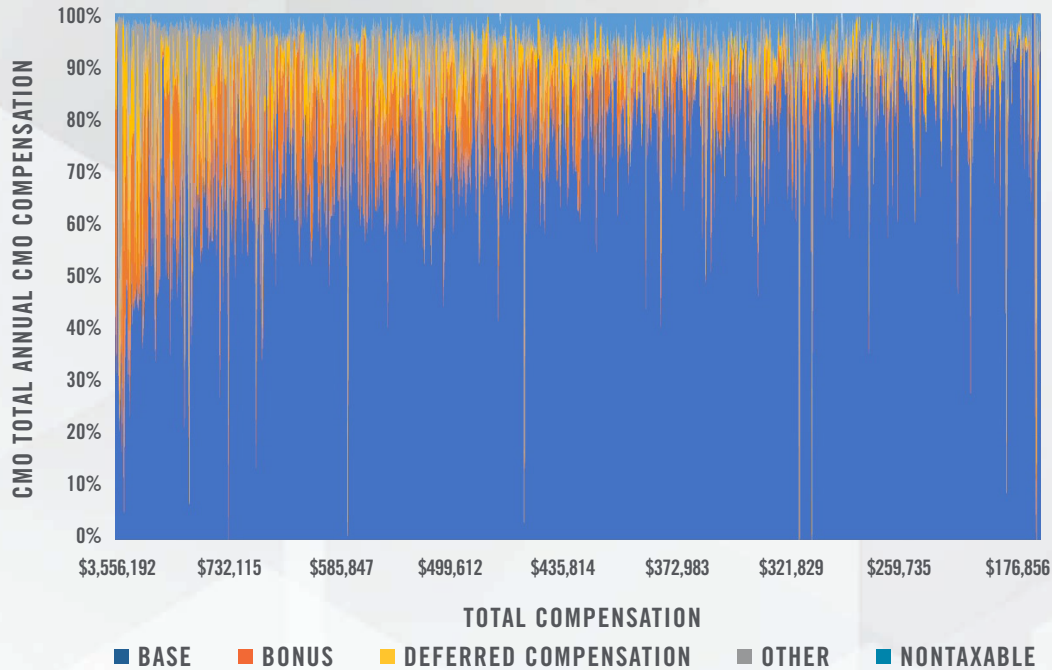
PERFORMANCE-BASED COMPENSATION

Performance-based reimbursement and value-based care models have gained significant traction over the last few years, and, likewise, have begun to comprise a portion of compensation for physicians as well as healthcare executives. In larger organizations, performance-based incentives are even more of a prominent factor in CMO compensation. With reference to **Figure 3**, a recent analysis by HealthCare Appraisers of 1,238 CMO compensation arrangements from 2017 to 2019 found:

- Bonuses accounted for 26% of total compensation (\$21.5 million of \$83.4 million) among the 50 highest compensated CMO employment arrangements
- Bonuses accounted for 22% of total compensation (\$29.25 million of \$133.43 million) among the 100 highest compensated CMO employment arrangements
- Bonuses accounted for 4.8% of total compensation (\$5.0 million of \$107.2 million) among the bottom third lowest compensated of CMO employment agreements



**FIGURE 3: CMO COMPENSATION COMPONENTS (N=1,238)
BASE, BONUS, OTHER, DEFERRED COMPENSATION, NONTAXABLE BENEFITS**



FULL-TIME EQUIVALENT (FTE) ALLOCATIONS

As previously noted, physicians occasionally maintain independent practices while serving double duty as CMOs. Under these circumstances, it is necessary to appropriately allocate the physician’s time spent providing clinical services as well as administrative CMO duties when determining compensation.

ILLUSTRATIVE FTE ALLOCATION EXAMPLE

JOB ROLE	FTE ALLOCATION		SIZE-ADJUSTED COMPENSATION		OVERALL COMPENSATION
ORTHOPAEDIC SURGEON	0.6	X	\$600,000	=	\$360,000
CMO DUTIES	0.4	X	\$400,000	=	\$160,000
					\$520,000

Employing a part-time CMO, who will continue to practice medicine, implicates all the same anti-kickback laws to which all patient referral sources are subject.

CONCLUSION

Fair Market Value compensation for Chief Medical Officers is contingent upon a variety of factors, including organization size, the presence of performance-based compensation, and appropriate allocations for actual time spent in the role. Given the potential implication of various fraud and abuse laws, it is advisable to consult with a healthcare valuation expert such as Healthcare Appraisers when establishing CMO compensation.

