

What's ahead for medical practice?

Meeting tomorrow's challenges

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about the author

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We can't conduct the business of medicine tomorrow as we've done in the past. The old way is a formula for failure. Medical care costs are rising by double digits, soaring benefit costs are contributing to employer backlash, practice overhead continues to increase and physician reimbursement is not keeping pace with inflation.

It's highly unlikely that the revenue picture will improve dramatically for most medical group practices. We must focus on the remaining two variables of practice financial performance: expenses or physician incomes. Few physicians will elect to take home a smaller paycheck in return for maintaining their current cost structure.

The crisis facing the airline industry exemplifies a once-successful business plan that failed to adapt to fundamental market changes. New entrants, without allegiance to the past practices, captured market share at lower revenue per service and still turn a profit. Medical groups can learn from this example—or suffer the consequences. They must focus on short-term challenges while understanding future market evolution. New skills will be needed to exploit opportunities and avoid threats.

The observations and predictions that follow are the result of the author's nearly 25

years in the medical practice environment and interactions with practice managers across the country.

Meeting current challenges

Revenue — Practices need to ensure that every service gets billed, coding is accurate and appropriate, all claims receive the attention required to get paid and patient balances are not overlooked. While this sounds obvious, it's surprising how many organizations don't adequately monitor and control their revenue-cycle activities.

Technology — Practices must invest in automation in areas such as patient billing and medical records — and keep their technology up to date. When properly deployed, integrated billing/electronic medical record (EMR) systems can improve the quality of care and the efficiency of care delivery. By providing coding support, an EMR can increase revenue and reduce errors.

Overhead and staffing — Practices need to revisit the way they operate and find ways to provide their care more efficiently, at a lower cost per unit. Medicine is not immune to the challenges facing many other industries.

Managers must constantly query vendors about pricing and product alternatives; they

Revenue illustration

Adding one patient per day in family practice

Typical CPT* code	Days worked per year	Potential additional patients	2006 Medicare reimbursement	Added revenue
99213 ¹	235 ²	235	\$52.68	\$12,380

*Current procedural terminology

Sources:

1. MGMA 2003 Coding Profile Sourcebook: Medical Specialties
2. MGMA Physician Compensation and Production Survey: 2005 Report Based on 2004 Data; Table 66

Specialty physician compensation by ownership

Median income

Specialty	Hospital-owned	Private practice
Cardiology: Noninvasive	\$369,041	\$350,946
Neurosurgery	\$600,000	\$531,100
Pulmonary medicine	\$250,000	\$228,085
Orthopedic surgery	\$405,217	\$381,020
Family practice (w/o obstetrics)	\$170,000	\$160,322

Source: MGMA Physician Compensation and Production Survey: 2005 Report Based on 2004 Data

must re-examine staff tasks and redistribute them to ensure efficiency.

Patient volumes — Practices will have to schedule patients more efficiently. Accommodating a single extra patient a day can mean more than \$12,000 in added collections in primary care settings per year (table, page 18). Specialty practices may receive more.

What might the future hold for physicians?

Even practices that adequately address the key areas discussed may only be able to hold their own in an increasingly hostile economic environment. Consider the following possible scenarios for our industry and how, if they become reality, they could affect practice performance.

Decline of private practice — While private medical practice will continue to be the foundation of medical care delivery, fewer physicians will want to take on the risks associated with owning practices. Many younger physicians will be satisfied with employee status and the lifestyle advantages that go with dependable hours and incomes.

Retirement will be less attractive — Physicians now in their 50s and 60s may be the best prepared for retirement. They were able to make major contributions to retirement accounts before many of the current limits and restrictions were put in place. Younger physicians will have less money in their retirement plans, and their contributions may be based on lower earnings. Many will seek to practice as long as possible and, perhaps, desire part-time or no-call relationships with their practices. This could cause coverage and compensation issues for many groups.


Payers will no longer negotiate with panels of physicians — Smaller practices will find that their bargaining position, even if they're part of independent practice associations, will decline. Even larger groups will find resistance to negotiating fees. Practices will not have the luxury of avoiding payer health plans that refuse to bargain.

Patient service expectations will increase as practices seek to reduce costs — As patients expect more from their care experience — both in quality and customer service — practices will seek ways to replace staff with automation.

Competition over specialists will increase — Private practices may find themselves outbid by hospitals for key specialists (see table above).

Organizations that resist market realities may realize too late that change is inevitable — This needs no clarification. Organizations can sometimes be their own enemy.

Hospitals and physicians will compete unless they align interests — Physicians and hospitals will need to realize that their interests are shared and that *common ground* must be found if both are to succeed. In the recent past, integration and cooperation were options. Hospitals recognizing that they must make key physicians their partners will find that they will dominate their markets. Hospitals that seek the status quo will lose market share to those that embrace the physician partnerships.

Astute practice managers will anticipate market shifts and have planned responses. No one can afford surprises in the next decade. Practices that fail to stay ahead of change will be overcome by it. 

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