



#### In this issue:

##### Managing your overhead

Page 1

##### The importance of governance

Page 2

##### Billing and collections:

###### A diagnosis

Page 3

##### 3 keys of financial survival

Page 4

As professionals in the medical field know well, regular checkups help patients stay healthy. While ailments can generally be healed more readily through early detection, they can grow worse if ignored or improperly diagnosed. The same applies to the financial health of a practice. In this issue of *VitalSigns*, we share ways to keep your practice in shape.

Like reviewing your overhead costs — from supplies to health insurance — to see where you might save money and improve profitability. Like understanding the distinction between governance and management, and why the former is so important. Like establishing clear, consistent billing and collections procedures to diagnose problems in this area before they get out of hand. Like recognizing the importance of income, profit and cash flow.

Doctors who don't comprehend the value of money are like patients who lack nutrients vital to their health. They often come to accept illnesses in their systems that are, in fact, quite curable.

## Want to increase profits? Manage your overhead

During our current and ongoing economic downturn, many companies have maintained profitability. How have they done so? Partly by managing overhead. Ask physicians about their practices' biggest issues, however, and many will say they need to see more patients, improve office efficiency, increase staff morale, make managed care manageable ... yet only a few will mention overhead.

Physician fees are trending downward. Practices may earn bonuses for quality and the use of electronic records, but these relative windfalls aren't guaranteed, nor will they help a practice with monthly cash flow. Overhead costs such as rent, utilities, malpractice and health insurance, and employee salaries will continue to increase. And they can cripple even a financially healthy practice by obstructing cash flow and decreasing profits.

Thus, there's an urgent need for overhead cost containment. Although not all overhead can be controlled, savings opportunities may be available if you look in the right places.

#### A rule of thumb

Physician practices are high-volume, low-margin businesses. Every dollar is important to the bottom line. When unsure, ask yourself whether spending money on a certain expense will help bring revenue to the practice. Follow this rule of thumb for expense purchases: If your practice overhead is 50%, every \$1 of expense must bring in \$2 of revenue to break even. Ideally, you want to generate \$3 for every \$1 of expense.

You'll find the most significant savings in high-expense areas. Review your financial statements for large line items; then look in your accounting system ledger for detail on the expenses. Pursue opportunities to negotiate savings, or delete the expense altogether. And remember, even small savings on individual items can add up to thousands of dollars a year.

#### Supplies and prescriptions

Practices generally spend more than necessary on office and medical supplies. Instead of just reordering supplies from your vendor, compare prices online of various suppliers, investigate buying groups and negotiate costs for even the most mundane products. End every vendor conversation by asking, "Is this the best you can do?"

In addition, regularly check invoices for service charges or late fees. You could save up

to 20% on expenses such as pens and pencils, paper, medical supplies, telephone services and transcription services. To avoid duplication, give one person responsibility for comparing prices, negotiating discounts and ordering supplies.



For prescription medications such as injections and vaccines, don't rely on a nearby pharmacy as a vendor. The pharmacy has already paid the wholesale price and added a markup or a service charge. Plan ahead and order from a wholesaler at a negotiated fixed price. The cost savings should be considerable.

#### Staffing costs

Staff expenses are likely your largest single expense and can range from 21% to 35% of practice revenues. Some ways to cut staff expenses include:

**Tweaking schedules.** Consider staggering staff schedules by starting some shifts an hour later. Or schedule some staff to work four 10-hour days if your practice stays open more than 8.5 hours each day.

Above all, allow employees to work more than 40 hours per week only when absolutely necessary. Overtime costs can considerably raise overhead. Be sure an office manager or physician preapproves all overtime.

**Reviewing compensation and benefits.** Look over staff salaries to make sure you're paying them competitively — but reasonably — for their positions in your market. Could you use part-time staff instead and save on payroll and benefit costs?

You may want to develop a job deck. This is a table that lists all employees' names as well as their respective job titles, start dates, dates of last raise, and current salary or hourly rate. A job deck can be invaluable when considering salary increases or additional hiring.

**Reassessing your insurance costs.** Health insurance can account for 10% to 15% of your monthly costs. If your practice hasn't recently re-evaluated its health insurance costs or reviewed optional increases in deductibles and co-payments, you should obtain bids from multiple insurers with several coverage options. Most practices pass some of the cost of health insurance premiums to their staff.

#### The cost of doing business

Overhead expenses may seem inevitable and uncontrollable. That's the cost of doing business, right? Not necessarily. With careful and regular attention, these amounts can be managed and, in some cases, lowered to help your practice run more profitably.

# Governance: The key to a successful private practice

Is partnership still an attainable goal for a young physician in today's health care environment? Hospital employment seems to be the career path for many these days. Perhaps this is because succeeding in private practice requires great leadership, active governance, a good business model and low overhead. Although having all of these doesn't guarantee success, not having them guarantees disaster.

What does becoming a partner in a practice mean? Many feel the path to partnership comes with longevity in the group, usually three years of service and complementary clinical skills with existing partners. Yet becoming a partner also means performing under a special set of expectations and a different compensation model.

Today's practices must have physician owners (partners) who are willing to truly lead the business. The margin for error is small, and decisions are much more difficult than in years past. Doctors who own physician groups have the responsibility to govern them, but many physicians want to leave this task to a manager. Managers only implement the decisions the partners make; the owners must drive the practices.

## Governance vs. management

It's important to identify the difference between governance and management. According to *Webster's New Collegiate Dictionary*, to *govern* is to control and direct the making and administration of policy; to *manage* is to handle with a degree of skill.

Physicians must allow managers to deal with human resource issues such as staffing, employee supervision and other tasks that require a "degree of skill." Physician partners should focus on setting a strategic direction for the practice, providing vision, establishing policy and verifying that policy is being followed.

## Your role

Start by reviewing what it means to be a partner in your practice. A partner is an owner, and being an owner brings differing legal

responsibilities depending on the type of partnership (or status as a corporation) and the state in which you practice.

But regardless of business structure or state, a partner has a responsibility to lead. Some will take a more active role than others, but everyone should understand and be able to openly discuss each partner's function. Problems can develop when a partner wants to take more of a leadership role but feels blocked by another.

Successful organizations are clear about partners' roles. In some groups, their functions rotate. The question to ask: Would (or does) rotating responsibilities work for your organization without taxing a partner?

Regardless of whether you rotate leadership, you need to regularly determine if the practice should pay a physician extra for taking a more active role. The current trend is to pay such physicians a stipend that makes up for lost practice opportunities. But remember, this role isn't governance but managerial, and the success of the individual should be evaluated as it would for any employee.

## Mission and strategic direction

When fulfilling their roles, physician partners typically look at issues from one of two perspectives: their own ("What's in it for me?") or the group's ("What's best for the group?"). It's vital that every partner lead with the group perspective and follow a clear vision and direction.

So an important question to ask is: Does the partnership provide a mission and strategic plan to the practice? Groups that don't develop a plan make decisions haphazardly. Partners must think from a policy perspective and drive

decisions based on principle, not individual goals. An effective board must provide direction for the group. If everyone agrees with the road map, the group is more likely to move in unison toward a strategic objective.

To that end, a variety of corporate documents should fit the vision of the partnership. Review your compensation agreement and make sure it's competitive without being exorbitant or out of step with the economic environment. Also look at your buy/sell agreement to make sure the formula for buying or leaving the practice is sensible and in step with partners' wishes.

Last, to determine whether your group is truly succeeding at governing, examine the principles you apply when offering partnership to a new physician. Are they defined? If so, do they make sense in today's health care environment? Do new physicians need to earn a partner title, or do you add these too freely? Does the group train partners to make thoughtful, decisive decisions?

Regardless of the specialty, number of partners or size of the practice, owners must move a business forward. They must guide the organization to the best of their abilities, and that begins with carefully choosing the right partners and setting a solid course for success.

## A clear direction

Ultimately, governance means providing a clear direction to staff and managers. Partners should set objectives, timelines and budgets for managers to implement and staff to follow. If a physician partner finds him- or herself *implementing* policy instead of *creating* it, he or she is no longer governing.



# Don't throw money at it — diagnose it!

## Solving your billing and collections issues

Upon closing the second quarter, the practice accountant (hospital senior vice president) calls the senior partner and asks, “Your cash is way down, and your accounts receivable are way up. What’s going on?” The senior partner pleads ignorance and inquires with the office manager, who rambles, “The famous insurance company isn’t paying our claims; the new Medicare intermediary can’t process a claim; the staff is working on denials only when they have time, which isn’t very often; Susie from billing is out for two weeks because she had surgery; we have a new person in registration; ...” The senior partner quickly gives up trying to remember all of these relatively small problems and realizes he has one big one.

Billing and collections issues aren’t unique to any type of practice. Most go through a period when processes in this area fail and cash flow slows. This can be caused by staffing issues, computer system malfunctions or the failure of one specific process — and these problems can occur regardless of the quality of management staff. The keys to minimizing the ill effects of billing and collections breakdowns are early recognition, systematic processes that are easily identifiable and fixable, and regular reporting that sounds the alarm when a potential problem arises.

If your practice, like the hospital in our fictitious example above, has fallen into a crisis in this area, the physician leaders and practice manager must attack it in a scientific manner. Diagnosing what went wrong will lead to a sustainable solution. Too many practices jump to conclusions and spend resources and money on computer upgrades, new billing companies, staff overtime and letters to the state insurance commissioner only to find out the problem was internal and could have been easily fixed.

### Install warning systems

Anticipation is the best first step to a good billing and collections process. The physician partners as well as the practice manager must have good warning systems in place to notify the practice of potential problems. These should include:

- Daily or weekly cash status reports,
- Weekly claim submission speed and claim follow-up reports by payor,
- Monthly electronic claims submission error rate measures as well as monthly reports on accounts receivable aging by payor, and
- Quarterly claim denial measurements by payor.

Set a standard and establish a weekly performance measurement for how quickly the practice performs its billing function or sends claims to its outside billing company. Share this information with the practice management team and include performance reviews of both staff and management.

### Be accurate, always

With measurements in place, you can target specific aspects of your billing and collections processes. For example, accuracy is critical to smooth cash flow. Most problems encountered



in billing and collections start with errors in patient registration.

You must consider your reception/scheduling staff part of the billing process. They must enter accurate data about the patient, payor and encounter into the billing system. Errors here can cause denials of claims, duplication of work and stress in the office. The registration staff must verify insurance every visit by visually inspecting the insurance card, collecting the co-pay and asking for payment of outstanding balances.

After the patient has finished his or her visit, billing must be completed as soon as possible — ideally the same day. Claims shouldn’t sit longer than 72 hours. Don’t allow your staff to wait until the end of the month to collect hospital or nursing home charges in batches and then have them billed.

In addition, conduct billing for patient-owned deductibles and balances weekly and electronically. Many practices bill patients when they have time, causing accounts receivable to grow. Consider using third-party services to send patient statements, as these have become inexpensive and effective.

### Focus on insurers

Of course, billing for a patient isn’t complete until an accurate claim is electronically submitted to the insurance carrier or claims administrator. Too many offices ignore the “edit” report that’s returned after the electronic submission has been sent. Any claim listed on this report as “not sent” should be reviewed and resubmitted by your billing staff.

Establish a measured standard on claims submissions, striving for a 97% to 99% accuracy rate. If you haven’t already,

prioritize moving as much as possible to an electronic format in both posting charges and payments. In most areas of the country, 85% of all providers allow for electronic claim submissions.

Challenging denials and following up on claims are the final steps in the billing and collections process. Strongly encourage your staff to follow up daily on claims to which the payor hasn’t responded. Assign specific staff members to specific payors, and instruct them to issue weekly reports on each payor. Ask each staffer to call on any claims that remain open after 30 days.

Before appealing a denied claim, your staff must review the patient’s registration for accuracy and the patient chart for appropriate coding and missing data. If a claim is rejected during the appeal process, the patient’s physician should write a letter of appeal. Average practices have 15% of claims rejected the first time of submission. Outstanding practices have denial rates averaging 7%.

### Make the commitment

Cash flow is the life blood of any physician’s practice. And the margins in physician practices have been shrinking over the last decade, partly because of a failure to collect money that’s rightfully due.

Yet often, the least amount of time, effort and money is invested into billing and collections — until something really goes wrong. Successful physicians must commit themselves to a savvy, technologically advanced billing and collections process that pushes accurate, timely data where it needs to go.

# Only the savvy survive

## 3 keys to a private physician practice's finances

With a possible second recession looming, stock market issues, high unemployment and dramatic health care industry changes, a full economic recovery is predicted to be years in the making. What should a private practice physician do: Quit and join a hospital or understand the basics of how to make money and survive?

Anyone who works with doctors knows that money — or the lack thereof — has been on the tip of every private practice physician's tongue in recent years. But, for as much as physicians talk about it, why do so few handle money well?

The answer is related to the time spent understanding money and its relationship to the practice. How does it flow? How is it used? After a full day of seeing patients followed by a night of delivering babies, being on call or working in the operating room, many physicians don't have the energy to tend to the financial details of their practices — especially if it involves serious contemplation and decision making.

Unless physicians and the practice staff understand the value of money and take it personally, the practice will have difficulty being financially successful. Everyone — doctors, billing staff members, even the receptionist — must understand that what they do every day impacts the profit and loss of the organization. Teach your staff to think like owners — not receptionists, nurses, radiology techs or billing clerks. To do this, you must understand the three keys to a private practice's finances.

### 1. Income

This is the money doctors pay themselves for being an employee of the practice. The physician-owner performs certain functions, including seeing patients or performing surgery.

Income has nothing to do with ownership; it's simply payment for being an employee — even in your own practice.

### 2. Profit

Profit is what's left over after all expenses of running the business are complete, including income. It is necessary to fuel growth. A negative number or loss means the practice is doing something wrong, but a profit doesn't guarantee the practice is doing everything right.

Profit needs to be made intentionally rather than happening by chance or luck. If the physician-owner can't explain why a profit exists, the future may not be very profitable. If the profit was because of good decisions and attention to detail, the future is probably good.

### 3. Cash flow

It's vital for a practice leader to understand what money does within his or her organization. Money or cash flows through a practice

erratically. Claims get paid (revenue) on an unpredictable schedule while expenses and employee payroll are paid on a predictable schedule. Cash flow is vital to a practice's survival.

Collecting cash due should be second only to the care you give patients. Practices can be profitable but cash poor. And if money isn't in your bank account when you need it, your business is threatened — no matter how profitable the practice is on paper. The phrase "cash is king" is one all successful business owners understand, but few physicians pay attention to cash flow until there's a problem.

Physicians must control money that goes in and out of the practice. Cash flow is controlled by collections, in the form of co-pays and patient balances as well as insurance payments. To control the outflow, one must manage supplies and equipment purchases, staff compensation, staff scheduling, direct costs of performing clinical services, and precisely what work is being performed in the office.

### The color of money

You know the color of money, but do you know the value of it? Doing so is key to a successful private practice.