THE McGILL ADVISORY

Boost 2024 Profits by Reducing Your PPO Write-Offs

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PRACTICE MANAGEMENT MANAGED CARE

Most of our members are participating in one or more PPO plans, including Delta Dental. Due to increased patient demand, staffing shortages, and rising overhead costs, more practices are looking for ways to reduce, rather than increase, their PPO participation. Here's how to make this happen for your practice to increase profits by working smarter rather than harder.

Some time ago, an East Coast general dentist with an extremely busy practice approached us for help, as he was dissatisfied with his financial progress. His practice overhead percentage was increasing while his practice profit percentage was declining, and he wanted to take action to correct his excess spending (overhead) problem. During the in-depth analysis conducted as part of our Tax and Business Planning program, we discovered that his rising overhead was not the root problem, but rather a symptom.

He was working harder than ever, as the slight increase in his practice production attested. Unfortunately, his collections weren't keeping pace. In fact, while his practice was operating at 100% capacity and producing almost $3,200,000, his collections were only $2,039,664, for a collection percentage of just 63%! While his staff was doing a great job of collecting 98% of his net (collectible) production, his huge problem was the massive PPO adjustments (write-offs). These adjustments were robbing his practice of $1,000,000 in practice collections and related profits annually. After discovering what was going on, the doctor was absolutely stunned!

Tracking Adjustments and Ranking the Plans

Fortunately, this doctor had charged out all his production at the full (regular) fee for each procedure, regardless of the negotiated fee under the PPO plan involved. This allowed him to calculate the total production, write-offs, and collections separately for each PPO plan that his practice participated in. We then calculated the write-off percentage for each plan, by dividing the total adjustments (write-offs) by the total production for that plan. Then, we ranked all PPO plans by the write-off percentage, from the lowest to the highest, to establish priorities.

Taking Action

While this data was extremely valuable, it wouldn't help at all unless he agreed to take action. Doing so required a well thought out, coordinated game plan for determining which plans to go out-of-network with first, and how to minimize or eliminate any patient loss to his practice.

The magnitude of the PPO write-offs was overwhelming, and the doctor knew he couldn't handle this project on his own—so we referred him to Bill Rossi, a practice management expert with over 40 years of consulting experience in helping doctors reduce their PPO participation.

One year after implementing Rossi's recommendations, the doctor was amazed by the phenomenal results! His collection percentage (collections divided by total production) had increased dramatically from 63% to 72%, for a nine-percentage point gain. More importantly, his total collections jumped from an average of $169,222 a month before to $222,505 a month, for an increase of $53,283 a month, or 31%. That translated into a collections increase of $639,396 annually.

Since there was no overhead cost incurred in this process, the entire $639,396 fell to the bottom line as increased profit. The doctor used this increased practice profitability to dramatically increase his retirement savings, putting him on track to retire at least five years earlier than planned. Moreover, since every dollar of increased profit results in an increase of $6.00 in his practice value based on current valuation methodologies, this move will add over $3.8 million to his future practice sale proceeds!

Rossi has helped many dental practices across the country improve profitability by reducing or eliminating PPO participation. He specializes in training staff and coaching the doctor to make sure that the agreed-upon PPO decisions are properly planned and implemented. Rossi says that if employees are properly trained, you can retain a majority of the PPO patients and delay the impact of those that do leave. In this case, the patient loss was minimal and easily replaced since the practice was operating at 100% capacity.

Rossi often encourages doctors to start peeling off the PPOs by making a low risk move first, such as dumping a PPO plan with relatively small production, especially if it has a large write-off percentage. After seeing the success from this small move, you'll gain increased confidence to take on PPO plans with larger production next.

*For more information on his firm's PPO consulting and other services, contact Rossi at 952.921.3360 or visit www.advancedpracticemanagement.com.