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Presented by …

Economedix
Your Partner In Building High Performance Practices

Today’s Presentation

Controlling Costs In the Medical Practice

Course Faculty

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- Chairman, CEO & Co-Founder of Economedix
- Certified Coding Specialist
- BS Degree from Pennsylvania State University
- Earned an MBA in Health & Hospital Administration from the University of Florida
- Former Hospital Administrator
- Former Owner of a Medical Billing Company
- Consultant to Physician Practices & Medical Societies
- Member of Various Professional Organizations
  Dealing with Medical Practice Management
- Developed and Presented Thousands of Seminars & Workshops Dealing with Practice Management
Today’s Course

- Overview of Major Costs in Medical Practices
- Methodologies to Analyze Costs and Variances
- The Big Three!
- The “Out-of-control Accounts Payable
- Controlling Internal Losses

Reducing Costs Pays BIG Benefits

- A practice with a $300,000 overhead on $500,000 in revenues (60% overhead)
- Reduces costs by five percentage points (55% overhead): now has costs of $275,000.
- Physician Income was $200,000 and is now $225,000 – An increase in pay of 12.5%!
- Put another way: reducing costs by $25,000 has the same effect on net income as earning an additional $62,000!

Overview of Major Costs

- Personnel Related Costs
- Occupancy Related Costs
- Insurance & Administrative Related Costs
- Supply and Equipment Related Costs
Personnel Costs
- Salaries and Wages
- Employer Paid Taxes
  - FICA, Medicare, FUTA and Some State Mandated Taxes
- Workers Compensation Health Insurance, Life and Disability
- Retirement Plans
- Education and Training, Uniforms, Travel
- Vacations and Holidays

Personnel Cost Breakdown

Source: Economedix Survey, 2000

Occupancy Related Costs
- Rent
- Utilities
- Phones – Office, Fax, Data, Cellular, Paging
- Repairs and Maintenance
- Depreciation and Amortization
- Laundry and Linen
- Parking
Insurance & Administrative Related Costs
- Health Insurance – Personnel Related
- Property Liability – Occupancy Related
- Professional Liability
  - Malpractice
  - Compliance
- Billing (Computer), Postage, Printing, Advertising, Medical Records, Photocopy, Auto and Promotional

Supplies and Equipment
- Medical Supplies
  - Drugs and pharmaceuticals
  - Consumables
  - Durable medical Equipment
- Office Supplies
- Capital costs associated with equipment including interest

Financials

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>$2,188,055 (63.9%)</td>
</tr>
<tr>
<td>OR Income</td>
<td>$400,092 (11.8%)</td>
</tr>
<tr>
<td>Anesthesia Income</td>
<td>$203,331 (7.4%)</td>
</tr>
<tr>
<td>Other Income</td>
<td>$105,873 (3.1%)</td>
</tr>
<tr>
<td>Total Income</td>
<td>$3,421,951 (100.0%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>$255,992 (7.5%)</td>
</tr>
<tr>
<td>Anesthesiologist</td>
<td>$203,713 (6.0%)</td>
</tr>
<tr>
<td>Drugs</td>
<td>$30,763 (0.9%)</td>
</tr>
<tr>
<td>Implants</td>
<td>$176,529 (5.1%)</td>
</tr>
<tr>
<td>Malpractice</td>
<td>$34,570 (1.0%)</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>$202,767 (5.9%)</td>
</tr>
<tr>
<td>Rent</td>
<td>$102,137 (4.7%)</td>
</tr>
<tr>
<td>Payroll</td>
<td>$405,936 (12.7%)</td>
</tr>
<tr>
<td>Other Expense</td>
<td>$886,961 (26.5%)</td>
</tr>
<tr>
<td>Total Expense</td>
<td>$2,436,166 (71.2%)</td>
</tr>
</tbody>
</table>

Net Income $985,785 (28.8%)
Analyzing Costs and Variances

- Budgets
  - Very Few Medical Practices Do Formal Budgets
  - They Do Not Need to Be Detailed – Something Is Better Than Nothing!
- Comparative Analysis
  - Industry Benchmarks (MGMA)
  - Practice Benchmarks

Budgets and Variance

- Should be reviewed at least quarterly
- Monthly is better!
- Is it a revenue problem or a cost problem? Separate the two!
- Some costs are fixed and any change is long term (rent, depreciation, etc)
- Other costs are variable and can be addressed faster (staff, benefits, supplies, insurance)

Budget Example #1

<table>
<thead>
<tr>
<th>Income</th>
<th>2022</th>
<th>2021</th>
<th>% Change</th>
<th>2022</th>
<th>2021</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional fees</td>
<td>$2,188,055</td>
<td>$2,500,000</td>
<td>-10.0%</td>
<td>$2,188,055</td>
<td>$2,500,000</td>
<td>-10.0%</td>
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<tr>
<td>Other income</td>
<td>$253,331</td>
<td>$300,000</td>
<td>-15.0%</td>
<td>$253,331</td>
<td>$300,000</td>
<td>-15.0%</td>
</tr>
<tr>
<td>Other income</td>
<td>$146,472</td>
<td>$170,000</td>
<td>-15.0%</td>
<td>$146,472</td>
<td>$170,000</td>
<td>-15.0%</td>
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<tr>
<td>Total Income</td>
<td>$3,421,851</td>
<td>$3,350,000</td>
<td>2.1%</td>
<td>$3,421,851</td>
<td>$3,350,000</td>
<td>2.1%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Expense</th>
<th>2022</th>
<th>2021</th>
<th>% Change</th>
<th>2022</th>
<th>2021</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>$205,892</td>
<td>$300,000</td>
<td>-31.7%</td>
<td>$205,892</td>
<td>$300,000</td>
<td>-31.7%</td>
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<tr>
<td>Anesthesiologist</td>
<td>$206,713</td>
<td>$230,000</td>
<td>-10.7%</td>
<td>$206,713</td>
<td>$230,000</td>
<td>-10.7%</td>
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<tr>
<td>Drugs</td>
<td>$33,763</td>
<td>$35,000</td>
<td>-4.3%</td>
<td>$33,763</td>
<td>$35,000</td>
<td>-4.3%</td>
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<tr>
<td>Implants</td>
<td>$174,329</td>
<td>$225,000</td>
<td>-22.6%</td>
<td>$174,329</td>
<td>$225,000</td>
<td>-22.6%</td>
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<tr>
<td>Malpractice insurance</td>
<td>$14,970</td>
<td>$20,000</td>
<td>-23.5%</td>
<td>$14,970</td>
<td>$20,000</td>
<td>-23.5%</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>$203,707</td>
<td>$220,000</td>
<td>-7.8%</td>
<td>$203,707</td>
<td>$220,000</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Rent</td>
<td>$162,137</td>
<td>$165,000</td>
<td>-1.7%</td>
<td>$162,137</td>
<td>$165,000</td>
<td>-1.7%</td>
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<tr>
<td>Payroll</td>
<td>$455,836</td>
<td>$450,000</td>
<td>1.2%</td>
<td>$455,836</td>
<td>$450,000</td>
<td>1.2%</td>
</tr>
<tr>
<td>Other Expense</td>
<td>$899,861</td>
<td>$900,000</td>
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<td>$899,861</td>
<td>$900,000</td>
<td>-0.1%</td>
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<tr>
<td>Total Expense</td>
<td>$2,202,056</td>
<td>$2,045,000</td>
<td>7.2%</td>
<td>$2,202,056</td>
<td>$2,045,000</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Net Income  | $985,795  | $1,353,000| -27.0%  | $985,795  | $1,353,000| -27.0%  |
Budget Example #2

### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
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</tr>
<tr>
<td>Professional fees</td>
<td>$2,188,055</td>
<td>$2,200,000</td>
</tr>
<tr>
<td>OR Income</td>
<td>$840,092</td>
<td>$850,000</td>
</tr>
<tr>
<td>Anesthesia Income</td>
<td>$253,331</td>
<td>$250,000</td>
</tr>
<tr>
<td>Other income</td>
<td>$146,412</td>
<td>$146,000</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>$3,421,951</strong></td>
<td><strong>$3,440,000</strong></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>$255,992</td>
<td>$250,000</td>
</tr>
<tr>
<td>Anesthetist</td>
<td>$226,713</td>
<td>$220,000</td>
</tr>
<tr>
<td>Drugs</td>
<td>$33,763</td>
<td>$32,000</td>
</tr>
<tr>
<td>Implants</td>
<td>$174,529</td>
<td>$170,000</td>
</tr>
<tr>
<td>Malpractice Insurance</td>
<td>$24,370</td>
<td>$22,500</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>$223,767</td>
<td>$205,000</td>
</tr>
<tr>
<td>Rent</td>
<td>$162,137</td>
<td>$165,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$2,436,166</strong></td>
<td><strong>$2,369,500</strong></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>$985,785</strong></td>
<td><strong>$1,070,500</strong></td>
</tr>
</tbody>
</table>

Comparative Analysis

- MGMA Annual Cost Survey – Detailed information on revenues and costs
  - [www.mgma.com](http://www.mgma.com) or 888 608-5602
- Practice Comparisons
  - Budget
  - Prior time
  - Physicians
  - Other offices

The Big Three!

- Controlling Personnel Costs
- Controlling Occupancy Costs
- Controlling Supply Costs
Controlling Personnel Costs

- Numbers of staff
  - A function of task assignments
- Compensation of staff
  - Incentives
    - Pay and non-pay
- Overtime
- Retirement Plan Costs

Numbers of Staff

- Tasks describe everything to be done in an office
- Job descriptions assign the tasks to individual positions in the office
- Goal: No tasks unassigned and no unnecessary duplication of tasks
- Cross-training is imperative!
- Frequent evaluation of needed tasks and evaluation of assignments and performance

Staff Compensation

- Always have the best available people doing the jobs
- The best will always have to be paid a little more – They are worth it!
- Best staff will be at the 90th percentile and above
- Compensation based on performance could include bonuses
Compensation Example

<table>
<thead>
<tr>
<th>Sample Employee</th>
<th>5% annual Increase</th>
<th>Cumulative Pay</th>
<th>2% Increase and 5% Bonus</th>
<th>Cumulative Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$26,250</td>
<td>$26,775</td>
<td>$26,775</td>
<td>$26,775</td>
</tr>
<tr>
<td>2002</td>
<td>$27,563</td>
<td>$27,811</td>
<td>$54,386</td>
<td>$54,386</td>
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<tr>
<td>2003</td>
<td>$29,941</td>
<td>$27,857</td>
<td>$52,797</td>
<td>$52,797</td>
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<tr>
<td>2004</td>
<td>$30,388</td>
<td>$113,141</td>
<td>$81,036</td>
<td>$110,356</td>
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<tr>
<td>2005</td>
<td>$31,961</td>
<td>$140,248</td>
<td>$170,306</td>
<td>$170,306</td>
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<tr>
<td>2006</td>
<td>$33,502</td>
<td>$178,530</td>
<td>$168,900</td>
<td>$168,900</td>
</tr>
<tr>
<td>2007</td>
<td>$35,178</td>
<td>$313,728</td>
<td>$199,353</td>
<td>$199,353</td>
</tr>
<tr>
<td>2008</td>
<td>$36,855</td>
<td>$313,728</td>
<td>$236,653</td>
<td>$236,653</td>
</tr>
<tr>
<td>2009</td>
<td>$38,783</td>
<td>$289,447</td>
<td>$311,180</td>
<td>$311,180</td>
</tr>
<tr>
<td>2010</td>
<td>$40,722</td>
<td>$330,170</td>
<td>$293,179</td>
<td>$293,179</td>
</tr>
</tbody>
</table>

Overtime

- Management should pre-approve overtime
  - Important! Even if O/T is not approved it must be paid if it is worked!
- Some overtime must be expected
  - Better to have some O/T than to hire more staff

What Is Causing Overtime?

- Office hours going beyond scheduled times?
- Too many tasks being assigned?
- Inadequate performance in completing tasks?
- Inadequate supervision?
- A little bit of everything?
- How often does any of this occur?
Retirement Plan Costs

- Should you have an employer only contribution plan?
- Analysis:
  - In order for the doctor to put 15% into a physician retirement plan, 15% of pay must be put into each qualified employee’s plan.
  - Are the tax benefits sufficient to make the payment?

<table>
<thead>
<tr>
<th>Physician Compensation</th>
<th>$160,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician Pension Contribution</td>
<td>$22,500 14.1%</td>
</tr>
<tr>
<td>Tax Savings at 38%</td>
<td>$6,550</td>
</tr>
<tr>
<td>Total Qualified Staff Payroll</td>
<td>$150,000</td>
</tr>
<tr>
<td>Physician Paid Contribution</td>
<td>$21,094</td>
</tr>
<tr>
<td>401(k) Employee/Employer Contributions</td>
<td></td>
</tr>
<tr>
<td>Employees are matched at 50% up to 10% of gross pay</td>
<td></td>
</tr>
<tr>
<td>Employee Contribution</td>
<td>$15,000</td>
</tr>
<tr>
<td>Employer Contribution</td>
<td>$7,500</td>
</tr>
<tr>
<td>Physician may put in $10,500 and match with another 5%</td>
<td>$18,500</td>
</tr>
</tbody>
</table>

Pension plan rules are complex and require the advice of qualified tax professionals.

Controlling Occupancy Costs

- Rent – very difficult to change in short run
- Capacity Analysis

Number of Exam Rooms X # of half days = 100% capacity
Number of half days all physicians work X # of rooms for each doctor = Current Demand
Current Demand + 100% Capacity = Current Capacity
Capacity Analysis

Example:
Six Exam rooms and two doctors each working 8 half days per week.

6 X 10 = 60 half days available
2 X 8 X 3 = 48 half days in use

48 ÷ 60 = 80% Current Capacity or 12 half days of rooms available

Capacity Analysis

What can be done with excess capacity?
1. Existing doctors can increase days
2. Existing doctors can increase rooms and increase patients per hour – maybe not
3. Rent space to others in non-competing specialties
4. Expand services
   • Skin care, weight control, support groups, nutritionist, etc.

Other Occupancy Costs

- Utilities
  • Check bills
  • Monitor consumption
  • Turn off the lights! Become more energy aware.
- Insurance
  • Get bids on coverage
- Preventive Maintenance
  • May cost more up front but be less costly in long run
Controlling Supply Costs

- Comparison Shop
  - On Line Buying Services
    - [www.amalink.net](http://www.amalink.net)
    - [www.medibuy.com](http://www.medibuy.com)
    - [www.henryschein.com](http://www.henryschein.com)
  - Note that most buying services use Henry Schein Company but prices may vary widely.
  - Maintain inventory of needed items but only that amount needed until next delivery.

Insurance

- Very competitive within some markets
- Should re-bid any insurance product every two to three years
- Include current insurer in bid process – they will probably sharpen their pencils
- Consider coverage. Do you have the same needs? Disability, life insurance or even property liability policies

A/P Out Of Control?

Symptoms:
- Bills Cannot Be Paid When Received?
- Bills Cannot Be Paid Within 30 Days?
- Bills Cannot Be Paid Within 60 Days or More?
- Vendors Calling About Delinquencies?
- Pension Funds Being Used to Pay Bills?
- Payroll Problems?
- Delinquent Taxes?
Dealing With It!
- It will not go away – You have to deal with it
- Practice needs to be on strict budget
- Physician incomes are last bills to be paid – and may be reduced!
- Talk to each vendor candidly and honestly – tell what is being done
- Do not promise only to get rid of the phone call
- Organize and prioritize all bills
- Get deferred payments from vendors
- Centralize all spending authority
- Put efforts into reducing receivables and increasing charges

Controlling Internal Loss
- Most embezzlement is for small amounts of money or supplies
- Success leads to larger embezzlement
- Usually happens because of opportunity combined with need
- Can usually be averted by paying attention to procedures and having two people perform or check tasks related to money
- Do not keep excessive supplies around office
- Keep medications and samples locked
- Keep prescription pads in secure locations
- Control cash at the front desk
- Maintain procedures and ask questions if something does not look appropriate

Common Losses
- Cash payments taken from front desk
  - Use numbered charge tickets and account for them daily
- Mailed Checks diverted
  - One person opens mail and logs checks
  - One person posts payments
  - One person makes deposit
  - Manager reviews logs and deposits
  - Accountant reconciles checking account
Common Losses

- Payments diverted to adjustments
  - Periodic and unannounced audits of adjustments
  - "Please provide me with all the adjustments this week and the documentation for each adjustment."
- Petty Cash theft and loss
  - Maintain a petty cash reconciliation
  - Require receipts or slips

Common Losses

- Payment of false invoices
  - Doctors sign all checks
  - Initial and date invoices to prevent duplicate submissions
  - Question unknown vendors and purposes
- Theft of checks
  - Keep them in locked safe
  - Have accountant reconcile account
  - Use computer printed checks

Common Losses

- Unauthorized purchases
  - Have one person open shipments and initial shipping list
  - Shipping list should be matched to mailed invoices
  - Pay from invoices not statements
- Unauthorized use of credit cards
  - No company credit cards
  - Immediate reimbursement of expenses or advances with receipts
Summary

- Improvements will come from small changes done on a frequent basis
- No magic bullets
- Requires discipline and culture of conservancy

Never ask of money spent where the spender thinks it went. Nobody was ever meant to remember or invent what he did with every cent.

--- Robert Frost

Thank you for participating in this seminar presentation from Economedix!

Please direct questions to...
tloughrey@economedix.com

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