



## Perspectives on Medical Practice Management

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### *Can We Help?*

*Our firm provides a broad range of services to medical practitioners, including:*

- Accounting & Financial Management
- Tax Services
- Internal Accounting Controls
- Government & Third-Party Payer Regulations
- Practice Management Consulting
- Practice Development
- Office Automation Consulting
- Personal Financial & Estate Planning
- Practice Valuations
- Finance Consulting

### *Inside this issue:*

Dividing Practice Income	1-2
Profiting from a New Service	2
Getting Your Answering Service Right	3
Previsit Information Can Reduce Payment Problems	3
Medical Briefs	4

### Dividing Practice Income

To avoid creating friction, a medical practice needs a fair and reasonable formula for splitting its income. Agreement requires compromise - and finding a good compensation arrangement may not be easy.

Income splitting arrangements range from equal division to a pure productivity approach, with many possible variations in between.

#### *Equal Shares*

Sharing practice profits equally is simple, and it avoids internal competition for practice resources. Equal shares can work well when physicians have similar skills, motivation, and work habits. But equal shares fail to reward high producers and can generate resentment and friction if individuals do not contribute roughly equivalent time and effort.

#### *Salary*

Although straight salary-based compensation is simple to administer, it offers no performance incentives. A salary plus bonus formula provides incentives for physicians to grow the practice. It also adds some administrative complexity and must carefully balance the secure salary with the less-secure bonus opportunities.

#### *Full Productivity*

With a productivity split, the percentage of collected practice income (or another measurable standard) that each individual generates determines the division of profits. Some practices with productivity-based compensation also divide their overhead proportionally. Other practices use a productivity-based split for income but divide all their expenses equally (or divide fixed expenses equally and variable expenses by productivity).

A productivity split encourages professional effort. Partners who work harder – in terms of their time commitment or high-yielding procedures – earn more than those who generate a smaller share of the practice's income. The undesirable effects of a pure productivity arrangement can include competition within the group, the accounting complexity needed to split overhead, and a tendency to over-utilize practice resources.

#### *Mixed Formulas*

Given the limitations of equal and productivity-based splitting, many practices create a mixed compensation formula. They combine productivity-based rewards with elements of either a base salary or an equal sharing of expenses and income. For example, they may pay:

- An equal base salary plus periodic productivity-based bonuses
- A set percentage of practice net income that is shared based on productivity, plus equal amounts of bonus pay
- Equal shares of a fixed percentage of net income, plus productivity-based shares of the balance

#### *Definitions*

Within a productivity formula, physicians need to agree which income element will determine compensation. That might be net charges, relative value units (RVUs), gross charges, gross collected revenues, a combination of these measures, or another standard. The categories of physician income that the productivity formula will apply to also need careful definition. Beyond draw or salary and bonuses, the formula could include retirement plan contributions, insurance premiums, professional dues, etc.

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(Continued from page 1)

### ***Semiretirement Situations***

An income-splitting formula might also be utilized for physicians who want to begin phasing out of active practice at a future date, whether near or distant. A pure productivity division of revenue can easily accommodate a semiretirement situation. Compensation can simply be reduced by a percentage to correspond with the physician's office and/or call commitment. A practice that splits income equally or uses a mixed formula would need to formulate a reduction that suits the shift in responsibilities.

### ***Summary***

Creating an income-splitting structure that is fair and acceptable to all principals in your practice can be challenging and time-consuming. Please call on us for assistance.

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## **Profiting from a New Service**

Like many physicians, you may be considering adding an ancillary service, such as diagnostic testing or medical imaging, to your practice. The potential benefits in terms of improved patient care and enhanced profitability may be easy to envision. But successfully integrating a new service into a medical practice takes careful planning and execution.

### ***First Steps***

Assuming your attorney has confirmed that the service you are considering does not create a legal problem – with the Stark regulations or otherwise – begin your consideration of a new service with an overview of your “marketplace.” Does anyone else located near you offer the same service? Is there room for another provider?

You may expect most of the patients for your new service to come from your practice's current patient list. If not, look for signs that the competition's capacity is under stress, which would help you attract new patients. Be careful about relying on an advantage from advanced equipment that a competitor may be able to easily match.

Next, look at the new service's likely effect on your practice. Will it let you improve patient care? Do you personally have the time to oversee both the start-up period and the ongoing delivery of the service? Does your present staff have the knowledge and time, in addition to their other responsibilities, to provide the new service – or will you have to add full- or part-time employees?

### ***Working the Numbers***

After identifying a service that you believe could mesh well with your practice, you'll want to put together some realistic financial projections. Profitability depends on your ability to cover all the costs of providing your new service for less than the revenues you receive.

Projections that an equipment seller provides may overstate the likely usage of the new service or the time that it will take to reach a profitable volume. As a result, you should make your own estimates based on your practice's referral history and other relevant factors.

Project the revenue you are confident you will receive from private insurers, Medicare, and patients and the costs you anticipate, including investment in equipment, financing, additional space, labor, insurance, supplies, etc. Be sure you also look at how well your practice will be able to cover any anticipated losses during the start-up period.

### ***Ready To Assist***

We can help you estimate the realistic profit potential of a new service – or provide an objective second opinion on your plan. Please contact us before you make a commitment.

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The general information in this publication is not intended to be nor should it be treated as tax, legal, or accounting advice.

Additional issues could exist that would affect the tax treatment of a specific transaction and, therefore, taxpayers should seek advice from an independent tax advisor based on their particular circumstances before acting on any information presented.

This information is not intended to be nor can it be used by any taxpayer for the purpose of avoiding tax penalties.

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## Getting Your Answering Service Right

Patients with urgent problems need easy access. Physicians on call need isolation from unnecessary disturbances.

That makes an answering service – live or electronic – an essential intermediary. Selecting a high-quality, cost-effective service for your medical practice requires careful consideration.

### *Traditional Answering Service*

A good operator can distinguish between calls that need to be passed on immediately and those that are less urgent. But traditional services can be high-cost choices: They bill based on the number and length of calls. Also, some such services have reliability or courtesy issues. They may fail to page the on-call physician promptly, may page unnecessarily at inconvenient times, may page the wrong physician, or may subject callers to long holds. Make sure any service you select has an outstanding reputation, and consider testing the service for efficiency and courtesy by having colleagues place “phantom” or test calls.

### *Voice Mail*

Using voice mail or an answering machine can be a practical alternative in some circumstances. You may simply direct patients to choose one option for urgent matters and another for non-urgent calls. The urgent matters can automatically ring through to the on-call physician’s cell phone. However, on-call physicians may have to screen a large number of messages, and answering devices are inherently impersonal. Elderly or agitated patients may find coping with the menu choices and recording their responses difficult. Make sure whatever arrangement you choose is as easy for patients as it is for your practice.

### *Direct Access*

Instead of a service, a practice with low call volume may want to consider the simplest arrangement of all – a cell phone that the on-call physician answers.

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## Previsit Information Can Reduce Payment Problems

The best time to address potential collection issues may be before a patient’s visit – when your staff can obtain and verify information, identify problems, and head off potential difficulties.

Your office previsit procedures can positively influence collections. One objective is to confirm the payment flow before each scheduled patient encounter. A second is to have patients arrive on time, well aware of what is needed to satisfy their financial obligations. And all of this begins with up-to-date coverage information.

### *Payer Confirmation*

You can easily learn and/or confirm your patients’ insurance information by making it part of your appointment reminder routine. Perhaps your staff already call patients a day or two before their appointment to confirm the date and time. The same call might be used to check payer information and make the patient aware of his or her financial responsibility. And, for any patients who have a high outstanding balance, the call can serve as an occasion to schedule a preappointment meeting with your practice’s financial manager.

### *Coverage Eligibility*

Knowing the patient’s current insurer information lets your staff verify coverage eligibility with the appropriate payer before the appointment – thereby reducing coverage-related claim denials. The eligibility check may also uncover requirements that, if missed, could lead to other collection complications, such as authorization or referral requirements or frequency limitations. Checking eligibility may even reveal existing coverage with a second payer. Failure to identify the second payer and adjust your claims accordingly can often result in a “bill another carrier” denial.

### *Follow Up*

Any required referral or preauthorization must be in hand before the patient’s visit. So, it is essential to make tracking and following up on such documents part of your standard office procedure.



200 East Buffalo Street  
Suite 402  
Ithaca, New York 14850  
Phone: 607-272-5550  
Fax: 607-273-6357

28 North Main Street  
Cortland, New York 13045  
Phone: 607-756-0073  
Fax: 607-756-0052

Email: [info@sciarabbawalker.com](mailto:info@sciarabbawalker.com)

*The Active Professionals*



**SciArabba Walker & Co., LLP**  
200 East Buffalo Street  
Suite 402  
Ithaca, New York 14850

## Medical Briefs

### *Canadian Physicians Walk South*

In 2006, 8,162 Canadian-educated physicians were providing direct patient care in the United States, according to a recent study reported in the Canadian Medical Association Journal. During the last 30 years, about 19,000 Canadian-trained physicians have moved to the U.S. That number is about one in nine Canadian-trained physicians, and it's equivalent to the total number of graduates of two average-sized Canadian medical schools. Canada has become second only to India as a foreign source of physicians for the U.S.

### *Patients Welcome Electronic Medical Records*

A recent Kaiser Permanente national survey found that patients view paperless medical data very positively. Fifty-one percent of the respondents would prefer to deal with a physician who uses digital records. Only 17% favor physicians using paper-based records. Also, a majority wants the ability to access their personal records or check claims and coverage electronically, and 42% believe that electronic records are more secure than paper records.

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