

Quantifying the Potential Financial Impact of MIPS

It's important to calculate the best and worst case scenarios.

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Many doctors are currently making decisions as to how they are going to address future payment models. In the past, when incentive programs such as PQRS or Meaningful Use were proposed, many practitioners commented, "If it's only a 1% or 2% penalty, it's better for my practice to take the 'hit'. There will be too much extra work involved if I opt to participate in the program." I recommend that before making any financial decision for your practice, you first quantify best and worst case scenarios. This will make it possible to understand the precise cost—or lost opportunity—of making a change or continuing to do business "as usual."

A potential change in reimbursement methods is on the horizon—one that should be taken into ac-

count when making any financial decision. The proposed change is that SGR be replaced by MIPS—a payment system based on performance in four categories: 1) quality, 2) use of resources, 3) clinical prac-

9% in 2022. There are also plans to include additional ways of qualifying for higher bonuses. This article will focus on MIPS since the process of calculating the financial impact of various MIPS penalties and incen-

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tice improvement activities, and 4) meaningful use of electronic health records. As of this writing, this rule is only proposed; the final plan will not be released until later this fall.

As of now, the proposal is to phase in penalties and incentives over a four-year period—starting with 4% in 2019 and climbing to

tives will be the same for all programs.

If the current plan comes to fruition, the worst case scenario for non-participation would be a penalty of 9%, and the best case scenario would be a 9% bonus. The difference in net profit between these two

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Hope for the Best...
...Plan for the Worst

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outcomes can be substantial. Even though this currently is being considered only by Medicare, we can start by assuming that all carriers will eventually follow Medicare's lead—as is often the case with new healthcare regulations. Using this approach, we can make a calculation of the maximum spread between best and worst case scenarios as well as calculate the impact if only a percentage of a practice were to be affected. To demonstrate the potential impact of MIPS, consider a practice that in 2016 collected \$500,000, had expenses of \$300,000, and a net of \$200,000. Assuming no change other than this new method of reimbursement, the worst case scenario in 2022 would be a 22.5% drop in net—from \$200,000 to \$155,000, and the best case scenario would be a 22.5% increase in net—from \$200,000, to \$245,000 (Table 1).

It's important to note that in a practice such as this—which has a 60% overhead—a 9% decrease or increase on the top line will have a 22.5% negative or positive effect on the bottom line. While this alone

TABLE 1:
Impact of a 9% Change

	Starting Point 2016	2022 -9%	2022 +9%
Revenue	\$500,000	\$455,000	\$545,000
Expenses	\$300,000	\$300,000	\$300,000
Profit	\$200,000	\$155,000	\$245,000
Percent Change		-22.5%	22.5%

Being able to quickly quantify the potential outcome of any proposed change provides significant information—an essential first step toward making any decision.

might cause one to consider participating, it is important to understand just how great the leverage is that occurs when taking into account the

potential opportunity to be gained from this new method of reimbursement. Comparing the \$155,000 outcome that would result from a 9% penalty for not participating in MIPS with the \$245,000 outcome possible as a result of participation demonstrates a whopping 58.1% difference in net—the comparison of worst and best case scenarios showing a \$90,000 difference in outcome (Table 2).

The above example represents the potential financial impact assuming that a 9% penalty and a 9% incentive were implemented by all carriers. This is a crucial calculation. *Continued on page 170*

TABLE 2:
Positive Impact of a “9% Change” for All Payers

	Low	High	% Change	\$ Change
Profit Impact of participating in MIPS	\$155,000	\$245,000	58.1%	\$90,000

TABLE 3:
Positive Impact of a “9% Change” for Medicare

	Low	High	% Difference	\$ Difference
Profit Impact of participating in MIPS	\$185,000	\$215,000	16.2%	\$30,000

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calculation for every practice to make when planning for the long term. At the moment, however, a prac-

of the \$90,000 calculated in the prior example, or \$30,000. This \$30,000 represents the difference between a potential net of \$185,000 (for not participating) and one of \$215,000

posed change provides significant information—an essential first step toward making any decision. This holds true whether making “small decisions”—such as evaluating payer contracts or purchasing new equipment—or “large decisions”—such as expanding an office or merging with another practice. You need to have and use all the strategic tools available to you, without which you will be operating in the dark, and calculating your best and worst scenarios offers a step in the right direction. **PM**

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titioner’s short-term decision only needs to be made regarding Medicare. In this calculation, s/he must first determine the percentage of his/her practice that is dependent on Medicare. For many, Medicare might represent one-third of the practice’s income. If this were the case in the above example, the full impact of not participating would be one-third

(for participating)—a 16.2% increase in net from \$185,000 (Table 3). Again, there will be more incentives under pay for quality measures that could make the difference between these alternatives even more dramatic, and all payers are looking to adopt similar measures.

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