



## **KNOW THE NUMBERS FOR A HEALTHY MEDICAL PRACTICE**

Physicians are ultimately responsible for the financial health of their practice. Some doctors get involved in the day-to-day operations of a practice; more likely, a doctor delegates that responsibility to the practice administrator and/or CPA consultant. Whatever the approach, a practice must accumulate information on a daily, weekly and monthly basis.

Every day, a practice needs to monitor cash on hand, receipts and disbursements, managed care write-offs, and cash received at the time of service. This helps you manage the practice's cash needs, file timely appeals to third party payers, and collect deductibles and co-pays from patients.

Patient payment activity should be reviewed weekly. The older these accounts become, the more difficult and costly they are to collect. A once-a-week status report helps you make timely decisions regarding write-off's or placements with collection agencies.

Monthly reports produce a broader perspective of the practice's financial health. Year-to-date income and expense report statements can identify variances from the previous year. Significant differences should be promptly investigated.

### **Analyzing charges And Collections**

Mature medical practices should have consistent charges and collections throughout the year; the numbers for newer practices should grow each month. Numbers that fluctuate greatly from month to month indicate a problem. Any number of situations can lead to such fluctuations, including:

- ◆ *Patient volumes:* has the practice signed the right managed care contracts? Have physicians been deselected from a health plan? Has a major employer switched health plans?
- ◆ *Practice fee schedules:* having a high fee schedule compared to others in the market may prompt lower collection percentages. Lower fee schedules produce artificially higher collection percentages.
- ◆ *Personnel and procedures:* Competent, well-trained staff needs to be in place to both bill and collect. Physicians need to support their billing staff by communicating charges promptly. With effective policies and staff in place, you should have no more than 15% of account receivables in the "90 days and over" category.

## **Managing Managed Care**

A medical practice is in a tenuous position when one health plan composes 20% or more of its managed care revenues. That's when the health plan can dictate financial terms and influence your clinical decisions.

The rule varies according to the market. In some cases, physicians have no choice but to contract at that level. In others, physicians get into trouble when they have two or three health plans at 20% penetration. The 20% figure serves as a red flag for physicians to consider their options. For medical practices with leverage, reaching that figure means it's time to renegotiate reimbursement.

In today's volatile medical market, it's critical that you know the numbers on your practice. By paying consistent attention to these numbers, you'll not only survive, but be able to plan strategically for your practice's future.