Cost Cutting Strategies for Medical Practices

A five-step approach

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Today more than ever, the plea from physicians around the country is, "Help us cut our overhead!" To maintain their incomes in today's managed care environment, physicians have two options: either increase revenue or cut costs. It is sad but true, that declining reimbursements show little hope of turning around. Therefore, physicians need to focus carefully on overhead. Practice administrators are in a unique position to assist physicians with this need.

While many believe that there is no fat left to trim, savvy administrators can reduce costs through inventive, resourceful means, resulting in higher profits for the practice and loyalty and appreciation from the physicians.

Cutting costs, however, is no easy task. Rarely do we find practices with staff taking leisurely breaks or standing around with nothing to do. Most practices have a lean workforce with few obvious expenses to cut. The step-by-step process outlined in this article will help you plan your strategy for cutting costs and improving the practice's bottom line.

Study Internal Controls

Financial controls are crucial for reliable data. The practice must know how much money is flowing out of the business in order to control expenditures. While most people think of internal controls as a means to safeguard against fraud, they actually are the key to making sound management decisions.

Proper internal controls help prevent and detect errors. Medical practices today are fast-paced, complex business. Mistakes happen. A good system of checks and balances helps minimize inadvertent mistakes. In addition, the mere presence of formal control procedures encourages adherence to policies. The staff can sense when an office environment emanates a lack of accountability and controls. The end result is that sloppiness proliferates and financial data becomes useless. Remember: "Garbage in, garbage out."

Internal controls require segregation of duties and a system of checks and balances. The larger the practice, the easier it is to establish segregation of duties and a system of checks and balances. The larger the practice, the easier it is to segregate key financial duties. Even in a solo practice, however, a minimum amount of segregation is possible. Physician involvement (or at least the appearance thereof) is an effective enforcement method.

If you're not sure how strong the practice's controls are, perform an internal control study. Based on results, you can determine how much you can rely on the practice's data and adjust your analysis accordingly.

Understand the Big Picture

Determine where the practice stands in relation to its peers. It's very difficult to assess the appropriateness of expenses if you don't have some benchmark to measure against. Gather the necessary reports – financial statements, month-end and year-end management reports, billing reports, and budgets. Study the trends from year to year and month to month. Compare your data to specialty-specific industry statistics, first making sure that you group your data the same way they do. Good benchmarking sources include the Medical Group Management Association, the American Medical Group Association, and numerous specialty societies.

Analyze and explain variances between the practice and the associated benchmarks. "Slice and dice" the data. For example, look at ratios of expenses to revenue, amounts per-physician or per-provider, and full time equivalents (FTEs) per-physician or per-provider.

Don’t accept the outside benchmarks as gospel. Instead, use them to highlight potential problem areas.

Get Your Arms Around the Big Items

To get the biggest bang for the buck, focus first on overhead items that represent the largest individual expenses. For most practices, support staff is the largest single expense. Be sure that current support staff levels are appropriate in relation to the number of providers in the practice. The Medical Group Management Association (MGMA) provides useful benchmarks in this area. Whenever possible, drill down to broad groupings such as front office, clinical staff, and back office or even individual job categories.

Consider the practice’s overall productivity (volume) in your analysis of staffing. We recently performed a staffing analysis for a client who insisted he was overstaffed. When we compared his provider-to-staff ratio to similar practices, his analysis appeared to be correct. His annual charges and receipts, however, were almost double that of similar practices, thus creating more work, higher staffing requirements, and higher profits.

If you believe the practice is overstaffed, take the time to construct creative ways to reorganize. Rather than eliminate personnel, investigates if existing staff can be used to make the physicians more productive. Look for efficiencies. Do the nurses pull their own charts or waste time looking for charts? Perhaps a part-time college student could pull and re-file charts, thereby reducing clinical staff levels.

Once you have examined the number and mix of the staff, look at salaries and turnover. Make sure that salaries are competitive within the practice’s geographic area. Although salary surveys exist, they are often not geographically specific. Your best source for relevant salary data is your peers. Paying a fair salary results in a satisfied, motivated staff whose contributions are productive and profitable. Recruitment fees, training costs, and loss of productivity associated with turnover is much more costly than giving raises and bonuses to a highly qualified staff.

Having said this, avoid the "salary creep" that results from giving automatic raises year after year. The best receptionist is still only worth so much in that position. Each position should have a high, low and median salary range that is competitive with the industry and location. If a standout employee reaches the high point of the salary range, consider an incentive-based instead of a salary increase. Alternatively, the employee could be promoted with more responsibility and a higher salary range.

Many practices lose significant dollars each year by not adequately accounting for vacation and sick leave. Make sure all leave policies are documented, that planned leave is approved in advance, and that a designated person tracks employees’ leave. Be sure that overtime is approved in advance, monitored, and whenever possible, avoided. We often see practices that spend $50,000 or more in annual overtime expenses. In some areas, this equates to two additional full time employees (FTE), including benefits. In this scenario, simply hiring one FTE and closely monitoring overtime would provide significant savings. Besides the obvious savings of any unwarranted overtime, it is cheaper to hire full time employees and pay their salary plus 15 percent to 20 percent benefits, than pay overtime at 150 percent. In addition, excessive overtime can cause otherwise good staff to burn out and become inefficient.

In a tight job market, alternative staffing such as outsourcing and job sharing is often beneficial. Transcription, payroll processing, benefits administration, bookkeeping, and janitorial services all lend themselves well to outsourcing. Job sharing offers flexible work schedules and often eliminates the cost of fringe benefits. Avoid having too many part-timers, however, as inefficiencies and redundant training

costs occur. Finally, cross training for every position should be required to offer flexibility when the staff is on leave and to reduce training costs when turnover occurs.

Since fringe benefits such as health insurance can be a larger part of support staff costs, the practice should solicit competitive bids every year or two. Alternative benefit options, such as 401(k) and cafeteria plans, are valuable tools for recruiting and retention, with little or no cost to the practice. We suggest that practices hire professionals to assist them with the competitive bid process and to review the design of their benefits package.

In many practices, building and occupancy costs result in the second largest overhead item. Square footage needs should be assessed and rental rates should be negotiated each time a lease is up for renewal. The landlord's operating costs and Consumer Price Index (CPI) pass-throughs should be audited periodically. Even if a lease is not up for renewal, a professional specializing in tenant representation may be able to renegotiate the rates if the market situation is right. The practice should regularly evaluate its space needs. If there is excess capacity, it should consider sub-leasing, sharing space, or reconfiguring the space to make room for more providers.

Finally, malpractice insurance premiums are the third highest expense in some specialties. Look to competitive bids, group discounts through Independent Practice Associations (IPAs) or preferred Provider Organizations (PHOs), and even hospital subsidies (if the practice is in an under-served area).

Hoard Nickels and Dimes

After you are certain you have dealt with the big ticket areas, start looking for the small savings. Perform a cost/benefit analysis on ancillary services and evaluate the lease versus buy options for every capital purchase. Examine the cost of medical supplies, office supplies, advertising, repairs, and maintenance contracts. Ask questions such as, "Do you really need a large ad in the Yellow Pages? How many patients were referred to you by the ad?" Bid out maintenance and other vendor contracts on an annual basis. Closely monitor invoices from other professional advisors and take advantage of prompt payment discounts. Look to opportunities for group purchasing. Centralizing the client's purchasing policies can minimize duplications and waste. Clients should consider using a non-traditional telephone company for local and long distance service and always encourage and reward staff for ideas that lead to cost savings.

Search for Lost Revenue

Lost revenue can occur in many forms. We often see practices that do not consistently capture all charges, do not accurately code for services performed, fail to resubmit claims that have been denied due to correctable errors or missing information, and allow patient account balances to go uncollected. Amazingly, we still find practices that have not raised their fees in years and are receiving full payment from major carriers – a sure sign that their fees are too low! Other areas of lost revenue include failure to aggressively collect over-the-counter payments. We recently visited a solo family medicine practice in which we estimated a loss of over $80,000 in one year from not collecting copayments. In addition to the lost revenue, the practice was in violation of its managed care contracts for not collecting this money.

Summary

Once you have completed these five steps, the practice should have developed good systems for internal controls, benchmarking production and expenses, reviewing staff levels, salaries and benefits, obtaining competitive bids, and other ways of reducing and controlling costs. Don't allow this to be a one-time effort; insist on continuing diligence. Review the practice's financial statements and management reports each month to look for discrepancies, unusually high expenses, or other opportunities to save money. Make this cost cutting strategy an ongoing and practice-wide habit.