“Economics of Clinical Nephrology Practice” emphasizes learning the information needed to make the best choices for clinical practice, and as a result having a productive and rewarding career as a clinical nephrologist. Decisions about where to practice; what corporate structure is best; who should be providing advice; licensing requirements; working with Medicare, Medicaid, and managed care; fraud and abuse issues; budgeting and forecasting; financial planning; understanding basic concepts of marketing; and developing practice-building strategies are all critical when entering or establishing a clinical nephrology practice. As will be apparent, the economics of practice has less to do with medicine and more to do with basic business principles. This curriculum will serve as a starting point for understanding many of these basic principles.

CHOOSING ADVISORS

When entering clinical practice, obtaining sound advice from local professionals who can assist with various legal and accounting practices is essential. Rather than solicit advice from friends, family, or outsiders, one is better served if an attorney and accountant are selected in the very beginning, to help anticipate and resolve key issues, rather than reacting to crises that may arise. Seeking recommendations for attorneys and accountants from other physicians in the same geographical area and/or specialty is an effective strategy in this regard. During the establishment phase of nephrology practice, any or all the following advisors may be of value:

- Accountant
- Attorney
- Banker
- Financial/investment counselor
- Management consultant
- Insurance broker
- Real estate broker
- Nephrology coding and billing professional
- Billing and reimbursement professional

EMPLOYMENT OPTIONS

Selecting a Practice Location

Considerations:

- Professional relationships and opportunities:
  - Relationships you have formed in residency training/medical school
  - Relationships with practicing physicians
  - Areas that offer continued educational opportunities, professional stimulation, and the opportunity to practice at a hospital that has technologically advanced facilities

- Prior exposure:
  - Where your training occurred (undergraduate, medical school, internship/residency/fellowship)

- Economic factors
  - Salary or income potential
  - Cost of living

- Environmental factors
  - Lifestyle choices (eg, hobbies)
  - Geography, climate
  - Family, children
  - Educational opportunities, housing
  - Cultural opportunities

- Other determinants
  - Hospital proximity
  - Religious affiliations
Office space availability and cost
Availability of others physicians who may "cover" you

Practice Structures

Solo proprietorship
- Advantage:
  - Physician autonomy
- Disadvantages:
  - Physician solely responsible for medical care and running office
  - Difficulty negotiating advantageous managed care contracts

Partnership
- Advantages:
  - Shared administrative burdens
  - Equal rights in management and conduct of partnership
  - Equal responsibilities for accounting and fiduciary relationships
- Disadvantages:
  - Each partner is responsible for decisions the group makes
  - Can be cumbersome
  - All partners are liable for "wrong acts" under the partnership
  - Partnership losses must be divided equally

Corporate practice
All physicians are employed by the corporation. Owners of the corporate practice reduce the personal and financial risks to individual physicians, while at the same time providing opportunities to shelter income through a qualified retirement program.
- Advantages:
  - Individual physician has limited liability
  - Centralized management in which autonomy and responsibility are fixed to appropriate parties
  - Ownership interests can be transferred easily through the sale of stock representing the value of corporate assets
  - Pension and profit-sharing plans are superior to those available in partnerships
  - Arrangement can provide tax savings
- Disadvantages:
  - Only physicians can be shareholders; in most instances there is double taxation (both the physicians’ salaries and the profits of the corporation are taxed)
  - Corporations have greater infrastructure costs including attorney fees and must make higher social security payments for the physician
  - Management of a corporation requires a formal organizational structure and a variety of activities including board meetings with minutes recorded, issuance of formal notices of annual quarterly meetings, election of corporate officers

Limited liability company
The limited liability company (LLC) has recently been recognized by the Internal Revenue Service (IRS) as an approved corporate structure. It provides the owners the best advantages of both a corporation and a partnership. This recognition varies from state to state.

Under the provisions of this form of business arrangement, members of the LLC are not liable for the overall obligations of the LLC. Yet, each member is liable for any negligence, wrongful act, or misconduct committed by him or her or by any person under his or her direct supervision while rendering services on behalf of the LLC. Membership in the LLC may only be transferred to other professionals who are eligible.

At least one of the professionals forming the LLC must be authorized (licensed) to render professional services in the state where the LLC is formed.
- Advantages:
  - Personal liability of each member of the LLC is limited to his/her personal investment in the LLC; ie, no member of the LLC is personally liable for the debts of the entire organization
  - LLC offers pass-through tax benefits, ie, no entity-level tax on the entity’s income, but only a tax on their share of the entity’s income
- Disadvantages:
  - Much like corporations, LLCs have greater infrastructure costs including attorney and accounting fees in addition to often requiring higher level business expertise (MBA)
  - Requires a formal organizational structure and a variety of activities including
board meetings with minutes recorded, issuance of formal notices of annual quarterly meetings, election of corporate officers

● Other features:
  ■ Ownership of an LLC is by its members
  ■ The LLC may be managed by its members or by 1 or more managers appointed by the members
  ■ LLC members generally vote in proportion to their ownership interests.

Employee status
An increasing number of physicians have chosen to become employees of health maintenance organizations (HMOs), and many multispecialty groups have become employees of larger health systems. Additionally, physicians are becoming employees of other physicians who have established practices.

● Advantages:
  ■ Guaranteed income
  ■ No administrative responsibilities

● Disadvantage:
  ■ Limited potential for growth and little control

SIGNING AN EMPLOYMENT CONTRACT

Terms of Contract

● What is the length of the contract?
● Does it have an automatic renewal?
● Is the contract subject to renegotiation at the time of renewal?
● What hours are the physicians expected to work and what specific duties is the physician expected to handle?
● Is the physician restricted in any way from seeking additional employment outside the practice?
● What kind of patients will be assigned to the physician?
● What kind of restriction does the physician have with regard to acceptance of patients and modes of treatment?
● What locations will the physician cover?
● What call responsibilities are there?
● What are marketing and promotional responsibilities?
● What kind of staff support will be provided?

Compensation

● What salary will be paid?
● How will the salary be computed?
● At what intervals and increments will the salary increase?
● What incentive bonus applies and how is it calculated?

Benefits

● Is a pension and/or profit-sharing plan available?
● What is the vesting schedule?
● Will the employer pay malpractice premiums?
● Who pays for the “tail” insurance*?
● Will the physician participate in a group life insurance plan?

● What is the average length of time accounts are in accounts receivable?

*Insurance that covers malpractice that occurred during previous employment. This coverage can be expensive and is therefore often negotiated when joining a practice.
Who pays the premiums?
What additional fringe benefits will the physician receive?
- Life and disability insurance
- Group health plan
- Vacation
- Sick leave
- Personal leave
- Continuing medical education (CME)/convention/postgraduate work
- Professional books and periodicals
- Professional dues
- Medical equipment
- Office space
- Clerical help
- Automobile allowance
- Moving allowance
- Cell phone or pager

Buy-In Agreement
- On what date will the physician be allowed to acquire part ownership of the practice?
- What will part ownership in the practice entail?
  - Accounts receivables
  - Equipment
  - Goodwill
  - Supply inventory and prepaid items
  - Office buildings and real estate
  - Dialysis units
- Liabilities
- What will be the cost to the physician to buy into the practice?
- How will the value of the practice be determined?
- What are the exact terms and payments of buy-in?

Covenant Not to Compete (Restrictive Covenant)
- Will the physician be asked to sign a covenant not to compete?
- Is there a time limit beyond which a signed covenant not to compete no longer applies?

Termination
- Can the physician or the employer terminate the contract with 30 days notice?
- Will the contract automatically terminate under the following conditions?
  - Loss of hospital privileges
  - Suspension, revocation, or cancellation of employee’s right to practice medicine
  - Employee commits act of gross negligence
  - Employee is convicted of a crime
  - Employee becomes impaired due to alcohol or drug use
  - Breach of contract terms
  - Employee becomes disabled

BILLING AND REIMBURSEMENT

The financial viability of a clinical practice is predicated upon understanding the details about coding and billing, an area that is seldom taught in medical school or residency/fellowship programs. The following is a list of fundamental information that a physician must master before seeing the first patient in the practice setting. If one joins an established medical practice, the burden of setting fees will have already been taken care of, as will the need to design an encounter form or set up current procedural terminology (CPT) and International Classification of Diseases, 9th revision (ICD-9), codes. It is still the practicing physician’s responsibility, however, to be knowledgeable about billing, coding, and reimbursement.

- A coding system designed by the American Medical Association in conjunction with the Centers for Medicare and Medicaid Services (CMS) to describe services that physicians provide
- CPT manual is publicly available and updated annually

International Classification of Diseases, 9th Revision; Clinical Modifications (ICD-9-CM)
- A list of medical diagnoses used to indicate the spectrum of illnesses being evaluated and/or treated by the clinician
- Divided into 3 volumes: volumes 1 and 2, used by physicians; volume 3, used exclusively by hospitals
- “Renal” is a list of different types of renal disease (majority of the billing codes used by nephrologists located in this category)
Special guidelines regarding physician billing ICD-9-CM codes are as follows:

- Code only the known disease (not a suspected disease)
- Identify each service procedure or supply with an ICD-9 code
- Code the primary reason for the visit first followed by the secondary and so forth
- Then code any coexisting conditions that affect treatment of the patient
- Code ICD-9-CM codes with the highest level of specificity
- Renal Physicians Association (RPA) has a nephrology ICD-9 quick-reference pocket guide available to assist you in finding the correct diagnosis codes
- Prioritizing diagnoses is extremely important, as this justifies a level of service as well as tests or studies ordered or performed

CMS Common Procedural Coding System (HCPCS)

- In addition to ICD-9 and CPT codes, the HCPCS is used to describe supplies and injectable medications used in the medical practice
- As nephrology practices continue to explore nontraditional income streams, a good working knowledge of this coding system takes on increasing importance

Evaluation and Management (E&M) Codes

- As internal medicine physicians, practicing in the subspecialty of nephrology, most services provided will be found in the Evaluation and Management section of the CPT manual
- E&M codes are divided into broad categories and subcategories:
  - Office and other outpatient visits:
    - New patient
    - Established patient
  - Hospital observation services
  - Hospital in-patient services:
    - Initial visit
    - Subsequent visit
  - Consultation
  - Emergency department services
  - Critical care services

Consultations and Visits

As a specialist, a nephrologist has to determine whether to bill a patient for a visit or consultation. CMS requires adherence to strict guidelines for when a consultation may be billed.

Consultations

- A consultation is billed when 3 criteria are met:
  - Another physician is seeking professional advice
  - The request for the consultation is documented
  - The patient is examined and the nephrologist provides recommendations to the originating physician

Visits

- If the 3 criteria for the consultation are not met, then a regular office or hospital visit code must be used instead of a consultation code

Special Coding Issues for Renal Physicians

- Providers should be aware of and follow guidelines provided by their local Medicare carriers
- In addition to E&M codes, CPT codes will be used in your treatment of patients
- Among the most relevant codes are those for:
  - Out-patient end-stage renal disease (ESRD)–related services
  - Dialysis management
  - Home training
- Codes for out-patient ESRD services are “special” in that they cover services based on the number of visits a month rather than the number of services per month supervised by the renal physician. These codes are currently in a flux and are therefore designated as “temporary” (G codes).
- The following codes apply to adult ESRD patient visits:
  - 4 or more visits in a month (G0317)
  - 2 or 3 visits in a month (G0318)
  - 1 visit monthly (G0319)
- Similar codes exist for pediatric patients based on frequency of visits
All physicians who wish to participate with Medicare must contact the CMS to obtain an enrollment form. Because most patients with ESRD are reimbursed through Medicare, participation in Medicare becomes essential in nephrology practice.

Some Decisions When Completing Enrollment Form

- Whether to be a participating or nonparticipating physician
- How to be listed (specialist versus subspecialist)
- Whether claims are filed manually (paper) or electronically

Participating Physicians

- Paid directly by Medicare for services provided to enrollees
- Payment equals the Medicare allowed less the patient’s portion
- Patient portion includes 20% of the allowable and any deductibles
- Participating physician must always accept Medicare assignment and wait for Medicare to pay
- Physician is expected to collect a 20% patient-responsible portion at time of service

Advantages:

- Listed in Medicare provider directory
- Receive payments directly from Medicare, thus eliminating collection efforts
- Benefits from receiving a greater “allowable”

Disadvantages:

- Receive a lower reimbursement rate than nonparticipating physicians
- Participating physicians cannot bill the patient more than the allowable

Nonparticipating Physicians

- Patient may be billed directly for the services rendered
- Amount billed to a Medicare patient is limited by the “limiting charge for nonparticipating physicians” which is 115% of Medicare allowable

Advantages:

- Allowed to charge more than participating physicians
- Permitted to collect from the patient at the time of services, thus decreasing your outstanding accounts receivable

Disadvantages:

- Responsible for collecting money from patient
- Must monitor the fees if using separate fee schedules
- Must still take assignment on any laboratory tests you perform

Listing by Specialty

The decision to enroll as an internal medicine physician or a subspecialist (nephrologist) has no impact on the reimbursement for services performed. Rather, Medicare looks at billing patterns of physicians and compares those to other physicians in that specialty. If one is listed as an internal medicine physician who bills for many consults, this may trigger an audit.

Medicare and ESRD

In 1972, ESRD patients became the only group entitled to Medicare coverage whether or not they were older than 65 years or disabled. For the past 20 years, nephrologists’ care for out-patient dialysis has been reimbursed by monthly capped payments (MCP codes). Effective January 1, 2004, this methodology is no longer used and a new set of codes, designated G codes, has been implemented for reimbursement. These codes represent the number of visits to the patient by the nephrologist and/or his designees (physician assistant, advanced practice nurse). It is felt that increased frequency of visits may act as a surrogate of quality, although this as yet is unproven.

Sites of Service for an ESRD Patient

- Physician’s office
- Out-patient hospital
- Out-patient setting such as emergency room, transitional care unit, patient home, as well as the dialysis facility
Nonphysician Practitioners Who Can Provide All But 1 of the Monthly Visits
- Nurse practitioners
- Physician assistants
- Clinical nurse specialists
- Other physicians employed or contracted by the billing MCP physician or his/her corporate entity

Physician Visit
The billing nephrologist must visit the patient at least once per month and document that he/she is providing the “direction of care” in a substantial visit reviewing algorithm management (calcium phosphorus metabolism, anemia, adequacy of dialysis, etc). The remaining visits may be performed by a physician designee.

Home Dialysis
- Includes home hemodialysis and continuous ambulatory peritoneal dialysis
- The stratified payment system does not apply

MEDICAID

Medicaid and ESRD
- Medicaid generally follows the same guidelines as Medicare for ESRD services although fee schedule is usually lower
- “Effective date of coverage” becomes very important:
  - Medicaid can be billed for all services incurred on or after the effective date and the patient will remain responsible for any services incurred prior to the effective date
  - In some cases retroactive eligibility may be granted for up to 6 months prior to the application
- A provider must accept Medicaid payment as payment in full
- Some states have implemented a patient-responsibility copayment

Medicaid and Managed Care
- Approximately one quarter of all Medicaid recipients are enrolled in managed care plans
- Reimbursement methodology varies from state to state and plan to plan
- One should refer to coverage in the geographic area of practice for details

MANAGED CARE

Managed care is constantly evolving but in general terms focuses on the “process of managing costs” through efficiency and effectiveness in delivering care. While managed care plans vary considerably, they all include certain characteristics:
- A network of contracted providers
- Channeling of patients to contracted providers
- Some type of utilization management and quality assurance systems
- A shift of financial risk to providers of health care

Description of Managed Care Organizations

Health maintenance organizations (HMOs)
- Contract with a network of providers (physicians, hospitals, and others) to deliver care to a defined population of enrollees

Preferred provider organizations (PPOs)
- Networks comprised of a panel of independent physicians that health insurance companies and health benefit plans contract with for health care services at a discounted fee

Point-of-service plan (POS)
- System is based on an HMO format and demands the selection of a primary care physician but allows for opting out of the network at a substantially reduced benefit

Independent practice association (IPA)
- Business entity formed by physicians who maintain their independent practices but participate in the IPA to secure managed care business

Advantages and Disadvantages (of all 4 plans):
- Increase in patient base
- Prevention of migration of patients to other physicians
Guaranteed capitated income based on the number of patients regardless of the number of visits

Disadvantages (of all 4 plans):
- Increase in practice expense
- Decrease in revenue per potential patient
- Accounts receivable delays
- Liability and malpractice exposure
- Potential loss of a large group of patients when plan changes
- Date requirements
- Formulary restrictions

INCOME DISTRIBUTION AND EXPENSE ALLOCATION

Methods of Income Distribution

Equal distribution
- Each member receives an equal share of the practice revenue

Productivity
- Members are compensated based on the amount they generate in individual patient charges

Formulas
- Several factors, weighted by importance, are used to determine remuneration, including the following:
  - Goodwill/longevity
  - Stock ownership
  - Productivity
  - Board certification
  - Administrative roles
  - New patients
  - Referral sources
  - Teaching faculty positions

Methods of Expense Allocation

Equal assessments
- The expenses are subtracted from the gross revenue and the net income is available for physician distribution

Direct cost
- Any cost incurred for the benefit of a physician is charged directly to that physician

Indirect cost
- Costs such as rent, utilities, and maintenance are charged to each physician, usually as a per-square-foot charge; thus, each physician pays for only what he/she uses

Expenses as the percent of productivity
- Each physician is charged for expenses at the same rate he/she generates income for the group (eg, if a physician generates 40% of income, he/she assumes 40% of expenses)

INSURANCE REQUIREMENTS

The purchase of insurance coverage may be one of the most crucial decisions to be made when entering clinical practice. Beyond the need for basic financial protection, some insurance coverage is required by state law, others by hospitals or managed care plans, and still others by office or equipment leases. The following insurance types will/may be required:

- Professional liability insurance
- Group professional liability coverage
- Tail insurance coverage
- Office insurance protection
- Commercial general liability coverage (CGL)
- Property insurance
- Computer coverage
- Business interruption insurance
- Employee dishonesty
- Equipment breakdown coverage
- Workers’ compensation insurance

Tips on Purchasing Insurance Policies

- Choose a company with a strong financial condition
- Choose a company with risk management/loss prevention expertise
- Choose a comprehensive policy
- Choose a company with experienced claim professionals and a strong defense network
- Higher deductibles mean lower premiums
- Avoid overbuying and expensive add-ons
- Select appropriate policy limits
Pay smaller claims directly according to the appropriate legal guidelines
Give prompt attention to any claim by a third party
Pay premiums on an annual basis whenever possible

Leasing Space and Purchasing Equipment

Selecting an office location

- Select a geographic area that is convenient for your patients
- Location should have convenient access to a large patient base
- Location, not price, should be the primary factor in determining an office location
- A lease is a binding agreement that may be locked in for many years; find a location for long-term suitability

Factors to be considered in procuring a favorable lease:

- Location and description of space
- Parking
- Lease term
- Operating expense
- Option to renew
- Rental
- Escalation clause
- Damage deposit
- Escape clause
- Items and services furnished
- Insurance
- Remodeling and redecoration
- Subleasing
- Right of first refusal

FINANCING THE MEDICAL PRACTICE

Considering that the average medical student graduates with substantial debt and no assets, it is generally accepted that every new physician starting a medical practice will require outside financing. Banks and institutions are more cautious than ever in making new physician loans as health care reform has resulted in lower reimbursement rates than in past years. The cost of starting a new practice is estimated to range between $150,000 and $300,000, resulting in new physicians looking for sizable unsecured loans. Lenders will look more favorably on a physician who displays a clear understanding of business aspects of operating a medical practice. The following are strongly recommended prior to attempting to secure financing:

Development of a Business Plan

- Executive summary
- Description of business
- Description of marketing competition
- Equipment and furniture needs
- Practice pro forma/cash flow projection
- Copy of office lease
- Advertisement and marketing strategies
- Personal background and curriculum vitae

Other Finance Methodologies

- Securing a bank loan
- Securing a small business administration loan

OFFICE ACCOUNTING PROCEDURES

Establishing Financial Systems

- Accounts payable management
- Paying bills
- Pay accounts by invoice, not statements
- Avoid duplicate payment or payment for goods not received
- Pay bills once a month unless a discount is given for payment in less than 30 days

PURCHASING

- Develop bulk-ordering systems controlled by a 30-day or quarterly timetable
- Take advantage of discounts for volume purchasing
- Create an inventory listing of all supplies and equipment found on the premises
- Create vendor files by company name and file invoices and statements in chronologic order
- Every 6 months check the price paid for common items and compare vendor pricing
- Control rush orders
PAYROLL ADMINISTRATION

- Have employees create a new IRS form W-2 at the beginning of each calendar year
- Obtain the most current IRS information and guidelines for preparing deductions
- Obtain the most current information from the state government for withholding requirements
- Become familiar with IRS and state revenue service forms for reporting staff salaries
- Treat all payroll information with confidentiality; keep records in a secure place
- Seek advice from an accountant on proper reporting guidelines of employee earning information

ACCOUNTS RECEIVABLE MANAGEMENT

“Accounts receivable” can be defined as claims against a debtor usually arising from sales or services rendered, not necessarily due or past due. In lay terms, it is a measure of business done and a measure of your value to a practice. Therefore, it becomes important that your patients (customers) have a clear understanding of you and your practice’s expectation of payment.

Financial Payment Policy

- Patient should always be informed of the practice’s financial payment policy when they call for their initial appointment
- Have a written financial policy included in the practice brochure
- Post an office fine alert and alert patients that payment for services is expected before they leave the office (current industry standard)

Written Financial Payment Policy

- Use a simple 1-page form.
- Avoid any legal terminology
- Define parameters
- Be flexible

Patient Billing

The patient’s statement should have the following characteristics:

- Consistency
- Clarity

Conciseness
- Easily understood
- Professional appearance
- Accurate reflection of all charges and payments
- Mailed at the same time each month

Written Collection Policy

The day-to-day collection process is often neglected in medical practice. This accounts for a large portion of your income and should not be ignored! Provision of a written collection policy and procedure enables the practice personnel to successfully handle collection issues:

- Educate staff members about protocol
- Educate patients to comply with established collection policies
- Maintain revenue/income balance
- Control the accounts receivable balance
- Augment a collection ratio†
- Manage cycle billing systems
- Track and define revenue from third-party payer sources

Keys to Successful Collecting

- Patient telephone contacts are more effective than letter writing
- Delinquent accounts (>120 days) should be referred to a collection agency
- Strict adherence to collection policies ensures the practice will maintain a healthy cash flow

CONCLUSION

The decision to enter the clinical practice of nephrology is a critical one. If approached with attention to the issues outlined in this curriculum, future nephrologists will be set on the path to an economically meaningful and rewarding practice. Many options and opportunities must be considered, and decisions must be made that will suit the immediate and long-term needs of the physician and his/her family. These decisions should not be left to the last minute, rather the process of learning about and exploring the components outlined above should begin early in the...
final year of training. Many resources exist to assist in this critical learning process, and should be fully utilized.

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