
# Health Care

BKD
CPAs & Advisors

Everyone needs a trusted advisor. Who's yours?

# Improved Accounting and Analysis for Physician Losses

Scott Bezjak, CPA, CGMA
Partner

November 16, 2018

BKD

# Objectives

- Understand the History of Physician Payment Trends and How It Impacts Accounting and Analysis
- Further Explain the Components of Physician Losses and Provide Practical Guidance on How Organizations Might Better Account for Physician Losses
- Present Physician Portfolio Analysis as a Potential Tool to Help Stakeholders Better Understand Strategic Losses

# Agenda

- Historic Overview of Physician Payment Trends
- Understanding Practice Losses – BKD “Four Buckets” Framework
- Accounting and Reporting on Physician Losses: Opportunities for Improvement
- Strategic Losses: Physician Portfolio Analysis & Risk

# Historic Overview of Physician Payment Trends

# Flat Reimbursement for 20 Years

- MPFS Conversion Factor in 1999 - $36.69
- MPFS Conversation Factor in 2018 - $35.99
- Medical inflation over the same period grew at 3.52% per year. (General inflation at 2.17%)
- Market basket of medical care in 1999 = $1,000
- Equivalent market basket in 2018 = $1,930.60
  - 93% increase!

# How Practices Have Coped

- Seeking compensation for non-clinical work
- Scaling Up
- Expanding Ancillary Services (where permitted)
- Joint Ventures
- Selling Out!

# Physicians Don’t Want Employment

- Control over practice operations
  - Hiring & Firing Staff
  - Capital Investments
  - Choice of Location
  - Control over Patient Acceptance
- Efficiency in Operations / Less Training
- Tax Benefits
- Pride of Ownership



BKD

# Understanding Practice Losses – BKD "Four Buckets" Framework

# “PHYSICIANS LOSSES”

- The Main Topic/ Focus of Governance:
  - The physician workforce – whether employed or not-is every hospital’s greatest asset
  - All systems are losing money on physician employment (average of $176K per physician)
  - Hospital systems are integrating physicians into hospital management

# The Way Governance Views Losses

- Poor management of physician operations
- Lazy physicians
  - Salaried
  - Too much Vacation and CEUs
  - Not willing to do the hard or difficult things
- Bad Deals by management
- Etc.

# Common Ways to View Losses

- “Cost of Doing Business”
- Defensive Strategy
- In support of community needs
- Cheaper than locum tenens
- Etc.

***OR THEY CAN BE ANALYZED & RECONCILED FINANCIALLY***

# BKD "Four Buckets" Framework

**Volume**
- Start-up
- Rural
- Programmatic
- Coverage
- Work Effort

**Reimbursement**
- Payor Mix
- Revenue Cycle
  - Charge Capture
  - Chargemaster
  - Billing & Coding
  - Collections
  - Denial Mgmt.

**Practice Expense**
- Direct Expense
- Indirect Expense
- Operating Leverage
- Market Costs
- Reimbursed Costs

**Physician Comp.**
- Market Costs
- Per Unit Costs
- Marginal Analysis
- Contract Structure
- Attribution
- Compliance

# Bucket 1 - Volume

***Key Concept – Insufficient volume will drive practice losses***

- Start up / Transitional Volume ✓
- Commitment to Rural Healthcare ✓
- Programmatic Commitment ✓
- Call Coverage ✓
- Lack of Work Effort ✗

# Bucket 2 - Reimbursement

- ***Key Concept – Inadequate reimbursement for services performed can drive losses***
- Payor Mix ✓
- Revenue Cycle ✗
  - Appropriate Charge Capture
  - Chargemaster – Completeness & Accuracy of Services & Related Price Setting
  - Billing & Coding – appropriate billing for work performed
  - Collections – Point of Service Efficiency
  - Denial Management – Pre-certifications, approvals, secondary insurance, timely follow up, etc.

# Bucket 3 – Practice Expense

***Key Concept – Physician clinical services are essentially "cost-reimbursed"… Variations from allowable expenses drive losses***

- Medicare Classifications
  - Direct Expense
  - Indirect Expense
- Structural Market v. Reimbursement Profile ✓
- Operating Leverage – fixed v. variable cost mix ✓ X



BKD

# Bucket 4 – Physician Compensation

***Key Concept – The cost to employ a physician has exceeded related reimbursement levels***

- Non-Part B services are generally unreimbursed by insurers at the medical group level ✓
- Contract Structure is “marginally” important ✗
- Payment structures should match work effort and cost allocations should follow. ✗



BKD

# Accounting and Reporting on Physician Losses: Opportunities for Improvement



BKD

# Financial Reporting Practices

- Presented as a separate physician corporation in a consolidated entity
- Health Systems often fail to account for physician services provided to the Hospital corporation
  - Physician Call or Coverage
  - Subsidies (payor mix or low volumes)
  - Management Services/ Administrative Services
- Inability to account for ancillary office revenue now provided by the hospital corporation

# Cost Allocations of Physician Work

- Employed Physicians are routinely asked to contribute via:
  - Clinical Productivity (*assign cost to clinic*)
  - Call Compensation (*assign cost to hospital*)
  - APP Supervision (*assign cost to clinic*)
  - Medical Direction (*assign cost to hospital*)
  - Clinical Quality Efforts (*assign to ACO/CIN*)
  - Other Time Based Services, such as teaching, research, administrative tasks, etc. (assign to “consumer” of time)
- Regardless of what the contact calls for in terms of payment mechanisms, **an internal pricing model** can be used to assign a physician’s cost into appropriate buckets
- Accomplish by establishing and adopting a standard pricing model



BKD

# RealValue Pricing Model - Inputs

| **Demographics** | |
|---|---|
| Employer Name | ABC Hospital |
| Physician Name | Whitney |
| Compensation Paid | $350,000 |
| Physician Specialty | Gastroenterology |

| **Clinical Inputs** | | **Non-Clinical Work Effort** | |
|---|---|---|---|
| WRVUs | 5,850 | MLP Supervision Hours per Year | 100 |
| Clinic Days per Week | 3 | Administrative Time | 100 |
| Weeks Worked per Year | 46 | Paid Time Off | 208 |
| Annual Clinic Days | 184 | Annual Non-Clinical Work Effort Hours | 408 |
| Clinic Hours per Day | 9 | | |
| Annual Clinic Hours | 1656 | | |
| | | **Total Active Work Effort Hours** | |
| **Call Coverage Inputs** | | **Clinical** | **1,656** |
| Primary call rotation (# of docs) | 3 | **Non-Clinical** | **408** |
| Total On-Call Hours (Primary) | 2920 | **Active Hours Total** | **2,064** |
| Activations per Year | 100 | | |
| Clinical Time Once Called In (Hrs) | 75 | **Effective Hourly Rate (without benefits)** | **~ $170** |



BKD

# Purchased Services / RealValue Pricing Model Conclusion

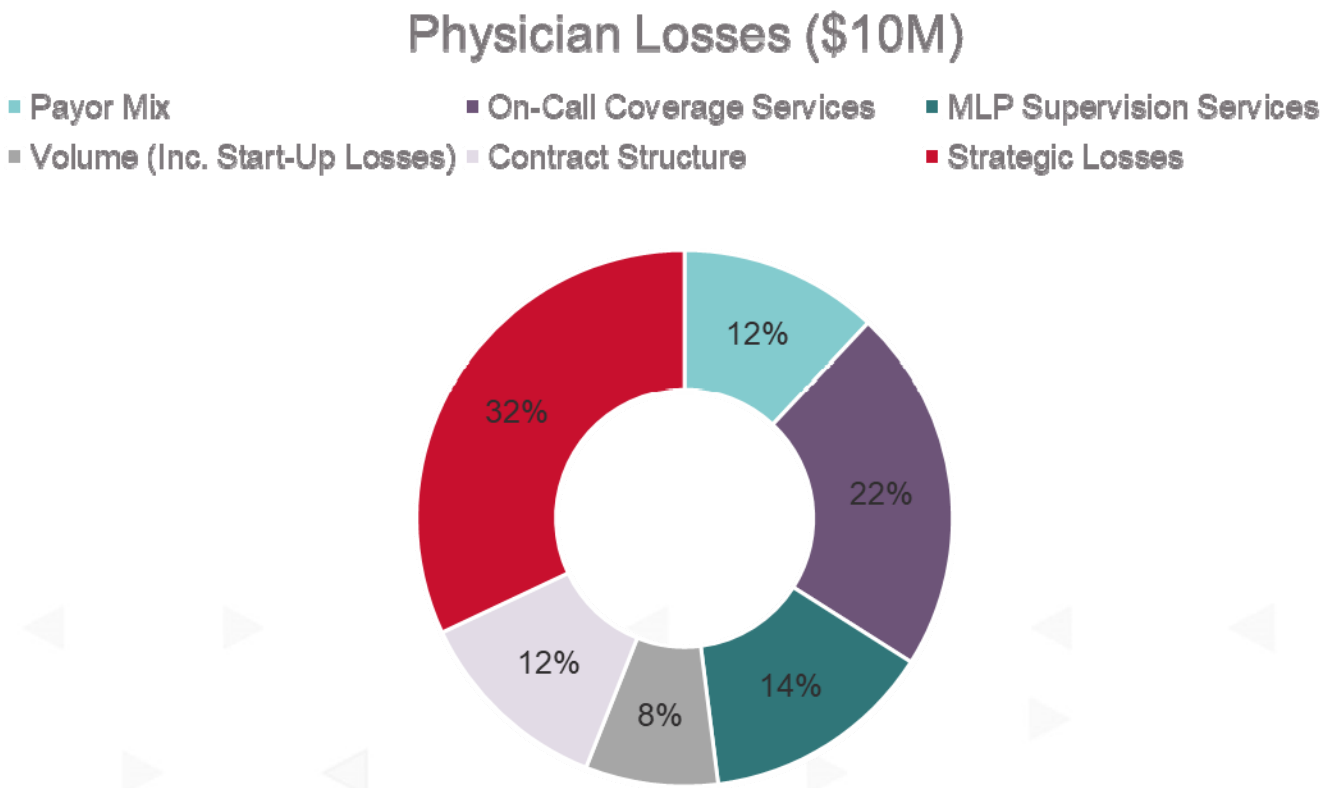
| | | | |
|---|---|---|---|
| Paid Compensation & Benefits | $ | 400,000 | $350K Comp, $50K Benefits |
| | | | |
| **RealValue Pricing Analysis** | | | *Notes:* |
| Clinical Services | $ | 263,177 | *5,850 WRVUs at 125% of Medicare* |
| On-Call Coverage Services | | 64,238 | *1,713 discrete hours at $37.50* |
| MLP Supervision Services | | 15,000 | *100 hours at $150* |
| Other Time-Based Services | | 30,000 | *200 hours of Admin & PTO at $150* |
| *Indicated Value of Services* | *$* | *372,415* | |
| | | | |
| Variance | | -7% | |
| Compliance Risk Scoring Conclusion | | Acceptable | |
| *Compensation per WRVU (all in)* | *$* | *59.83* | *~45th P of traditional surveys* |

- Takeaways
  - Call Coverage & MDA has value of 21.3% of the indicated value of services
  - This equates to $79,238 of cost that is a hospital “use” of physician group resources. There is no reimbursement associated with this cost (per model)
  - This charge-back would could change the “loss” profile significantly
  - If the service was acquired from an independent group, it would not be “costed” back to the physician group



BKD

# Practical Explanation of Physician Losses ($10 Million)



# Strategic Losses: Physician Portfolio Analysis & Risk

# Environmental Items that Affect Physician Need and Access

- Increased Insurance Coverage
  - Medicaid Expansion and Employer Based or ACA
- Aging of Physicians
- Community Demographics (Baby Boomers)
- Lifestyle Preferences
- Health Insurance Plan Changes

# Risks in Your Physician Portfolio

- Retirement Doctors that support large volumes at the hospital corporation
- Retirement Doctors that fill a physician need that aligns with mission
- Scarcity of Population Health Specialties
  - Psychiatry, OB/GYN, Cardiology, Pulmonology, Gastroenterology, Hospitalists, Neurology
- Geography Concentrations for Certain Specialties
- Primary Care Physicians that refer to system specialty physicians

# Better Inventory of Your Employed Physicians Requires More Information

- FTE vs. headcount
- Medicare/ Medicaid Acceptance Rate
- Age of physician and estimated Retirement Age
- HCC Score and MIPS Score
- Volumes (Practice/ Hospital/ Referrals)
- Research or Teaching Physician
- Compensation and Incentives
- Call Coverage Requirements
- Management or Administrative Duties
- Diversity

# Physician Portfolio Scorecard Analysis

## A Combination of Profitability and Quality Factors

### Profitability Factors

- FTE
- Volumes (Practice/ Hospital/ Referrals)
- Compensation and Incentives
- Call Coverage Requirements

### Quality Factors

- Medicare/ Medicaid Acceptance Rate
- Age of physician and estimated Retirement Age
- HCC Score and MIPS Score
- Research or Teaching Physician
- Management or Administrative Duties
- Diversity

# Physician Portfolio Scorecard Matrix

# Physician Portfolio Scorecard Matrix

High Quality

Low Profitability

"Training Doc"
- Potential for Superstar Status
- Quality component increases future value
- Easier to change profitability than quality

"Superstar Doc"
- The "Best" Docs
- Other Hospitals want them
- High Compensation Demands
- Maintain "Superstar" Status

"Killer Doc"
- The worst of all worlds
- Physicians need to move quickly to improve status
- Drastic reductions in compensation or unemployment

Low Quality

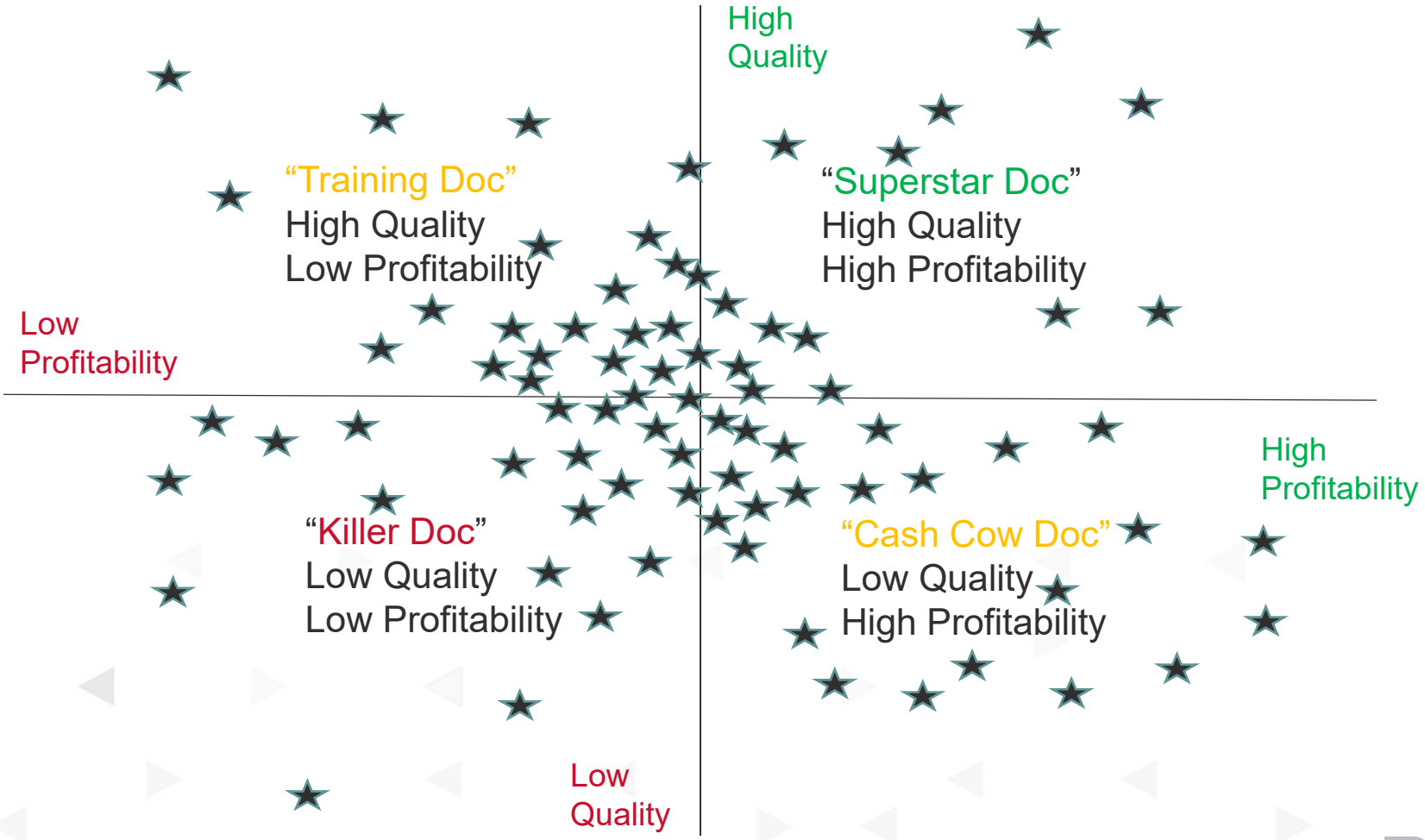
High Profitability

"Cash Cow Doc"
- Historically Valuable to System
- Potential Retirements
- Possible Decrease in Compensation
- Opportunity to understand Quality Measurements and improve status



BKD

# Physician Portfolio Scorecard Matrix



# Thank You!

bkd.com/HC | @bkdHC

BKD
CPAs & Advisors

# Questions?

Scott Bezjak | Partner | sbezjak@bkd.com | 513.562.5529
Randy Biernat | Partner | rbiernat@bkd.com | 317.383.4271