

Should I Sign-up with Those HMO's?

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Abstract

Managed care is here to stay for the American health insurance industry. It is estimated that 80% of all insurance coverage has some form of managed care component. A worksheet is provided to help calculate your current cost per patient (CPP), offering an objective tool for deciding with which Health Maintenance Organization (HMO) to participate. One of the many factors to consider is whether the increase in patient volume will require the hiring of additional office staff, thus increasing your CPP.

Caution is recommended to new practitioners when signing with the HMO's. Even though a new practitioner may not have many patients to treat, joining an HMO to attract patients has a hidden trap to consider. This trap is that the HMO's fee schedule may not reimburse sufficiently for services to allow you to make a living as your practice grows. For example, as the practice sees more patients from the HMO, there is a need to hire additional office staff which increases your CPP. The HMO fee schedule, which is the rate you will be paid for your services, will lock you into a rate which may not allow you to afford the much needed additional staff.

The HMO's are offering a fee for your services based on what the HMO can sell to the insurance company and the employers while offering YOU the lowest dollar. Carefully examine the HMO fee schedule to determine whether you can make a profit. Joining an HMO with a fee schedule which causes you to lose money, or barely break even, is an unwise business decision. It also says to the healthcare industry that you are able to stay in business with the HMO's fee schedule that it is acceptable to you. The only way the HMO will increase your fees is if practitioners, like yourself, **DON'T sign up for the low paying HMO's, but DO sign with the HMO's offering a reasonable fee schedule.** Due to market pressure, the low paying HMO must then raise its fees to practitioners to maintain a panel and provide acupuncture/Oriental medicine services.

You may choose to sign-up for some HMO' but not others, based on THE WAY THE NUMBERS WORK OUT. *Use our helpful worksheet at the end of this article to calculate your cost per patient (CPP).*

History & Overview

Like it or not, managed care is here to stay. This is the price that we and our patients are paying for the escalating healthcare costs during the 1980's. Due to the introduction of managed care into the healthcare system, unique opportunities are presenting themselves for our profession. Doors which were not open ten years ago are now being opened widely, at the end of a long red carpet.



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The American public, our patients, want access to acupuncture/ Oriental medicine and all the wonderful magic that comes with it. Insurance companies want to offer coverage for these services, but do not know how to manage the care. Thus, HMO's come into play. These companies, the HMO or Independent Physician Association (IPA), etc., are structured to improve the quality of care while reducing costs.

The Growth of HMO's

Employers, at the urging of their employees, are asking the HMO's to offer acupuncture/Oriental medicine as a covered health benefit in a cost effective manner. The HMO's fill this request by assembling a panel of practitioners who agree to an established fee schedule for a list of covered services. This panel is then made available to employees for their health care needs. Practitioners, such as yourself, recognize that patients are more likely to see an HMO panel practitioner and pay a small fee, rather than seeing a non-panel practitioner and pay a higher cost for the visit. The question the patient asks himself is "Do I want a \$10 co-payment and no deductible to see the panel provider or go to a non-panel provider and pay a \$1,000 deductible and \$60 per visit." This is not a difficult decision for most people.

I have seen practices disappear because the practitioner did not recognize this trend and did not sign up to be on an HMO panel. All those loyal patients who said such wonderful things about the care you provided, left to see the practitioner on the HMO panel. Economics dictates the decision and this American healthcare trend will continue. If it hasn't hit your practice yet, IT IS JUST A MATTER OF TIME before it does.

Which HMO Should I Join?

Economics drive the American healthcare system. Ultimately, the HMO you join depends on one major factor among all others. Can you make a living on the reimbursement the HMO is offering? In other words, did you make more money with the HMO than you paid out in expenses to run your office? The answer to this depends on

- your overhead (the cost to run your office and provide services to HMO patients),
- the number of patients you are going to see directed to your office by the HMO, and
- the dollars you will be reimbursed by the HMO for your services.

The first step is to evaluate the cost to operate your practice. There are two types of costs, known as expenses, associated with a practice. These are the **fixed expenses** and the **variable expenses**. The fixed expenses are those expenses which do not change with the number of patients seen in the practice. Examples of fixed expenses are rent, your salary to live each month, employee salaries, insurance, leases for equipment, etc. The variable expenses are those expenses which change depending on the number of patients seen in the practice. Examples of variable expenses include office supplies, medical supplies, telephone charges, postage, etc.

For the purpose of demonstrating how the Cost Per Patient (CPP) is calculated, the fixed and variable expenses will be \$6336 per month.

The second step is to compute the monthly practice volume. This is the number of monthly patient examinations and treatments. Let us use 183 patient visits in a typical month as an example.

The third step is to compute the cost per patient. Take the combined fixed and variable expenses (\$6336) and divide by the number of patient visits (183).

$$\frac{\text{Cost}}{\text{Patient Volume(PV)}} = \frac{\$6336}{183} = \$34.62$$

Use our helpful worksheet to calculate your cost per patient (CPP); you can print it and work on it offline, then return to our site to evaluate your practice. Based on THE WAY THE NUMBERS WORK OUT, decide for yourself which HMOs you should sign up for and which ones to pass. (Keep this worksheet for future use when other HMO's solicit your participation.)

Discussion & What to Do Now

So now you have a cost per patient (CPP). This is the place to begin evaluation of the HMO fee schedule.

THE EVALUATION

Evaluate if the HMO reimbursement is higher than this cost per patient AND at a level worth your time to treat the patient. Don't settle for just covering your overhead. Build in a profit margin so you can pay your home mortgage, rent, food, insurance, savings, fun stuff, etc. (basically living and enjoying your life). **YOU ARE NOT ABLE TO LIVE IF YOU WORK FOR FREE OR AT BREAK EVEN!!!** (Note: This is a reality check.)

For the sample office above, if the HMO reimbursement is \$26 per patient, you may as well stand at the door and give each HMO patient \$8.62 every time they show-up for an appointment. You will have helped a lot of people, but you will be **BROKE, OUT ON THE STREET AND WONDERING WHERE DID IT ALL GO**. One practitioner said to me, "I was seeing a lot of patients, it was a very busy practice, but I went bankrupt. I don't understand."

If you do not assess your cost per patient, as described above, to determine if you will make a profit before signing on with an HMO, you may very well end up in this situation.

FACTORS INVOLVED IN CHANGING YOUR DECISION TO PARTICIPATE IN THE HMO

Two things will change the cost per patient (CPP) —

- 1) a change in your expenses (up or down) *or*
- 2) a change in the number of patient visits (up or down)

Unchanged Fixed Monthly Expenses and Increased Patient Visits

If your monthly expenses remain unchanged (like rent and salaries) as your patient volume increases, then your cost per patient drops and your profit increases. For example, using the sample practice above, if monthly expenses remain at \$6336 but the volume of patients increases 20% to 220 patient visits per month, then the CPP drops from \$34.62 to \$28.80.

<u>Total Monthly Expenses</u>	<u>\$6336</u>
Total Monthly Patient Visits	220
Cost Per Patient (CPP)	\$28.80

CAUTION: If the HMO is going to increase the volume of your practice, you must evaluate if this will increase your monthly expenses by requiring the addition of another staff person to handle the increased paperwork, telephone calls, forms, etc.

Increased Monthly Expenses and Increased Patient Visits

Example: The HMO generated a 20% increase in patient visits and office expenses increased due to the addition of a full-time staff person (40 hrs per week at \$10 per hour

= **\$1,732 per month**) to help with the paper work and patient flow from the HMO. The cost per patient then becomes:

<u>Total Monthly Expenses</u>	<u>\$6336 + \$1732</u>
Total Monthly Patient Visits	220
Cost Per Patient (CPP)	\$36.67

In this case, the 20% increase in volume requires an additional staff person which increases your cost per patient to \$36.67. Congratulations, you are now working 20% harder with the management headache of another staff person and losing \$10.67 per patient. Not the smart way to go.

Therefore, evaluate if the patient increase promised by the HMO will require an increase in expenses by hiring another staff person.

Decreased Monthly Expenses and Increased Patient Visits

An option is to reduce your expenses (like rent, salaries to employees, insurance, etc.) by space sharing with another practitioner or renting to another practitioner. This is a very viable option but you do not need to do this just because you wish to participate in an HMO.

Conclusion

Managed care is here to stay for the American population. It is estimated at 80% of all health insurance coverage has some form of managed care program. Perform the above calculations to determine your current cost per patient (CPP) and ask yourself the following questions about the HMO.

- **Does the HMO offer a fee schedule in which I can pay for the cost of seeing patients while making a reasonable profit?** If yes, then consider signing up for the HMO.
- **Will the HMO increase my patient volume each month?** If yes, how much of an increase? Re-compute the cost per patient. If you can pay for the cost of seeing patients while making a reasonable profit, then consider signing up for the HMO.
- **What if the HMO increase in monthly patient volume requires me to hire additional staff or other expense?** Then re-compute your cost per patient with

the additional staff member salary. If you can pay for the cost of seeing patients while making a reasonable profit, then consider signing up for the HMO.

CAUTION NEW PRACTITIONERS:

For the practitioner just starting out — do not be fooled into thinking you should sign up for all the HMO's because you do not have many patients yet, as you will ultimately be locked into a fee schedule with that HMO. (You will not see an increase in your reimbursement from the HMO over time due to market pressure.) As your practice grows, you will need to hire additional staff members because you'll be unable to treat 40 patients a week while answering the telephone, making appointments, collecting payment, opening the mail, greeting patients, etc. When you hire additional staff members, your cost per patient goes up.

Be selective about which HMO you join. The HMO's are offering a fee for your service based on what the HMO can sell to the insurance company and the employers, while offering YOU the lowest dollar. Joining an HMO with a fee schedule which causes you to lose money, or barely break even, is unwise for your business. It also says to the healthcare market that you are able to stay in business with the HMO's fee schedule and that you are willing to accept it. The only way these HMO's offering a low fee for your services will increase your fees is if you, the practitioners, **DON'T sign up for low paying HMO's, but DO sign with the HMO's offering a reasonable fee schedule.** Due to market pressure, the low paying HMO must then raise its fees to practitioners to maintain a panel and provide acupuncture/Oriental medicine services.

WHAT IS THE COST PER PATIENT (CPP) AT YOUR OFFICE?

STEP 1: COMPUTE YOUR OFFICE OVERHEAD FOR THE MONTH (The quickest way is take last year's total expenses and divide by 12)

Fixed Expenses (These expenses stay the same regardless of the number of patients seen)

YOUR PRACTICE	<u> </u>	<u>% Overhead</u>	SAMPLE PRACTICE	<u>% Overhead</u>
Practitioner's Salary	<u> </u>	<u> </u>	\$2000 (mortgage, food, car, insurance, children, etc.)	32%
Rent	<u> </u>	<u> </u>	\$2000 (1,500 sq ft x \$1.33sq/ft)	32%
Salaries				
Receptionist	<u> </u>	<u> </u>	\$1822 (\$10.52/hr x 174 hrs/mo)	28%
Billing Person	<u> </u>	<u> </u>		
Equipment Leases				
Tables	<u> </u>	<u> </u>		
Therapy Equipment	<u> </u>	<u> </u>		
Other	<u> </u>	<u> </u>	none at this time	0%
Insurance				
Malpractice	<u> </u>	<u> </u>	\$100	
Liability	<u> </u>	<u> </u>	\$50	
Other	<u> </u>	<u> </u>		2%

Variable Expenses (These are expenses that change with the number of patients seen)

Medical Supplies				
Herbs	<u> </u>	<u> </u>	\$50	
Needles	<u> </u>	<u> </u>	\$250	
Cotton	<u> </u>	<u> </u>	\$4	
Table Paper	<u> </u>	<u> </u>	\$20	
Alcohol	<u> </u>	<u> </u>	\$1	
Other	<u> </u>	<u> </u>		5%
Office Supplies				
Copy Paper	<u> </u>	<u> </u>	\$5	
Copy Toner	<u> </u>	<u> </u>	\$5	
Pens/Pencils	<u> </u>	<u> </u>	nil	
Bottled Water	<u> </u>	<u> </u>	\$14	
Magazines	<u> </u>	<u> </u>	\$15	
Other	<u> </u>	<u> </u>		1%
Other Expenses	<u> </u>	<u> </u>		
TOTAL EXPENSES	<u> </u>	<u> </u>	\$6336	100%

(A)
(Save this number)

	YOUR PRACTICE	SAMPLE PRACTICE
Examinations	_____	8
Treatments	_____	175
TOTAL	_____	183
	(B)	
	(Save this number)	

$$\frac{\text{Total Monthly Expenses}}{\text{Total Monthly Patient Visits}} = \text{Cost Per Patient (CPP)}$$

YOUR PRACTICE:

$$\frac{\text{(A) above}}{\text{(B) above}} = \underline{\hspace{2cm}}$$

SAMPLE PRACTICE:

$$\frac{\$6336}{183} = \mathbf{\$34.62}$$