

Should I Sign Up with an HMO?

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Managed care is here to stay in the American health insurance industry. An estimated 80 percent of all insurance coverage has some form of managed care component. This article contains a worksheet to help calculate your current cost per patient (CPP), which offers an objective tool for deciding with which health maintenance organization (HMO) to participate. For instance, one of the many factors to consider is whether the increase in patient volume will require the hiring of additional office staff, thus increasing your CPP.

Caution is recommended to new practitioners when signing with HMOs. Even though a new practitioner may not have many patients to treat, joining an HMO to attract patients has a hidden trap: its fee schedule may not reimburse sufficiently for services to allow you to make a living as your practice grows. As your practice sees more patients from the HMO, there may be a need to fire additional office staff, which increases your CPP. The HMO's fee schedule, which is the rate you will be paid for your services, will lock you into a rate which that not allow you to afford the much-needed additional staff.

HMOs offer a fee for your services based on what they can sell to insurance companies and employers while offering you the lowest dollar. Carefully examine the HMO's fee schedule to determine whether you can make a profit. Joining an HMO with a fee schedule that causes you to lose money, or barely break even, is clearly an unwise business decision. It also says to the health care industry that you are able to stay in business with the HMO's fee schedule, and that you will accept it. The only way organizations will increase your fees is if practitioners don't sign up for the low-paying HMOs, but do sign with HMOs that offer a reasonable fee schedule. Due to market pressure, the low-paying HMO must then raise its fees to practitioners to maintain a panel and provide acupuncture/Oriental medicine services.

After finishing the worksheet, you may choose to sign up for some HMOs but not others, based on the way the numbers work out.

History and Overview

Managed care is the price we and our patients pay for the escalating health care costs of the 1980s. With the introduction of managed care into the health care system, unique opportunities are being presented to our profession. Doors which were not open 10 years ago are now being opened wide.

The American public -- our patients -- wants access to acupuncture/Oriental medicine and all the wonderful magic that comes 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 (HMOs, IPAs, 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 acupuncture/Oriental

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 recognize that patients are more likely to see an HMO panel practitioner and pay a small fee, rather than seeing a non-panel practitioner and paying a higher cost for the visit. The patient is confronted with a decision: "Do I want a \$10 co-payment and no deductible to see the panel provider, or go to a nonpanel provider and pay a large 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 join 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 trend in American health care 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 above all others. Can you make a living on the reimbursement the HMO is offering? 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 amount you will be reimbursed by the HMO for your services.

After you finish the worksheet on page 10, you should be able to identify which HMOs would benefit you, and which ones to avoid. (Keep this worksheet for future use when other HMOs solicit your participation.)

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
		<u>\$2,000</u>
Practitioner's Salary	_____	(Mortgage, food, 32 % car, insurance, children ...)
		<u>\$2,000</u>
Rent	_____	(1,500 sq. ft. x 32% \$1.33/sq. ft.)
Salaries		
		<u>\$1,822</u>
Receptionist	_____	(\$10.52/hr x 174 28% hrs/mo)
Billing Person	_____	_____
Equipment Leases	_____	_____

Tables	_____	_____	
Therapy Equipment	_____	_____	
Other	_____	_____	0 %
Insurance			
Malpractice	_____	<u>\$100</u>	
Liability	_____	<u>\$50</u>	
Other	_____	_____	2 %
Variable Expenses (These are expenses that change with the number of patients seen)			
Medical Supplies			
Herbs	_____	<u>\$50</u>	
Needles	_____	<u>\$250</u>	
Cotton	_____	<u>\$4</u>	
Table Paper	_____	<u>\$20</u>	
Alcohol	_____	<u>\$1</u>	
Other	_____	_____	5 %
Office Supplies			
Copy Paper	_____	<u>\$5</u>	
Copy Toner	_____	<u>\$5</u>	
Pens / Pencils	_____	<u>Nil</u>	
Bottled Water	_____	<u>\$14</u>	
Magazines	_____	<u>\$15</u>	
Other	_____	_____	1 %
Other Expenses	_____	_____	
Total Expenses	_____	<u>\$6,336</u>	100 %
	(A) (Save this number)		

Step 2: Compute the number of patient visits for the month. (A quick way is take last year's total patient visits and divide by 12.)

	Your Practice	Sample Practice
Examinations	_____	<u>8</u>
Visits	_____	<u>175</u>
Total	_____	<u>183</u>

(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

or

Total Monthly Patient Visits = Cost Per Patient (CPP)

Your Practice		Sample Practice
(A) Above	=	<u>\$6236</u>
(B) Above		183 = \$34

Discussion and What to Do

Now 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 whether the HMO reimbursement is higher than the cost per patient and at a level worth your time to treat the patient. Don't settle for just covering your overhead. Factor in a profit margin so you can pay your home mortgage, rent, food, insurance, and have some left over for savings and "fun stuff." You cannot live if you work for free or at a break even rate.

For the sample office shown in the worksheet, if the HMO reimbursement is \$26 per patient, you may as well stand at the door and give each HMO patient \$8.62 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, 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): 1. a change in your expenses (up or down); 2. a change in the number of patient visits (up or down).

Unchanged 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 from the worksheet, if monthly expenses remain at \$6,336 but the volume of patients increases 20% to 220 patient visits per month, then the CPP drops from \$34.62 to \$28.80.

<u>Total Monthly Expenses =</u>	\$6336
Total Monthly Patient Visits	220
Cost Per Patient (CPP) =	\$28.80

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 generated a 20 percent 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:

<u>Total Monthly Expenses =</u>	<u>\$6236 + \$1732</u>
Total Monthly Patient Visits	220
Cost Per Patient (CPP) =	\$36.67

In this case, the 20% increase in volume requires an additional staff person, which increases your cost per patient to \$36.67. Congratulations. You are now working 20% harder with the management headache of another staff person and are losing \$10.67 per patient. This is not the smart way to go. You must evaluate whether 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

One option is to reduce your expenses by sharing space with another practitioner or renting space to another practitioner. This is a very viable option, but you do not need to do this just because you

wish to participate in an HMO.

Conclusion

After you've performed the calculations to determine your current cost per patient, ask yourself these questions:

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 practitioners just starting out, don't be fooled into thinking you should sign up with every HMO because you do not have many patients yet. You could ultimately end up locked into a fee schedule with that HMO and might 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.

In summary, be selective about which HMO you join. The only way HMOs that offer low fees for your services will increase your fees is if you don't sign up with them, but instead sign with HMOs that offer a reasonable fee schedule. Due to market pressure, low-paying HMOs will then raise fees to practitioners to maintain a panel and provide acupuncture/Oriental medicine services.

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