

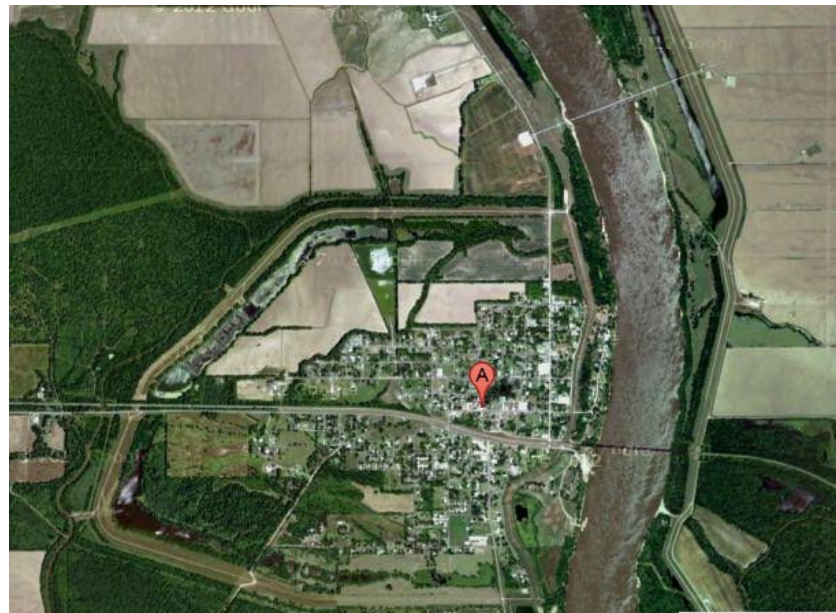


PEDIATRIC
MANAGEMENT
INSTITUTE
HELPING PEDIATRICIANS SUCCEED

BUDGETING FOR PEDIATRIC PRACTICES

Paul D. Vanchiere, MBA
Paul@PediatricSupport.com

Important Business Lesson from Melville...



Important Business Lesson from Melville...



Image Date: April 2009



How Many Do I Have To Sell To Recover The One 4 Missing Bottle of Coke?



Revenue	\$1.00
Cost	\$0.98
Margin	\$0.02
Margin %	2.04%

Calculation: $\$0.98 / \$0.02 = 49$ Units

Does not include labor, floor space, utilities and credit card fees.

Practice Allocation Methods



Billed Charges or Collections Received

Professional Services vs. Ancillary Services



Building / Lease Square Footage

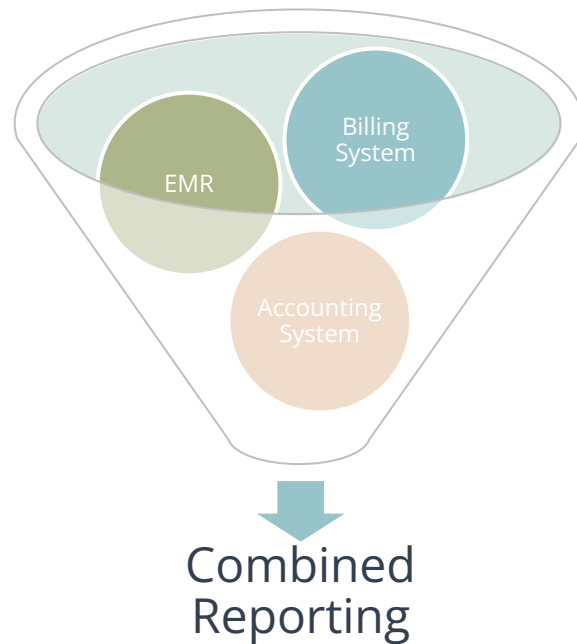
Janitorial & Utilities



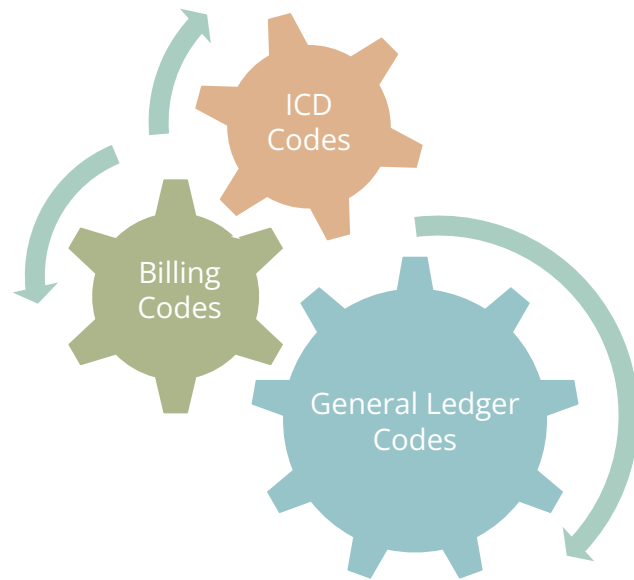
Employees- FTE

Retirement Plan & Health Insurance Benefits

Cost Accounting Challenges



Cost Accounting Challenges



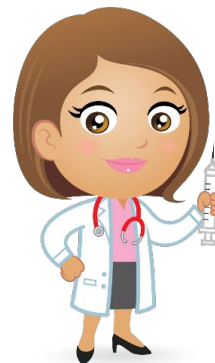
Cost Accounting Challenges... Make Them All Get Along...



Two Largest Expenses...



Labor



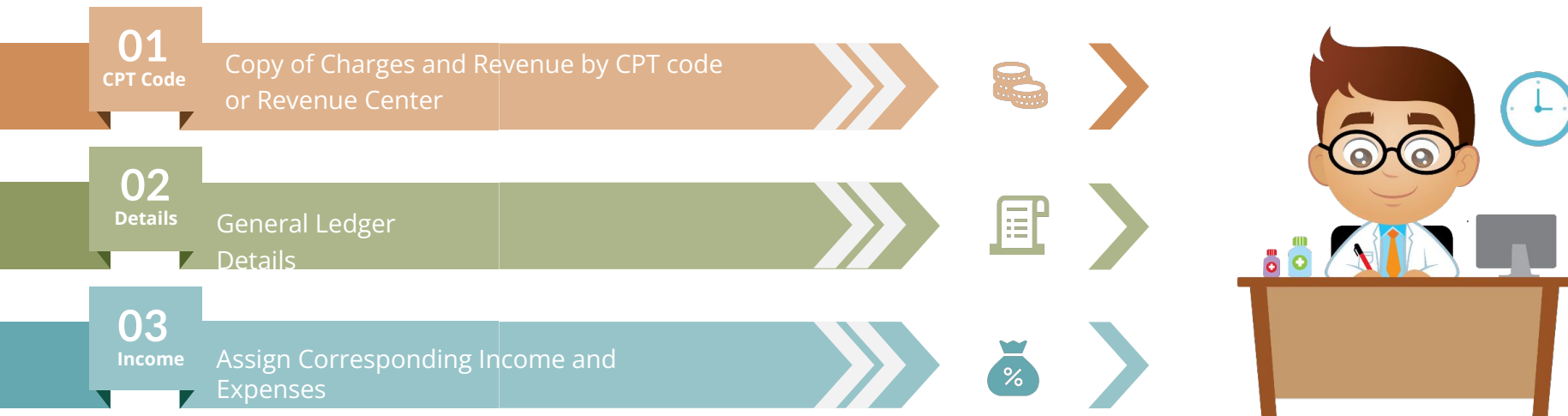
Vaccines



Labor Cost

Labor Cost Item	Direct	Employer
Wages - Staff	X	
Wages - Physicians	X	
Wages - Overtime	X	
Bonuses - Staff	X	
Bonuses - Physicians	X	
Severance Pay	X	
Employer FICA		X
Employer Medicare		X
Workers' Compensation Insurance		X
Federal Unemployment		X
State Unemployment		X
Vacation Pay		X
Holiday Pay		X
Sick Pay		X
Parking		X
Employer Provided Health Insurance		X
Employer Provided Life Insurance		X
Employer Provided 401 K Contributions		X
Employer Provided IRA Contributions		X
Employer Provided Pensions & Retirement		X

Allocation of Revenue and Expenses



5-FTE Pediatric Sample	Total	Professional	Laboratory	Radiology	Vaccines	Support Staff	Billing Office	Administration
Equipment - General - Maintenance	\$ 200							\$ 200
Equipment - General - Repairs	\$ 500							\$ 500
Equipment - Medical	\$ 17,750	\$ 17,750						
Equipment - Medical - Maintenance	\$ 1,500	\$ 1,500						
Equipment - Medical - Repairs	\$ 1,000	\$ 250	\$ 750					
Interest Payments	\$ 1,200	\$ 1,000		\$ 200				
Janitorial	\$ 2,000	\$ 1,419	\$ 77	\$ 103	Depending on Set Up	\$ 77	\$ 194	\$ 129
Janitorial Supplies	\$ 500	\$ 355	\$ 19	\$ 26	Depending on Set Up	\$ 19	\$ 48	\$ 32
Laboratory- Fees	\$ 1,200		\$ 1,200					
Laboratory- Supplies	\$ 35,000		\$ 35,000					
Licenses	\$ 600	\$ 200	\$ 200	\$ 200				
Malpractice Insurance	\$ 30,000	\$ 30,000						
Marketing	\$ 15,000	\$ 15,000						
Meetings	\$ 1,000		\$ 1,000					
Office Equipment	\$ 500							\$ 500
Office Supplies	\$ 13,500	\$ 7,500	\$ 500	\$ 500			\$ 2,500	\$ 2,500
Offsite Storage - Medical	\$ 2,400	\$ 2,400						
Offsite Storage - Office	\$ 1,200							\$ 1,200
Postage Meter	\$ 1,500	\$ 250					\$ 1,000	\$ 250
Rent	\$ 120,000	\$ 85,161	\$ 4,645	\$ 6,194	Depending on Set Up	\$ 4,645	\$ 11,613	\$ 7,742
Society Dues	\$ 600	\$ 600						
Software - Development	\$ 3,500							\$ 3,500
Software - Maintenance	\$ 12,500	\$ 10,000						\$ 2,500
Software - Purchase	\$ 75,000	\$ 70,000	\$ 2,500	\$ 2,500				
Supplies- Medical	\$ 50,000	\$ 50,000						
Supplies- Vaccines & Injectables	\$ 500,000				\$ 500,000			
Telephone Lines	\$ 15,000	\$ 12,000				\$ 1,000	\$ 1,000	\$ 1,000
Trash	\$ 850	\$ 603	\$ 33	\$ 44		\$ 33	\$ 82	\$ 55
Travel Expense	\$ 2,500							\$ 2,500
Triage Service	\$ 50,000	\$ 50,000						
Uniforms	\$ 600	\$ 120	\$ 120	\$ 120		\$ 120	\$ 120	
Utilities	\$ 20,000	\$ 14,194	\$ 774	\$ 1,032	Depending on Set Up	\$ 774	\$ 1,935	\$ 1,290
Operating Expenses	\$ 1,165,700	\$ 520,868	\$ 56,217	\$ 15,500	\$ 513,605	\$ 7,788	\$ 20,741	\$ 30,981
Total Expenses	\$ 3,390,850	\$ 2,218,766	\$ 137,746	\$ 59,400	\$ 543,605	\$ 158,303	\$ 95,998	\$ 177,032
Physician Related Items (Sal & Bon Only)	\$ 1,175,000	\$ 1,175,000						
Total Non-Physician Related Expenses	\$ 2,215,850	\$ 1,043,766	\$ 137,746	\$ 59,400	\$ 543,605	\$ 158,303	\$ 95,998	\$ 177,032
Earnings Before Physician Comp	\$ 2,700,400	\$ 3,025,184	\$ 87,997	\$ (14,093)	\$ 32,645	\$ (158,303)	\$ (95,998)	\$ (177,032)

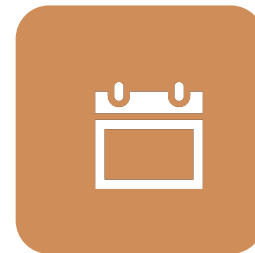
Most Important Variables



Revenue per
Encounter



Encounters per
Day



Days per Year the
Provider Works

1. Revenue per Encounter

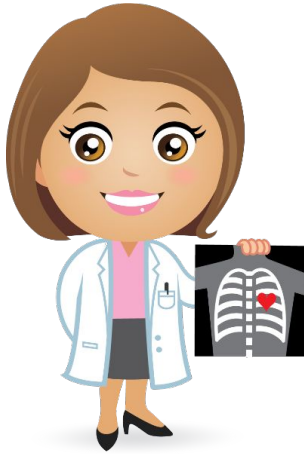


Encounter Revenue / Office Encounters

\$500,000 / 4,000

\$125

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!!

By Provider:

1. Number of office visits
2. Total revenue generated

Run for an entire 12-month period to pick up seasonal variations.

	Patients Seen	Estimated Revenue Generated	Revenue Per Encounter
Provider 1	1,751	\$ 216,000	\$ 123.36
Provider 2	3,600	\$ 422,100	\$ 117.25
Provider 3	1,875	\$ 228,600	\$ 121.92
Provider 4 (Owner)	4,500	\$ 530,550	\$ 117.90

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?

Estimate Future Revenue?

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.



Single owner Pediatric practice



Three Additional Employed Providers In Practice

- One full time Pediatrician
 - Salary Plus Revenue Generated Bonus
- Two part time Pediatricians
 - Straight Salary



Step 1

Estimate Revenue

	<i>A</i>	<i>B</i>	<i>C</i> <i>A X B</i>	<i>D</i>	<i>E</i> <i>C X D</i>	<i>F</i>	<i>G</i> <i>E X F</i>
	Days Per Week	Estimated Work Weeks per Year	Estimated Provider Days	Patients Per Day	Patients to be Seen	Revenue Per Encounter	Estimated Revenue Generated
Provider 1	2	48	96	18.24	1,751	\$ 123.36	\$ 216,000
Provider 2	4	50	200	18.00	3,600	\$ 117.25	\$ 422,100
Provider 3	2	50	100	18.75	1,875	\$ 121.92	\$ 228,600
Provider 4 (Owner)	4.5	50	225	20.00	4,500	\$ 117.90	\$ 530,550
					11,726		\$ 1,397,250

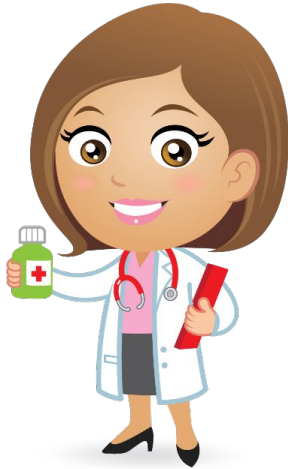
Overall practice "Revenue Per Encounter" = \$119.16

Step 2

Estimate Expenses based on previous year

Employee Gross Pay	\$ 220,100	Professional fees expense	\$ 13,500
Employer ER Taxes & Cor	\$ 55,400	Medical supplies/Vaccine	\$ 259,100
401K employer contr.	\$ 26,000	Computer services	\$ 6,500
Advertising	\$ 4,600	Electronic medical record	\$ 24,000
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 insura	\$ 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- Employ	\$ 40,000	Total Practice Expense	\$ 790,200

Step 3- Determine Margin Before Provider Compensation



Revenue	\$ 1,397,250
Operational Expenses	\$ 790,200
Margin	\$ 607,050

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



Provider 1	\$ 65,000
Provider 2	\$ 80,000
Provider 3	\$ 160,000 (Plus Bonus)
<hr/>	
	\$ 305,000

Step 5

Verify Margin on
Two Providers With
No Bonus Potential
(Providers 1 & 2)

Revenue Generated (From A	\$216,000
Calculate Overhead (Expens	56.55%
Allocated Overhead	\$122,148
Provider 1 Salary	\$65,000
Earnings on Provider 1	\$28,852

Revenue Generated (From A	\$228,600
Calculate Overhead (Expens	56.55%
Allocated Overhead	\$129,273
Provider 3 Salary	\$80,000
Earnings on Provider 3	\$19,327

Step 6- Estimate Production Bonus Cost for Provider

Part A	Revenue Generated (From Above)	\$ 422,100
	Calculate Overhead (Expense / Revenue)	56.55%
	Allocated Overhead	\$ 238,698
	Provider 2 Salary	\$ 160,000
	Earnings on Provider 3	\$ 23,402
Part B	Determine Threshold	\$ 370,000
	Determine Rate	15%
Part C	Expected Revenue Above Threshold	\$ 52,100
	Estimated Bonus	\$ 7,815
	Estimated Profit From Provider 3	\$ 15,587

Refinements include payroll taxes, benefits, CME, malpractice, recruitment costs, etc. For this example, such costs were accounted for since we included them in the overhead rate used.

Step 7

Determine How Much Left for Owner After Expenses and Providers Paid

Revenue	\$ 1,397,250
Expenses	\$ (790,200)
Margin	\$ 607,050
Provider 1 Salary	\$ (65,000)
Provider 2 Salary	\$ (80,000)
Provider 3 Salary	\$ (160,000)
Provider 3 Bonus	\$ (7,815)
Owner Clear	\$ 294,235

Owner Earnings Breakdown

Provider 1 Margin	\$ 28,852
Provider 2 Margin	\$ 19,327
Provider 3 Margin	\$ 15,587
	<hr/>
	\$ 63,766
Owner Clear	\$ 294,235
Estimated Owner Margin	\$ 230,469
Percent from Employed	21.67%
Percent from Self	78.33%



More Than One Owner?



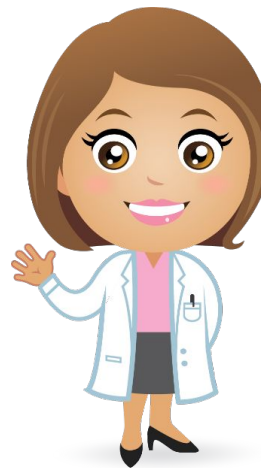
Follow the same logic (Steps 1-7)



Take "Owner Clear" from previous slide and add expenses you want allocated to the individual owners.



Split amount calculated in accordance with Partnership Agreement



Scenario



Three owners



Assume "Owner Clear" = \$650,000



\$83,200 in Expenses for Shareholders they want to allocate back to individual Shareholder

	Partner 1	Partner 2	Partner 3	Total
-Life Insurance	\$ 4,500	\$ 9,000	\$ 2,400	\$ 15,900
-Health Insurance	\$ 3,600	\$ 9,000	\$ 9,000	\$ 21,600
-Car Lease	\$ 4,500	\$ 9,000	\$ 12,000	\$ 25,500
-Disability	\$ 3,600	\$ 2,400	\$ -	\$ 6,000
-CME/Dues	\$ 2,400	\$ 3,600	\$ 1,200	\$ 7,200
-Travel Expenses	\$ -	\$ 2,400	\$ 4,600	\$ 7,000
	\$ 18,600	\$ 35,400	\$ 29,200	\$ 83,200

Add Expenses Paid On Behalf of Owners to the "Owner Clear" to Establish Distribution Pot



Owner Clear	\$ 650,000
Owner Allocated Expenses	\$ 83,200
Distribution Pot	\$ 733,200

Ways to Divide the Distribution Pot

Even Split



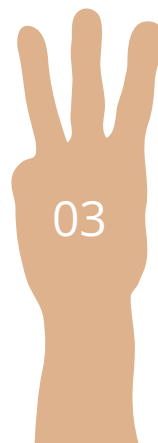
Split based on percentage of:

- Revenue Generated
- Charges Generated
- wRVU's



Blend of Split & Productivity

- 25% Even Split and 75% on Revenue/Charges/wRVU's



"Eat What You Kill"

- Individual margin after allocating vaccine cost
- Occurs when significant age variance of provider and/or patient population
- Sometimes occurs when one provider sees disproportionate share of Medicaid- which carry no vaccine drug costs



Individual Location profitability



Common Method

- 25% Even Split and 75% Based on Charges Generated
- Owner Clear = \$650,000
- Owner Allocated Expenses = \$83,200
- Distribution Pot= \$733,200

	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	<i>H</i>
		<i>A/(Sum A)</i>	<i>Pot*0.25/3</i>	<i>B*0.75*Pot</i>	<i>C + D</i>			<i>E - F - G</i>
	Charges Generated	Charge % age	Even Split (25%)	Production Split (75%)	Total Earnings	Salary Drawn	Expenses Paid	Amount Due
Partner 1	\$ 850,000	36.56%	\$ 61,100	\$ 201,039	\$ 262,139	\$ 185,000	\$ 18,600	\$ 58,539
Partner 2	\$ 775,000	33.33%	\$ 61,100	\$ 183,300	\$ 244,400	\$ 200,000	\$ 35,400	\$ 9,000
Partner 3	\$ 700,000	30.11%	\$ 61,100	\$ 165,561	\$ 226,661	\$ 120,000	\$ 29,200	\$ 77,461
	\$ 2,325,000		\$ 183,300	\$ 549,900	\$ 733,200	\$ 505,000	\$ 83,200	\$ 145,000



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THANK YOU