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Medical News Brief

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Are You Suffering From Revenue Leakage?

In the face of constant reimbursement headwinds, efficient and effective fiscal policies are vital to prevent revenue leakage in your medical practice. Here are five keys to tightening up your business practices.

Develop a solid cash flow system - Do you thoroughly understand your cash flow? Do you have an actual system for managing it? This includes more than just understanding when your staff gets paid or when the electric bill is due. It means:

- Knowing how many patients you need to come through the door to pay your bills,
- Understanding how much each patient visit is worth, and
- Generating reasonable projections of seasonal cycles and trends.

It also means clearly communicating with your patients on their financial responsibilities and, if feasible, offering payment plans for struggling patients.

Having a good cash flow system also means collecting money when it's past due. And that includes not only the big fees, but also the smaller ones. After all, the lesser amounts may often be more collectible.

Decipher contracts - You and your relevant staff need to delve into the details of your payer contracts. These reimbursements are the starting point for your practice's revenue cycle. If you fully analyze each contract and its reimbursement rates, you can better predict revenue based on past patient volume.

It's also important to verify that actual reimbursements match the contracted rates. Track key metrics for each payer. For example, do you know which is your most profitable payer? Do you know which payer has the most rejected claims?

Similarly, check the fine print of your vendor contracts. For instance, many medical practices use vendors for collections, but don't always audit to determine whether the contract provides adequate value for the services rendered.

Manage costs - Cutting costs can be the fastest way to greater profitability, because each dollar saved goes directly to your bottom line. Tracking key performance indicators applicable to your practice's cash flow can help you adjust spending or even eliminate some costs entirely.

Determining whether to lease or buy equipment is another way to manage costs. It's not necessarily true that leasing costs more than owning over the life of an asset. Service contracts are a factor; leasing can be less expensive than owning a machine and having to cover maintenance and repair costs yourself.

Ask for your money - Most people are uncomfortable asking for money, even when it's owed. However, medical practices and their staff can't be shy about asking for money that is owed. If a patient owes a co-pay, ask for it. Collect as much of the money due up front as possible. Implement procedures that make it easy to collect your fees, including accepting cash, checks and credit cards.

For patients who have problems paying their end of things, consider creating payment plans. Working to make sure as few patients as possible leave the office without paying their co-pay or their bill will go a long way toward preventing a revenue leak.

Never assume - An important question: How is your practice doing? Do you actually know or are you just assuming that it's doing fine? Are bills being paid? Are you getting plenty of new patients? Are your current patients happy and satisfied? Are they returning?

Maybe everything is going very well. It's also possible that your assumptions are wrong and the wheels are about to fall off. Check your metrics to make sure you're not leaving money on the table. Identify the ratio of existing patients to new patients. Determine the percentage of denied claims. Stay on top of all these issues to avoid being blindsided by a problem that could have been avoided.

Run it like a business - Your medical practice is a business, so you need to run it like one. Doing so includes implementing procedures to ensure you're not leaving money on the table and that your expenses aren't exceeding your revenue.

Tax Planning for Medical Practices: The Details of Depreciation

In a volatile economic environment where every dollar counts, your medical practice's leadership needs to know the distinction between traditional tax deductions and depreciation-related tax breaks. For instance, a medical practice can take an immediate deduction for various types of expenses that can be defined as ordinary and necessary business expenses. These include hand sanitizer, face masks, gloves and stationery. In addition, rent, utilities, advertising, insurance (but not health insurance), maintenance and repair costs are generally considered part of normal operations. Therefore, they may be deductible in full right away.

However, expenses that benefit more than one year may have to be capitalized and written off over several years. Generally, depreciation involves capital assets — including buildings, computers, X-ray equipment, office furniture and, sometimes, vehicles. These items lose their value over time and, therefore, usually offer only gradual, incremental tax breaks under the specific tax rules for depreciation. But two longstanding depreciation-related tax breaks — the Section 179 deduction and bonus depreciation — may offer an exciting tax-saving opportunity.

What is Sec. 179? When delving into the details of depreciation, it's critical to understand Sec. 179 of the Internal Revenue Code. Why? Because Sec. 179 "allows taxpayers to deduct the cost of certain property as an expense when the property is placed in service." In other words, a medical practice can immediately apply an expense deduction for purchases of depreciable business equipment, instead of capitalizing the purchases and depreciating them over time. Bear in mind that the "placed in service" stipulation in Sec. 179 is significant. You can't use the deduction for equipment you're storing for later use. The equipment must be in use for the Sec. 179 deduction to be valid.

For 2022, the maximum deduction was $1.08 million. This deduction limit is reduced dollar for dollar for qualifying property placed in service in excess of $2.7 million. The IRS notes that the Sec. 179 deduction applies to tangible personal property, such as machinery and equipment, as well as to qualified real property. This includes qualified improvement property and some improvements to nonresidential real property, such as HVAC, fire protection and alarm systems.

Depreciation allows for systematic write-offs over the estimated useful life of an asset. This is typically defined as five to 10 years, but specific equipment sometimes has a longer or shorter useful life. For example, computers and medical equipment are classified as having a useful life of five years, while office furniture generally is assumed to have a useful life of seven years.

How does it work? Let's assume you need to buy medical equipment that you'll use exclusively for your medical practice. The equipment costs $50,000 and has no salvage value, meaning you can't resell it at the end of five years. Under normal depreciation rules, you would have to depreciate the equipment over five years at $10,000 annually. Sec. 179 allows your practice to deduct the entire $50,000 in the current year. In a 32% tax bracket, your tax savings could reach $17,500. Thus, the cost of the equipment after the tax savings is $32,500.

What is bonus depreciation? Another term often seen in discussions of equipment depreciation deductions is bonus depreciation. This is a tax incentive allowing a company to immediately deduct a significant percentage of the purchase price of eligible assets instead of writing them off over the useful life of the asset. Sometimes it's also called the "additional first-year depreciation deduction."

There are two key elements to bonus depreciation:

1. A significant percentage of the amount spent on eligible purchases can be deducted the year they were purchased, instead of spreading the depreciation over several years, and
2. Last year (2022), bonus depreciation allowed for 100% upfront deductibility of depreciation, which results in 20% depreciation in each following year until its final year in 2026.

The Tax Cuts and Jobs Act made significant changes to bonus depreciation, such as increasing the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. But those changes are scheduled to decline by 20% each year until 2027, when they will expire. Consult with your accountant for more information about bonus depreciation and how it may work along with Sec. 179.

How can you get started?
Planning is key to taking advantage of depreciation-related tax breaks. Medical equipment may break down and require replacement immediately. But many assets — such as office furniture or even an X-ray machine — need regular replacement.

And the potential benefit of planning is considerable: By decreasing your tax burden, you can reduce expenses related to taxes and thereby boost cash flow. Tax laws, however, are complicated and constantly changing. Discuss asset acquisitions and whether they'll qualify for Sec. 179 or bonus depreciation with your CPA — preferably before you buy.

Keeping Up With Cybersecurity is Essential to HIPAA Compliance

Over the past few years, as a result of the COVID-19 pandemic as well as other developments in the medical arena, practices have increasingly relied on technology. This includes the much wider use of telehealth as well as electronic health records (EHR), online medical portals, and appointment confirmations via email and text.

Although technology is giving physicians, medical staffs and patients much easier access to critical information, it's also opened the door for fraudsters and hackers to steal or corrupt this data. That's why it's important to continue to follow the latest protocols for handling protected health information (PHI).

National standards - Title II of the Health Insurance Portability and Accountability Act (HIPAA), known as the Administrative Simplification provisions, created national standards for electronic health care transactions. Title II covers a lot of ground, but two aspects are particularly relevant to cybersecurity for medical practices:

1. **The Privacy Rule.** This concerns the use and disclosure of protected health information (PHI) held by "covered entities." According to the rule, covered entities include insurers, medical service providers, and various health care clearinghouses and employer-sponsored health plans, as well as their business associates.
2. **The Security Rule.** Unlike the Privacy Rule, which applies to all PHI (both paper and electronic), the Security Rule applies specifically to electronic PHI. It describes three types of security safeguards: administrative, physical and technical.

HIPAA and mobile devices - Mobile devices usually transmit and receive PHI via public Wi-Fi and email applications or through unsecure mobile networks, which place PHI at risk of interception. In addition, most mobile devices now can take and store photographs — but photos may violate patient privacy, thus raising compliance concerns. Most of today's smartphones and tablets store data not only on the device itself, but also in "the cloud."

The primary concern is how a doctor accesses patient information. If a physician uses a properly secured smartphone, tablet or laptop to access EHR, the doctor will generally be in compliance with HIPAA. But if the physician saves EHR data or photos to one of those devices, and it's stolen or lost, the doctor might be liable for the HIPAA breach. Liability can be costly — though, if the PHI isn't identifiable, it's probably nothing to worry about.

Data pulled via browsers is generally encrypted, especially through an EHR portal. But physician-to-patient emails outside the portal can be a problem, because the Internet service provider might not be secure — thus, the email communication could fail to meet HIPAA standards.

Access and training - The three standards of the HIPAA Security Rules are: confidentiality, integrity and access. Access typically refers to passwords. Physicians need to fully evaluate which staff members require access and provide training in security protocols.

A major component of cybersecurity is, of course, encrypting patient data. But also important is setting up monitor protection to prevent people who shouldn't have PHI access from reading information off a computer screen — for example, over the shoulder of someone in the office.

For most practices, it's a good idea to document each device's purpose and limit access to it. The next step is to determine how each device should be configured to make it compliant. Doing so may require engaging a HIPAA compliance expert in addition to an IT consultant.

Physician offices also need to develop policies regarding staff use of smartphones — especially now that almost all of them have cameras. The policies should answer such questions as: How and where can employees use their phones? One suggestion: Instruct staff members to not bring their phones into exam rooms or other patient treatment areas.

But even that might not be enough. For instance, a staffer might take a photograph of something in the office with a recognizable patient in the background and post it on social media. This could be a HIPAA breach, with financial and legal consequences for the practice.

Stay informed - The issues surrounding cybersecurity for physician practices, particularly regarding mobile devices, will continue to evolve right along with technology. Stay informed about the current best practices to avoid running afoul of HIPAA security rules and protocols.

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2023 Medical News Brief

How to Pick a New Practice Associate or Partner

Sooner or later, a growing medical practice will need to take on another associate or partner to support that growth and keep the practice profitable long term. The risk, of course, is that you pick the wrong person and end up throwing a wrench into the works. Here are some ways to help ensure you select wisely.

Ask the right questions - Bringing on an associate or partner is a weighty decision. Before beginning the process, ask yourself:

- What do you hope to achieve?
- To achieve that goal, what credentials do you expect an associate or partner to hold?
- If the plan is to increase overall patient visit volume, what effect will the increase have on total expenses?
- What patient volume level is necessary for the practice's optimal profit margin?
- Can your office infrastructure (that is, the physical space allocated to the waiting area, exam rooms, physician offices, and staff work and break areas) handle additional patients?
- Can your office location and community accommodate your practice's growth?
- Are you prepared to manage another physician or work with another partner?

Do the research - After answering these questions and deciding to move forward, think about where to find an associate or partner. You might already have someone in mind. If not, resources include journals in your specialty, online information and recruiting firms that specialize in physician practices.

Of course, it's a given that you'll want to bring on an experienced physician with excellent technical qualifications. But, just as in hiring an employee — and perhaps even more so — personality is a huge factor. You want to get along with an associate and be able to closely collaborate with a partner. In either case, the person needs to understand and share your goals.

Consider compensation structure - An associate or partner's compensation will likely involve negotiation. Such discussions can be particularly complex with partners, requiring comprehensive professional advice. For simplicity's sake, let's focus on associates. Generally, you can take one of three approaches:

1. Pure salary strategy. This places all the risk on you. The question becomes whether the associate will generate enough income to warrant the salary.
2. Pure percentage of production strategy. With this approach, the associate takes on more of the risk. But it's difficult to predict if or how volume will increase or shift. This method, which is probably the least common, can run afoul of anti-kickback laws, so you'll need to seek legal advice when seriously considering it.
3. Base salary plus an incentive. This is the most common approach. The associate is paid a base salary and receives a bonus based on a negotiated level of income generated. The risk is shared between the senior partner and the associate, and an income threshold of approximately three times the associate's base salary is common.

For example, if the agreement holds that the associate's base salary is $50,000 a year, a bonus will be awarded when the person has generated more than $150,000 of practice revenue. Typically, the bonus consists of 15% to 25% of each dollar made above that threshold payment. And the agreement might also stipulate that, after the associate generates $150,000 of practice income, the physician will start earning 15 cents to 25 cents on every dollar brought in, to be paid out monthly, quarterly or annually.

It should go without saying that any contract should be put in writing. These types of employment agreements are typically subject to both federal and state regulations, so consult an attorney familiar with medical practice agreements.