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Part B News COLLECT EVERY DOLLAR YOUR PRACTICE DESERVES

Get cash, credit resources straight in case payers poop out

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Practice management

A sudden shortfall in Blue Cross Blue Shield (BCBS)Vermont payments, and the trouble it's causing some small practices, is a reminder that you should have a financial cushion for your practice in case of emergencies — and make sure to keep it up to date.

The *VTDigger* news site reports that because of "a new operating system rolled out at the beginning of the year that has made it difficult for the company to verify the accuracy of some claims," BCBS Vermont has "delayed tens of thousands of dollars in payments to a number of medical providers." One manager of a small practice who says they haven't been paid in months and attributes half its billings to the payer told *VTDigger*, "Any small business cannot miss 50% of its income for two and half months. It's completely untenable, it's bankruptcy territory," he said.

If you think that situation is unlikely to happen to you, be aware it's more common than many people realize, though usually with smaller and newer insurers, says Stephanie Fiedler, CPC, ACS-EM, director of revenue advisory services with Grassi Healthcare Advisors, LLC in New York City. For example, she's had to handle a situation where "one payer was purchased by another and it was a fiasco" — and she's also seen "a number of exchange plans going belly up and putting stress on providers as far as payments."

The Vermont situation also brings to mind warnings that are made any time there's an anticipated interruption of practice revenue — as we saw with the switchover to HIPAA 5010 in 2012, and the switch to ICD-10 in 2015 — that practices should have a cash cushion and a line of credit secured with a bank that they can tap when the going gets rough (*PBN 4/6/15, 3/12/12*).

"Cash on hand and a line of credit established with the practice's bank or other financial institution should be sufficient to carry the business through a slowdown in collections or uptick in expenses," says BlueSky Wealth Advisors founder and CEO David Blain, CFA.

Blain says the calculations on how much cash and credit to lay in can vary according to complex variables, "delving into the cash conversion cycle of your business, profit margins, cash usage rates, working capital, etc." But generally he likes to see "30 days of expenses on hand in cash and then an additional two to five months readily available as a line of credit. This six-month buffer is conservative, but the last thing you want to do is lay off staff as this will only exacerbate the downward cycle."

You probably have some kind of credit line — if you don't, go to the bank and get one; it's like applying for a business loan (*PBN 12/12/11*). Terms vary; a new applicant may be offered a rate of 2% over the prime rate (currently about 5.5%), totaling 7.5%. "Some excellent borrowers can get prime minus a certain percent," say Blain. The bank may also charge a "funding fee" — usually a percentage of the line of credit amount — and an annual fee, typically a flat dollar amount, to keep the line open. All these terms are negotiable, though a new customer may not get much of a break.

6 tips for rate shoppers

Even if you have a line of credit, you may want to dust some of the cobwebs off it — or perhaps renegotiate or go to another bank. Check these specifics:

- **Make sure you're at the right level.** If you've been holding a credit line for a while, it may be out of scale with your current practice, says Ken Hertz, FACMPE, principal with the MGMA Health Care Consulting Group. "Maybe you got a $200,000 line 10 years ago on a two-doc, half-a-million-dollar practice," he says, "and now it's an $8 million practice. You need to look at a larger line of credit."
- **Reassess your fees,** which are often paid periodically to keep the line open, says Blain. "Also, if you actually use it, the rates are often variable and can get quite high if you aren't careful."
- **Don't secure it with your personal assets if you don't have to.** Otherwise "you are risking everything," says Blain. "Make absolutely sure that is what you want to do. While you may pay a higher rate, an unsecured line of credit may be better than risking your home as collateral." If collateral is required, use the practice's assets.]
- **Haggle.** "It's often worthwhile to shop your line of credit," says Blain — especially if the practice is doing well. "After you had a strong year and can show you are very credit-worthy, they may be willing to give you better terms. Remember the bank wants to loan money to people who can pay it back."

Conversely, if you've just had an economic reversal — including the revenue clots we're talking about — that could be a good time to talk terms, too, because "the bank does not want a default and may be willing to change the terms," says

Blain. But go gentle — “depending on the terms of the line of credit, they may demand immediate payment of the whole amount if you fall behind. Best to have an informal conversation if you have a relationship with someone at the bank rather than calling a 1-800 number and telling them you are having trouble paying.”

- **Talk to the bank down the block.** “If a competitor has a better offer tell your current institution you were thinking of changing and ask them to meet the competitors’ terms,” says Blain.
- **Don’t make a habit of jumping banks.** “Most traditional banks will require you to keep your operating accounts with them or provide other services to you” in addition to the credit line, says Blain. “Switching too often, or for a marginal rate improvement, can really be disruptive to the operational side of your business.”

3 more finance tips

There are other ways to reduce your vulnerability to economic shocks:

- **Don’t put all your eggs in one payer basket.** It’s no shock to Fiedler that the Vermont doctors with 50% of their business in BCBS were in trouble. “I never like to have a group more than 15% to 20% into a single payer for exactly this reason,” she says. “Anything that disrupts the funding, including insolvency on the payer side, can devastate a practice.”

Fiedler is aware that you may not have much choice, particularly in areas underserved by insurers, and you may have to play chicken with the payer by withdrawing your business — that is, “start the contract termination process and inform patients they are no longer accepting a particular plan before the plan steps up and does the right thing because of complaints by the insured,” she says. “This actually happened in my area with Cigna over the last few years — they would not negotiate rates with a local hospital, so the hospital sent notice to the patients saying ‘you won’t be able to come here anymore’ after a specific date because Cigna would not negotiate their contract rates to what they thought was reasonable. The patients went ballistic on Cigna — and, guess what, they negotiated!”

- **Don’t empty the account.** Hertz sees a surprising number of physician-owned businesses that pay out nearly all of their revenue each year — mostly in partner bonuses — to avoid taxes. Naturally this leaves them extremely vulnerable to emergencies. “I see it this way,” says Hertz; “you can wait till you see the emergency gas light comes on in your car, or you can fill it up before that happens. É Maybe it’s better to pay a little more in taxes and keep that money in your tank.”
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- **Have partners plan their finances together.** While Blain advises against mixing personal with professional assets, doctor-owners in small practices are sometimes the lender of last result in an emergency — the ones who have to cover payroll. And that’s only possible if their private finances are in order. “Especially in smaller physician-owned practices it’s critical that the physicians have personal financial plans for themselves,” says Hertz. “Do personal financial planning and get a cash flow cushion of three to six months of living expenses.”

But what if one partner isn’t good with money, and you know that, when it’s time to pony up, he’ll be broke? In such a circumstance, maybe “the practice pays for financial planning,” says Hertz. “It’s a business expense.”

More tips on defending against a med practice credit crunch

- **It’s mostly a small practice issue.** “You’d be surprised; bigger practices are exposed to it, too,” says Joseph Tomaino, CEO of Grassi Healthcare Advisors. “But the smaller ones are particularly vulnerable. Like many other small businesses, they don’t operate with the rigor of budgeting with reserves or having a cash management system. They live month to month. That’s why it’s imperative that a small practice do a risk assessment and set aside a certain amount of cash and credit.”\
- **Private payers are less likely to let you down than Medicaid.** “Typically the risk is seen more with government payers,” says Tomaino — such as when state Medicaid programs get in a budget deficit or when the state cuts back on health care costs.
- **Be careful about receivables factoring loans.** “I’ve seen a lot of practices use their receivables to collateralize their credit line,” says Tomaino. “It could be okay if you have good receivables, but I’ve seen practices use old receivables — 120, 180 days — and you know most of that will get wiped away; it’s risky if the receivables become aged and are less likely to be collected. There’s also a different group of lenders who’ll do alternative financing of receivables in high risk situations called factoring. You can get a loan based on the promise of future payment — but that would be a last resort because it’s a high rate.”
- **Do basic financial hygiene.** “Keep your debt level low and watch fixed overhead costs that do not go down with revenue,” says David Blain of BlueSky Wealth Advisors. “Some costs are variable that go up and down with revenue; others like rent are generally fixed no matter what your revenue or collection stream is.” Also, because cash is “very helpful in a financial catastrophe,” find ways to maximize your intake during lean times. “Consider offering discounts for cash or early payments from those who pay for health care out of their pockets,” says Blain.
- **Insurance is only a good hedge in certain circumstances.** You may see offers for business interruption or practice overhead insurance and wonder whether these would be sufficient to ride out a payer shortfall. But check the terms — most are meant to cover very specific circumstances, such as a natural disaster, and few will cover what most underwriters would consider a business flow issue such as payer trouble. “Overhead insurance can have a place, but it’s only to cover practice expenses if the physician becomes disabled or sick and can’t work,” says Blain. “[For] slow or non-payment from insurance companies, it’s not going to help.” In the experience of Fiedler, such policies “really only protect against an actual loss, like a loss due to audit or clawback, not a delay in payment. My old company had this protection and thankfully they never had to use it.” — *Roy Edroso (redroso@decisionhealth.com)*