



# DETERMINING HOW MUCH TO PAY A PROVIDER

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1



## Agenda

- Today's webinar is straightforward
  - Find out key variables needed
  - Plug in the numbers
- Couple of key metrics needed...much easier than one would think...
- 99% of the time it's a math problem...

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2

## It's Simple *Business 101*



Revenue – Expenses = Profit

*If you understand this, you can figure out how much to pay a provider...just gotta know what to look for & plug in the numbers...*

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## Overhead is Your Biggest Enemy

Increase in overhead reduces the profit/pot to pay physicians

Operating Cost as Percentage of Total Revenue



<http://www.mgma.com/Libraries/Assets/Industry%20Data/Survey%20Reports/MGMA-2015-Cost-and-Revenue-Report-Based-on-2014-Survey-Data-Executive-Summary-Report.pdf?ext=.pdf>

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## It's All About The Pot (Of Gold)

Revenue  
Generated  
-  
Overhead  
=  
Available \$\$



### Increase The Pot

- Higher Volume (FFS)
- Higher Revenue Per Encounter (*Well vs. Sick*)
- Lower Overhead
  - Staffing
  - IT Costs
  - Administrative Costs
  - Vaccine Expenses
- PMPM Payments



### Decrease The Pot

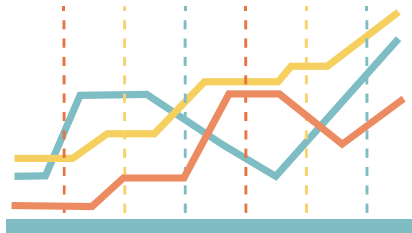
- Lower Patient Volume (FFS)
- Lower Revenue Per Encounter
- Higher Overhead
  - Staffing
  - IT Costs
  - Administrative Costs
  - Vaccine Expenses

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## Information Needed

*Practices with High %age of FFS*



Revenue per Encounter



Daily Activity  
(Provider Days & Visits per Day)



Overhead Rate

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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?



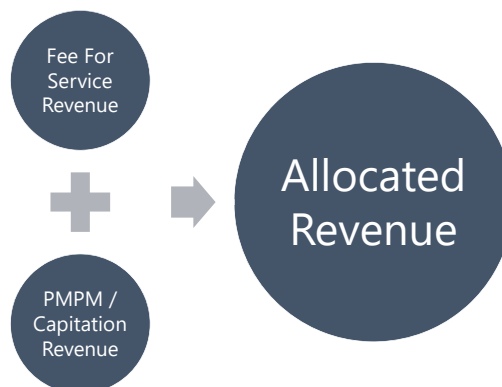
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7

## 1. Revenue per Encounter

$$\text{Total Allocated Revenue} / \text{Office Encounters} = \frac{\$500,000}{4,000} = \$125.00$$



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8

## Break It Down

By Provider:

1. Number Of Office Visits

2. Total Revenue Allocated

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

	Patients Seen	Revenue Allocated	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	4,500	\$ 530,550	\$ 117.90

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## 2. Daily Activity

- Provider Days:  
 $\text{Scheduled days per week} \times \text{weeks per year}$   
 $4 \text{ days per week} \times 49 \text{ weeks} = 196 \text{ Days}$
- Visits Per Day (Previous 12 Months)  
 $\text{Total Visits} / \text{Total Days Worked}$   
 $4,000 / 196 = 20.4 \text{ Visits Per Day}$

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## Overhead Rate

Figure out how much it cost to provider care to a child  
**BEFORE** provider compensation.

## Overhead Rate

$$\text{Total Revenue} / \text{Total Expenses} = \frac{\$1,500,000}{\$975,000} = 65.00\%$$

- Subject to seasonality (winter versus summer months thanks to vaccine costs & check up season)
- Timing of paying the vaccine bill is problematic
- Look at Overhead Rate over last calendar year (or rolling 12 months)

## Run the Numbers

A	Visits Per Day	20	<i>Estimate</i>
B	Revenue Per Encounter	\$ 145	<i>Analysis</i>
C	Revenue Per Day	\$ 2,900	<i>A X B</i>



## Run the Numbers

A	Visits Per Day	20	<i>Estimate</i>
B	Revenue Per Encounter	\$ 145	<i>Analysis</i>
C	Revenue Per Day	\$ 2,900	<i>A X B</i>
D	Provider Days Worked	200	<i>Estimate</i>
E	Provider Annual Revenue	\$ 580,000	<i>C X D</i>



## Run the Numbers

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E	Provider Annual Revenue	\$ 580,000	<i>C X D</i>
F	Practice Overhead Rate	65%	<i>Analysis</i>
G	Practice Overhead	\$ 377,000	<i>E X F</i>

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H	Allowance for Provider (The Pot)	\$ 203,000	<i>E - G</i>



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G	Practice Overhead	\$ 377,000	E X F
H	<b>Allowance for Provider (The Pot)</b>	<b>\$ 203,000</b>	<b>E - G</b>
I	Provider Salary	\$ 150,000	Survey
J	Provider Bonus	\$ 7,500	Analysis
K	Benefits (17%)	\$ 26,775	Estimate
L	Total Provider Cost	\$ 184,275	I + J + K
	Practice Margin/Profit	\$ 18,725	H - L



17

## Few Thoughts...

1. If include vaccines in *Revenue Per Encounter*, you must include the vaccine drug costs in the overhead. Conversely, if you calculate the *Revenue Per Encounter* without vaccines, do not include it in the overhead rate.
2. Practices with more than 10% PMPM or Capitation should consider an RVU model to determine proposed bonus structure.
3. If fixed costs remain the same (Rent), then utilizing that space for a provider actually drives the overhead rate down.
4. The overhead for the first 10 patients seen in the day is much higher than the overhead rate for the last 10 patient seen.
5. Stark Laws- Ancillary services CANNOT be included in revenue bonus model for Medicaid patients.
6. Vaccine drugs acceptable but margin is very small. Cannot afford to pay 10-20% bonus on such items.

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18

# It's Really Simple...



$$\frac{\text{Provider Revenue Generated} - \text{Allocated Expenses}}{\text{The Pot}}$$

The Pot determines how much you can afford to pay them...

Step 1  
Estimate the number of days the provider will work over a given year.

Number of days the provider is expected to work per week:

Expected number of weeks the provider will take off for vacation:

Estimated number of sick days allowed for the provider:

Number of days provided for CME:

Estimated number of days the provider will work per year:

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Step 2  
Estimate how much money the provider is expected to generate.

Estimate of the number of patients the provider will see per day:

Average revenue per encounter expected for the provider:

Estimated Fee For Service Revenue Generated Per Year

Non Fee For Service Revenue Generated

Estimated total revenue attributed to the provider:

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Step 3  
Enter the practice financial information and desired profitability.

Practice Overhead Rate (Prior to Provider Compensation and Benefits)  %

Estimated Cost Allocation  
Equal to Total Revenue Attributed to the Provider (X) Practice Overhead Rate

Margin for Provider Compensation and Practice Profit  
Equal to Total Revenue Attributed to the Provider (-) Estimated Cost Allocated to Provider

Practice Margin Percentage  %

Desired Margin Amount  
Equal to Total Revenue Attributed to the Provider (X) Practice Margin Percentage

Amount Available for Provider Compensation, Benefits and Cost

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Step 4  
Now you can estimate how much the practice can afford to pay a provider after considering expected benefit costs.

Estimated Malpractice Cost

Estimated Health Insurance Cost

Employer Retirement Contribution Costs

Amount Available for Base Salary, Bonus and Employer Payroll Costs  
Practice should also discount the amount below to account for the estimated 7.65% cost related to the employer portion of Social Security, Medicare, etc.

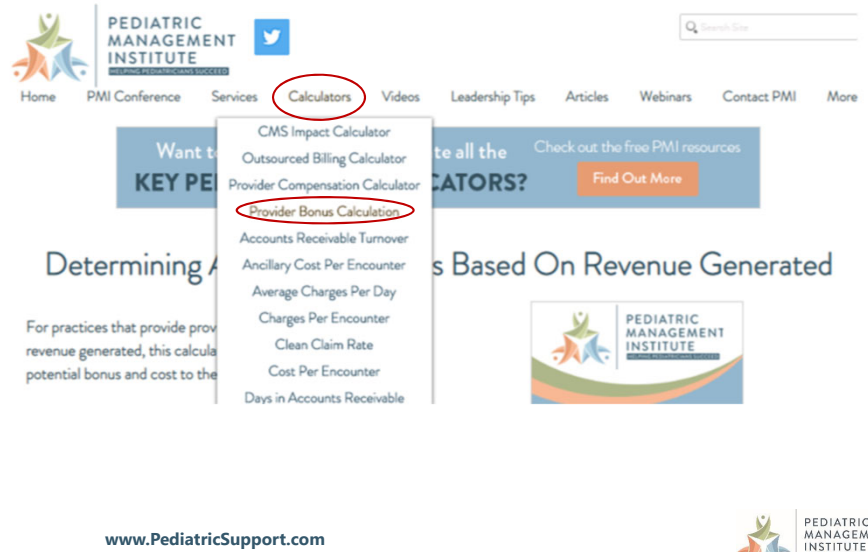
# Threshold

Threshold: Point at which a provider begins to earn a bonus

**Allocated Overhead Cost (+) Provider Base Salary (+) 5% of Revenue Generated**

Online calculator for that too:

<https://www.pediatricsupport.com/provider-bonus-calculation>



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## Provider Compensation Determination Worksheet

**Threshold = Overhead + Provider Cost + Practice Margin**

A	Visits Per Day	Estimate	20
B	Revenue Per Encounter	Analysis	\$ 168,23
C	Revenue Per Day	A * B	\$ 3,365
D	Provider Days Worked	Estimate	200
E	Provider Annual Revenue	C * D	\$ 672,920
F	Practice Overhead Rate	Analysis	68.39%
G	Practice Overhead	E * F	\$ 460,181
H	Allowance for Provider & Practice Margin	E - G	\$ 212,739
I	Provider Salary	Estimate	\$ 150,000
J1	Malpractice Insurance		
J2	Professional License		
J3	CME/Dues		
J4	Health Insurance Allowance		\$ 4,800
J5	Employer Retirement Contribution		\$ 6,000
J6	Employer Medicare & Social Security	7.65% of Salary	\$ 11,475
J7	Total Benefits Cost	Sum J1-J6	\$ 22,275
K	Total Provider Cost	J7 + I	\$ 172,275
L1	Practice Margin Adjuster (%)		0.00%
L2	Practice Margin Adjuster (\$)		\$ -
M	Threshold	G + K + L2	\$ 632,456
N	Bonus Collections	E - M	\$ 40,464
O	Bonus Rate		20.00%
P	Bonus Amount	N * O	\$ 8,093
Q	Bonus Employer Costs (8%)	P * 8%	\$ 647
R	Total Comp and Benefits	K + P	\$ 180,368
S	Provider Comp & Bonus	I + P	\$ 158,093
T	Comp & Ben % of Revenue	S / E	23.49%
U	Practice Margin (\$)	E - G - K - P - Q	\$ 31,724
V	Practice Margin (%)	U / E	4.71%



Provider Compensation Determination Worksheet

Threshold = Overhead + Provider Cost + Practice Margin

A	Visits Per Day	Estimate	16	18	20	22	24
B	Revenue Per Encounter	Analysis	\$ 168.23	\$ 168.23	\$ 168.23	\$ 168.23	\$ 168.23
C	Revenue Per Day	A * B	\$ 2,692	\$ 3,028	\$ 3,365	\$ 3,701	\$ 4,038
D	Provider Days Worked	Estimate	200	200	200	200	200
E	Provider Annual Revenue	C * D	\$ 538,336	\$ 605,628	\$ 672,920	\$ 740,212	\$ 807,504
F	Practice Overhead Rate	Analysis	68.39%	68.39%	68.39%	68.39%	68.39%
G	Practice Overhead	E * F	\$ 368,168	\$ 414,189	\$ 460,210	\$ 506,231	\$ 552,252
H	Allowance for Provider & Practice Margin	E - G	\$ 170,168	\$ 191,439	\$ 212,710	\$ 233,981	\$ 255,252
I	Provider Salary	Estimate	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
J1	Malpractice Insurance						
J2	Professional License						
J3	CME/Dues						
J4	Health Insurance Allowance		\$ 4,800	\$ 4,800	\$ 4,800	\$ 4,800	\$ 4,800
J5	EmployER Retirement Contribution		\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
J6	EmployER Medicare & Social Security	7.65% of Salary	\$ 11,475	\$ 11,475	\$ 11,475	\$ 11,475	\$ 11,475
J7	Total Benefits Cost	Sum J1-J6	\$ 22,275	\$ 22,275	\$ 22,275	\$ 22,275	\$ 22,275
K	Total Provider Cost	J7 + K	\$ 172,275	\$ 172,275	\$ 172,275	\$ 172,275	\$ 172,275
L1	Practice Margin Adjuster (%)		0.00%	0.00%	0.00%	0.00%	0.00%
L2	Practice Margin Adjuster (\$)		\$ -	\$ -	\$ -	\$ -	\$ -
M	Threshold	G + K + L2	\$ 540,443	\$ 586,464	\$ 632,485	\$ 678,506	\$ 724,527
N	Bonus Collections	E - M	\$ (2,107)	\$ 19,164	\$ 40,435	\$ 61,706	\$ 82,977
O	Bonus Rate		10.00%	10.00%	20.00%	20.00%	40.00%
P	Bonus Amount	N * O	\$ -	\$ 1,916	\$ 8,087	\$ 12,341	\$ 33,191
Q	Bonus EmployER Costs (8%)	P * 8%	\$ -	\$ 153	\$ 647	\$ 987	\$ 2,655
R	Total Comp and Benefits	K + P	\$ 172,275	\$ 174,191	\$ 180,362	\$ 184,616	\$ 205,466
S	Provider Comp & Bonus	I + P	\$ 150,000	\$ 151,916	\$ 158,087	\$ 162,341	\$ 183,191
T	Comp & Ben % of Revenue	S / E	27.86%	25.08%	23.49%	21.93%	22.69%
U	Practice Margin (\$)	E - G - K - P - Q	\$ (2,107)	\$ 17,094	\$ 31,701	\$ 48,378	\$ 47,131
V	Practice Margin (%)	U / E	-0.39%	2.82%	4.71%	6.54%	5.84%



Provider bonus based on three areas:

- wRVU's Billed**- Based on provider reaching at least 4,500 wRVU's. Practice to provide flat-rate amount for each wRVU in excess of identified wRVU threshold as followed: [(Total wRVU worked - Threshold) X Bonus Rate].
- Patient and Team Satisfaction Score**- Based on frequency of complaints from patients and staff as well as provider punctuality.
- Closed Chart Score**- Based on the number of closed charts within the quarter. Practice may elect to determine average of number of open charts at the end of each month to determine the quarterly average.

Provider Base Annual Pay

	Physician	Extender
2 Days per Week	\$ 80,000	\$ 53,333
2.5 Days per Week	\$ 100,000	\$ 66,667
3 Days per week	\$ 120,000	\$ 80,000
3.5 Days per week	\$ 140,000	\$ 93,333
4 Days per week	\$ 160,000	\$ 106,667

Provider Annual Bonus wRVU Threshold

	wRVU Threshold
2 Days per Week	2,250.00
2.5 Days per Week	2,812.50
3 Days per week	3,375.00
3.5 Days per week	3,937.50
4 Days per week	4,500.00

Sample Bonus Calculation

Provider Base Salary	\$ 140,000
wRVU Threshold	3,937.50
Actual wRVU's Worked	4,300.00
Eligible wRVU's for Bonus	362.50
wRVU Bonus Rate	\$ 35.00
wRVU Bonus	\$ 12,688
Estimated Provider Compensation	\$ 152,688

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## Optional Bonus Features

### Patient and Team Satisfaction Score

	Percent of Salary
Arrival @ work 20 minutes prior to first appt > 80% of Time	1%
<3 Staff Complaints per Quarter	2%
<2 Patient or Family Complaints per Quarter	2%
<b>Maximum Performance Score</b>	<b>5% of Base Salary</b>

### Closed Chart Score

*Based on number of charts not closed and/or signed at end of quarter.*

	Percent of Salary
< 10 Open Charts	5%
> 10 Open Charts	3%
> 20 Open Charts	2%
> 25 Open Charts	0%
<b>Maximum Performance Score</b>	<b>5% of Base Salary</b>



## Significant PMPM / Capitation

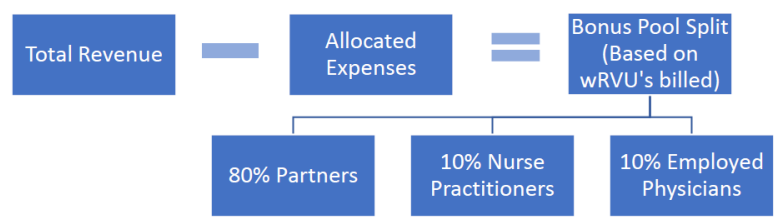
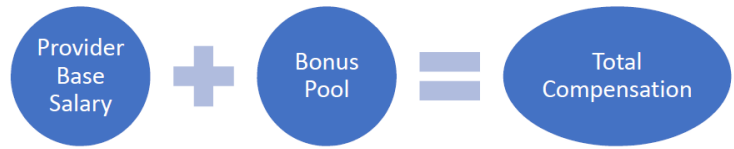
*You Will Need To Get Creative*

- Far greater complexity
- Align practice culture with financial incentives/results of practice
- Consider splitting earnings into several categories

	Owner / Partner	Employed Physician	Extender
Base Salary	Yes	Yes	Yes
Production Incentive	Yes	Yes	Yes
Quality Incentives	Yes	Yes	Yes
Vaccine Drugs	Yes	No	No



# Significant PMPM / Capitation



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# Keys To Determining What You Can Afford



*It's hard to compete with hospitals...if you pay more than you can afford, it will not work. Practices need to focus on providing a fair compensation and convey the value proposition of working for the practice instead of a bureaucratic-laden organization...*

***You can't argue with math...either you can afford to pay the provider or you can't***

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