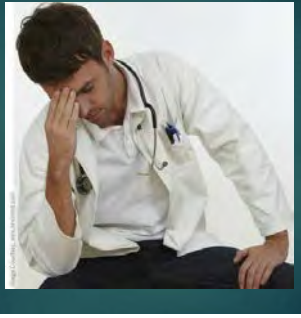
Surviving The Storm

REMAINING AN INDEPENDENT PHYSICIAN PRACTICE

Physicians Are Feeling the Pain

- Financially Squeezed
  - Decline in reimbursement and loss of income
  - Overhead, malpractice insurance and working capital requirements
- Quality pressures
- Difficulty hiring "sophisticated" support staff
- Inability to recruit; succession planning
- Quality of life
- Increasingly complex government oversight
- Healthcare reform
- Changing payment models



How to Thrive

- Focus on Quality as the new Reality
- The Best Staff
- Strategic Planning – The Key to Future Success
- Have an Integration Strategy
- Have a Contracting Strategy
- Detail Review of the Numbers

Quality

- Has to be measured and monitored
  - What are the indicators to monitor?
  - What are acceptable ranges of indicator values?
  - Analyze data
  - Act on their analysis

Sample Payer Ratings Summary

Table 1. Sample payer ratings summary

Payer/Provider	UnitedHealthcare Quality	UnitedHealthcare Efficiency	Cigna Care Designation	BCBS Tier 2013	BCBS Tier 2014
Provider A	Quality and cost efficiency criteria met	Quality and cost efficiency criteria met	Effective Jan. 1, 2014	Not listed on website	Not listed
Provider B	Quality and cost efficiency criteria met	Quality and cost efficiency criteria met	Not enough information to evaluate	Tier 2	Tier 2
Provider C	Quality criteria met	Not met	Effective Jan. 1, 2014	Tier 2	Tier 2
Provider D	Not enough data to evaluate	Cost efficiency criteria met	Not enough information to evaluate	Tier 1	Tier 1

Quality

- Quality improves profits
- Improve profitability by improving processes
  - Reduce processes
  - Eliminate waste
  - Eliminate duplication
  - Reduce errors

Quality

- Improve Profitability by Improving Processes
  - Elements of Process Improvement
    - Recognize the current state of the practice
    - Define what plans must be in place to improve each state
    - Measure the systems that support the plans
    - Analyze gaps (variance) in system performance benchmarks
    - Improve system elements to achieve benchmarks
    - Control system-level characteristics critical to improvement
    - Standardize the systems that prove to be best in class
    - Integrate these systems into the business framework

Quality

- Improve Profitability by Improving Processes
  - Potential Areas for Process Improvement
    - Revenue cycle analysis
    - Patient throughput analysis
    - Denial analysis
    - Cost accounting
    - Code and modifier analysis
    - Reimbursement analysis
    - Patient Satisfaction (complaints)
    - Compliance risk analysis
    - Physician productivity analysis
    - Clinical outcomes

Quality

- What is the patient experience?
  - Timely services
  - Efficient workflow
  - Scheduling
  - Clinic Hours
  - Surgical Flexibility
  - Use of EHR/EMR
  - Website/Patient Portal
  - Fulfill a need

Patient Access – New Patient Lag Time

- New Patient Lag Time = length of time it takes for a new patient to be seen in a practice from the time they call to schedule their appointment
- Best Practices have shorter lag times
- Best Practices have 10% same day apts

Quality

- Bill and Collect what you are owed period.
  - $100 or more owed called 2 days ahead
  - Can't pay deductible, appointment/surgery cancelled
  - 100% of insurance owed collected
  - 3 touches for unpaid self pay portion
  - > 90 days sent to collection

Quality

- The Best Staff
  - Practices that get it are the BEST at HR
  - Understand the differences in employees and explore ways to meet their needs
  - Need to be more creative to identify opportunities to attract and retain staff

Business Intelligence

- Strategic planning where business decisions are made based on extensive research and comprehensive data collection
- The cost and the benefit are analyzed
- Emerging issues are reviewed and planned for before they threaten the practice

Strategic Planning

- Strategic Planning is NOT:
  - Spending hours on a mission statement
  - Making endless to do's that never get done

Strategic Planning

- Strategic Planning does arrive at Consensus regarding:
  - Member and Practice needs
  - External and Internal Forces to Engage
  - Opportunities to Seize

Have an Integration Strategy

- Merge with Other Medical Practices (Small Practice Strategy)
- Roll Up/In Smaller Medical Practices (Large Practice Strategy)
- Should Practice Sell Out to a Hospital or Other Third Party
- "You've got to pick a team"

Driving Forces Behind Consolidation

- Reimbursement
- Ability to add Revenue Sources
- Increasing Overhead
- Declining Physician Incomes
- Practice Management
- Recruitment
- Increasing Competition
- Healthcare Reform
- Transition (Practice Succession)

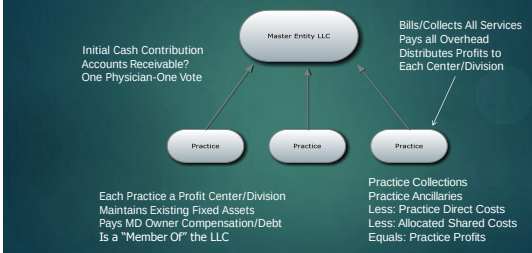
Advantages of Consolidation

- Increased Revenues From Same Practice Production
- Reduced Overhead
- Managed Care Contracting
- Technology Upgrade Capability
- New Revenue Streams
- Call Coverage
- Clinical Staff Leverage
- Reduced Competition
- Access to Capital
- Real Estate
- Enhance Human Capital

The Merger Process

- Due Diligence/Feasibility
- Contract Development
- Implementation
- Timeline: At Least Six Months Minimum!

Entity Formation



Initial Cash Contribution
Accounts Receivable?
One Physician-One Vote

Bills/Collects All Services
Pays all Overhead
Distributes Profits to
Each Center/Division

Each Practice a Profit Center/Division
Maintains Existing Fixed Assets
Pays MD Owner Compensation/Debt
Is a "Member Of" the LLC

Practice Collections
Practice Ancillaries
Less: Practice Direct Costs
Less: Allocated Shared Costs
Equals: Practice Profits

Hospital Acquisition

- The Strategic Question
  - What can the hospital do for you that you can't do for yourself?
- Physician Due Diligence Issues
  - What will stay the same with our office and what will not?
  - Who will do the billing/credentialing?
  - Termination clauses/Guarantee period
  - Malpractice tail cost
  - Employment agreement
    - Length & compensation
    - Work RVUs or Total RVUs
    - Professional services v. ancillary services

Hospital Acquisition

- Physician Due Diligence Issues
  - Potential impact on referral patterns
  - How to get practice back and what are details of doing so?
  - Potential impact on practice employees
    - Human resource policies (hospital)
    - Benefits
    - Comp structure
    - Spouse employment ongoing
    - Moving employees around

Hospital Acquisition

- Physician Due Diligence Issues
  - Office Location Issues
    - Lease & leasehold improvements – What happens?
    - Lease assumptions
      - Getting physician's name off the lease
      - Is lease transferable?
      - Tax issue – capital lease of fixed assets
    - What happens when lease expires?
    - What if doctor owns building?
  - What assets will be purchased and related tax consequences

Have a Contracting Strategy

- Where are We Headed
  - New Value Based Financing Methods
    - Global budgets, global payments
    - Bundled Payments
    - Episodes of Care
    - "Accountable Care": Clinical Integration as Foundation
  - Limited (narrow) and Exclusive (closed) Networks
  - Capitation?

Have a Contracting Strategy

- Managed Care
  - Find Your Leverage Points
  - Track Quality/Outcome Measures
    - Find out what the payer wants and deliver it (i.e. what are the cost drivers for the practice's specialty)
    - Get a utilization report card from the payer if you can
  - Engage the Payors - Be Proactive
    - Negotiate Rates
    - Negotiate a New Relationship
    - Be First to Assist with Development of New Payment Models – Take a Leadership Role

The Practice Assessment

- Detail Review of the Numbers
  - Gross Collection Percentage
  - Net Collection Percentage
  - Days in A/R
  - Denial Rate
  - A/R in excess of 120 days old
  - Patient Collections
  - Lost appointments
  - And others

Practice Assessment

- Gross Collection Percentage
  - Collections divided by gross charges
  - Use a twelve month trailing average
  - Review calculations by payer
  - Review calculations by Physician
  - Compare to trend analysis
  - Compare to industry benchmarks
  - Establish the acceptable goals for your practice and monitor the progress

Practice Assessment

- Net Collection Percentage
  - Measures effectiveness in collecting what you are owed
- **Calculating the net collections rate is accomplished by:**
- Dividing the payments (less any credits) by the charges (less approved contractual adjustments).
  - How quickly visits/procedures are billed
  - How long does it take to get paid by payers

Revenue Cycle – Unexpected Adjustments

Unexpected adjustments are a road map for identifying opportunities in operations improvement. There is significant opportunity in collecting "unexpected" adjustments for all practices.

Est Annual	Practice 1	Practice 2	Practice 3	Total
Credentialing	$ 129,085	$ 20,996	$ 270,142	$ 420,223
No Auth	$ 57,630	$ 6,863	$ 22,273	$ 86,765
Out of Network	$ 8,737	$ -	$ 11,949	$ 20,686
Small Balance	$ 5,063	$ 1,985	$ 563	$ 7,611
Collections	$ 374,668	$ 144,039	$ 182,461	$ 701,168
Bankruptcy	$ 16,314	$ 879	$ 5,072	$ 22,265
Timely Filing	$ 952	$ 3,527	$ 412	$ 4,892
Patient Balance Discount	$ 8,617	$ 4,036	$ 8,891	$ 21,544
Administrative	$ 433	$ 12	$ 286,784	$ 287,229
Total	**$ 601,499**	**$ 182,336**	**$ 788,548**	**$ 1,572,383**

Practice Assessment

- Days in A/R
- DAR = Net AR / Daily Gross Charges
- Example, the DAR for a Practice

DAR = $78,718 / ($750,298 / 365) = 38.3 days

Practice Assessment

- A/R in excess of 120 days old
  - Calculated as A/R >120 days / Total A/R
- Patient Collections
  - Collect at every opportunity
  - Make it easy to pay you

Patient Pay Collections

Practice Assessment: Lost appointments

- No shows and cancels/ scheduled
- AMA says % is around 12%
- If 13% or higher need to review your reminder processes
- Other metrics for patient visits
  - Percent of scheduled patients vs. available visit/surgery/procedure appointment times
  - Percent of insurance eligibility verifications vs. total scheduled patients
  - Recall visits vs. recalls available

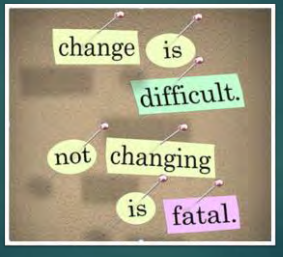
Practice Assessment

- Review the Numbers
  - Managed Care
    - Review charges/collections by payor
    - Payor assessment
      - Gross collection percentage
      - Days in A/R
      - A/R aging
    - Analyze reimbursement rates
      - Compare rates to Medicare rates (what % Medicare)
      - Compare rates to other payor rates
    - Perform a cost accounting analysis

Benchmarking / Goal Setting WKSHT

KPIs	Formula	Office Input Values (Input in Yellow Boxes)		Calculated KPI Values	Best Practice Standards	Enter My Practice Goals
Days in AR	(Net AR) / (Daily Gross Charges)	Net AR	Annual Gross Charges	Calculated	25 to 30	My Practice Goals
		100,000	750,000	49		
AR Over 120	(Days over 120) / (Total AR)	Amount > 120 Days	Total AR	Calculated	9% to 12%	
		29,350	100,000	29%		
Gross Collections	Past 12 Mos. (payments)/(charges)	12 Mo. Payments	12 Mo. Charges	Calculated	55%	
		495,000	750,000	65%		
Net Collections	(Pays - Credits) / (Charges - Cont. Adj.)	Pays - Credits	Charges - ContAdj	Calculated	95% to 99%	
		680,000	720,000	94%		
Denial Rate	($ Claims Denied) / ($ Claims Sent)	$ Claims Sent	$ Claims Denied	Calculated	5% to 10	
		$295,000	$38,000	8%		
Lost Appointments		Tot. Scheduled	2300	Calculated		
-No Show	(No Shows) / (Scheduled)	No Shows	322	5%	3% to 4%	
-Patient Cancels	(Patient Cancels) / (Scheduled)	Patient Cancels	560	7%	7% to 9%	
Total Lost Appointments	Addition of No Show and Cancels	Tot NoShow/Can	282	12%	10% to 13%	
Co-Pay Collections	From Pulse Reports	Co-Pay Collects	Pulse Reports	From Pulse Reports	70% to 90%	

The message…



Questions and Answers

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