Billing Companies Can Advise Physicians on Medicare Pay Problem and Protect Themselves

USUALLY DEVOTED TO HEALING, DOCTORS WANT TO KILL THE SGR

By Rex Stanley, RN, CMM, CPC, CHBC, CRS, CHCC, PCS

The Sustainable Growth Rate (SGR) is a major part of the Medicare payment formula, threatening to devastate physician pay. To continue to meet their clients' needs and maintain their own viability, savvy third-party medical billing companies must understand this issue and help their clients find ways to deal with it.

Flawed Formula

Physician pay is still due to plunge 21.2 percent by the end of November and 40 percent by 2016. The cost of running a medical business is expected to soar 20 percent in that time.

The problem is the SGR, applied by the Centers for Medicare & Medicaid Services (CMS). The SGR is flawed, heavily weighted on the Gross Domestic Product (GDP) and not on actual healthcare practice costs. Plus, Congress, responsible for fixing the problem, keeps placing short-term bandages on a long-term, festering wound.

The logic behind the SGR made some sense when it was established in 1997. To maintain budget neutrality, a relative value scale was instituted to pay physicians the true value of their services, regardless of differences in the complexity of services provided and geographic costs of living.

The factor used to convert the relative value to dollar amounts resulted in less or more pay for physicians than intended, so the rate was adjusted accordingly. To restrain Medicare's total expenditures, Congress created the SGR to modify the conversion factor. During the first six years, physicians received an average increase in pay of two to three percent. During the past seven years, however, the SGR resulted in an average loss in pay of the same percentage and because it was never enforced, accumulated to more than 21 percent over time.

The SGR issue affects all parts of the medical community and all doctors – from primary care physicians on slim profit margins to specialists and from solo practitioners to those in large group practices. Even salaried hospital physicians are not immune as administrators seek concessions in today's rocky economy.

Continuous Delays

Lawmakers postponed pay cuts during the past seven years and delayed cuts several times this year but have not permanently solved the root cause. Congress passed another "get-by fix" this summer postponing the 21.2 percent pay cut from June 1 until November 30 and increased the reimbursement rate by 2.2 percent during that period. That still leaves physicians facing a cumulative 28+ percent decrease in Medicare pay next year.

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Congress has never been this late in delaying the pay cut, causing added administrative snafus. Twice this year, anticipating another reprieve from Congress, CMS directed contractors to temporarily hold paying claims. That launched an administrative repayment situation, causing uncertainty and cash flow problems in an already dicey economy.

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According to a recent AMA survey, in response to temporary rate reductions, physicians delayed payments for supplies, rent or other expenses and took out loans or lines of credit to pay bills, if they could, in the tight credit market. Some doctors delayed paychecks or even furloughed or laid-off employees.

Doctors are frustrated, angry and up in arms to protect their practices from Medicare's volatility. Some doctors are already limiting Medicare patients and others are seriously considering not accepting new Medicare patients, risky business for everyone as more baby boomers become eligible every day.

No Easy Solutions

Several recommended fixes were proposed and dropped from healthcare reform bills over the past year. All have associated costs and none are easy or necessarily palatable.

House Democrats in an early bill suggested eliminating the 21.2 percent cut entirely and giving doctors a 1.2 percent raise in 2010. They also recommended basing Medicare physician pay, instead of on the SGR, on the Medicare Economic Index (MEI), the Department of Health & Human Services' measure of the annual increase in the cost of medical practice.

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The AMA supports repealing the SGR and tying the formula to the MEI, and even launched a multimillion dollar ad campaign to urge the public to help fix the Medicare physician pay problem. But the solution would cost taxpayers $88 billion by 2014 and $253 billion by 2019.

Another idea floated during the healthcare debate was to freeze Medicare physician pay this year, in 2011 give primary care physicians a two percent increase over the GDP to boost their dwindling numbers, and give specialists a one percent raise. The price tag over the next 10 years is estimated between $239 and $245 billion.

One proposal was to deduct the cost of injectable medications administered in physician offices, paid for under Part B Medicare, from the physician fee formula. This would secure doctors a 1.4 percent raise in 2011 and over the next 10 years it would give the appearance of removing $122 billion in physician expenses, but it's really just cost shifting.

As part of the Patient Protection Act, the Senate suggested a five-year freeze on the Medicare physician fee schedule and reverting to the SGR in 2015. This would buy physicians some stability for five years, but result in a 25 to 30 percent hit in 2016.

Debbie Stabenow (D-Mich.) had the simplest, albeit unpopular solution. She said freeze Medicare physician pay for 10 years, giving Congress a new budgetary baseline to establish a payment system that works. The cost: $73 billion by 2014 and $184 billion by 2019.

The proposal by Sen. Roger Wicker (R-Miss.) may be most feasible. He suggested freezing Medicare pay this year and next and creating a physician-driven commission to devise an alternative to the SGR. It would engage physicians in solving the problem and give them buy-in. Plus, Congress could wash its hands of responsibility and blame for the SGR. The price tag, however, is unknown and those bent on reducing the budget may balk.

Window of Opportunity

The fact that Congress delayed the physician pay cut until after the fall elections and before the end of the year when the issue would roll over to a new Congress, makes me optimistic that something will be done to solve the SGR problem this year. There's a window of opportunity between Thanksgiving and Christmas when lame ducks who want to fix the SGR may push for a solution, damn the political consequences.

Also, the fact that Congress upped reimbursement by 2.2 percent encourages me to think there may be some small increase in pay – say one to two percent – over the next two to five years for physicians. It's not a permanent solution, but it's better than taking a stab at the problems several times like Congress did this year.

Regardless of the solution, even the most math phobic physicians need to know where they stand and understand the impact of a significant hit of more than 20 percent to their practice.

Unique Position

With their financial acumen, billing companies are uniquely positioned to help physicians take their financial pulse and determine the cost of their services so they can project how a hit will affect them. On average, Medicare represents roughly 30 percent of physicians' revenue, according to the Center for Studying Health System Change. Of course that's just the mean and physicians need to factor what percentage of their business is Medicare.

Hypothetically, if 100 percent of a practice's patients are paid at Medicare rates, and the practice generates $800,000 in revenue, and spends $650,000 for costs, the physician makes $150,000. Reducing $800,000 by 21.2 percent equals $630,400, leaving the Medicare dependent practice almost $20,000 in the hole. Billing leaders can help physicians navigate the SGR quagmire, find ways to increase efficiencies and help manage cash flow and revenue to soften the blow of a pay cut.

Billing companies also can help physicians determine which fee schedules for private insurance companies may be tied to Medicare rates and at what percentage – 115 percent, 120 percent, below? Billing companies can work with physicians and practice administrators to determine which contracts may be renegotiated, and when. If a financial analysis reveals a practice is losing money, physicians may have to decide whether they will continue to contract with insurance companies that base their fee schedules on Medicare pay rates.

Astute billing companies can help physicians and practice administrators identify resources, such as IT staff, to develop new reports, software or economic model to help with financial projections.

Most importantly, billing companies can act now to mitigate risks down the road by negotiating fee schedules for physicians based on fixed dollar amounts instead of Medicare rates.

Shared Risk

The trickle down effect to billing companies of the SGR issue makes them vulnerable, too, because no matter how billing companies are paid – a percentage of collections or flat fee - if clients are at risk, so are billing companies. Billing company leaders need to educate their physician clients if they are not already on top of this important issue, help guide them and make sure they have a point person monitoring this problem and mustering resources. Smart billers are making plans to expand their services themselves to deal with this issue.

Helping physicians manage their revenue so they can afford to care for Medicare patients helps fend the dragon off, if not kill it, and makes billing companies valuable and viable. ■

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