Essential Financial Metrics

Use these benchmarks to evaluate your practice's health.

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How do you know that your overall business is healthy? How do you know that the business processes you perform are working properly? And how would others in your practice know? Metrics are important for a number of reasons. For starters, if you don't know how well you are doing, how do you know what to keep doing and what to change? Words without verifiable numbers are just opinions—but things that get measured get done.

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Although metrics come in many flavors, they all have one thing in common… metrics tell the world what you think is important.

A metric is a verifiable measure stated in either quantitative (e.g., financial ratios) or qualitative (e.g., patient satisfaction surveys) terms. Metrics provide control over processes, equipment, and employee performance, and they permit reporting of actual performance relative to expectations. Communication of what constitutes value and key success factors is accomplished through metrics. Metrics provide opportunities for improvement by showing gaps in performance, and they show your expectations to a host of people (e.g., staff, patients, and referring physicians).

There are pre-defined metrics, but some practices may devise custom metrics that are tailored to the specific needs of practices. Regardless of the metric used, however, each should have certain characteristics in order to be a good form of measurement. The metric should be:

- Objective/quantifiable (i.e., everyone knows how to calculate it);
- Non-conflicting and relevant (important to doing a good job);
- Achievable and verifiable (motivational in nature);
- Monitored frequently or in a timely fashion (providing feedback on recent actions);
- Visible (accessible to all who can make an impact);
- Comprehensible (i.e., everyone knows what it means); and
- Actionable (i.e., providing information to know what to do now).

Essential Financial Metrics

The following metrics must be taken into consideration.

Total operating expenses:

$$\frac{\text{Total operating expenses (minus provider salaries and benefits)}}{\text{Total collections}}$$

All practice owners want to know how much of their revenue is needed just to keep their doors open. Most benchmark measures uniformly exclude physician compensation from the expense ratio calculation. But that consistency disappears when discussing non-physician practitioners. Some organizations consider nurse midwives, physician assistants, and similar clinical extenders as support staff and include them with practice overhead. Others exclude non-physician practitioner salaries from the overhead calculation because they are "providers" of direct healthcare services. Some view non-physician practitioners as

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employee staff who free physicians for greater productivity. Following that logic, include their salaries in the overhead calculation. Whichever way you choose, make sure you calculate your practice ratio according to the same method used by any benchmark. Doing so permits a direct comparison of your data with the national statistics.

Not all insurers are of equal value to your practice.

Staff ratio:

$$\frac{\text{Total FTE employees}}{\text{Total FTE providers}}$$

Make sure you handle non-physician practitioners consistently when calculating this ratio. As previously mentioned, consider such "physician extenders" as employees, making them part of the numerator for this ratio.

Individual category expense ratio:

$$\frac{\text{Individual expense (by category)}}{\text{Total collections}}$$

Lumping all expenses together often camouflages where a practice overspends. This ratio isolates how much you spend on individual expenses. You must fully understand the impact of such individual expenses as personnel, office facilities, and lab and clinical supplies.

Laboratory expense ratio:

$$\frac{\text{Total monthly lab expenses}}{\text{Monthly net charges for lab-related CPT codes}}$$

If you incorporate laboratory or other ancillary services into your practice, track whether such ancillaries continue to prove worthwhile. Use a similar ratio for all "add-on" services.

Average cost per patient:

$$\frac{\text{Total expenses per month}}{\text{Total monthly patient visits}}$$

As with all expense ratios, make sure you handle how you account for physician and non-physician practitioners consistently.

Payer mix ratio:

$$\frac{\text{Total expenses per month}}{\text{Total receipts}}$$

Not all insurers are of equal value to your practice. Calculating this ratio for each contract shows how the individual plan or company contributes to your overall financial success. If one or two companies dominate this statistic, make sure you develop the best possible working relationship with them. At the other end of the spectrum, decide whether you want to put up with a particularly hard-to-work-with plan if you don't generate much revenue from it. You could also calculate similar payer ratios, replacing receipts with adjusted charges. That ratio would tell what you should receive from various payers. If what you actually collect differs greatly from what you should collect, investigate problems with your collection activity or the payer.

Average revenue per patient:

$$\frac{\text{Total monthly collections}}{\text{Total monthly patient visits}}$$

This measure relates to the average-cost-per-patient ratio. Your target is high revenue per patient combined with lower cost per patient.

If your adjusted charges per day increase by more than inflation over time, it suggests your practice is growing.

Average revenue per day:

$$\frac{\text{Average charges for last 3 months}}{\text{Number of business days in last 3 months}}$$

Comparing this ratio with your daily charges shows you whether each day's work—at least in terms of revenue production—is above or below average. In effect, it shows how busy you are. Many factors, including surgery schedules and the number of physicians working a day's sessions, greatly affect daily charges. Investigate the reasons behind any significant variance. If your adjust-

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Accounts receivable per FTE physician:

$$\frac{\text{Outstanding accounts receivable}}{\text{Number of FTE physicians in the practice}}$$

This ratio calculates an average amount owed for each physician's work. Totaling the receivables for each doctor and comparing that amount with the group's average may expose somebody's poor coding skills or a lackadaisical effort at keeping up with paperwork. "Dirty" or tardy claims will virtually always take longer to process than do clean ones.

Tracking days in A/R helps monitor billing and collections.

First-pass resolution rate:

$$\frac{\text{Total number of claims paid}}{\text{Total number of claims submitted}}$$

This is the share of a practice's claims that get paid on first submission. In theory, this should be above 90%. This calculation is a reflection of the effectiveness of your revenue cycle management processes, from pre-visit processes (e.g., verifying insurance eligibility, adding required authorizations, and maintaining accurate patient demographics) to post-visit tasks (e.g., coding and billing). Getting it right the first time is critical to maximizing both efficiency and profitability.

Percentage of accounts receivable > 120 days:

$$\frac{\text{Dollar value of accounts receivable} > 120 \text{ days}}{\text{Dollar value of total accounts receivable}}$$

Accounts receivable (A/R) usually is grouped into aging buckets based on 30-day increments of elapsed time (e.g., 30, 60, 90, 120 days). All A/R aged over 120 days falls in the inclusive A/R > 120 days bucket. A/R greater than 120 days is a clear indicator of how effective your practice is at securing reimbursements in a timely manner. High or rising percentages are red flags alerting you of issues with your practice's revenue cycle management that need to be addressed promptly. For example, your staff may not be acting quickly enough on denials or aged claims.

Days in AR:

$$\frac{\text{Outstanding accounts receivable}}{\text{Average adjusted charges per day}}$$

Tracking days in A/R helps monitor billing and collections. The greater this number becomes, the longer it takes insurance plans and patients to pay you. You absolutely must find out why that is happening. This calculation represents the average number of days it takes a practice to get paid. The lower the number, the faster a practice is obtaining payment. It is said that this number should stay below 50 days, at most, but should generally be more in the 30- to 40-day range. In addition to providing insight into the efficiency of your revenue cycle management processes, monitoring this metric can help you unearth factors hurting your finances. For example, when assessing the cause of an increase, you may spot a problem with a certain payer and can then work to resolve it quickly.

Gross collections ratio:

$$\frac{\text{Total collections}}{\text{Total gross charges}}$$

This basic ratio simply shows how much of what you bill for, you actually receive. By itself, it tells little. But compare it with the net collection ratio (which is coming up), and it will help determine whether your fees are too high or too low.

Due to contractual adjustments, you are undoubtedly collecting less these days of what you charge, making it more important than ever to actually collect all of what you are legally entitled to receive.

Net collections ratio:

$$\frac{\text{Total collections}}{\text{Total gross charges (after write-offs or adjustments)}}$$

Due to contractual adjustments, you are undoubtedly collecting less these days of what you charge, making it more important than ever to actually collect all of what you are legally entitled to receive. This ratio is

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the percentage of total potential reimbursement collected out of the total allowed amount. It is also commonly referred to as the "adjusted collection rate." This metric lets you assess your practice's effectiveness when all is said and done (i.e., claims have been submitted, denials processed, and patients billed). It tells you objectively the share of the revenue your practice deserves, but has left on the table.

The lost opportunity reflects factors within your practice's control; for example, untimely filing, and others beyond its control like uncollectable debt. Weak ongoing net collection rates may compel practices to replace staff, revamp processes, invest in new tools, or outsource revenue cycle management to increase profitability. Again, this calculation incorporates your contractual disallowances, telling how much of what you've agreed to be paid you actually receive.

Summary

Metrics drive behavior in a number of ways. They help define the practice's business model, because concrete goals are tied to precise measurements, and the focus on these measurements can increase the precision of the value proposition. They help communicate strategy by documenting performance targets and creating buy-in to the metric-setting process. They, of course, help track performance and give timely and relevant feedback to those involved. They help increase accountability through practice-wide, team-specific, or individual measurements. And they help align precise objectives, departmental functional goals, and practice-wide strategic activities as a whole.

Find out the key essentials to *your* practice, not just what others in your specialty are measuring.

Remember, measure what matters. Find out the key essentials to *your* practice, not just what others in your specialty are measuring. And by all means, keep it simple… simple to operate, simple to understand, and simple to act upon. **PM**

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