Paying attention to key metrics can help keep your practice operationally and financially healthy.

"Vital Signs" for Assessing Your Practice's Financial Health

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Sometimes bad things happen to good practices. The situation could be traumatic or catastrophic, as in an office fire or computer crash, or – more likely – it could be subtle and compounding, as in unnoticed embezzlement, billing irregularities or an increase in overhead.

The latter situation is common in many family medicine practices and has many culprits. For example, over the last year or two, many practices expanded their use of the expensive vaccine Gardasil, which turned out to be reimbursed at less than cost – or unreimbursed – by a number of insurance companies. Practices that weren't monitoring their finances lost significant money on supplies. Those that were paying attention caught the problem in the first one to three months and addressed it before incurring sizable costs.

If you kept track of every administrative detail in your practice, you wouldn't have time to see patients. You have to triage this work in order to be effective and efficient. Just as you work with your clinical staff to monitor the vital signs of your patients, you and your

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front-office staff can monitor the "vital signs" that reveal your practice's financial health.

The approach described in this article won't catch every problem, but it will draw your attention to important issues more quickly. Using the form on page 27 to compile information drawn from your practice management software and bookkeeping reports, you can conduct a financial checkup in as little as 10 minutes each month. It is beyond the scope of this article to help you solve the problems your assessment might uncover. *FPM*'s web archive (http://www.aafp.org/fpm) is a rich source of how-to advice that can be used to identify and implement solutions. The purpose of this article is simply to help you develop financial discipline and measure your performance systematically. To get started, you should track the following vital signs:

You should work with your office staff to track your practice's financial status each month.

Use a worksheet like the one in this article to compile key data and compare it with benchmarks.

Ten key metrics should be monitored, beginning with days and hours worked, which affects all aspects of your practice's financial health.

1. Days and hours worked

We start with this metric because it can have a substantial impact on all the others. For example, tracking days and hours worked may help you to make sense of a decrease in charges. The cause of the decrease will be readily apparent if you or another physician in your group has taken a vacation during the period in question. If work hours are in line with your norm, you'll need to explore other explanations. On average, family physicians work approximately 50 hours per week. The equivalent of 4 to 4.5 days per week, or 36 to 40 hours, are devoted to patient visits and activities related to them. The remainder is spent on administrative time and outside activities such as hospital committee work and CME. (See "About the benchmarks used in this article," below, for more information about this article's data sources.)

2. Charges

Practice charges are a significant variable when benchmarking family medicine practices' financial performance. Nationally, full-time family physicians' charges average approximately $50,000 per month, within a range of $35,000 to $70,000. Many factors can affect charges. For example, they can be impacted by a very high fee schedule. Ancillary services also can have a big impact. Coding skill also varies significantly and can have a measurable effect.

Watching the variation in your charges from one month to the next is the best way to identify variables that might be affecting your profitability and take corrective action

ABOUT THE BENCHMARKS USED IN THIS ARTICLE

To develop the benchmarks mentioned throughout the article, the author compiled and analyzed data from a number of sources, including the Medical Group Management Association's *Physicians Compensation and Productivity Report* (available at http://www.mgma.com); the *Joint Statistics Report* of the National Society of Certified Healthcare Business Consultants (available at http://www.nschbc.org); and his family physician clients' financial reports and tax returns.

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when appropriate. Seasonality has an impact that you can't influence, with charges typically lowest in the summer and highest in the middle of winter. However, billing delays, changes in billing staff or declines in service volume, for example, can create noticeable fluctuations in charges that may need to be addressed.

3. Collections

Most practices keep an eye on the amount of money they're collecting each month, but they don't necessarily look at that figure in relation to other metrics. It's more telling to track collections as a percentage of charges. As you do this, keep in mind that in most family medicine practices, reimbursement follows charges by two to six weeks depending on the insurance carrier, whether the contract involves capitation and the time of year, since collection ratios often drop in January during "deductible season" and are recaptured in February or March. A collections-to-charges ratio between 50 percent and 80 percent is typical. For a family physician with $50,000 in average charges, average collections might range from $25,000 to $40,000.

Inflated fee schedules will reduce the collection ratio. I've also seen some capitated practices that have collections regularly in excess of charges, so the target ratio depends on your unique setting. The important thing is to monitor your ratio monthly to identify significant changes that need to be explained. Potential causes include changes in your payer mix or reimbursement rates, failure to collect co-pays and failure to follow up on denied claims. ➤

Monthly charges may range from $35,000 to $70,000 per physician in a family medicine practice.

It's important to analyze collections as a percentage of charges.

FINANCIAL VITAL SIGNS WORKSHEET

Below is a simplified worksheet that can be used to monitor your practice's financial health each month. The "specialty benchmark" reflects ranges mentioned in the article; "personal benchmark" is your historical average or goal, which reflects the distinct characteristics of your practice. You should be able to obtain these metrics from regular practice management software and bookkeeping reports. Download a copy of this worksheet at http://www.aafp.org/fpm/20091100/25vita.html.

FINANCIAL VITAL SIGNS: MONTHLY REPORT

Factor	Specialty benchmark	Personal benchmark	This month	Prior month	This month last year
Work days per month	16 to 20				
Work hours per week in patient care	36 to 40				
Charges	$35,000 - $70,000				
Adjustments	$10,000 - $30,000				
Collections	$25,000 - $40,000				
AR total	100% - 120% of charges				
AR <30 to 40 days old	50% of AR total				
Patients: new/established hospitalized	n/a				
Average visits per day	25 - 30				
Work RVUs	350 - 500				
Total expenses	60% - 70% of collections				
Staffing expenses	20% - 25% of collections				
Supplies expenses	5% - 8% of collections				
Net income	30% - 40% of collections				

Source: This worksheet is adapted from a more detailed version published in Borglum K, Cate D. *Medical Practice Forms: Every Form You Need to Succeed.* 3rd ed. Santa Rosa, Calif: McGraw Hill; 2004. http://www.PMIC.com.

4. Adjustments

Adjustments made to your charges are another area where you should pay particular attention to variations and consider them symptoms of underlying problems. Embezzlement, changes in billing patterns or payer mix, recurring data entry errors and other issues can be identified by investigating changes in adjustments.

On average, your adjustments percentage is the inverse of your collection ratio, although it will almost never appear to be when compared month to month because adjustments follow charges by two to eight weeks depending on your billing cycles and past productivity. You should compare this month's adjustments to charges and collections from last month or the month before instead of to the current month's charges and collections.

This month's adjustments should be compared with charges and collections from one or two months ago.

5. Accounts receivable

Normal accounts receivable (AR) for a full-time family physician should average approximately 100 percent to 120 percent of monthly charges, with half this amount being under 30 to 40 days old. Obviously a fully capitated practice would have almost no AR, and a practice that provides lots of obstetrical care and has most patients enrolled in PPO plans may have significantly more. A physician returning from a two-week vacation would be expected to have fewer dollars in AR due to having fewer charges.

Accounts receivable rates that exceed the benchmark of 120 percent of charges can be a symptom of claims processing problems or other issues that need attention.

I've seen practices with a 500 percent ratio of AR to charges and found upon investigation that the vast majority represented accounts one to five years old because the staff never adjusted off bad debts. In that situation the AR metric is not useful. High AR rates can also be a symptom of delayed claim submission, dirty claims, excessive fee schedules and a host of other issues that require attention.

6. Patient counts

Keeping track of new patient, established patient and inpatient counts can provide perspective and understanding of other metrics. For example, many practices see a drop in charges – and all the downstream statistics – upon closing to new patients because the fee for new patient visits is higher than for established patient visits and new patients tend to consume more tests and ancillary services than returning, well-managed patients. The number of your patients who are hospitalized can also significantly impact your monthly financial picture.

7. Average visits per day

This is a good measure of productivity and efficiency. It's also a good metric upon which to base staff bonuses. An average number of visits per day is 25 to 30 per physician for a financially healthy family medicine practice that does not include a disproportionate share of geriatric medicine.

If you regularly provide fewer than 25 visits per day, consider offering staff a bonus of $10 each for every day the practice provides at least 25 visits per day, and you'll find it amazing how quickly the practice stabilizes at the target number. I usually set the number at 15 to 20 for midlevel providers, who tend to see fewer patients. Geriatric medicine practices typically will have more complex, and therefore fewer, visits.

Average visits per day is a good measure of productivity, but using relative value units works better, because this allows you to adjust for acuity.

8. Relative value units (RVUs)

If your practice is sophisticated enough to track and report on physician work RVUs, this number can be a better measure of productivity than charges or patient visits, since it adjusts for acuity. The range for family medicine is approximately 350 to 500 RVUs per month, with coding habits having a significant influence. Because it may be impractical to report RVUs more often than monthly, it is not an effective measure on which to base day-to-day behavioral change strategies.

9. Expenses

Many practices already monitor expenses on a global basis, but expenses should be tracked by category as well. A surge in medical supply costs helped us to quickly identify the impact of the vaccine expenses mentioned earlier in the article. This approach can also help to detect a common embezzlement scheme whereby an employee sets up a phantom supply company and issues checks to himself or herself through it.

A common mistake is to use the limited categories of expenses listed on IRS forms

When you find outlier data, follow through on diagnosis and treatment of the problem until it is validated or corrected.

and that CPAs use to report your taxes. A better approach is to use an expanded list of categories (called a chart of accounts or general ledger categories) that provide you more detailed cost information with which to manage your practice. (You can download a Microsoft Excel-based chart of accounts template from the *FPM* Toolbox at http://www.aafp.org/fpm/20040100/chartofaccounts.xls.) It is much easier for a CPA to consolidate a detailed chart of accounts for tax purposes than it is to extract useful information out of a too-limited one.

Tracking expenses by category is too big a topic for this article, but a select few expenses should be included in a regular "vital signs" report because of their susceptibility to variability, including these:

- Total expenses, which should typically average 60 percent to 70 percent of collections (excluding personal benefits to the physician, such as health insurance, retirement contributions, travel, entertainment, automobiles, depreciation and interest payments on loans – especially student loans),
- Staffing, the biggest expense in all family medicine practices, which should typically average 20 percent to 25 percent of collections (excluding physicians and midlevel providers but including billing and transcription services, if any),
- Total supplies, which should typically average 5 percent to 8 percent of collections but can vary significantly by type and age of practice and types of ancillary services offered.

10. Net income and physician compensation

This is the metric that we all care most about. It depends on good management of all the elements discussed in this article. When capturing these figures, a common error is to not include the physician's personal benefits (such as health insurance, retirement contributions, travel, entertainment, automobiles, over-compensation of family members, CME, club dues, computers and supplies purchased for home use, and cell phones and Internet accounts), all of which are compensation to the provider, and failing to account for the effects of depreciation (which is a tax adjustment, not a cash expense) and interest (which a mature practice should rarely be paying).

Also be sure that the benchmarks you set are in keeping with the number of hours you work. If you are working 80 hours per week, you are at 160 percent FTE, and your income – and the benchmarks you're comparing it with – should be modified to reflect your level of labor.

A typical full-time family physician should have annual pre-tax income between 30 percent and 40 percent of collections – approximately $136,500 for a family physician with $50,000 in monthly charges and a 65 percent collection rate. Of course, these numbers depend on the variables previously discussed and whether the practice includes obstetrics.

Practice healthy habits

Interpreting these vital signs will lead to a financially healthier practice, but only if you perform this exercise for the required 10 minutes per month. When you find outlier data, follow through on diagnosis and treatment of the problem until it is validated or corrected or you determine that the benchmark needs to be changed. FPM

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- Expenses should be tracked by category, not just globally.
- When calculating physician compensation, factor in personal benefits and make sure benchmarks reflect variables such as scope of practice and hours worked.
- The exercise described here should take just 10 minutes per month and is most effective when combined with systematic follow-up of outlier data.