

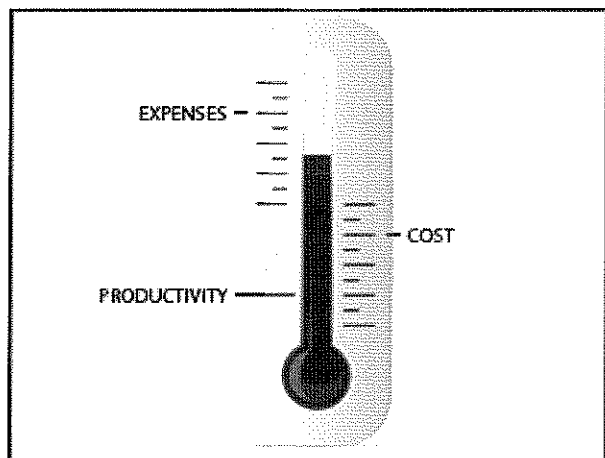
# Five Key Benchmarks That Could Make or Break Your Practice

Deborah Walker Keegan, PhD, MBA

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## Introduction

Many doctors don't know why their practices aren't doing well and are forced to guess what's wrong. They are so busy with day-to-day responsibilities that they do not have time to monitor all aspects of their business, yet they need to be confident that they are on track for success.



Instead of working in the dark, you can ensure your success by tracking 5 critical benchmarks that will give you peace of mind that your practice is on target. They can be implemented easily amid the time constraints of your busy practice. Two of these performance metrics give a balanced assessment of the business health of your medical practice: its financial performance and productivity.

Equally important is the clinical health of your practice, with 3 benchmarks that measure quality and service. Taken together, the 5 benchmarks will let you know whether your practice is firing on all cylinders and will give you the vital information you need to make changes that can improve your practice profitability and efficiency, if necessary.

## Checking Your Practice's Financial Pulse

The financial health of your practice determines how well you're doing. Assessing the financial health of your practice involves keeping 2 measures on your radar screen: how well your practice collects revenue and how well it controls costs.

### Assessing Revenue

Assess the success of your collections process (or "revenue cycle") by calculating a net collection rate. When your practice enters into a contract with a payer, you agree to take a contractual adjustment off your gross charges. The net collection rate tells you whether you are collecting the remainder of your gross charge once the contractual adjustment has been subtracted from your charges.

For example, let's assume that your gross charge is \$100 for a particular service and you agree to discount your charges by \$25. In this example, \$25 is the contractual adjustment. The net collection rate tells you how well you are collecting the remaining \$75 you are owed. This rate essentially answers the question, "Of the money we *can* collect, how much *did* we collect?" The net collection rate helps you to see if you have left money on the table.

### Benchmark 1: Net Collection Rate

*Calculation:* You can calculate net collection by dividing by the sum of gross charges, minus contractual adjustments. Continuing with our example, let's say your practice only collected \$50, not the \$75 it is owed. Your net collection rate would be calculated as 50 divided by (100 minus 25), or 67%.

*How to Benchmark:* Calculate your net collection rate. It should be 97% or greater to ensure a healthy bottom line.<sup>[1]</sup>

*Action Plan:* Find out where the problem lies. If your net collection rate is lower than 97%, calculate the net collection rate by payer to identify whether a particular payer is the culprit. If the net collection rate is generally consistent among all of your payers, investigate your front-end billing processes to determine whether you are submitting clean claims.

Investigate account follow-up efforts to be sure that each account is worked in a timely and accurate fashion. If you still cannot determine the root cause, consult a practice management expert to conduct an audit or help you determine where the problem lies.

## Scrutinize Your Expenses

The second benchmark of financial health is the cost of practice, as measured by your practice's overhead rate. The inverse of this ratio is the amount of money available for provider compensation and practice investment. This benchmark signals whether you are outspending your peers.

### Benchmark 2: Overhead

*Calculation:* Divide total operating expenses (including staff and general operating expense) by total medical revenue.

*How to Benchmark:* Once you have calculated your overhead rate, compare it with the median levels reported by peer practices in your specialty. For example, the Medical Group Management Association (MGMA) Cost Surveys report the specialty-specific overhead rates that can be used for benchmark comparison. For pediatric practices, the typical overhead rate approximates 60%; for orthopedic surgery practices, the overhead rate is lower, at 45%.

*Action Plan:* If your overhead rate is higher than the benchmark for your specialty, review detailed cost categories to learn where you may have opportunities for expense reduction.

## How Productive Is Your Practice?

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Most medical practices continue to work in a discounted fee-for-service environment. As a consequence, high levels of productivity are still expected of physicians and nonphysician providers. Benchmark your practice's productivity using work relative value units (WRVUs). This shows how your physician productivity stands up to other similar practices.

### Benchmark 3: Work Relative Value Units

*Calculation:* For each service you perform, a Current Procedural Terminology (CPT) code is billed to the payer. Each CPT code maps to a specific WRVU level. For example, a CPT code of 99213 (a level-3 office visit for an established patient) has a WRVU of 0.97. Calculate the annual WRVUs for each provider in your practice.

*How to Benchmark:* Once you have captured the WRVUs, compare this data with survey benchmark levels of similar practices. Benchmark sources are available through the MGMA and the American Medical Group Association, as well as specialty societies. For example, the typical WRVUs for a full-time general pediatrician are 4700 per year, whereas a full-time general orthopedic surgeon is almost double that level, at approximately 8200.

*Action Plan:* Take action on the basis your findings. For example, if you find yourself below benchmark median WRVU levels, you may be able to accept new patients or schedule more patient visits, thereby expanding patient access. As another example, if all providers in your practice are performing above the 75th percentile of WRVUs, it may be time to recruit a new provider.

## Is Your Practice Clinically Healthy?

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Many medical practices make the mistake of tracking only financial performance. To be sure, a medical practice will not be able to continue its important clinical work without assuring financial health.

But focusing on finances alone only gives you a singular snapshot of your practice's performance. What if quality outcomes are not at their level best? What if service is out of sync with patient expectations, causing patients to seek out other options for their care?

### Quality Is as Important as Quantity

Quality measures are becoming the norm, as medical practices align for accountable care and value-based purchasing. Most practices use evidence-based clinical protocols and measure patient outcomes to ensure quality care. Obviously, these are important to measure for your practice.

However, there is a single quality benchmark that is applicable to all specialties: the number of avoidable emergency department visits and hospital admissions. This measure allows you to assess the quality of your patient access and continuity of care efforts. This measure is now receiving scrutiny by payers, who are expecting medical practices to extend 24/7 access and care outreach to patients, thereby providing care in less costly venues.

Preventable or possibly preventable emergency department visits and hospitalizations include those that involve ambulatory care sensitive conditions that could have been managed in the outpatient setting; these include asthma or diabetes. Avoidable hospital admissions also include patient readmissions within a defined period.

**Benchmark 4: Avoidable Emergency Department Visits and Hospital Admissions**

*Calculation:* Tally the number of preventable or possibly preventable emergency department visits and hospital admissions for your patients.

*How to Benchmark:* Create a systematic method for obtaining information about your patient's utilization of the emergency department and hospitalization. Take a sample 1-month period and calculate the number of emergency department visits and admissions that were avoidable or potentially avoidable.

*Action Plan:* If your practice has a high level of preventable visits and admissions, create a quality plan to expand patient access, care outreach, continuity of care, and transition management. Track this benchmark over time by sampling your data on a quarterly basis, with the goal of reducing your practice's rate to zero.

**Improving Service Delivery**

The final benchmark category is service health. Is your medical practice perceived as meeting -- or exceeding -- service demands of referring physicians and patients? The response rate to a single question will give you a snapshot of the service health of your practice: "Would you recommend this practice to others?"

**Benchmark 5: Rate the Answer to "Would You Recommend This Practice to Others?"**

*Calculation:* On a 5-point Likert scale, with 1 as the lowest score and 5 as the highest, calculate the number of 4 and 5 ratings to this question as a ratio of the total responses received.

*How to Benchmark:* Survey your referring physicians and patients to elicit responses to this question. If the high affirmative response rate is not over 90%, your practice probably has service delivery challenges.

*Action Plan:* Diverse issues could be creating an impression of poor service. For example, referring physicians could have problems obtaining a consult, receiving reports in a timely manner, or working with your practice to transfer care. Patients could be facing obstacles related to visit access, or they could perceive your office staff as uncaring. If your key stakeholders signal they are not keen on recommending you to others, it is a clear sign that attention to service health is in order.

**Conclusion**

Just as you routinely monitor your patients' vital signs and order regular laboratory tests, it is important to routinely monitor the vital signs of your practice by tracking these 5 key performance measures, which could make or break your practice. Make sure your medical practice is successful in this balanced scorecard of measures involving business health (finances and productivity) and clinical health (quality and service). The Table is designed to facilitate the process.

**Table. Five Benchmarks for Assessing the Business and Clinical Health of Your Practice**

<p><b>Business Health</b></p>	<p><b>Financial</b></p> <p>Benchmark 1: Net collection rate Benchmark 2: Overhead</p>	<p><b>Productivity</b></p> <p>Benchmark 3: Work relative value units (WRVUs)</p>
<p><b>Clinical Health</b></p>	<p><b>Quality</b></p> <p>Benchmark 4: Avoidable emergency department visits and hospital admissions</p>	<p><b>Service</b></p> <p>Benchmark 5: Rate the answer to "Would you recommend this practice to others?"</p>

## References

1. Walker Keegan D, Woodcock EW, Larch SM. *The Physician Billing Process: 12 Potholes to Avoid in the Road to Getting Paid*. 2nd ed. Denver: Medical Group Management Association; 2009.