Third Party Payer Contracts: Take control of your practice revenue

In March, 2015, the Senate adjourned with no permanent fix to the Medicare rate doomsday scenario called SGR (sustained growth rate) whereby Medicare is supposed to decrease the reimbursements to doctors by 23%. Depending on your specialty and source of payments, this could easily erase 50% of your net income, especially if your commercial contracts (e.g., Presbyterian Health Plan, BC/BS, and UHC) are based on a percentage of current Medicare rates. Changes in Medicare rates are not a new phenomenon. In fact, for the last 10 years Medicare has threatened to decrease reimbursement and then backed off at the last minute, but only after intense political pressure from the entire US medical complex. While your costs for rent, salaries, malpractice insurance and supplies continue to rise at about 3% per year, the amount of money you receive from Medicare has stagnated. The end result is that you, the person that cares for the patients, performs the surgeries and shoulders all the liability, gets paid less.

The pending decrease in Medicare will prove to be more devastating for your practice than most of us imagine, requiring an updated evaluation of your entire cost structure as well as the terms of all your third party payer contracts. For advice on how to reevaluate your practice costs, see my article titled “Already Have a Private Practice? How to analyze Your Established Practice for Long-Term Success” in the October issue of M.D. News.

In this article, I will describe how you can successfully renegotiate your third party payer contracts to help you overcome the challenge of the decrease in Medicare payments and have a more fiscally healthy practice. Third party payer contracts are essential to your practice as they provide the vast majority of your income; they are the life blood of your practice.

How can you take control?

Most private practicing physicians believe they have little or no clout when it comes to negotiating the terms and conditions of their third party payer contracts. Physicians are more likely to take on additional patients and ramp up their productivity to an intolerable level rather than seek to renegotiate their contracts. In today's medical environment, it is critical to maintain your income without having to see more patients or do more surgeries. Most physicians are at their productive limits. Pushing physicians to be more productive will only result in a lower quality of care, less favorable outcomes and a general demoralization and deteriorization of the medical delivery system. Following the steps outlined below, you can renegotiate your third party payer contracts and maintain your income while seeing the same number of patients.

1. **Gather your specific practice information.** Begin by running historical utilization reports from your office computer system for one calendar year to understand where your revenue is generated (e.g. surgical codes vs. E/M codes). Create a spreadsheet that lists your 30 most frequently used CPT-4 codes. List the NM medicare reimbursement and the associated RVU (relative value unit) next to each code. For example, a 99213 in 2015 is $72.94 = 2.04 RVUs. Then continue building this spreadsheet by running the same report by insurance company (source of payment) for the same calendar year. Use only your top 5 insurance companies plus Medicare and Medicaid. When completed, this spreadsheet will show you how much of your practice revenue comes from which insurance companies and what codes (services) generate the bulk of your collections.
2. **Monitor Medicare.** Pay very close attention to their changes. Their changes may affect your whole spreadsheet (practice) by dramatically affecting your heavily used codes. Be vigilant.

3. **Control the scheduling** of patients from less lucrative health care plans and keep your schedule wide open for more generous contracts. Begin by cancelling all commercial contracts that are paying you less than your normal commercial rates. If you are unable to cancel the commercial contracts, limit the patients that you see from those health care plans and limit your schedule to only a few Medicare/Medicaid/Centennial patients a month. Controlling your schedule will assist in molding your practice to minimize the impact of any future decreasing reimbursements by Medicare and less lucrative health care plans.

4. **Minimize the impact of one insurance company.** Run this analysis every month until you are assured that you are seeing mostly commercial patients (>70%) and none of your revenue sources are greater than 20% of your total. This allows you to quit an insurance company if they unilaterally change the terms of a contract. If you allow your practice revenue source to become too heavily dependent on one company, you can end up as their pseudo-employee because you can’t cancel that contract without destroying your practice also.

5. Evaluate the commercial contracts you have in place now. **Re-negotiate your biggest contracts** (PHP, BC/BS, UHC) to give you an immediate increase to catch up for the last few years and then set your reimbursement at a multiplier of RVUs rather than a % of current medicare. Also, negotiate an annual cost of living raise and limit your contract to three years to force them to talk with you again in three more years.

**Conclusion:**

Recent history indicates that Medicare reimbursements will either decrease or remain stagnant. Commercial contracts will follow suit as fast as they can reconfigure their computers. In either case, physicians are poised to experience another year of fiscal challenges with no cost of living increase. The information outlined above provides an opportunity to evaluate your revenue sources, reconsider the scheduling of patients from specific health care plans, and renegotiate commercial contracts. Help is available if you choose. Call me at 505-453-7886 or email me at jimceopmr@aol.com or log on to my web-site at medicalpracticeconsultantsincnm.com.

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Updated  
March 2015