Getting a Clearer Picture of Your Practice's Finances

To be successful, a practice must be productive, efficient, and profitable, as well as clinically proficient.

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Providing quality care to ensure that patients thrive is the main objective of medical practices. However, minding the business end of your practice is just as important to ensure that it, too, thrives. To be successful, a practice must be productive, efficient, and profitable, as well as clinically proficient.

Being aware of key performance indicators (KPIs) and financial benchmarks can help you monitor the financial health of your practice and assist you in setting goals to improve it.

KPIs measure historical and current performance and also provide goals for future profitability and efficiency. A practice management system is necessary to monitor KPIs so they are understandable, meaningful, and measurable. The system should allow KPIs to be easily tracked monthly and then annually.

Revenue loss has been a major topic of conversation in practices for years. Revenue loss has been a moving target for years because of the many changes in payer rules. This problem continues to squeeze the profits of many practices. Your KPIs will enable you to achieve some control over your revenue. Although there are no easy answers, the upside to finally finding and fixing current revenue losses is that you can prevent new sources of loss in the future. Losses due to financial practices can eat up a huge percentage of your profits. Benchmarks, which enable providers to compare their performance against top-performing practices, serve as targets of excellence. The following sections outline some benchmark figures you should consider.

Key Performance Indicators to Monitor

The KPIs you should be monitoring in your practice are as follows:

- ***Net collection ratio, or the adjusted collection ratio:*** the net collected revenue divided by adjusted charges. This allows you to determine whether you are collecting what is owed to you.

- ***Net collected revenue and per visit volume:*** This measures physician productivity per full-time physician. Patient visits can be tracked using E/M codes for relative value units to include new patients, established patients, and "no charge" visits.

- ***Accounts receivable:*** "Aging buckets" are a critical KPI. In general, you want at least 65% of your accounts receivable (AR) to be in the 0- to 30–day bucket, no more than 20% in the 31- to 60-day bucket, no more than 5% to 6% in the 60- to 90-day bucket, and the remainder in the more-than-91-day bucket. If days in AR are 30 or less, you're above average; if they are 40 to 45 days, you're average; and if they are 60-plus days, you're below average compared with industry benchmarks. If it is routinely taking more than 30 days for you to get paid, there could be a problem. Distinguishing payments for medical services versus those for cosmetic or elective services (non-covered services), the latter of which are typically paid in cash on the day of service, will provide a more accurate indication of days in AR for both services.

- ***Clean claims rate:*** This helps determine whether a high rate of claims is being denied on first submission. The goal is to keep that number low. If it is high, you should try to figure out why. For example, is there an

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issue with how the claims are being filled out or a change in coverage?

• ***Point-of-service collections:*** This shows how much money is being collected at the time of service. Copays and deductibles should be collected at that time, because it is always easier to collect money from somebody who is standing in front of you. To help with this task, some practice management systems offer real-time claims adjudication. This technology, which has become more robust in recent years, determines what the patient should pay at the time of service before he or she arrives. Knowing whether the patient has an outstanding deductible or if it has already been met can expedite payment.

• ***No-Shows:*** No practice will ever have 100% of patients show up for their appointments, although some have worse no-show rates than others. The better prepared you are for this outcome, the less you will lose in terms of efficiency, practice income, and patient care.

• ***Payer distribution:*** The location of your practice can determine the ideal payer mix and which insurance plans or networks you should be in. In Florida, for example, having a higher percentage of Medicare patients would be financially beneficial. In California, however, a higher percentage of patients from managed care plans would be good. In Utah, patients with commercial insurance are good for the bottom line. Monitoring contract performance can distinguish low-paying from high-paying insurers. Look at the percentage of collections from each major insurer and determine an internal benchmark.

• ***Non-physician payroll ratio and net collected revenue per full-time employee:*** These are important staffing KPIs. The payroll ratio for staff should be divided by the net collected revenue. A good benchmark is 16% to 22%. If gross wages, payroll taxes, insurance, and pension are included, add 6% to the ratio. Revenue per full-time employee is a good indication of staffing efficiency, and can help determine whether the practice is staffed appropriately.

• ***Operating expense or overhead ratio:*** This represents the percentage of total expenses divided by the total net collected revenue generated, excluding physician salaries. Expenses include staff payroll taxes and benefits, rent, medical and office supplies, equipment, and marketing and advertising, and so forth.

What to Do With the Key Performance Indicators

Accounts Receivable Aging Reports

Your AR aging reports show patterns by pointing out who owes you money and for how long. Billing personnel should run daily reports broken down by insurance companies and further divided into groups. Review the aging report to spot trends such as which payers are not paying or slow paying and which services are denied or consistently need to be resubmitted. Patients who are not paying on a timely basis should be contacted to set up payment plans or pay by credit card. Patient payment plans also must be tracked and patients contacted if a scheduled payment is missed.

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Tracking Productivity

Each physician in the practice should be aware of his or her contribution to the bottom line.

Payer Distribution

Regularly review your payer distribution to determine whether you should drop low-paying contracts for other plans that have a larger patient base or better payment rates. Try to renegotiate payer contracts to obtain higher rates.

Assess and Re-assess

Staff should be trained to communicate your financial policies to patients and to report to you if a patient contests fees, along with any other concerns with or from patients.

Handling No-Shows

No practice will ever have 100% of patients show up for their appointments, and the better prepared you are for this outcome, the less you will lose in terms of efficiency, practice income, and patient care. No-shows have a greater effect on practices that offer non-covered and self-pay services than on others.

First, track the trend in your practice. Then factor in the average no-show rate so the appointment scheduling can eliminate unproductive time due to no-shows. Proceed with caution, however, because over-compensating for anticipated no-shows can result in long patient wait times and dissatisfaction for those patients who do show up.

A no-show rate of 5% or less is acceptable. A rate closer to 10% must be addressed.

The first step is to review your current patient appointment reminder system. Appointments should be confirmed at least 48 hours in advance, and a daily check should be performed to fill in any last-minute cancellations. Evaluate your system for reminding patients of their appointments.

Vendors now offer more options for appointment reminders, including text and email, which also put the burden on the patient to confirm the appointment. With a confirmation, you can be more confident the patient will show up for his or her appointment. You can also allow the patient to cancel an appointment in advance more easily through this technology.

Determine how you are offer-

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ing appointments to patients. Do you schedule patient appointments well in advance? Some studies have found higher no-show rates because patients forget about their appointments when they are scheduled so far in advance. Do you only schedule patient appointments via the phone? For some patients, scheduling appointments via your website or other online portal may help reduce no-shows, because they can input the appointment into their own personal electronic calendar.

Have a cancellation policy in place for patients that includes dismissal from the practice if they have a certain number of no-shows within the year. You can require all patients to sign an agreement so they are aware that not showing up for their appointment has consequences. Be sure to consult with your state laws and malpractice provider about patient abandonment.

Using eligibility and benefit verification software and collecting co-pays in advance could provide additional incentives for your patients to show up to their appointments. Ensure your payer contracts allow this, and consider requiring patients to update all of their insurance information via your practice website for greater efficiency.

If these steps do not lower your no-show rate, consider implementing a fee. If you decide to charge a no-show fee, be completely up front with your patients: prepare a very explicit policy and obtain each patient's signature documenting that he or she has read the entire policy.

Consider the following steps when introducing a new financial policy in your practice:

- Make the fee a flat dollar amount, such as $25, and institute a warning system so patients may only have to pay it if they no-show for more than one appointment.
- Ensure all of your private payer policies allow you to charge a no-show fee to your patients. Medicare does allow physicians to charge no-show fees; however Medicare will not pay this fee on the patient's behalf. CMS also has other requirements for implementing no-show fees, which you should review with your local Medicare carrier.
- Place signage about the no-show fee along with your other financial policies about co-payments and deductibles.
- Train your staff on how to communicate the new policy with patients and what to do when patients contest the fee.
- Determine a protocol for your staff to track no-shows and how best to collect the no-show fee.

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After implementing a no-show fee, measure its success or failure. Track if no-shows have decreased since the fee was implemented. Ask staff if there are concerns from patients about the no-show fee. Monitor if patients have left the practice due to the new fees.

Other sources of revenue loss can be found in your everyday operations. The first step is understanding the most common sources of revenue loss. The following sections discuss some other issues that you should consider.

Payer-Related Losses

Payer-related losses can result from a failure to complete your payers' credentialing and failure to meet their timely filing requirements. There is no need to throw good money out the window. Know their rules and develop a system that reminds you of deadlines that must be complied with. Make sure that each of your providers has an updated and accurate Provider Identification Number so that providers receive the payments from Medicare, Medicaid, and other carriers that they are entitled to. Once you gain a better understanding of the KPIs, you can focus on improving your revenue cycle.

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Steps to Improve Your Revenue Cycle Management

Revenue cycle management refers to the business side of your practice, from verifying patient insurance eligibility to submitting claims to receive health insurance payment and billing patients for their share of service costs. An efficient revenue cycle management system is crucial for your practice's financial health and sustainability. Electronic methods can streamline revenue-related processes such as eligibility check, claims submissions, and payments, all allowing your practice to maximize the amount of time available for patient care. The growing prevalence of high-deductible plans means that many patients bear additional financial responsibility for their treatment.

In the past, most patients typically had a co-payment due at the time of service; today, many patients owe significantly more for their care due to high deductibles. These trends underscore the importance of your practice's processes of charging for and collecting patient payment at the time of service. Collecting payment at the time of service is the vital first step in an effective revenue cycle management system,

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which should include effective patient collection strategies.

To collect your fees at the time of service, your staff will have to know the correct amount to charge. Thus prior to the patient's visit, you will have to complete an electronic eligibility check, which will provide you with information about the patient's financial responsibility for care, including co-payment, insurance, and patient-specific remaining deductibles. You can then use this information, along with the health plan's current fee schedule, to calculate the amount the patient owes at the time of service.

In cases where the deductible and co-insurance cannot easily be determined until the exact services to be provided are known, practices may shift collections activity to the patient checkout process. Make sure you check your health plans' contracts regarding collecting from patients prior to claim adjudication.

Take These Steps

- Know the regulations and guidelines to keep on your documentation radar.
- Adopt documentation strategies that make life easier for coders and clinicians.
- Keep current on all ICD-10 2018 changes.
- Learn tips for complete coding of site-specific procedures to improve your reimbursement rate and reduce denials.
- Integrate your KPIs with your revenue strategies to determine which plans are paying and which are not.

Finally, remember that no two practices are the same. What good performance looks like is based on practice size, location, and payment mix, among other variables. And remember—do not skimp on staff training, and know patients' rights! **PM**

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