



# **Budgeting for Pediatric Practices**

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# What are the Most Important Variables?

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# Most Important Variables

1. Revenue per Encounter
2. Encounters per Day
3. Days per Year

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# 1. Revenue per Encounter

Encounter Revenue / Office Encounters

**\$725,000 / 4,000**  
**\$181.25**

## 2. Encounters per Day

Total Encounters / Provider Days

**4,000 / 200  
20**

## 3. Days per Year

- Count weeks & week / year
- Count actual days by month



# Need Data!!

## What 2 Things Am I Looking For?

You want a report, by month, showing the number of office visits and revenue generated by each provider.

## **Where Do I Get This Information**

The easiest thing to do is to get a report showing the frequency of each office visit billed from your practice management system over the past 12 months. Obtain a report containing the revenue amounts, by payor, over the past 12 months and you are ready to begin.

## What Do I Do With This Information

Once you have the information, you want set up a simple spreadsheet.

You want to end up with a spreadsheet that looks similar to this for each provider in the practice:

Month	Revenue	Encounters	Revenue Per Encounter
January	\$ 40,827	375	\$108.87
February	\$ 48,387	400	\$120.97
March	\$ 43,011	320	\$134.41
April	\$ 46,297	310	\$149.34
May	\$ 49,781	300	\$165.94
June	\$ 59,000	320	\$184.38
July	\$ 64,700	370	\$174.86
August	\$ 68,000	345	\$197.10
September	\$ 56,765	320	\$177.39
October	\$ 55,878	350	\$159.65
November	\$ 51,727	360	\$143.69
December	\$ 47,848	370	\$129.32
Annualized	\$ 632,222	4,140	\$152.71

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## What Does Revenue Per Encounter Tell Me?

Revenue per encounter is an excellent barometer of your financial health. There are many things that influence the revenue per encounter and consequently allow you to see the impact of things such as:

- Are your claims being processed timely?
- Are your claims being paid properly?
- Are you being paid fairly?
- Is your payor mix excellent, fair or poor?
- Are you following proper CPT coding guidelines?

*PMI recommends avoiding the temptation to simply use one revenue per encounter rate for an entire year.*

## **How Do I Use This Information To Estimate Future Revenue?**

Now that you have the revenue per encounter by month, you will estimate the number of days each provider will work along with the number of patients they will see each day for a monthly total. This will calculate the expected revenue per month to be used in your practice budget.

*For employed physicians, this method can also be used to validate the numbers used during your contract negotiations.*

# Step 1- Estimate Revenue

	Days Per Week	Encounters / Week (18 Per Day)	Estimated Work Weeks per Year	Estimated Revenue Generated (\$125/Enc)
Provider 1	2	36	48	\$ 216,000
Provider 2	4	72	50	\$ 450,000
Provider 3	2	36	50	\$ 225,000
Provider 4	4.5	81	50	\$ 506,250
		225		\$ 1,397,250

# Step 2- Estimate Expenses based on 2013 Actual

Employ <del>EE</del> Gross Pay	\$220,100	Professional fees expense	\$ 13,500
Employ <del>EE</del> - ER Taxes & Contributions	\$ 55,400	Medical supplies/Vaccines	\$ 59,100
401K employer contr.	\$ 26,000	Computer services	\$ 6,500
Advertising	\$ 4,600	Electronic medical record system	\$ 16,500
Telephone	\$ 10,200	Meals & representation	\$ 200
Dues and subscriptions	\$ 1,100	Training	\$ 5,500
Office supplies & postage	\$ 13,600	Rent - Office	\$ 46,700
Bank fees	\$ 5,600	Rent - mini storage	\$ 1,900
Admin fee - health insurance	\$ 300	Contributions	\$ 1,800
Repairs & maintenance	\$ 3,600	Janitorial services	\$ 12,000
Taxes & licenses	\$ 1,400	Utilities	\$ 11,600
Insurance expense	\$ 21,700	Interest expense	\$ 3,800
Health Insurance- Employee	\$ 40,000	<b>Total Practice Expense</b>	<b>\$ 403,600</b>



# Step 3- Determine Margin Before Provider Compensation (Revenue - Expenses)

Revenue	\$ 1,397,250
Expenses	\$ 582,700
<b>Margin</b>	<b>\$ 814,550</b>

# Step 4- Determine Provider Costs to Calculate Margin Before Shareholder Compensation

Provider 1	\$ 65,000	
Provider 2	\$172,500	(\$150k base plus 15%)
Provider 3	\$ 65,000	
	<hr/>	
	\$302,500	

# Step 5- Determine Incentive Bonus Cost for Physician

Part A	Revenue Generated (From Above)	\$ 506,250
	Calculate Overhead (Expense / Revenue)	41.70%
	Allocated Overhead	\$ 211,123
	New Physician Cost (From Above)	\$ 172,500
	Earnings on New Physician	\$ 38,623

Part B	Determine Threshold	\$ 450,000
	Determine Rate	35%

Part C	Expected Revenue Above Threshold	\$ 56,250
	Estimated Bonus	\$ 19,688
Practice Profit		\$ 18,936

# Step 6- Determine How Much Left for Shareholders After Expenses and Providers Paid

Revenue	\$	1,397,250
Expenses	\$	(582,700)
<hr/>		
<b>Margin</b>	<b>\$</b>	<b>814,550</b>
Providers	\$	(302,500)
Bonuses	\$	(19,688)
	<b>\$</b>	<b>492,362</b>

# Step 7- Assume Shareholder Salary & Benefits Are The Same as 2013

S1- Mgt Fee	\$ 22,000
S1- Salary	\$105,600
<hr/>	
<b>S1- Total</b>	<b>\$155,100</b>
S2- Retirement Contribution	\$ 24,000
S2- Health Ins	\$ 22,900
S2- Life Ins	\$ 4,800
S2- Salary	\$205,000
<hr/>	
<b>S2 Total</b>	<b>\$256,700</b>

# Step 8- Determine Practice Profit (Margin Before Shareholder Distribution)

Revenue	\$	1,397,250
Expenses	\$	(582,700)
<hr/>		
<b>Margin</b>	<b>\$</b>	<b>814,550</b>
Providers	\$	(302,500)
Bonuses	\$	(19,688)
	<b>\$</b>	<b>492,362</b>
S1	\$	(155,100)
S2	\$	(256,700)
	<b>\$</b>	<b>80,562</b>

## Provider Compensation Tool

Tool to assist providers and practices to determine how much bonus is | productivity estimates and desired practice profit margin.

### Visits per Day\*

Estimate the number of patients the provider will see each day.

### Revenue per Encounter\*

### Estimated Revenue per Day

### Provider Days Worked\*

Enter the estimated number of days the provider will work

### Estimated Provider Revenue Generated

### Practice Overhead Rate\*

Enter the estimated practice overhead rate (Total Expenses / Total Revenue)

### Provider Overhead

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