Dynamic Chiropractic

History and 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 health care costs during the 1980s. Due to the introduction of managed care into the health care system, unique opportunities are presenting themselves for our profession. Doors which were not open ten years ago are now being opened wide, and at the end of a long red carpet.

The American public, our patients, want access to alternative medicine and all the wonderful benefits that come with it. Insurance companies want to offer coverage for these services, but do not know how to manage the care. Thus, HMOs 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 HMOs

Employers, at the urging of their employees, are asking their HMOs to offer alternative medicine as a covered health benefit in a cost-effective manner. The HMOs 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 than see a non-panel practitioner and pay a higher cost for the visit. The question patients ask themselves is, "Do I want a $10 co-payment and no deductible to see the panel provider, or do I want to 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 health care 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 drives the American health care 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:

1. your overhead (the cost to run your office and provide services to HMO patients); 2. the number of patients you are going to see directed to your office by the HMO; and 3. the dollars you will be reimbursed by the HMO for your services.

After you complete the worksheet we have included in this article, decide for yourself which HMOs to sign up for and which to pass on. (Keep this worksheet for future use when other HMOs solicit your participation.)

Remember that the numbers used in this worksheet are meant as a guide. Your own practice can have different figures depending on the size of the practice, the amount of supplies you use on a monthly basis, the number of staff members in your practice, etc. Please make sure to enter your own numbers and adjust the figures accordingly.

What Is the Cost Per Patient (CPP) at Your Office?

Step 1: Compute your office overhead for the month. (The quick way is to take last year's total expenses and divide by 12.)

	Your Practice		Sample Practice	
Fixed Expenses (these expenses stay the same regardless of the number of patients seen)				
	% Overhead		% Overhead	
Practitioner's Salary	___________		__$2,000____	32.10%
(Mortgage, food, car, insurance, children ...)				
Rent	___________		__$2,000____	32.10%
(1,500 sq. ft. x $1.33/sq. ft.)				
Salaries				
Receptionist	___________		__$1,822____	29.40%
($10.52/hr x 174 hrs/mo)				
Billing Person	___________		___________	
Equipment Leases				
Tables	___________		___________	
Therapy	___________		___________	
Equipment	___________		___________	
Other	___________		___________	0%
(None at this time)				
Insurance				
Malpractice	___________		__$100_____	
Liability	___________		___$50_____	
Other	___________		___________	2.40%
Variable Expenses (These are expenses that change with the number of patients seen)				
Medical Supplies				
Herbs	___________		___$50_____	

Cotton	___________		____$4______	
Table Paper	___________		___$20______	
Alcohol	___________		____$1______	
Other	___________		___________	1.20%
Office Supplies				
Copy Paper	___________		____$5______	
Copy Toner	___________		____$5______	
Pens/Pencils	___________		____Nil____	
Bottled Water	___________		___$14______	
Magazines	___________		___$15______	
Other	___________		___________	0.40%
Telephone Expenses	___________		__$150______	2.40%
Other Expenses	___________		___________	
Total Expenses	___________		__$6,236____	100%
(A)				
(Save this number)				

Step 2: Compute the Number of Patient Visits for the Month
(Quick way is take last year's total patient visits and divide by 12)

	Your Practice	Sample Practice
Examinations	___________	_____8______
Visits	___________	____175_____
Total	___________	____183_____
(B)		
(Save this number)		

Step 3: Compute Your Cost Per Patient (CPP)
(This is the total monthly expenses divided by the total monthly patient visits)

Total Monthly Expenses				
Total Monthly Patient Visits			=	Cost Per Patient (CPP)
Your Practice		Sample Practice		
(A) above		$6,236		
(B) above	=	183	=	$34.07

Discussion and What to Do Next

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

Step 4: The Evaluation

Evaluate if the HMO reimbursement is higher than your 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 we outlined in the worksheet, if the HMO reimbursement is $26 per patient, you may as well stand at the door and give each HMO patient $8.07 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 it all went. One practitioner said to me, "I was seeing a lot of patients, and 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) -- a change in you expenses (up or down), or a change in the number of patient visits (up or down).

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 again, if monthly expenses remain at $6236 but the volume of patients increases 20% to 220 patient visits per month, then the CPP drops from $34.07 to $28.34.

Total Monthly Expenses	=	$6,236
Total Monthly Patient Visits	=	220
Cost Per Patient (CPP)	=	$28.34

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 generates a 20% increase in patient visits, and office expenses increased due to the addition of a full-time staff person (40 hours per week at $10 per hour = $1,732 per month) to help with the paperwork and patient flow from the HMO. The cost per patient then becomes:

Total Monthly Expenses	=	$6236 + $1732
Total Monthly Patient Visits	=	220

Cost Per Patient (CPP)	=	$36.21

In this case, the 20% increase in volume requires an additional staff person, which increases your cost per patient to $36.21. Congratulations. You are now working 20% harder, with the management headache of another staff person to deal with, and you are 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 sharing space with another practitioner or renting to another practitioner. This is a very viable option, but you should not do this just because you wish to participate in an HMO.

Conclusion

Managed care is here to stay. It is estimated that 80% of all health insurance coverage has some form of managed care program. If you're thinking of signing up with HMOs, calculate your current cost per patient (CPP) and ask yourself the following questions first:

1. 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.

2. Will the HMO increase my patient volume each month? If yes, how much of an increase? recompute 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.

3. What if the HMO increase in monthly patient volume requires me to hire additional staff or other expenses? Recompute 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 to New Practitioners

For the practitioner just starting out -- don't be fooled into thinking you should sign up for all the HMOs just because you don't have many patients yet; ultimately, you'll 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 payments, 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 HMOs 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. And again, it also says to the health care 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 HMOs offering a low fee for your services will increase your fees is if you, the practitioners, don't sign up for low-paying HMOs, but do sign with the HMOs offering a reasonable fee schedule.

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