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FINANCIAL MANAGEMENT

Managed Care Update

Recent Changes

Over the past few years, changes in managed care plan reimbursements have left many doctors alarmed and confused, says Bill Rossi, President of Advanced Practice Management.* While managed care situations vary on a state-by-state basis, the national trend toward more PPOs and deeper discounts has obviously not been positive for doctors.

Delta Dental dominates the dental insurance marketplace, owning more than one-third of the U.S. market share. Delta has been cutting reimbursements to doctors in several states over the past few years, in response to employers seeking lower premiums. In 2011, Delta Dental cut reimbursements to participating Washington dentists by 15%, and followed up with a cut of 4-13% for Idaho dentists. In 2013, Delta cut reimbursements 4-5% for New Jersey and Connecticut dentists, and later sliced reimbursements 7% on average for participating dentists in Missouri. In 2015, Northeast Delta Dental implemented a 4% reimbursement cut for dentists in New Hampshire and Vermont. Meanwhile, California dentists are still fighting a planned 8-12% reimbursement cut.

Delta says its discount averages 22% nationally on all claims paid. As a result, Rossi says that it is not unusual to see dentists collect less than 85% of gross production due to PPO write-offs. In fact, he says collection percentages of less than 75% are becoming more common.

To make matters worse, Delta Dental is phasing out its higher paying Delta Premier program in some states, forcing doctors to join their lower paying PPO plan if they wish to stay in network. The greatest fear is that Delta Dental will adopt this policy nationwide over time. These lower reimbursement rates threaten to reduce practice profits and significantly lower the value of affected practices.

In Massachusetts, Delta is in the process of converting from a nonprofit insurance company into a for-profit corporation, while phasing out its higher paying Premier plan over the next few years on an employer-by-employer basis, in favor of its lower paying PPO. This action has created widespread angst among dentists in the state. Some doctors have rushed to sign up for the lower paying PPO plan, while others have dropped Delta participation altogether. Unfortunately, these "knee-jerk reactions" are costing doctors many tens of thousands of dollars in lost profits and lots of lost patients, says Rossi.

Rossi's firm is located in Minnesota, which was the epicenter of the managed care "hurricane" back in 2001. He has over 20 years' experience in helping doctors with "PPO Plays" to level the playing field with the dental insurance companies. He acknowledges that there's no "one-size-fits-all" strategy for doctors, since managed care penetration varies significantly by state, and even by location within each state. Despite this fact, he offers several strategies to help doctors cope with these negative changes.

What to Do

First, Rossi recommends that doctors avoid a rush to take action. Sometimes it's better to be reactive than proactive. It's unwise to join or drop a PPO/Delta without carefully considering all of the ramifications.

Furthermore, doctors need to keep things in perspective. According to the U.S. government, spending on dental services increased 4.2% to $117.5 billion in 2015, with out-of-pocket spending accounting for 40% of the total and private health insurance representing another 47%. Thus, in the average practice, insurance company reimbursements account for less than half of the total receipts.

Determining Managed Care's Impact in Your Practice

Doctors often believe they have an overhead problem, but in reality, they have a write-off (PPO) problem instead. That's because most doctors are not aware of the true impact that managed care write-offs have on their practice profitability, since they do not track the amount of their managed care adjustments (write-offs). Rossi recommends curing this by charging out all production at full fee for each procedure (gross), with a related production adjustment for the write-off amount required to get to the discounted fee allowed under the plan. As much as possible, the adjustment codes should track each major PPO plan in the office.

Doctors should track total production by each managed care plan, which can easily be done using their practice management software. Then, the doctor can see clearly how much PPO participation "costs" the practice.

Once this analysis has been completed, doctors should rank all of their managed care plans by this write-off percentage and seek to reduce, or eliminate, plans one at a time, until they have the "right balance" of PPO participation. When selecting the order of PPO drops you should consider:

1. The PPO's fee level

2. Number of patients in the PPO plan

3. Difficulties in insurance processing with the PPO

4. Out of network benefits for patients in the PPO

Sometimes you'll want to drop the smaller plans first to gain confidence and experiment in transitioning to being "Out of Network."

Revise Practice Financial Statements

Unfortunately, less than 10% of doctors drop any PPO plans in a given year. The primary reason is that this production adjustment data is "out of sight, out of mind." We believe that this write-off information should be in the doctor's face every month since, in some cases, managed care write-offs represent the largest "expense" in the practice, even exceeding staff costs.

We recommend that doctors change the format of their practice's income (profit and loss) statements to begin with practice production. Managed care and other adjustments should then be subtracted to arrive at the net collectible practice production. Collections should be shown next, and used to determine the practice profit for tax return purposes.

Reporting the total managed care write-offs each month keeps this vital practice information squarely in the doctor's mind so that she can make informed practice management decisions. Your CPA should be able to easily make this change to your practice's financial statements to improve their effectiveness. If not, then find a new CPA who can.

Developing a Battle Plan

Before discussing marketing steps doctors can take to minimize or eliminate the impact of managed care on practice profits, Rossi offers two reactive strategies. First, if Delta is phasing out a higher paying Premier plan in your state over time, <u>don't rush to sign up for the PPO plan!</u> Rather, it's better to stay in the higher paying Premier plan for as long as you can to reap the higher reimbursements.

When you leave a plan, you want to lose the discounts, not the patients! You also want to **<u>slow down</u>** any patient loss so the practice has time to counteract losses. You *will* lose some patients, but with the right training, you'll keep more than you think.

So, if you plan to drop a PPO, don't send a written notice to your patients announcing the action. That will lead to substantial patient loss immediately. Rather, it's better to discuss the change with each patient individually face-to-face when they visit your office. Rossi has been able to help doctors retain the majority of the affected patients in the practice as out-of-network patients. It's serious business, but the rewards are substantial. It is simpler and easier than you think! You **can** say "No" to PPOs.

Next month, we'll discuss proactive strategies doctors can use to win the managed care war, by seeing more patients and doing more for the patients they see!

** For more information on his firm's managed-care consulting and other practice management services, contact Rossi at 952.921.3360 or online at www.advancedpracticemanagement.com.*

PERSONNEL

How A Staff Performance Management System Can Improve Your Practice

By: Kit M. Foreman, SPHR, MBA*

Since 2013, over 85% of the dental practice owners that I began consulting with indicated that they did not have a structured performance management system in place to establish and track individual performance metrics for their staff. For example, a collections staffer should be evaluated based on maintaining collection rates at or above the industry average. Likewise, a front desk scheduler should be evaluated on the percentage of new patient phone calls that are converted into actual new patient exams. And a treatment coordinator in an orthodontic office should be evaluated based on case acceptance rates.

25% of doctors reported that they conducted a "performance review" with their staff annually. However, these reviews were not based on individual metrics of success. Rather, they were simply a subjective summary of impressions and a few critical incidents that occurred. Moreover, the vast majority of doctors were providing across-the-board pay raises of the same percentage for all employees based upon these subjective reviews.

The good news is that more practices are seeing the value in establishing bonus systems based on practice metrics, as recommended last month. Unfortunately, most of these practice metrics, are based on overall team performance, rather than individual performance.

Below are four reasons to implement an individual performance management system in your practice.

1. **Attract and Retain Top Talent** – With unemployment rates dropping, it's becoming more difficult for doctors to find and retain top talent, particularly business office staff. The truth is that top-performing employees desire an environment that recognizes and rewards their individual and team achievement, and provides ongoing feedback. Only by establishing and tracking individual performance metrics with each staff member can you satisfy that desire.

2. **Improve Team Building** – I love team goals, since depending on each other fosters engagement, which in turn, boosts staff retention. However, tracking individual metrics makes each person equally accountable for the role that they play in the success of the practice. Mediocre performers can be identified and coached to higher performance. This creates a greater sense of equity among the team when the data proves that everyone is pulling his or her own weight.

3. **Improve Risk Management** – Let's face it, being an employer can be a minefield of potential risks from adverse employment actions. You can greatly reduce your legal exposure by being able to demonstrate that personnel decisions are based on clearly defined expectations and data–driven performance management practices evidenced by feedback, coaching, and rewards.

4. **Increase Employee Engagement** – In 2015, Gallup reported that nearly 51% of employees nationally were disengaged at work. More importantly, another 17.5% were actively disengaged, meaning that they were so disengaged they were adversely affecting the engagement of others. It's a no-brainer that this impacts the bottom line, not only in day-to-day productivity, but also poor morale and increased employee turnover. It's clear that you need to show the 17.5% out the door! However, in many cases the 51% can be turned around.

The best performance management systems create a culture of continual feedback. You'll quickly discover who is "all-in" and who has "checked out." You can often pull an emotionally disengaged employee back in by engaging them through regular interaction.

Frequently, I hear the frustrations of doctors trying