Control Cash Flow
Tips to better manage practice revenue

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Cover story: Control cash flow
Tips to better manage practice revenue

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CONTROL CASH FLOW

With consumers responsible for more of their health bills, physicians must vigilantly control their revenue

by TODD SHRYOCK Editor

HIGHLIGHTS

- Billing quickly is important. The sooner the process starts, the quicker cash enters the practice.

- Setting up a payment plan must be a formal legal document between the doctor and patient.

AS HEALTH INSURANCE costs shift away from payers toward patients in the form of higher copays and deductibles, physicians must have a firm grasp of their practices’ cash flow if they want to survive in a changing industry.

Experts agree that as patients are expected to pay more, the risks of a cash flow shortage for a practice increases, because consumers aren’t as reliable as insurers when it comes to payments, and some patients can’t pay the full bill—or any part of it—on their own.

Consumers pay more than twice as slowly as commercial payers, and rank medical bills seventh in importance, behind cell phones and internet providers, according to research from global consulting firm McKinsey & Co. Medical providers are often the last to be paid, assuming there is any money left at the end of the month. Data from the National Center for Health Statistics indicate that 25% of families have an unpaid healthcare bill, 20% are paying a medical bill over time and 10% have a medical bill they cannot pay at all.

“Consumers opt for the lower-priced insurance with the high deductible, because they are optimistic they won’t have to use it,” says Andrew Graham, MBA, president and chief executive officer of Clinic Service, a Denver-based healthcare consulting firm.

“When the deductible shows up, they are shocked. They don’t always understand the deductible requires funding on their end.”

Practices are especially vulnerable to a cash crunch in the first few months of the year when deductibles reset, shifting the entire payment burden onto the patient. With the trend of rising deductibles and more pa-
Control cash flow

Money

CODING OPPORTUNITIES

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Managing these financial arrangements can be tricky, says Graham, because a practice doesn’t want to destroy a patient relationship because of unpaid bills, but still needs to be paid in a timely manner. “I don’t like for patient payment terms to go beyond six months, but you have to make payment plans to allow them to pay their bill and keep their personal pride and integrity,”

He adds that a good cash flow management rule is to aim for 60% to 75% of all receivables to be paid in the first 30 days, 10% to 15% between 30 and 60 days and everything over 60 days to be in single digits.

Billing quickly is also important, says Graham, especially in the first few months of the year. Where an insurer might pay in 14 to 30 days, when a bill is the patient’s responsibility it might take the insurer several weeks to notify the practice. Then the patient has another 30 days to pay—assuming they pay on time. So the sooner the process starts, the quicker cash gets to the practice.

A possible exception to billing quickly is when a patient is scheduled for an expensive treatment with a different provider at the beginning of the year, says Joel Shalowitz, MD, MBA, FACP, an internist and professor of preventative medicine at Northwestern University.

“An internist might do a pre-op physical for a bypass surgery patient, but if the patient has a history of late payments or collection problems, the strategy might be to wait until he’s had the procedure and then submit the bill because that procedure would wipe away the entire deductible,” he says. “Is it game-playing? Absolutely, but you are then dealing with the insurer for payment and not the patient.”

**REducing Cash Outflows**

Once cash is in the practice, careful monitoring of expenditures can help keep it there. Kulin says to start with a close look at staffing, which can account for 60% to 70% of a practice’s budget. Calculate how many patients per hour each person in the practice sees, whether it’s a nurse, physician or front-desk employee, and look at patient volume to determine if staffing levels are appropriate.

Also take a close look at how staffers are spending their time, says Derek Kosiorek, CPHIT, CPEHR, principal consultant with Medical Group Management Association (MGMA) in Englewood, Colorado. In one practice, a billing person was auditing the prior day’s encounter forms for three hours each day, catching on average about $150 a month in missed charges, but the monthly cost for the employee’s time was $1,200.

“Understand the cost and benefit of what you are paying employees to do,” says Kosiorek.

Leases for office space are another place to look for cash savings, but it might require paying for a real estate expert to help. “The biggest thing is to know when you are not an expert and get someone else involved that really knows that area,” say Kulin.

A landlord might be looking for a special assessment for a building repair, but does the lease allow it? “If yes, did they calculate the correct proportion that needs to be paid?” says Shalowitz. “Everything translates to cash. It all relates to good practice management.”

Also, review vendor contracts. For something like janitorial services, shopping for the lowest price is straightforward. But for something like a collections agency, the cheapest provider may not boost cash flow the most. A more expensive collection agency might collect more money, so it pays to split up collections and assign them to different companies to see who gets the best dollar-for-dollar return, says Kosiorek.

“Practices often look at expenses as a direct cost rather than a benefit over time if they spend more,” he adds. “For example, with equipment, if they invest in better quality items, they might last five years instead of two. You have to look at a long-term investment in equipment to better regulate your expenses.”

**Preparing for MACRA**

A careful analysis of cash flow as it relates to expenses can also produce insights into how a practice might fare under the Medicare Access and CHIP Reauthorization Act (MACRA), says Alsdurf.

“There are implications to participating; it could be very costly to build the infrastructure, hire the people and report the data,” he says. “Even if you feel good about your quality and outcomes, the costs may eat up any bonus you would get. Implementing a plan to mitigate the penalties, which you know what they are in advance, might be more effective than participating in the program.”

To better understand expenses and how a practice...
controls cash flow

A good system and process beats office manager heroics every time.”

—ANDREW GRAHAM, MBA, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CLINIC SERVICE, DENVER, COLORADO

➤ 20 compares to others, Kosiorrek advises doctors to look at the MGMA’s benchmarks for practices of similar size in the same region. Practices can use these benchmarks to identify where to focus their cost-cutting efforts, and help them budget for the next year—something small practices often don’t do.

“A budget will help them understand where their cost and expenses are going to be so they are not caught off guard,” Kosiorrek adds.

Graham agrees, adding that by carefully tracking their numbers, doctors should be able to accurately predict cash flow three to four months out.

“For any physician running a stable business with similar monthly patient numbers, procedures and strong coding practices, they should have a very predictable cash flow and know the numbers that underlie their success,” Graham says. “A good system and process beats office manager heroics every time.”

A line of credit is a type of loan that allows a medical practice to borrow money from its bank up to a pre-determined limit whenever needed. The practice only pays interest on the amount used, so if the line of credit has a $10,000 maximum, but the practice withdraws only $2,500, the interest only accrues on the amount tapped.

These arrangements are common for established practices. But what if a practice is new or has too high a debt-income ratio to satisfy a traditional bank? That’s where alternative lenders come in. Alternative lenders are companies that provide loans and other financial services, but are not banks. They are typically more flexible in loan approvals and repayment plans than a bank, but tend to charge higher interest rates.

An alternative lender generally will allow a practice to borrow 80% of the value of its accounts receivable at any given time, says Ben Rutkevitz, vice president of Alleon Capital Partners, a Teaneck, New Jersey-based alternative lender. “If a provider continues to produce new accounts receivable and keeps below the 80% threshold, then it acts as an interest-only revolving line of credit,” he adds.

The 80% is based on receivables owed by insurance carriers, not patients, and interest rates with alternative lenders are higher, says Rutkevitz. Banks will typically charge interest in the single digits, while an alternative lender may charge between 12% and 21%.

“The best use for a line of credit is working capital [used for payroll and general business expenses] and growth capital [used for new equipment or additional office space],” says Rutkevitz. “The interest rate is expensive, but if you use the funds for growth, you might be using that money with 12% interest to generate 50% worth of growth.”

Factoring works similarly to an alternative line of credit, with 80% of a claim’s value being advanced to the provider. When a claim is paid, the factor—the company extending the money—takes back the advance plus a factor fee with the remainder going to the provider, says Rutkevitz. For example, a $100 claim will generate an $80 loan today, and when the claim is paid, the factor will take $80 plus a $2 fee with the remaining $18 going to the provider. For both factoring and credit lines from an alternative lender, the factor will create a “lockbox” bank account to which payments are directed and fees assessed before the funds are released to the provider.

“In general, both factoring and lines of credit are helpful because they help stabilize cash flow,” says Rutkevitz. “It can be difficult to run a business when you don’t always know how much is coming in, so any sort of accounts receivable funding can give a stabilizing aspect to cash flow when utilized correctly.”