



Orthopedics & Sports Medicine

Controlling Overhead in an Orthopedic Practice | October 9, 2015
 Prepared For | Texas Orthopedic Administrators Society (T-Bones)
 By | Leonard Ratley, Executive Vice President – Chief Executive Officer

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 Do you feel like this happens to you on a daily basis ??

- Your physician(s) = Rod Tidwell (Cuba Gooding, Jr.) and "entourage"
- You = Jerry Maguire (Tom Cruise)




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 Do you feel like this happens to you on a daily basis ??


- Your physician(s) = Rod Tidwell (Cuba Gooding, Jr.) and "entourage"
- You = Jerry Maguire (Tom Cruise)
- **"Congratulations, you are still my administrator !!"**



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 Google images visualization of overhead

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An Accountant's definition of overhead

Overhead is those administrative expenses of a business that are required to operate **general corporate functions**, and which cannot be definitively attributed to any revenue-generating activities or units of output (such as products to be sold). Overhead is a necessary part of a business, and must be paid for even when sales levels are low or nonexistent. The cost of overhead can be substantial, which is why managers tend to closely monitor it.

Source: <http://www.accountingtools.com/overhead-definition>



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Physician definition of overhead expense

- When talking to you ... every dollar that goes out the door ... and it is too high (roughly 80%+ of collections)
- When talking to peers ... who knows, whatever it takes to be 5% less than the physician they are talking to ... life is great (roughly 30% of collections)
- So in reality, there is no **accurate, consistent, measurable** physician definition of overhead ... it is whatever the physician wants it to be under the circumstances at any given point in time



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Overhead



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Overhead components

- Direct Labor Costs (52% - 56%)
- Facilities Costs (12% - 14%)
- Medical Supplies Costs (12% - 15%)
- Everything Else (15% - 20%)

Recommendation ... look at expenses from this perspective and not departmental (departmental allows for interpretation)



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What is not overhead ?

- Physician health insurance (medical, dental, vision, life, disability, etc.)
- Capital expenses (use a significant number ... \$5,000)
- Loan payments (interest ok but not principal)
- 401(k) contributions and direct physician match + profit share
- Expenses related to shared "profit centers" ... Physical Therapy and MRI
- Do not "net" the income of "profit centers" against overhead ... distorts actual

Recommendation ... these are physician choices (show them separately from overhead)



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Direct Labor Costs ... what is in the number

Direct Labor Costs:

- ✓ Salaries and wages of all staff (Non-partner physician, PA, MA, casting, x-ray, front office, billing, etc. ... everyone except PT / MRI)
- ✓ Employee health insurance, net (medical, dental, vision, life, etc.)
- ✓ Payroll taxes (FICA, Medicare, FUI, SUI)
- ✓ 401(k) match and administration
- ✓ Employee workers compensation insurance
- ✓ Payroll processing fees
- ✓ Outsourced recruiting costs (help wanted ads, etc.)

Controlling these costs:

- ✓ Manage overtime
- ✓ Manage staffing levels (where can the practice be more efficient) ... annual evaluation of FTEs and what they are doing
- ✓ Creativity of health insurance (look at deductibles, co-pays) ... don't let physician personal opinion get in the way of a good business decision (physician can handle the higher deductible)
- ✓ Maximize physician 401(k) ... employer match + profit sharing (9% of \$265,000 in 2015)



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Facilities Costs ... what is in the number

Facilities Costs:

- ✓ Rent
- ✓ Property taxes (both real estate and personal property)
- ✓ Repairs and maintenance (things do break from time to time)
 - ✓ Housekeeping (including porter and cleaning supplies)
 - ✓ Exterminating, lawn, landscaping, waste disposal
 - ✓ Offsite storage, security monitoring
- ✓ Utilities (electric, gas, telecom, television, water)

Controlling these costs:

- ✓ Maintain relationship with landlord (easy if office is owned by physician) ... consider renegotiating your interest rate with your bank (interest rates have never been lower)
- ✓ Utilize services of property tax consultant (pay for performance)
- ✓ Renegotiate annually your housekeeping (leverage them for minor repairs) ... consider hiring a repair person if facility is large enough



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Medical Supplies Costs ... what is in the number

Medical Supplies Costs:

- ✓ Visco-supplementation injections (Monovisco, Synvisc One, Euflexxa, Supartz, etc.)
- ✓ Durable medical equipment
- ✓ Other injections
- ✓ Exam room supplies (gauze, band aids, etc.)
- ✓ Casting supplies

Controlling these costs:

- ✓ Closely watch margin on visco + know which payor is connected to what visco
- ✓ Limit inventory of DME ... know which vendors can provide "just in time" product
- ✓ Tightly reconcile the disbursement of DME to billed charges ... use ABN for Medicare
- ✓ Consider using generic product for steroid injections



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Everything Else ... what is in the number

Everything Else:

- ✓ Advertising and marketing (web page, collateral material, sports sponsorships, print, etc.)
- ✓ Bank and credit card fees
- ✓ Charitable contributions
- ✓ Computer hardware and software (desktops, laptops, Microsoft, etc.) ... non-capital
- ✓ Dues and subscriptions (including IPA fees)
- ✓ Equipment leases (medical, phone, copiers, computers, etc.)
- ✓ Franchise taxes
- ✓ Interest expense
- ✓ Insurance premiums (not accounted for anywhere else ... P&C, D&O, auto, buy-out, etc.)
- ✓ Malpractice premiums
- ✓ Meals and entertainment
- ✓ Mileage and tolls
- ✓ Office expenses (supplies, printer paper, mobile phones, business cards, letterhead, etc.)
- ✓ Outsourced IT vendor(s)
- ✓ Software maintenance and support (PM / EHR / PACS)
- ✓ Postage and delivery
- ✓ Professional fees (accounting, collections, consulting, legal, clearinghouse, etc.)
- ✓ Travel
- ✓ Physician personal expenses (CME, mobile phone, auto lease, pager, etc.)



Everything Else ... what is in the number

Controlling these costs:

- ✓ Advertising and marketing ... *don't get distracted ... figure out works for you in your market*
- ✓ Bank and credit card fees ... *challenge your processor ... shop your merchant account*
- ✓ Computer hardware and software ... *have a 5 year replacement plan to spread this out*
- ✓ Equipment leases (medical, phone, copiers, computers, etc.) ... *purchase where you can*
- ✓ Franchise taxes ... *exclude government sponsored receipts ... optimize labor costs*
- ✓ Interest expense ... *negotiate interest rate*
- ✓ Insurance premiums ... *make sure your broker is working for you every year at renewal*
- ✓ Malpractice premiums ... *shop it ... we use TMLT and rates continue to go down*
- ✓ Outsourced IT vendor(s) ... *push them for efficiencies ... ticket and monitor ... who is abusing*
- ✓ Software maintenance and support (PM / EHR / PACS) ... *don't accept annual increases ... push back*
- ✓ Professional fees (accounting, collections, consulting, legal, clearinghouse, etc.) ... *reassess every year your provider(s)*
- ✓ Physician personal expenses (CME, mobile phone, auto lease, pager, etc.) ... *hold physician accountable and make these non-controllable expenses visible*



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Mike Newcum



"Remember, 'accounting' and 'accountability'; nothing in common."



Case Study

	YTD '14	%	YTD '15	%
Collections				
Direct Labor	\$7,759,048		\$8,295,167	
Facilities	\$1,985,926		\$2,129,135	
Visco	\$1,079,934		\$1,506,058	
Medical Supplies	\$816,921		\$920,872	
Malpractice	\$219,749		\$228,491	
Other	\$11,861,578		\$13,079,723	
	\$2,418,123		\$2,560,369	
Total	\$14,279,700		\$15,640,092	

\$1,360,000, or 9.5%, increase in costs ... this is going to be a fun conversation ??



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 Case Study


	YTD '14	%		YTD '15	%
Collections	\$23,883,165			\$25,819,235	
Direct Labor	\$7,759,048			\$8,295,167	
Facilities	\$1,985,926			\$2,129,135	
Visco	\$1,079,934			\$1,506,058	
Medical Supplies	\$816,921			\$920,872	
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Total	\$14,279,700			\$15,640,092	


Offset by a \$1,936,000, or 8.1%, increase in collections ... how much easier is the discussion ??


 Case Study

	YTD '14	%		YTD '15	%
Collections	\$23,883,165	100.0%		\$25,819,235	100.0%
Direct Labor	\$7,759,048	32.5%		\$8,295,167	32.1%
Facilities	\$1,985,926	8.4%		\$2,129,135	8.3%
Visco	\$1,079,934	4.5%		\$1,506,058	5.8%
Medical Supplies	\$816,921	3.4%		\$920,872	3.6%
Malpractice	\$219,749	0.9%		\$228,491	0.9%
	\$11,861,578	49.7%		\$13,079,723	50.7%
Other	\$2,418,123	10.1%		\$2,560,369	9.9%
Total	\$14,279,700	59.8%		\$15,640,092	60.6%


Leveraged all expense categories (reduced YOY %) except visco and medical supplies

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 Closing Comments


- "Overhead" is too loosely defined ... administrators need to reign this in ... bad habits are hard to break
- Administrators (and physicians) have manipulated numbers to look more favorable
- Physician production (and resulting collections) have a huge impact on percentages ... and these percentages are all over the board (40% - 75% in OrthoTexas)
- An additional dollar of collections is the same as a reduced dollar of costs
- Sometimes you have to spend money to make money ... despite what a physician thinks this is not a 100% margin business
- Sometimes less is good ... don't get bogged down in the details ... control what you can control

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 Mike Newcum

DILBERT BY SCOTT ADAMS



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