One-Stop Shopping: Finding the Right Level Of Ancillary Services For Your Practice

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Valora Gurganious does not have any financial conflicts to report at this time.
Learning Objectives

➢ Analyze a framework that will help you identify areas of ancillary services that can benefit your bottom-line

➢ Examine your current practice staff and flow to determine new service implications

➢ Predict common pitfalls and learn how to avoid them when adding ancillary services

What Are Ancillary Services?

Wide range of medical services that support patient care

Types:
DIAGNOSTIC
THERAPEUTIC
CUSTODIAL
ELECTIVE
Why Consider Ancillary Services?

Enhance Quality of Care
- One-Stop-Shopping
- Patient Convenience
- Improved Patient Compliance
- Timely Diagnoses
- Elective or Discretionary Services

Boost Practice Revenues
- Retain Revenues in the Practice (instead of outsourcing)
- Yield New Revenues from Existing Patients
- Attract New Patients
- Cash Services Reduce Dependency on Insurance Payors

Proliferation of Ancillary Services

How Many Practices Offer Ancillary Services?

MedScape’s Physician Compensation Report*:

- 33% of Orthopedists
- 21% of Primary Care Physicians
- 20% of Dermatologists
- 19% of Obstetric/Gynecologists
- 18% of Pediatricians

Where Does One Start When Considering Ancillary Services?

ADVANCE PREPARATION
Before Considering Ancillary Services, Evaluate...
- Legal & Stark
- Qualifications, Capacity
- Patient Needs
- Competition
- Payment for Service
Legal Issues to Consider

To Comply with AMA Code of Medical Ethics and Stark Anti-Kickback Law...

- Never accept a "finders fee" to refer a patient
- Always establish Medical Necessity
- Disclose financial interest
- Provide referral list of 5 alternative facilities
- Consult counsel before entering any financial or referral agreement or face exclusion from Medicare, criminal prosecution, fine, or jail


Review Your Contracts

Before Offering an Ancillary Service, Review Your Agreements

- **Rental Agreements** (especially if in hospital MOB)
- **Managed Care Agreements** (may require you to refer only to designated facilities with prior authorization)
- **Employment Agreements** (all revenue streams may be owned by employer)
- **Medical Liability Policy** (may require a rider to cover this new service)
Ancillary Implementation Strategies

Partnering with a Vendor

- Minimal Set Up Costs
- Professional Marketing
- Experienced Management
- Physician refers patients
- Share Profits

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Partnering with Vendor

Study the Fine Print

OIG Bulletin (Apr. 2003) on "Contractual Joint Ventures" cites problems with many agreements that could result in fines up to $15,000, Medicare exclusion and 5-years in jail.

- Physician not PERSONALLY delivering service
- Volume-based Remuneration
- Kick-Backs Prohibited by Govt Payors
Partnering with Vendor

How Can You Partner Legally and Ethically?

✓ Send RFP to competing vendors to compare
✓ Background check vendor for violations, lawsuits
✓ Check with other Physicians who’ve partnered with them
✓ Also consider other local physician groups, hospitals as partners

If choose to partner with a vendor, qualify under Safe Harbor

1. Written contract of at least 1 year
2. Fixed compensation (not volume-based)
3. Compensation = FMV for services rendered

Sub-Leasing Space to a Vendor

You May Also Rent Space to a 3rd Party Vendor

The vendor provides the services to patients and bills for both the technical and professional component.

Only financial benefit to the practice is FMV Rental Income for the square footage leased by the vendor

There should be NO requirement to refer to that on-site vendor.

Be careful with Medicare/Medicaid patients to ensure you comply with Stark- Anti-Kickback requirements for such referrals
Shared Ancillary Facility

Physicians In Same Building May Co-Own an Ancillary

Multiple physicians located in the same building can co-own space and equipment to which they refer their patients for ancillary services.

- Each participating practice must be a solo or “group practice” and meet the Stark requirements for in-office ancillary services.
- This allows practices to share resources and to offer services to patients they could not otherwise independently afford.

Other Permissible Stark Exceptions

Designated Health Services May Be Offered In-Office

Clinical Lab  Physical Therapy  Occupational Therapy
Imaging  DME  Prosthetics/Orthotics
Home Health  Outpatient Medications  Parenteral/Enteral Nutrients
Partnering with a Vendor

Another Scenario to Add Ancillaries Quickly: Equipment for free ➔ agree to purchase all supplies

1. Lab analyzer manufacturer provides testing machine at no cost
2. Practice must purchase all reagents from manufacturer
3. Practice hires a certified lab tech, become COLA-certified lab
4. Practice maintains accreditation with log, 2yr inspections, manual, proficiency testing, controls 2x/day

Before Starting a Lab, Conduct Due Diligence

1. Identify most frequently ordered lab tests
2. Ask the outside reference lab for a Utilization Report to forecast your potential volume
3. Review costs of supplies and reagents
4. Identify insurance reimbursements for each test
5. Confirm that each payor covers these tests sent to labs other than their designated lab
Which Ancillary Services Are Best For Your Practice?

Start with a Patient Needs Assessment

1. Mine EMR data to determine which services you refer out most?
2. What are your patient demographics?
3. Can they afford it?
4. Are you qualified to perform this service?
5. Can you afford the overall investment?
Patient Needs Assessment

Example: OBGYN Practice

Busy practice of 2 MDs, 2 NPs, 1 CNM
Patient Volume: 80+ patients per day
Patient Demographics:
  - median patient age = 42
  - mostly healthy women of child-bearing years
  - pre- and post-menopausal women
  - commercial insurance = 80% of payor mix
  - 2/3 married or divorced, middle class incomes
  - 85% have children or are expecting
  - most have college or professional education

Patient Needs Assessment

Patient demographics show large population of child-bearing and post menopausal women

- Obstetrics & Gynecology
- Ultrasound, Dexe Mammography
- Lab Services
- Medical Weight Loss
- MedSpa Services
- Nutritional Supplements
### Ancillaries for Primary Care, OBGYN

**Costs/Benefits of Each Service**

<table>
<thead>
<tr>
<th>Service</th>
<th>Start Up Costs</th>
<th>Est Annual Income</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultrasound, Mammo, Dxa</td>
<td>$12k - $75k</td>
<td>$20k - $50k</td>
<td>Immediate Results</td>
<td>Requires High Volume, dedicated Tech and space</td>
</tr>
<tr>
<td>Lab Services</td>
<td>$50k</td>
<td>$400k</td>
<td>Convenient Immediate Results</td>
<td>Requires High Volume, Certification, Credentialed staff</td>
</tr>
<tr>
<td>Diabetes Education</td>
<td>Minimal</td>
<td>$10k (approx $500/pt)</td>
<td>Growing # Diabetic pts</td>
<td>Low reimbursement, Challenging accreditation</td>
</tr>
<tr>
<td>MedSpa, Weight Loss</td>
<td>$3k - $150k</td>
<td>$50k - $100k</td>
<td>Cash-based, Demand growing</td>
<td>Competitive, high expenses, pts have high expectations</td>
</tr>
</tbody>
</table>

### Patient Needs Assessment

Patient demographics show population with allergies, diabetes, other chronic conditions...

- **Allergy Testing, Immunotherapy**
- **CLIA-Waived Lab**
- **After-hours Walk-in Clinic**
- **Diabetes Education and Management**
- **Rx Dispensary**
### Ancillaries for Pediatrics and PCPs

**Costs/Benefits of Each Service**

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<tbody>
<tr>
<td>Allergy</td>
<td>Minimal with Vendor</td>
<td>$70k - $120k</td>
<td>Established Relationship, Trust</td>
<td>Some payors deny claims from PCPs, deny sublingual therapy</td>
</tr>
<tr>
<td>Walk-In Clinic</td>
<td>Minimal (if only extending hours)</td>
<td>$300k</td>
<td>Access after work/school, can staff with a PA or NP</td>
<td>Requires heavy marketing, high visibility location, few urgent care competitors</td>
</tr>
<tr>
<td>Tele-medicine Visits</td>
<td>Minimal to $100/mo</td>
<td>$50k</td>
<td>NP/PA may conduct visit, can be offsite, nominal cost</td>
<td>Must be licensed in the state where pt is located, must use secure encrypted platform, confirm eligibility</td>
</tr>
<tr>
<td>Nutrition, Weight Loss</td>
<td>$3k - $150k</td>
<td>$50k</td>
<td>Patient health improves, NP/PA may administer</td>
<td>Insurance pays $25-40 for the OV, patient pays for meal replacements, supplements, injections</td>
</tr>
<tr>
<td>Dispensary</td>
<td>$3k - $10k</td>
<td>$40k</td>
<td>Convenient</td>
<td>Rx Requires License, small margin on OTC meds</td>
</tr>
</tbody>
</table>

### Patient Needs Assessment

Patient demographics show high number of joint replacements, and heavier patients with diabetes

- Orthopedics
  - Imaging: X-Ray, MRI, C-Arm
  - Wound Care
  - Orthopaedic Physician Assistant
  - Physical Therapy
  - DME
## Ancillaries for Orthopaedics

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</tr>
</thead>
<tbody>
<tr>
<td>Imaging</td>
<td>$50k - $1 million</td>
<td>$70k - $120k</td>
<td>Quick results, Schedule Sx same day</td>
<td>Expensive build-out and equipment, requires very high utilization</td>
</tr>
<tr>
<td>Wound Care</td>
<td>$1k - $9k</td>
<td>$50k - 100k</td>
<td>Can be administered by PA or NP, better outcomes</td>
<td>Requires some equipment and supplies, low reimbursement</td>
</tr>
<tr>
<td>Physician Assistant</td>
<td>$75k - $150k</td>
<td>$100k - $300k</td>
<td>Triage, Post-Op care, May bill independently, More Sx cases for MD</td>
<td>Requires high patient volume and demand to not cannibalize MD volume, high compensation and high expectations</td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>$25k for equip + extra rent</td>
<td>$2k- $3k/patient</td>
<td>Aging population, osteoporosis; PT improves outcomes</td>
<td>Equipment, Space, Trained Staff, thinner margins, may requires high referral volume, Need PT permit, competitive market</td>
</tr>
</tbody>
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### Non-Physician Providers as Ancillary Service Providers

Enhance revenues, practice productivity and patient care
Non-Physician Providers

Does it Pay to Hire an NPP?

Assume 20 visits per day non-incident-to:
  Average revenue $100 per visit

Total revenue = $2,000/day
  ($480,000 annually (5 days * 48 weeks) at full PFS)
  $393,600 revenue at 85% of PFS (plus doc generating revenue at same time)
  - $130,000 annual NPP Salary and Benefits

Gross annual profit = $263,600
**Optimize Utilization of an NPP**

- Most practices treat NPP as high-level nurse
- Missing opportunity to boost productivity, improve scheduling access if permit NPP to treat patients independently, bill for services

- If physician is booked out > 1 week+ and slots are limited for chronic patients like diabetics, who could benefit from better f/u care
- Work with NPP to decide visit types, conditions and patients most appropriate to his/her schedule (confirm state scope of practice guidelines)
- Direct those patients to NPP, free up physician for more complex, higher level patients with higher E/M and RVUs

**Optimize Utilization of NPP**

- Open valuable slots for complex patients on physician schedule by scheduling other appropriate (f/u or post-op) patients with NPP
- Review protocols with staff: such as #patients/day/provider, and time for each visit type
- Typical NPP day: 15-18 patients/day

- Fill empty exam rooms on days when physician is out of the office with clinics like back pain, diabetes management, or wound care
- NPP can bill under her own NPI at 85% of PFS and generate revenues from rooms that previously were empty, generating $0
### Impact of NPP Optimization Strategies

<table>
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<tr>
<th></th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Patient Visits</strong></td>
<td>6,311 Patients Served</td>
<td>11,850 Patients Served</td>
</tr>
<tr>
<td><strong>Annual Charges</strong></td>
<td>$2.3 million</td>
<td>$8.7 million</td>
</tr>
<tr>
<td><strong>Average $$ per Patient</strong></td>
<td>$194 per patient</td>
<td>$359 per patient</td>
</tr>
</tbody>
</table>

**RHEUMATOLOGY PRACTICE CASE STUDY**

1 MD, 2 NPP

### Crunching the Numbers

**Calculating the ROI from a New Ancillary Service**
Size Matters with Ancillaries

Economies of Scale Advantages

- Large multi-specialty practices can feed referrals, lead to higher utilization and faster ROI
- Investment is amortized over multiple providers
- Risk is also spread among investors
- Many Private Equity acquisitions are driven by the value in
  - vertically-integrating practices
  - consolidating ancillary services
  - maximizing utilization from providers within the practice
  - maintain profits within the group

Calculating Costs of the Ancillary Service

STAFF LABOR

- Wage per hour = ________
- PLUS Benefit Costs per hour= ________
- EQUALS Total Labor Cost per hour = __________
- DIVIDE BY 60 (minutes per hour) ________
- EQUALS Total Staff Labor Cost per min=____
- TIMES # Minutes Per Day on this service =
- EQUALS Total Staff Cost/Day on this service

DOCTOR LABOR

- Total Annual Receipts = ________
- DIVIDE BY #Total Hours Worked per year=______
- EQUALS Gross Doctor Earnings per hour=______
- DIVIDE BY 60 (number of minutes per hour)
- EQUALS Doctor cost per min ______
- TIMES # minutes per day Doc involved with this ancillary service = Total Doctor Cost/Day
Calculating Expenses

Operating Costs
Total Equipment and Supplies Cost per day

Total Staff Costs + Total Doctor Costs per day

Per Day Allocation for Rent, Insurance, General Overhead Associated with this Ancillary

Total Daily Operating Costs for this ancillary

Projecting Revenue

Estimate revenue based on good data analysis

Total Expected Revenue per Service per day

#Patients/Day (current outsource volume)

Total Expected Daily Revenue from this ancillary service
Projected Profitability

How Much Can the Practice Make
On this Ancillary?

>Total Daily Revenues – Total Daily Expense
= Estimated Profits/Day

SUSTAINABILITY

Look Critically at the Durability of Your Projections

- Are your patient volume projections realistic?
- Does your outsourcing fluctuate seasonally (i.e. allergies)?
- Have your outsourced referrals been rising, stable or declining over past 3-5 years?
- Are patients price-sensitive for this service?
- Is there competition for this service in your community?
- What is the long-term outlook for this service?
- Will there be faster, cheaper, more convenient substitutes on the horizon? (home test kits, Amazon, Apple watch, etc.)
Macro-Economic Analysis

What is the economic outlook in the next 5 years?

Before making a significant capital and financial investment:

**Consider trends in billing**
- Will service become a bundled service?
- Prior Authorizations required?
- Will payors pay for services rendered outside of their negotiated contracted providers?

**Consider the broader economy**
- Can patients afford to pay out of pocket?
- Can you afford to deliver this service if reimbursement drops 20%?

Moving Forward

Once the decision is made to add the service...

**MARKET the service:**

**INTERNALLY:**
- Educate the staff on the new ancillary and the benefits for patients
- Educate all providers so that they are advocates and referral sources for the service

**EXTERNALLY:**
- Raise patient awareness that this is now available at your practice
- Update your website, social media and waiting room media
- Prepare an FAQ brochure that addresses patient objections or concerns
**Track Performance**

**Establish this service line as a Cost Center to Track**

Using EMR and bookkeeping software:
- Number of times this service was prescribed
- Total collections and A/R for this service
- Total associated staff and benefits costs
- Total supplies and maintenance costs
- Licensing, compliance, additional insurance, and other direct costs attributable to the service
- Allocation for overhead for the space, resources used
- Compare the net profits and trends at least monthly to observe trend
- Adjust strategy, if necessary

**CONCLUSION**

Finding the Right Level of Ancillaries for Your Practice
ADDING PRACTICE ANCILLARIES

Process Flow Chart

- Check Your Contracts
- Applicable State and Federal Laws
- Consider patient demand, insurance outlook, competition
- Analyze Your Market
- Evaluate Long Term Outlook
- Evaluate implementation strategies
- Project costs and revenues
- Go/No Go Decision
- Track Expenses and Revenues
- Train staff and providers
- Market
- Implement
- Monitor financial and operational performance
- Adjust as necessary

Continuing Education

ACMPE credit for medical practice executives.................. 1.5
AAPC All except CIRCC, CASCC credit ......................... 1.5
ACHE credit for medical practice executives.................... 1.5
CME AMA PRA Category 1 Credits™......................... 1.5
CNE credit for continuing nurse education ..................... 1.5
CPE credit for certified public accountants (CPAs)......... 1.8
CEU credit for generic continuing education.................. 1.5

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