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achieving financial success for owned physician practices

A focused management approach that recreates the dynamics of a private practice turnaround is key to the financial success of employed physician practices.

AT A GLANCE

Techniques that have helped turn around the financial performance of individual physician practices can also be used by hospitals and physicians to stem losses from owned practices:

- > Strengthening collections processes
- > Setting performance targets and incentives
- > Instituting monthly meetings that keep providers and staff focused on financial success

The trend to acquire physician practices is stronger than ever, yet many hospitals struggle financially after making the move. Hospitals lose an average of \$96,286 per employed family practice physician per year, while the average loss on an employed internist is \$222,786, according to the Medical Group Management Association's *Cost Survey for Single-Specialty Practices: 2011 Report Based on 2010 Data*. For a hospital that owns just 25 medical practices, that could translate into well over \$3 million in losses annually.

How can hospitals minimize losses on newly acquired medical practices? In addition to setting realistic financial goals and benchmarks for hospital-employed physicians, much can be learned from the management techniques that have been proven most effective at helping private medical practices reduce losses and achieve stronger profitability.

At the core of an employed physician practice turnaround are performance goals that keep physicians focused on profit and loss and that are aligned with the physicians' professional aspirations. Strengthening collections processes also is critical. Most important, both providers and staff require a structure of accountability to keep improvements on track.

To apply these private-practice turnaround techniques to employed physician practices, hospitals should focus on five targeted interventions.

Find a graphic tool for evaluating the revenue cycle strengths and weaknesses of employed physician practices at www.hfma.org/hfm.

Help the Practice Develop a Vision and Strategy

With growing competition from walk-in clinics, a physician can no longer build a medical practice by simply hanging out his or her shingle. This reality is especially true for a hospital-owned practice, which can languish if not actively marketed. To create a strong patient base, a medical practice needs to be consciously differentiated from its competitors and promoted.

The first step is to help the physician clarify his or her professional aspirations. For example, a physician might have a strong personal interest in caring for diabetic patients. The physician's vision might be to create a practice that specializes in providing excellent diabetic care, with emphasis on careful patient tracking, self-management, and evidence-based interventions.

Notice two things about this vision: First, it has strong potential for connecting with a large patient base, and second, it allows the physician to work on something he or she is passionate about, setting the stage for strong productivity.

There are many possibilities for identifying an effective vision. One physician may love working with young families. Another may be driven by wellness care for women. Each vision can be realized through a tailored set of development strategies, and each offers high potential for building a productive practice.

Once the vision is in place, the physician will require help in focusing on development strategies. For a practice emphasizing diabetic care, enhancements could include hiring a nutritionist, adding appropriate testing services, upgrading patient registry software, and starting a diabetic support group. Marketing strategies could include public diabetes education talks and reaching out to specialists for referrals.

Recreate "Ownership" Incentives

A common early effect of becoming hospital employees for physicians is a diminished personal drive to improve practice profitability. To

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counter this effect, physician compensation should be tied to the practice's bottom-line performance.

One approach is to base physician pay on practice revenue, with compensation equaling a percentage of collections. The problem with this approach is that physicians are not responsible for net profit or bottom-line performance. An effective variation is to tie compensation to practice profitability. The advantage of this technique is that it creates individual responsibility for expenses.

It is important to balance individual versus group-focused incentives. Many hospitals negotiate individual contracts with each employed physician, inadvertently promoting an attitude of "every man for himself" that can undermine the practice's success. Another important first step, therefore, is to create meaningful group goals. One possible approach is to tie 60 percent of physician compensation to individual productivity and 40 percent to group objectives, such as total net collections.

Provide Performance Targets

Private practice turnarounds have been shown to work best when overall financial goals are broken down into specific performance targets for providers and staff. This step is equally important for employed physicians.

Targets for physicians should be built around metrics such as patient visits and charges—metrics that allow providers to make a direct connection

Processes should be in place to ensure charges are submitted to the payer on the same day of service—for a practice that generates \$50,000 a month, a one-week billing lag can delay cash flow by more than \$10,000.

between their work and financial outcomes. Such targets are key to the success of compensation plans that are based on productivity and revenue.

Physicians whose pay is based on practice profitability should also be aware of expenses. Many physicians in private practice gauge practice spending by their bank statement balance, not a spending plan. Hospital-employed physicians should understand the practice’s budgeted expense categories and help control spending where needed.

Design Effective Front-End Processes

Medical practices routinely lose 15 to 25 percent of potential revenue through a combination of lost charges, high denials, missed copayments, and other uncollected balances. Hospital finance

managers can help physicians reduce these losses by establishing sound revenue cycle processes on the front end, specifically in the following three areas.

Patient eligibility. In this economy, many patients are switching jobs and many employers are switching health plans. Every time an appointment is scheduled, staff should verify insurance to ensure eligibility on the service date. Consistent verification helps to prevent future denials and costly rework.

Charge capture. Generally, charges should be set at about 200 percent of Medicare rates for primary care practices and potentially higher for surgical practices. However, fees should also take into account factors such as the local market and payers. To ensure full charge capture, charge tickets should be completed by the provider (electronic medical records help capture charges quickly and accurately). Processes should be in place to ensure charges are submitted to the payer on the same day of service—for a practice that generates \$50,000 a month, a one-week billing lag can delay cash flow by more than \$10,000.

Point-of-service collections. A clear financial policy should be established, and shared with all patients, requiring collection of patient copayments and past-due balances at the time of service. Office staff should have a clear set of

MEDICAL PRACTICE OPERATING COSTS: A QUICK SAVINGS GUIDE	
Expense Category	Common Savings Opportunities
Staffing	Poor scheduling often leads to high overtime expenses.
IT	Check opportunities to lease versus buy; price systems against market.
Supplies	Poor ordering processes often lead to high supply inventory.
Rent/building	Check lease against nearby fees; investigate opportunities to renegotiate.
Furniture/equipment	Device purchases may not be justified by payment/market potential.
Liability insurance	Analyze specific service payment against premiums, especially for family practitioners who provide obstetric services (some carriers offer discount programs).
Marketing	Advertising in yellow pages is expensive and ineffective.
Professional services	Check payer rates against market.

Source: Health Directions.

Case Study: Physician Tames Revenue Cycle, Grows Practice

The efforts of a family physician serving the southwest side of Chicago to achieve a financial turnaround for his private practice illustrate the interventions and dynamics critical for any physician practice to improve revenue cycle performance.

Seven years ago, the physician practice was surviving, but not thriving. Financial problems were chronic, and physician compensation was below average. Although the practice had ambitious goals for growing services, it never generated the cash flow required to sustain an expansion.

In 2005, the practice began working with an outside expert to improve its financial performance. Through a series of guided discussions, leaders for the practice set a goal of becoming a multiphysician practice providing comprehensive family care. As part of this vision, the practice would add clinical staff, purchase its own building, and increase its use of electronic health technology.

The first step was to create detailed performance targets to match revenue expectations. Targets for patient visits (new and established) simplified productivity measurement and provided staff with concrete goals.

The practice created a budget to manage current expenses and establish a profit margin to build up cash reserves. It negotiated with vendors to cut supply expenses and reduced high malpractice insurance costs by discontinuing obstetric services.

When it became clear that several common current procedural terminology (CPT) codes were priced below Medicare rates, the practice updated its fees and began tracking the efforts of its billing company more carefully. Creation of a dashboard report allowed the practice to monitor revenue cycle performance, with greater attention paid to front-end processes such as point-of-service collections.

The practice instituted open-access scheduling, established later hours for patient visits, and created an appointment confirmation process. It implemented an electronic medical records system, allowing clinicians to provide more coordinated care. The practice also added key ancillary and professional services to enhance revenue and provide more comprehensive care to the practice's family medicine base.

One of the most important changes the practice made was to establish a regular monthly meeting among physician leaders and staff to review progress and track improvements. Meetings focused on reviewing practice growth, monthly balance sheets, cash flow, profit-and-loss statements, and budget variance reports, with special emphasis on examining key indicators in expenses, productivity, and collections. Reports were required from every functional area, including front-desk operations and billing.

The practice made quick progress. About one year after the project started, financial performance was strong enough for the practice to hire another provider and purchase its own 4,000-square-foot building. Within three years of the start of the initiative, the practice had achieved the following results:

- > Its patient base nearly quadrupled, with most of the growth in the targeted family medicine demographic.
- > Practice revenue increased 447 percent.
- > Accounts receivable days decreased from 91 to 31.

In recent years, the practice has added two more providers. In 2010, the group's good financial condition and excellent community reputation enabled it to negotiate an employment contract with a local hospital at favorable terms.

SAMPLE MONTHLY PRACTICE CHECK-IN REPORT

Typical goal-versus-actual metrics for a medical practice working to improve productivity, collections, and overall financial results

	Monthly Goal	Current Month	Variance
Charges	\$72,000	\$75,000	\$3,000
Payments	\$42,000	\$41,000	-\$1,000
Adjustments	\$30,000	\$32,000	\$2,000
Accounts receivable (A/R)	\$79,200	\$110,000	\$30,800
Procedures	1,000	950	-50
Patient visits (no.)	400	410	10
Key Indicators			
POS collections*	92%	85%	-7%
Gross collection %	58%	55%	-3%
Net collection %	98%	98%	0%
A/R days	32	48	16
A/R % over 120 days	9%	11%	2%
Average pay/procedure	\$42.00	\$43.16	\$1.16
Average charge/visit	\$180.00	\$182.93	\$2.93
Denial rate	5%	11%	6%
Financial Indicators			
Income	\$48,000	\$47,000	-\$1,000
Expense	\$39,000	\$39,500	\$500
Profit	\$9,000	\$7,500	-\$1,500
Profit margin	19%	16%	-3%
Staffing as % of revenue	25%	27%	2%

*Collected versus collectable.

Source: Health Directions.

daily payment goals and receive training to post payments at the time of service.

Hold Monthly Check-Ins

Performance targets are important, but they cannot work without accountability. To help keep practice performance on track, monthly check-in meetings should be conducted with physicians and practice staff.

The hospital should use the short meetings to review performance indicators, check them against the practice’s goals and industry benchmarks, and look at long-term trends.

Checkpoints should include budget variance reports and metrics for productivity, billing, and overall financial outcomes.

Giving physicians a monthly numbers report without reviewing its meaning is not only useless, but also creates a mindset of neglect. Physicians absorb financial information more easily when it is presented visually, so bar charts should be used to present revenue and profit trends. An effective check-in meeting provides the opportunity to identify performance shortfalls, investigate causes, and come up with solutions.

For example, say the hospital is reviewing charges for a three-physician practice, where the charge report shows monthly totals of \$74,000 (Physician A), \$72,000 (Physician B), and \$59,000 (Physician C). Investigating why Physician’s C’s charges are so low could lead to an examination of issues such as charge capture practices and patient mix. Most important is to compare Physician C’s practice patterns with those of his or her peers. Relatively simple adjustments to workflow can often increase charges considerably.

Value in the Approach

The value of these five turnaround techniques is that they engage employed physicians in the financial success of a hospital-owned practice. Used on a consistent basis, they can help hospital leaders maintain an employed practice network as a financially sustainable enterprise. ●

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