Volume 2, Issue 4

The Business of Medicine Newsletter

"Leave the Business of Medicine to Us"

DoctorsManagement: A Message from the President

What is your (practice) story?

"Since 1956, DoctorsManagement, a premier healthcare management and consulting firm, has helped doctors in all specialties across America." This statement can be found on our website, marketing materials, correspondence and even products. Just like your practice, DoctorsManagement was built from the ground up on the changes, trends and needs of the healthcare environment.

We were as excited for our first client as you were for your first patient, and we did all we could to treat them well and to help them grow in a healthy direction - always with the next level of success in mind for them, and for us! Our consulting services grew over time, adding clients in more cities and even more states, using a pin map to mark each new client location. We thought, "Wow, we are really growing now!"

Before we knew it, we were celebrating our first 30 years and by then, some of our first clients were going on to enjoy the fruits of the retirement for which they had worked so hard. Others were enjoying great growth: adding new patients, needing to add more physicians and staff to take care of those patients, and space - "We need more space!" With growth came the need for improving and administering all the processes to keep their patients happy and healthy. Government regulations became a large focus in the medical practice and could have overtaken the joy of practicing medicine for some. In keeping with our commitment to our clients, DM added the ability to assist with OSHA/CLIA, Coding/Billing and Human Resources.

As the business demands upon physicians grew, so we grew; our pin map was retired once our pins became too crowded. We were excited enough just to say we had worked with clients in all 50 states! With the development of the Internet and social media, our success is on the Web for all to see. And, what a way for you, our clients, to do the same. Marketing, education, and client-patient interaction have all been enhanced by the tools of communication. We still understand that for our success to continue, tools are just that – tools. So much of what we have learned to help us build a successful company, we have learned from you and your practice – your needs, your successes and those things that might not have been as successful but nevertheless were learning points.

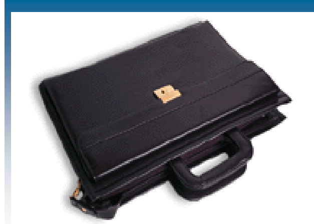
Our company has been so fortunate to be integrated with talented individuals. Having said that, we are excited to announce that Frank Cohen, a nationally-recognized authority in healthcare analytics, has joined DoctorsManagement as Director of Analytics and Business Intelligence. Many of you may be familiar with the analytics tools that Frank has developed and that are widely used by practices across the country. With the addition of Frank and his business associate of 20 years, Scott Buchanan, your practice will have access to more tools and services than ever before as they relate to improving profit and operational efficiencies.

Now celebrating our 58th year, we begin another chapter in DoctorsManagement's story. We hope that as you think about your practice's story, you will recall the beginning and how growing, learning and your association with DoctorsManagement has moved you, and is continuing to move you, in the direction you hoped when you started practicing medicine.

Paul King
President
DoctorsManagement, LLC

DOCTORS MANAGEMENT
Leave the business of medicine to us

Let Us Show You How to Get Back to Being a Doctor



Inside this issue:

Roth IRA: Can you make a conversion? The answer may surprise you!

For many years, the Tax Code prevented high income earners from participating in Roth IRAs. Married taxpayers with income in excess of $191,000 were not allowed to contribute to a Roth IRA directly and those with income in excess of $100,000 were not allowed to convert a Traditional IRA to a Roth IRA. This prevented high income earners from participating in one of the most beneficial retirement vehicles. While high income earners are still prohibited from contributing directly to a Roth IRA, there is a fairly simple work-around.

First, here is a quick review of the three types of Individual Retirement Accounts (IRAs).

- Traditional IRA: Contributions are tax deductible when made. Withdrawals (both earnings and contributions) are taxable.
- Non-Deductible IRA: Contributions are not tax deductible and only earnings on withdrawals are taxable.
- Roth IRA: Provides no tax deduction for contributions. However, all withdrawals (after age 59 ½) are tax free, both earnings and contributions.

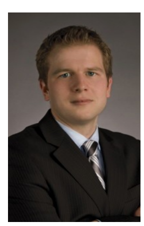
The Roth IRA can result in significant tax savings and many high earners would like to take advantage of a Roth IRA. If your income is too high to contribute directly, then how do you get funds into a Roth IRA? As with many things in tax law, you have to jump through a hoop. In this case, the hoop is a Non-Deductible IRA. The steps are as follows:

1. Contribute to a Non-Deductible IRA. The current limit is $5,500 per year ($6,500 if you are over 50).
2. Convert the Non-Deductible IRA over to a Roth IRA.

Now you have a Roth IRA which allows for tax free growth on your retirement earnings.

There are two caveats when participating in this strategy. The first applies to those with other Traditional IRAs. When converting to a Roth IRA, the government does not only consider the funds that are being converted. There is a formula based on ***all*** your IRAs. Therefore, if you have other funds in a Traditional IRA that are not being converted, some or most of the conversion may become taxable. If you have funds in Traditional IRAs in addition to the Non-Deductible IRA discussed above, make sure to discuss this strategy with your CPA prior to making any contributions or rollovers. The second caveat applies to earnings. Once contributions are made to a Non-Deductible IRA, they may begin to create earnings whether through interest, dividends or capital gains. When converted, these earnings will be taxable income. Therefore, many taxpayers using this strategy choose to put the funds in a money market account, which will provide very little earnings and little risk. Once converted, the funds are placed in investments with higher earnings potential.

When converting, we always recommend a trustee-to-trustee conversion to avoid potentially disastrous missteps. As always, you should consult your personal tax advisor regarding your individual situation. Should you have any questions regarding this strategy or any others, please contact us at 800-635-4040.



T. Blake King, CPA, MAcc, CVA
Partner
DoctorsManagement, LLC

Register Now for the 6th Annual NAMAS Medical Auditing & Compliance Conference!

When: December 7-9, 2014

Where: Asheville, NC

First 100 registrations will receive a ticket for a FREE tour of Biltmore Estates!

Click below for more details and to register:
[NAMAS 6th Annual Conference]

Why Interim Administrators Make Dollars and Cents

Your administrator has resigned or needs to be fired. What do you do next? As a medical practice consultant who is intimately involved with his clients in the management of their practice, I've come to understand the reasons why an Interim Administrator (IA) makes sense. In the challenging times of today's healthcare environment, characterized by small margins, low cash flow, enormous regulations, and an uncertain future, the IA can:

- quickly assess the leadership skills of the current managers and staff, supporting those who are strong to stay with the practice and making, in some cases, key terminations;
- assess the operations, the financial performance and billing performance;
- evaluate turnover, stabilize a critical situation, and provide strategic insight;
- provide the objective management needed to make the tough decisions; and
- assist the practice in hiring the new employed administrator.

Sometimes it can take as long as six months to fill an administrator position and that's critical time lost if no one is at the helm. An Interim Administrator can fix a lot of problems in six months and smooth the way for the new administrator.

Once hired, it's often difficult for a new practice administrator to make the tough decisions. Most of the time, the employed administrator is more inclined to make decisions that protect his/her job than to help the organization. With an IA at the helm during the transition, tough decisions can be made because the IA is less attached, can stick to the facts, and can be fair and appropriate. The IA can develop a plan of action for improving the practice and can implement the plan before the new administrator starts. The IA has experience in a lot of different situations and with a lot of different specialties. The IA is a "seasoned" executive who can use that experience in moving the practice forward.

Typically, Interim Administrators work with physician owners making sure there are no surprises and there is no cronyism or favoritism shown in either internal or external relationships. When employed leaders get entrenched, they get their own set of biases and opinions. Sometimes those biases can inhibit judgment. An IA can take a fresh look and can recognize options that should be taken and situations that should be fixed.

When an administrator suddenly leaves or is terminated, the Interim Administrator can fill the void and help make the necessary changes before the new administrator arrives.

Bob Rotar
Senior Mgmt. Consultant
DoctorsManagement, LLC

"Grown Up" Risk Management Strategies Can Create Wealth for Business Owners

Note: In this article the principles and concepts applied to small businesses also apply to medical practices.

Many mature and successful businesses have an immature approach to risk management. For many business owners and CFOs, risk management is not an enjoyable topic. Also, taking steps to develop a mature risk management approach sounds like code for "spend more money." However, the opposite is the case. Developing and executing a more mature risk management approach will almost always increase the total wealth of a business and its owners while better managing risks.

Entrepreneurial thinking and enterprises have created tremendous wealth in the United States, fueled upward mobility, expanded the middle class and provided a standard of living that would have been unimaginable to America's founders. This same entrepreneurial spirit gave rise to captive insurance companies as enterprising businesses looked for a better approach to manage risk. In their early days, captives were primarily used to control insurance costs and ideally return a portion of the premiums paid for insurance back to the parent company.

Beginning in the mid-80s, many businesses continued down an entrepreneurial path and shifted their mindset from risk management simply as a form of cost containment to risk management as a profit center. Indeed, a "grown up" approach to risk management can be quite creative and entrepreneurial. Making a paradigm shift from viewing risk management purely as a cost center to viewing risk management as a profit center and strategic pillar of the business can be very rewarding from a financial standpoint.

We recently attended the 2014 Captive Insurance Companies Association (CICA) conference in Scottsdale, Arizona. At the conference, we attended a presentation titled **Enterprise Risk Management For Captives And Their Parent Organizations**. This session was presented by Robert Walling, FCAS, MAAA, CERA, Principal and Consulting Actuary at Pinnacle Actuarial Resources, and Barry Franklin, SVP & Chief Risk Officer, Zurich North America.

Enterprise Risk Management (ERM) requires a paradigm shift in thinking about risk, but this paradigm shift is financially rewarding. Large corporations have employed Enterprise Risk Management (ERM) for some time, and this mature approach to risk management can also be adopted by mid-size and smaller companies. Mr. Walling noted that a captive insurance company "offers the opportunity to engage in ERM because it enables the business (or business owner or CFO) to take an active versus a passive approach to risk management." Ownership of one or more captive insurance companies makes ERM possible because a business is able to both:

- *Increase depth of insurance coverage*
- *Increase the time horizon of its risk management approach*

Increase Depth of Insurance Coverage

When employing a mature ERM model, risk managers and business owners categorize risk as core risk, insurable risk and business risk. Most businesses and individuals simply insure core risk and usually do so via third-party commercial coverage. Utilizing an ERM approach, a captive insurance company, in its formative years, gives businesses depth of cover by addressing the second and third layers of risk management (insurable risk and business risk). As the captive matures and amasses reserves, it can also play a role in addressing core risk. In addressing the role a captive insurance company plays in an ERM approach to risk management, Barry Franklin of Zurich noted, "The difference in ERM maturity lies in the second line of defense." Clearly, a captive insurance company is integral to implementing ERM.

Walling noted that many non-core risks evolve into core risks. He noted, for example, "many firms used to address cyber threats as an insurable risk in their CIC, but commercial insurers have caught up to the realities of the market and now offer third-party commercial coverage for cyber risks." Because of its flexibility, a captive insurance company will often insure risks that are difficult to cover via third-party commercial coverage. *(continued on next page)*

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"Grown Up" Risk Management Strategies ...

Walling noted that many third-party coverages have evolved because captives covered them first. As examples, he cited cyber, supply-chain risk, extended warranties, and even sleep apnea insurance coverage for truck drivers.

Increase the Time Horizon of Risk Management

Another characteristic of a mature risk management approach is taking a forward looking stance. A short-term approach to risk management typically buys insurance from year-to-year with the goal of keeping costs as low as possible. Each year, all premiums paid for third-party commercial coverage are a "sunk cost." At the end of the year, if there are no claims, the money is gone. Because a captive insurance company is owned by the business owner(s) or the parent company, premiums paid to the captive insurance company are retained after claims are paid. Wealth accumulates in the captive as insurance reserves and this provides flexibility to the business in its risk management in future years. A captive facilitates an ERM strategy because it enables a multi-year approach to risk management.

Financial Impact of a "Grown Up" Risk Management Approach

Adopting an ERM approach with a captive insurance company as the chassis can be a financial game changer for business owners. Because the business owner and/or company can reap additional profits from its captive insurance company, the organization will inevitably make risk management and risk mitigation a higher priority. Furthermore, as the CIC grows its reserves, it is in a position to help reduce total reliance on third-party commercial coverage for core risks. This can often be achieved by reinsuring deductibles and insuring additional potential losses not covered by commercial insurance (including losses above third party insurance policy limits). Finally, CIC ownership enables the business owner or owners to capitalize on the favorable tax treatment that insurance companies receive on their reserves set aside for future claims. A well-structured ERM strategy with a CIC can save a business owner $500,000 per year in taxes.

At the CICA conference, Robert Walling gave examples of companies implementing ERM that matured their risk management strategy into a profit center. He noted that numerous trucking companies with well-run, profitable captives have decided to extend insurance coverage to owner/operators. The trucking companies have been able to provide auto liability and cargo liability coverage to owner/operators while simultaneously enabling owner/operators to buy insurance at a lower cost. This has been a competitive advantage to the trucking company in securing owner/operators and also a profit center as the insurance company has returned profits to the parent company. He noted that some trucking companies have been so successful in their insurance operations that they even insure their competitors. International Harvester, a large equipment manufacturer, is another example of an entrepreneurial business that utilizes its captive insurance company to insure competitors.

Mr. Walling also provided the example of Firestone roofing materials. Firestone utilized its captive insurance company to provide insurance coverage to contractors who installed their roofing products. In doing so, Firestone was able to provide lower cost insurance to contractors while insuring that contractors installed their product correctly. Providing insurance put Firestone in a position of control over the installation process. This insurance program through its captive was also profitable and impacted Firestone's bottom line.

The most interesting example of the expansion of risk management to create a profit center was an example Mr. Walling provided about a company that manufactures crop duster airplanes. This manufacturer turned its captive insurance company into a profit center by providing overspray liability insurance to businesses that buy their planes.

In addition to the creative examples outlined above, employing ERM with a captive insurance company enables a business or business owner to capitalize on insurance law. Fortune 500 companies and other large company CFOs have been capitalizing on insurance law and tax treatment since the 1950s. The exact same strategies are available to small and mid-size companies. As part of its ERM, a business can purchase insurance from its captive insurance company(ies). Premiums paid to the captive are a tax deductible expense to the parent company. The captive insurance company receives the premiums in a tax-favored manner as a large portion is set aside as reserves for future claims. Reserves are not taxed, hence the insurance company is able to invest and grow a large pool of money. Insurance companies amass wealth by investing large amounts of pre-tax reserves. It's also worth noting that if the insurance company qualifies as a "small" insurance company (defined as receiving annual premiums of $1.2 million or less), it can make an 831 (b) tax election and be taxed at a 0% (zero percent) rate on its underwriting profits.

Ryan Manaker
Retirement Plan Consultant
SageView Wealth Management

Billing Department on the Right Track

It is amazing that billing and coding is the gateway of the cash flow for a physician's practice, yet it is an area that gets little to no concern or evaluation by the provider.

Let's assess the individuals who are part of the billing process, beginning at the front desk. Oftentimes practices fail to remember that the check-in and checkout staff plays a crucial role in billing. Although not every practice will have these individuals performing the specific duties that follow, this will fit most practices. The check-in staff is typically responsible for collecting co-pays and any balances due prior to the patient being seen, but how much collections training have these individuals taken? If you have ever tried to collect money from anyone, you know this task is not always easy; however, there are techniques that can be taught which could lead to an increase in collections for your practice. This position is often responsible for one of the most critical billing functions, i.e. checking the charges that came through the EHR to the practice management program. Most of the time we find that these individuals have not been trained in the mechanics of billing and coding and do not have a clear understanding of what they are entering so they can be more efficient. Regardless of their job in the practice, the individual who enters the charges should know the basic fundamentals of coding, such as the general layout and function of CPT and ICD-9 codes, the importance of linking these together properly, as well as a good understanding of modifiers. Their training does not need to be to the point that they could pass a coding test, but they should have some proficiency in these areas.

Billing staff members are expected to have a basic understanding (at minimum) of the medical billing process in order to do their job, but for billers to be able to be proficient, they should be trained to know coding concepts. This knowledge will help them in working denials, creating appeals, and requesting authorizations. Getting an individual who possesses these skills may come at an increased cost to the practice, but considering that the biller holds the key to the practice's revenue, this cost should be a moot point.

In small medical practices, there are typically the same number of coders as billers. Coders are an asset to the practice as they have been trained to be experts in ensuring proper coding. Unfortunately, there is often a breakdown caused by a disconnect between billing and coding. They should work hand-in-hand with one another. If services are accurately coded, the risk for claim denial decreases significantly. In the event that an encounter is denied that was coded by the coder, the coder, not the biller, should be the one to work the denial. This is the most effective way because the coder will gain the knowledge to be able to more accurately code similar cases on future encounters.

As the practice manager or provider, do you know what the billing procedures are for your practice? Most are not aware of any formal billing procedures for their own practice, but the billing function is how the practice pays the bills. It is important that procedures and consistency be an integral part of this to operate smoothly.

Recently, a provider contacted me because he was placed on a "pre-bill" audit program through Medicare and he was baffled as to why this would happen to him. After being in his office for only five minutes, we were able to identify his problem – his biller. When the provider was rounding in the hospital, he would mark on a census who he saw that day. That seems like a completely reasonable process; however, the provider did not indicate a level of service to be billed. The biller decided that since the provider was a neurosurgeon, every patient he saw should be billed at the highest level of service. Therefore, all IP services (initial and subsequent) were billed at the highest level, which led them right into their pre-bill audit from Medicare. To add insult to injury, in an effort to be helpful (she thought), if a patient that she knew had been seen remained on the census and he did not mark them on subsequent days, she assumed he forgot and billed the visit anyway. When this information was shared with the provider, he was in shock and said he had absolutely no idea that things were being done this way. This provider could be found guilty of false claims violations and be subject to recoupment, fines and penalties, as well as the threat of jail time due to a biller not having procedures to follow or the knowledge needed for the position. *(continued on next page)*

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Billing Department...

A good billing procedure would include policies for how to handle the following:

- Daily charges
- Daily payments
- Adjustment policies including what adjustments may be made without approval
- Electronic claims submission
- Daily/monthly close processes
- Denials and appeals
- Continuing education

An efficient, well-organized, and functional billing department should only cost a practice around 3% as opposed to a billing company's charges of 5-10%. However, a billing department that has few or no written policies and procedures and whose staff has had minimal training and education may have a much more costly effect on the practice.

Shannon DeConda, CPC, CPC-I, CPMA, CEMC, CMPM
President and Founder of NAMAS, a Division of DoctorsManagement, LLC
Partner with DoctorsManagement