



NATIONAL HEALTH COUNCIL

Fair-Market Value Hourly Rate Methodology

This document provides an overview of the methodology used to derive the hourly rates included in the National Health Council's Fair-Market Value (FMV) Calculator.

Fair-Market Value Definition

The definition of fair-market value used in the analysis is based on the definition from the U.S. Physician Self-Referral ("Stark") Regulation. This definition was used as it considers the common elements of fair-market value in arm's length transactions, as well as situations where one party may be in a position to influence the decision on the purchase of the other party's products. The definition is:

- *...value in arm's-length transactions, consistent with general market value.*
- *"General Market Value" means the price that an asset would bring, as a result of bona fide bargaining between well-informed buyers and sellers who are not otherwise in a position to generate business for the other party; OR compensation in a service agreement, as a result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party. (42 CFR §411.351)*

Methodologies for Assessing Fair-Market Value

There are three general approaches that can be used to arrive at FMV:

Income Approach

The income approach focuses on the income-producing capability of the service. The underlying premise of this approach is that the value of a service can be measured by the present worth of the net economic benefit to be received over the life of the subject service or as a result of having the service performed.

Market Approach

The market approach measures value based on what other purchasers in the market have paid for services that can be considered reasonably similar to those being valued. The applicability of the market approach will depend on the existence of comparable services offered at arms-length in the marketplace and the availability of information concerning those services.

Cost Approach

The cost approach is based on the premise that a buyer of a service would pay no more for the service than the cost to internally duplicate the services.

Fair-Market Value Approach Utilized

A market approach was used in the development of the FMV rates. Historical market payments to patients and patient organization representatives, while considered, were not directly relied upon as there is no insight into how they were determined. In developing the FMV hourly rates, consideration was given to the typical qualifications needed to perform the various activities included in the FMV Calculator, as well as the definitions of the types of participants. In performing the activities, the patient or patient group participants are serving as experts providing a service and, as such, the hourly rates include compensation, overhead and profit.

Fair-Market Value Application

Since there is no directly comparable compensation benchmarking data for patients and caregivers, compensation data for positions that require similar experience, knowledge, skills, etc., as those needed to perform the activities for which patients are expected to be engaged was used. For example, compensation for various marketing, research, education, public relations, etc., positions were considered. In addition, national average income data was considered. A similar approach was used in choosing compensation for consideration in the development of the patient organization representative rates. Total compensation survey data from the following sources were relied upon:

- Medical Group Management Association ("MGMA")
- Hospital & Healthcare Compensation Service ("HHCS")
- American Medical Group Association ("AMGA")
- Association of American Medical Colleges ("AAMC")
- Sullivan, Cotter and Associates, Inc. ("SC&A")
- Economic Research Institute ("ERI")
- Bureau of Labor Statistics ("BLS")
- Salary.com
- National Health Council (NHC) and National Human Services Assembly ("NVH") Compensation Survey

Benefits were added to total compensation using information from from Salary.com. To arrive at an implied hourly compensation rate, total annual compensation, including salary, bonus, and benefits, was divided by 1,850 hours per year, which was based on the standard number of work hours in the U.S. of 2,080, adjusted to exclude holidays and vacation. The calculated hourly rates were adjusted to reflect that the participants are serving as contracted experts. In addition to salary, the expert's hourly rate reflects that there is overhead expense incurred in performing duties as an expert and an element of profit. Overhead was applied based on various sources, including overhead applied in research and other contractual agreements between universities and third party companies. The profit applied was based on observed profit margins for consulting companies.

The NHC also received input on the FMV rates from its FMV Steering and Review Committees during the review process.

Concluded Fair-Market Value Ranges

The following are the FMV hourly rate ranges used in the FMV Calculator:

Participant Type	Range of Fair Market Value	
	Low	High
Patient / Caregiver		
Advanced Expert Patient / Caregiver	\$100	\$205
Expert Patient / Caregiver	\$80	\$150
Individual Patient / Caregiver	\$50	\$105
Patient Organizations		
Patient Organization - Executive Leader	\$150	\$350
Patient Organization - Non-Executive	\$85	\$150