

Does Geography Matter?

A frequently raised question for hospital executives is how physician contracting rates vary regionally. Anecdotally, we hear how physicians are compensated either generously or meagerly given where they practice. Hospital executives struggle during physician negotiations in areas where cost of living is high, or in rural areas where many physicians do not wish to live. Are there influential and significant geographic and regional variances within physician compensation? If there are, how can this help us determine rates more precisely?

The Evidence

With the growth of its customer base, MD Ranger has considerable geographic diversity, with hospital contracts from 27 states covering dozens of MSAs, rural and urban areas. To investigate possible systematic variation, we pooled all MD Ranger's contract data, over 10,000 records, and then joined it to data from various state and federal agencies, including CMS cost report data, BLS Occupational Employment Survey, various BLS price indices, etc. A multivariate approach modeled contract rates on hospital, contract, and market characteristics, and both linear and nonlinear techniques were employed. 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. More important factors on influencing rates are trauma status, whether the hospital is urban or rural, and its size.

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 four 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, according to Stark Law, their payment rates should not affect your organization's rates. In practical terms, what this means is that identifying the appropriate MD Ranger "range" consistent with your hospital characteristics and the specific service is much more important statistically and from a compliance standpoint than your point on a map.

More Data, More Experiments

At MD Ranger, more is always better when it comes to data. Every new customer brings new data, and new data means that we evaluate this data for consistency with current and previous analyses – including geographic sensitivities. 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".

Questions? Contact our Chief Statistician Craig with questions:

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