



2018
Medical Outlook Study for Professionals
Research Summary

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BACKGROUND

This study is part of KatzAbosch's ongoing commitment to conduct and share timely information to advance medical practices and the professionals who manage them. This research report is the second edition of our Medical Outlook Study for Professionals. This year's outlook includes the latest data and insights from two key operational areas: Human Resources and Finance. What makes this report unique is that it represents a compilation of data not covered by the standard industry reports. It was designed with the help of a group of practice administrators to address the gaps that are often found in other studies.

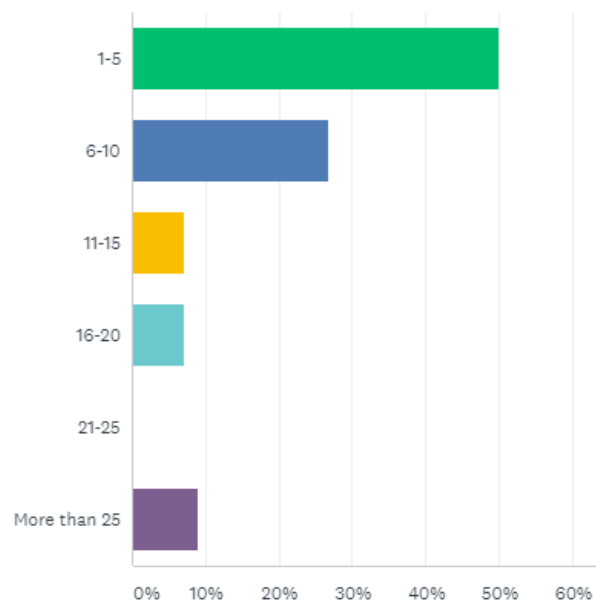
METHODOLOGY

This study was compiled using the answers from an extensive survey. It was segmented into two sections. Each section of the survey pertained to a key operational area of medical practices (Human Resources and Finance). The survey was distributed to over a 1,000 medical practices nation wide.

THE SAMPLE

Practice size was based on full time employed (FTE) physicians. Over 50% of the sample had 1-5 FTE physicians; followed closely by practices accommodating 6-10. The majority of the respondents roles within the practice indicated they were either a Practice Manager, Doctor/Partner, or held an Executive Director, or Chief Financial Operating role.

Figure 1: Practice Size based on FTE Physicians

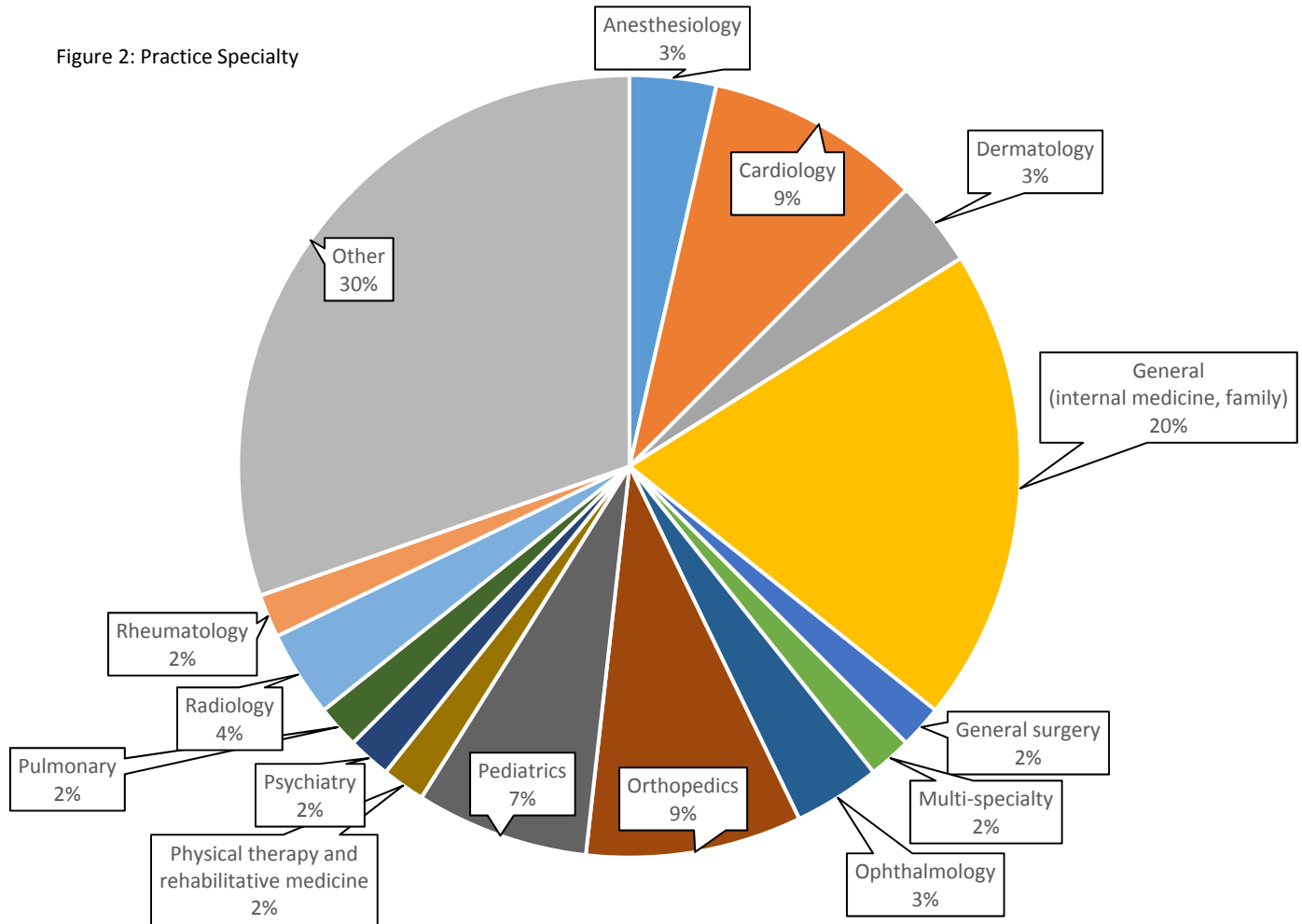


BACKGROUND

THE SAMPLE (CONTINUED)

The specialty compilation of the sample is shown in Figure 2 below.

Figure 2: Practice Specialty



Other Included:

- Colon Rectal
- Dentistry
- Emergency
- Family Medicine
- General
- MFM
- Neurosurgery
- Neurosurgery / pain management
- Oral & Maxillofacial Surgery
- Plastic Surgery and Hand Surgery
- Podiatry
- Primary Care and Behavioral Health
- REI

Section 1:

HUMAN RESOURCES

Managing human resources effectively and efficiently plays a critical role in ensuring that a satisfied, motivated workforce delivers quality health services at your medical practice. It also plays an important role in increasing staff performance and productivity, enhancing an organization's competitive advantage, and contributing directly to organizational goals. This section focuses on policies, benefits and retention/recruiting practices to guide in planning for employee development programs that benefit both the organization and its employees.

CELL PHONE & SOCIAL MEDIA POLICIES

Most practices indicated they have policies around cell phone use and social media. Our study went further and asked when employees were allowed to use their cell phones and if the practice had a policy regarding what patient or business information can be sent over cell phones.

55% of the survey respondents answered that they limit cell phone use to breaks. And almost 90% of practices have a policy regarding what patient or business information can be sent over cell phones.

Figure 1: Percentage of Allowance of Cell Phone Use in Office

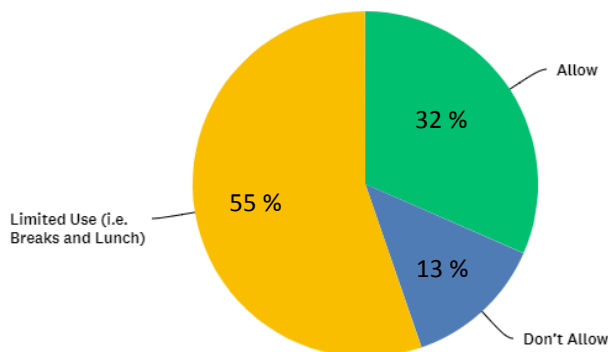
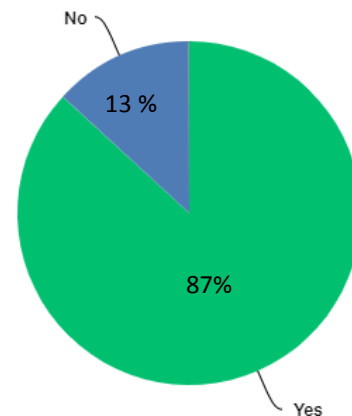
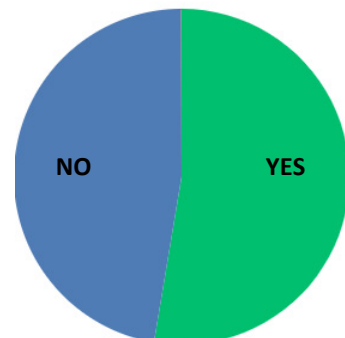


Figure 2: Percentage of Practices with a Cell Phone Information Policy



Nearly 53% of the practices had a social media policy in place. It is known that people check their social profiles at least once a day, therefore it is important to set a clear policy up front to avoid any misunderstandings.

Figure 3: Percentage of Practices with Social Media Policy



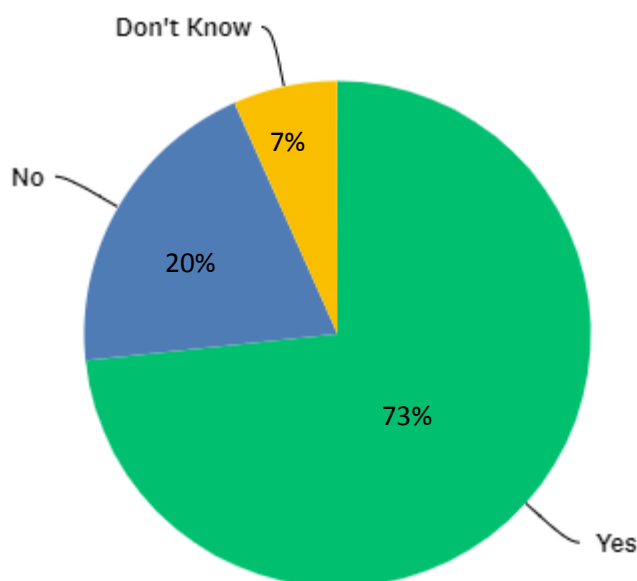
Section 1:

HUMAN RESOURCES

MEANINGFUL USE

The Meaningful Use criteria involves some workflow changes that may impact (hopefully improve) day-to-day practice for physicians. Everyone in the practice, from front-office staff to nursing and medical assistant staff to the clinical professionals, is impacted by the implementation of an EHR system – and everyone's effort is needed in order to achieve the criteria needed for Attestation. The below graph represents the percentage of survey respondents who have met the Meaningful Use criteria.

Figure 4: Percentage of Practices Which Have Met the Requirements of Meaningful Use



In 2018 and beyond, all eligible providers will attest to Stage 3, regardless of whether they have participated in the program in previous years. The goal of the single stage is to reduce the EHR Incentive Program's complexity and to simplify reporting requirements for eligible providers.

Also beginning in 2018, the reporting period for eligible providers will be a full calendar year. The only current exception to this is for eligible providers attesting to meaningful use for the first time; they will continue to have a 90-day reporting period.

Section 1: HUMAN RESOURCES

EMPLOYEE BENEFIT PROGRAMS

The survey indicated the top four incentive programs, as shown by Figure 5, are:

- 401K program (Employee Funded),
- Subsidized Health Insurance,
- Sick Time,
- Profit Sharing/Pension.

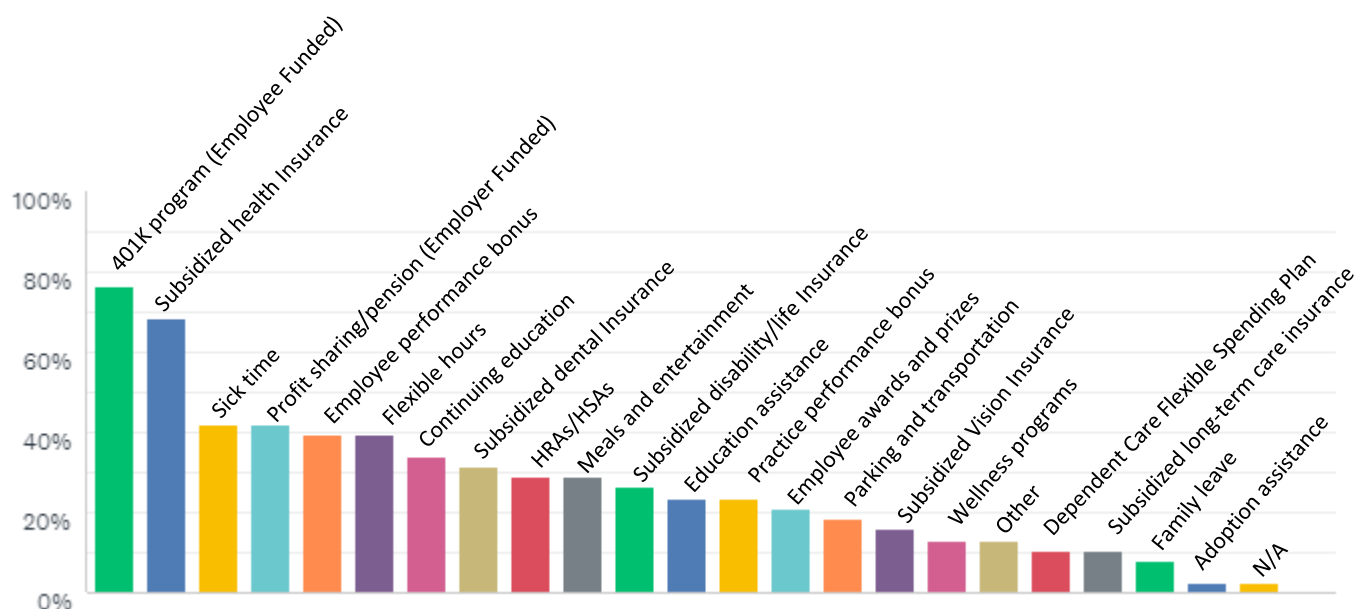


Figure 5: Incentive Programs Offered by Practices

Other Included:

- Simple IRA, vacation time per years worked increases
- 403(b); Short Term Disability, Long Term Disability
- Reduced cost for practice services
- We do not have non-physician full time employees
- We give 15 days of PTO; Includes sick and vacation

Section 1:

HUMAN RESOURCES

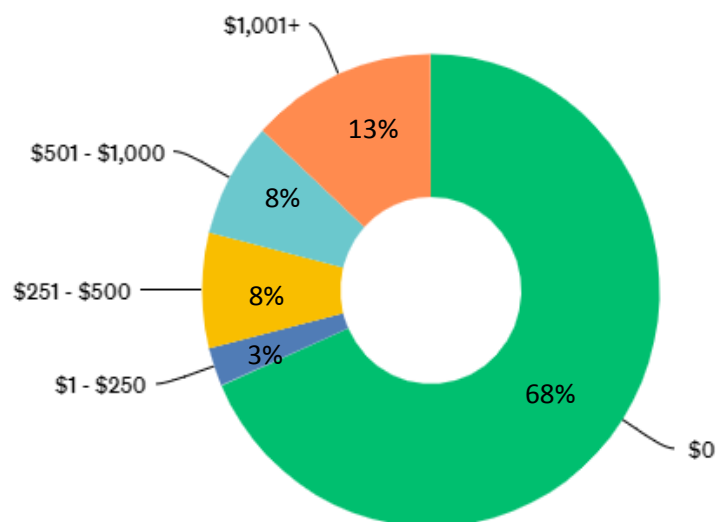
EMPLOYEE BENEFIT PROGRAMS: HRAs/HSAs

The pros and cons of offering a Health Reimbursement Arrangement (HRA), commonly referred to as a health reimbursement account or even a Health Savings Account (HSA) is often debated for small businesses, particularly in the medical field. Both HRAs and HSAs encourage employee "consumerism," helping them pay attention to healthcare costs and use healthcare more prudently. They're rewarded by having unused funds roll forward, though while HSAs roll forward annually, Small Business HRAs roll over month to month only.

Overall, it can be said that both HRAs and HSAs offer great value to employees and can be offered together. However, if an employer decides to choose between the two, it is important to consider their similarities and differences.

The chart below summarizes the results from the survey respondents and the average amount they are participating in annually for non-physicians. It's interesting to note that over half of the practices are not contributing in this employee benefit.

Figure 6: Average amount practices pay for non-physicians annually for HRAs/HSAs

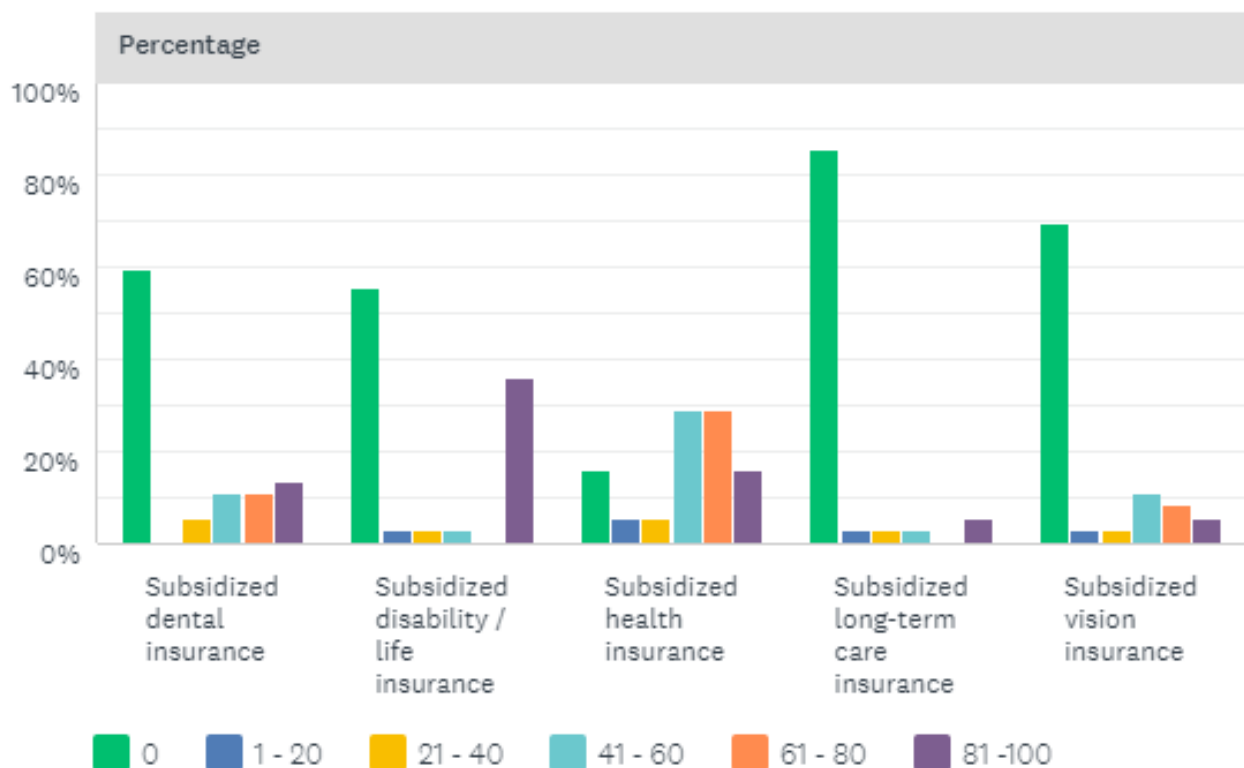


Section 1: HUMAN RESOURCES

EMPLOYEE BENEFIT PROGRAMS: PREMIUMS FOR NON-PHYSICIANS

Looking at just the standard subsidized benefits offered, our survey asked what percentage of the premiums does the practice pay for non-physicians. The chart below summarizes the results.

Figure 7: Percentage practices pay for premiums for non-physicians



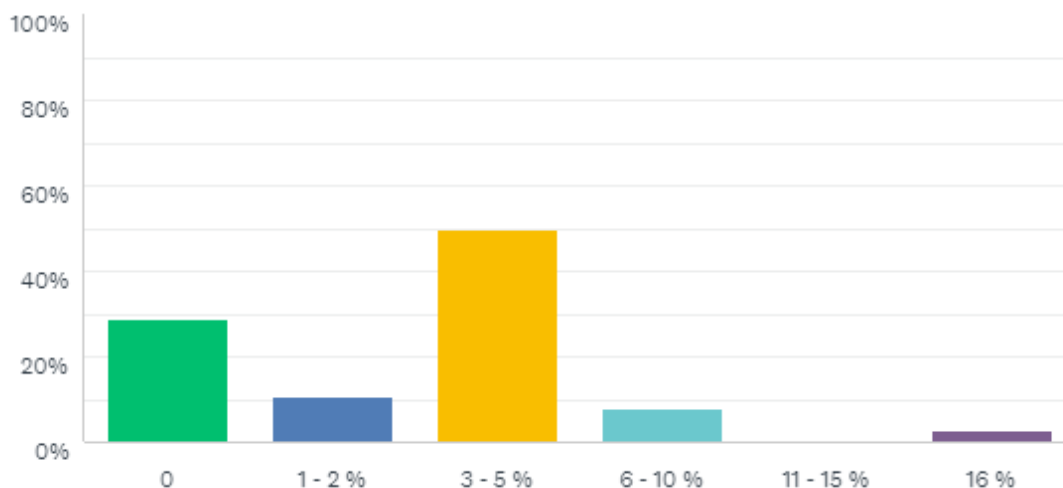
Section 1: HUMAN RESOURCES

EMPLOYEE BENEFIT PROGRAMS: PROFIT SHARING / PENSION

In today's economy, putting a company-sponsored retirement plan in place may be one of the most important tax and financial decisions physicians can make. The right plan will not only help to attract and retain talented medical professionals, but also enable you to accumulate personal wealth by reducing current tax obligations. Many physicians put off establishing a plan out of fear the process is complex or costly, which is not necessarily the case.

The below chart summarizes the percentage of salary for profit sharing/pension practices are paying for non-physicians. Over half of the survey respondents fall in the 3-5% range with a few outliers in the 16% range. Accordingly, nearly 30% are not providing this benefit to their non-physician colleagues.

Figure 8: Percentage of salary for profit sharing/pension the practice pay for non-physicians



Section 1: HUMAN RESOURCES

EMPLOYEE BENEFIT PROGRAMS: PAID TIME OFF FOR NON-PHYSICIANS

The results of the survey showed that most practices are providing some sort of paid time off for non-physicians. We should note that many survey respondents indicated that this benefit varies based on number of years with the practice.

Figure 9: Average Days of Paid Time Off For Non-Physicians Provided for **Vacation**

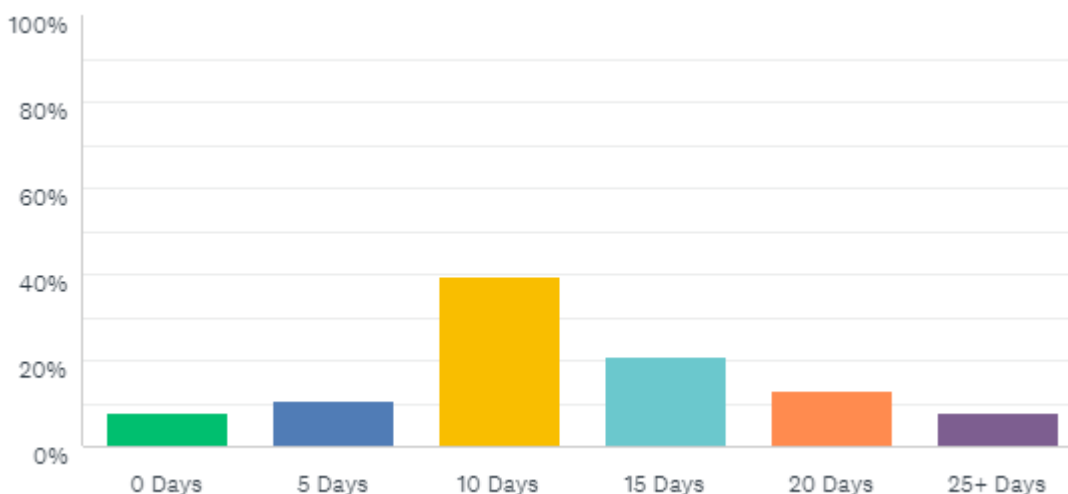
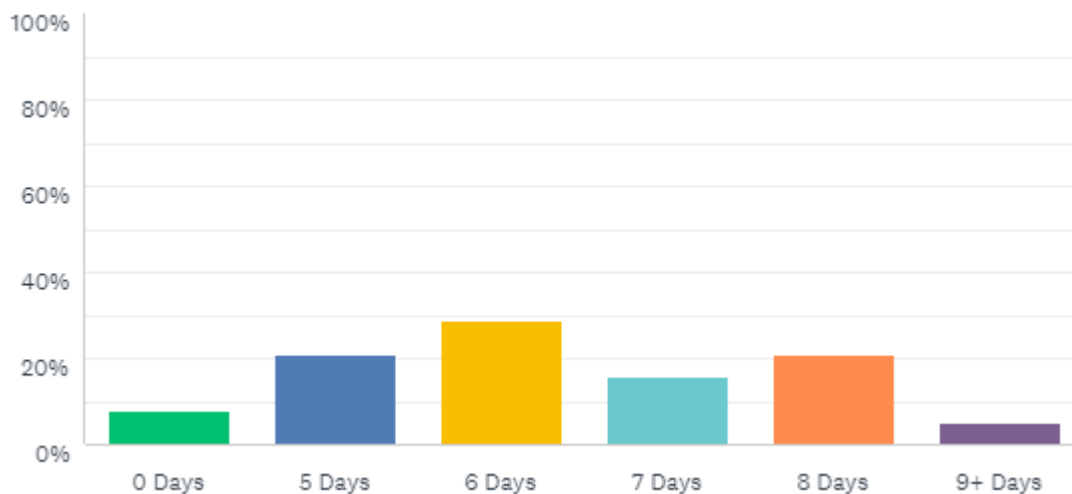


Figure 10: Average Days of Paid Time Off For Non-Physicians Provided for **Holidays**



Section 1: HUMAN RESOURCES

EMPLOYEE BENEFIT PROGRAMS: PAID TIME OFF FOR NON-PHYSICIANS - CONTINUED

Figure 11: Average Days of Paid Time Off For Non-Physicians Provided for **Personal Time**

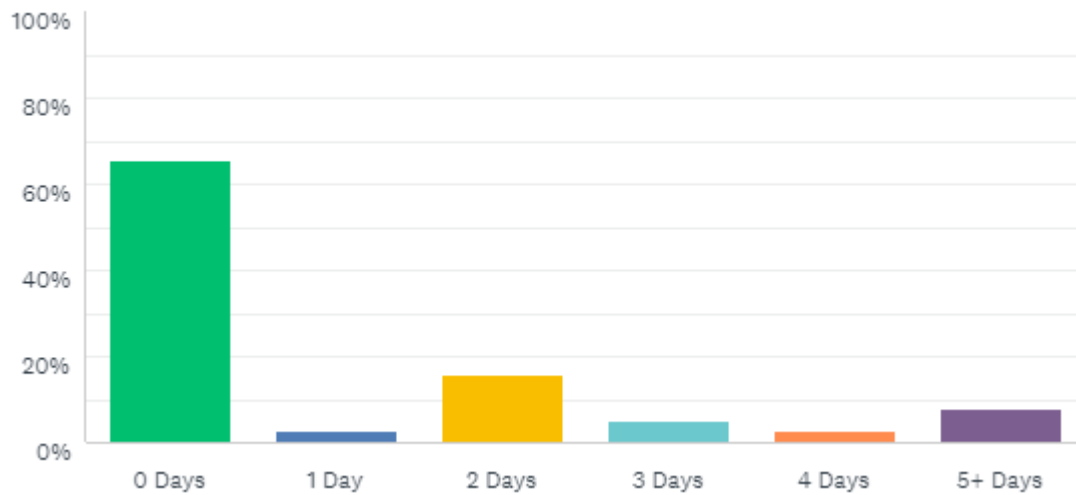
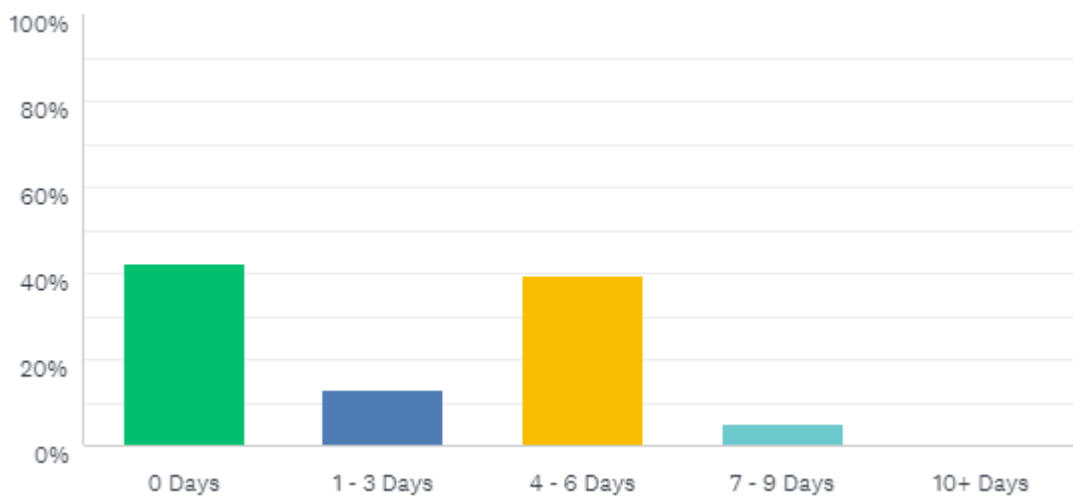


Figure 12: Average Days of Paid Time Off For Non-Physicians Provided for **Sick Time**



Section 1: HUMAN RESOURCES

EMPLOYEE BENEFIT PROGRAMS: EDUCATION INCENTIVES

Education is an important factor in recruiting and retaining valued employees. Whether it is required or not, providing educational incentives/opportunities can be important for career satisfaction. No matter the level provided it can boost employee confidence, productivity in the work environment and lead to opportunities for career advancement.

Continuing Education Vs. Higher Education Investment

The survey asked respondents in detail what they invested in for non-physician employees annually when it came to continuing educational activities. The results show that 68% of the respondents do at some level invest in this area for their employees.

When it came to investing in higher education assistance the number was flipped. However, it is important to note that there are practices who deem it important to support their employees in their efforts for career advancement opportunities.

Figure 13: Percentage Practice Pays for Non-physicians
Annually for **Continuing Education**

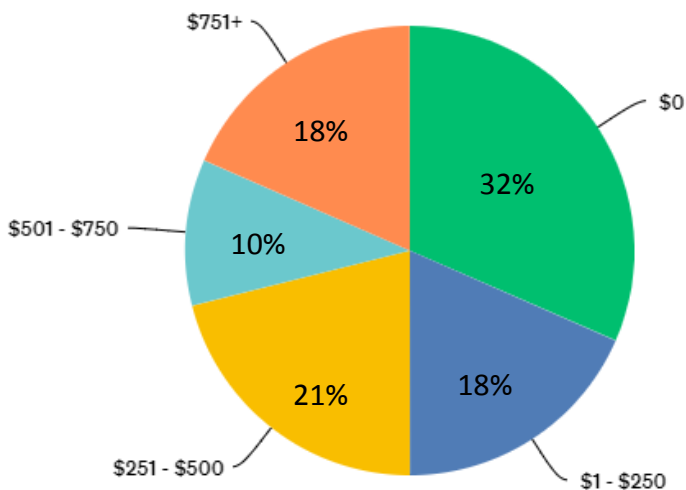
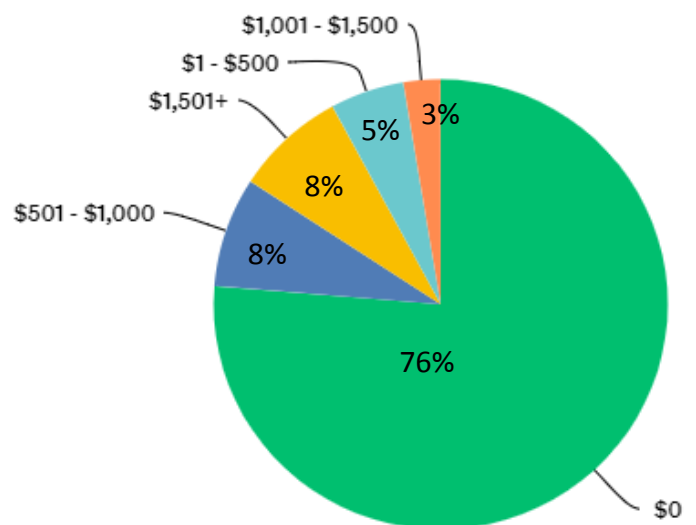


Figure 14: Percentage Practice Pays for Non-physicians
Annually for **Higher Education Assistance**



Section 1:

HUMAN RESOURCES

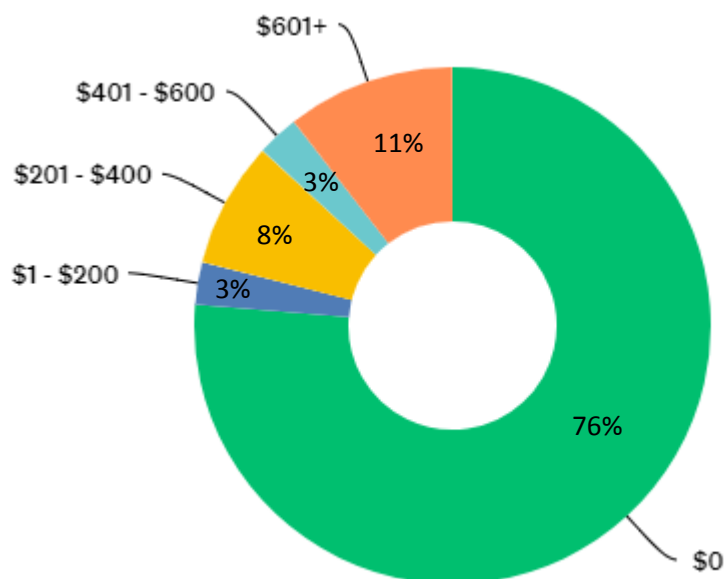
EMPLOYEE BENEFITS: PARKING AND TRANSPORTATION

More and more employers are providing some kind of commuting benefits for employees. From bicycle commuting to van pooling to parking and transit passes, new possible benefits are appearing every day.

And the IRS is looking at the tax consequences of these benefits, both to employers and employees. Some of what the IRS is doing is intended to promote energy-efficient means of transportation, like bicycling to work or van pools. Other benefits are included by employers as incentives to recruit employees, particularly those in urban areas.

The graph below shows the average amount practices are paying annually for non-physicians parking and transportation benefits. It is easy to see the majority of the survey respondents are not providing this benefit to their non-physician employees.

Figure 15: Average amount practice pays for non-physicians annually for parking and transportation



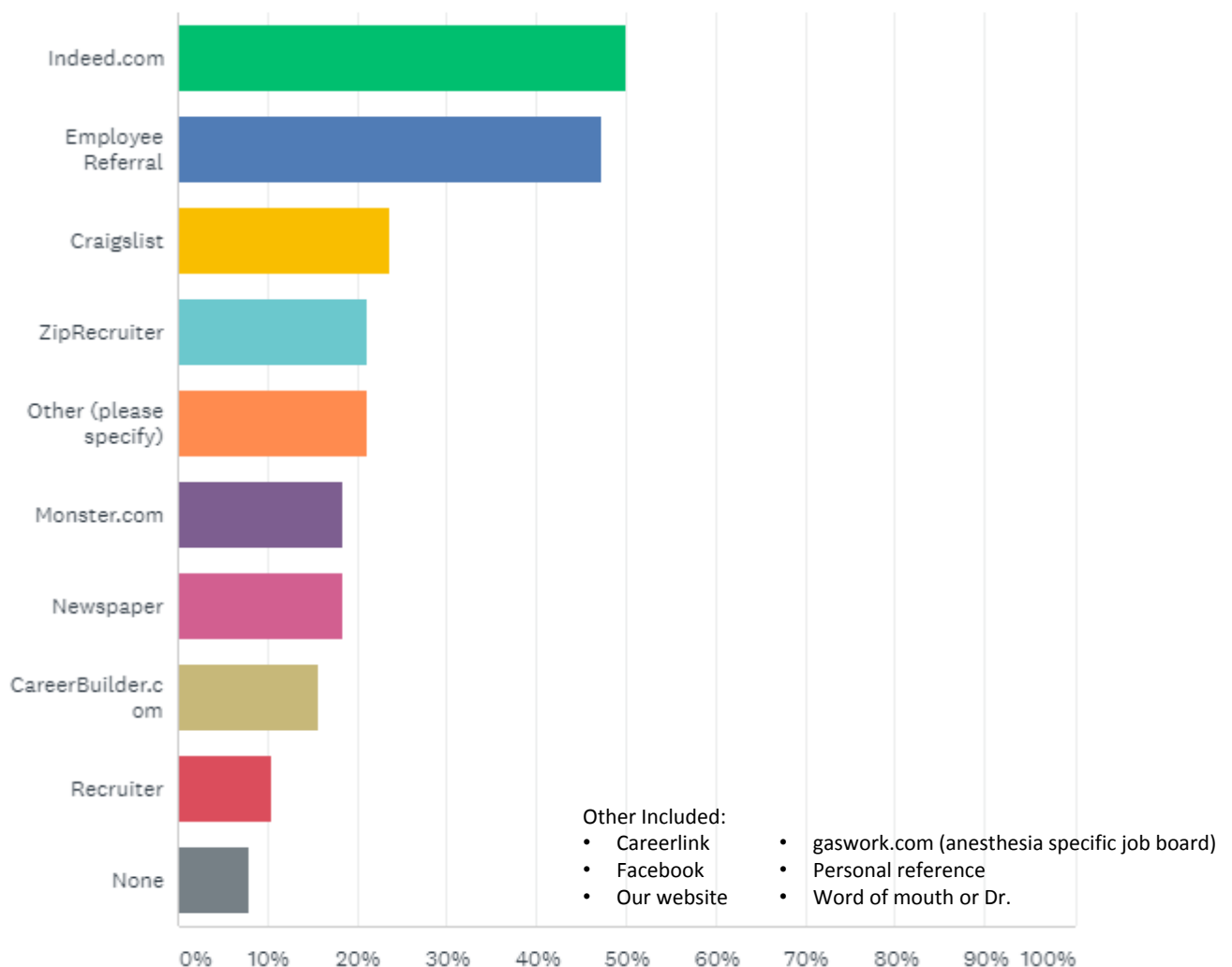
Section 1:

HUMAN RESOURCES

RECRUITING

Recruiting physician and non-physicians continues to be a difficult process for practice managers across the country. One major recruiting challenge has been the recent shift from private practice employment to hospital employment. Fortunately, you can lure talent away from hospitals and healthcare systems and keep your practice staffed with the right teammates by casting a wide recruiting net, understand and promote the positives that set your practice apart, and properly support new hires. The survey indicated the top three methods of recruiting staff shown by Figure 16, are: Indeed.com, Employee Referrals, Craigslist. It is interesting to note that two of the three are online listing platforms.

Figure 16: Methods Used to Recruit Staff



Section 1: HUMAN RESOURCES

RETENTION

In all organizations, it is a challenge to retain employees. For the practices who responded to the survey, a little over a quarter of them reported to have 1-3% staff turn over rate annually. Below are listed some initiatives practices utilize to strengthen their employee retention. As indicated in Figure 18, Open Communication with Management is the lead retention initiative. Followed by offering bonuses, awards and prizes.

Over half of the survey respondents indicated that offering bonuses, awards and prizes was a key retention method. Therefore, the next two pages extract the details around the level of investment practices are allocating to this retention area.

Figure 17: Staff Turnover Rate

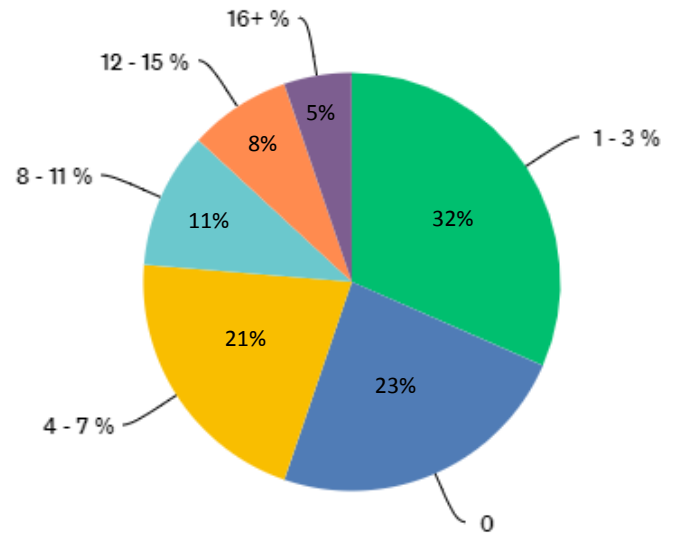
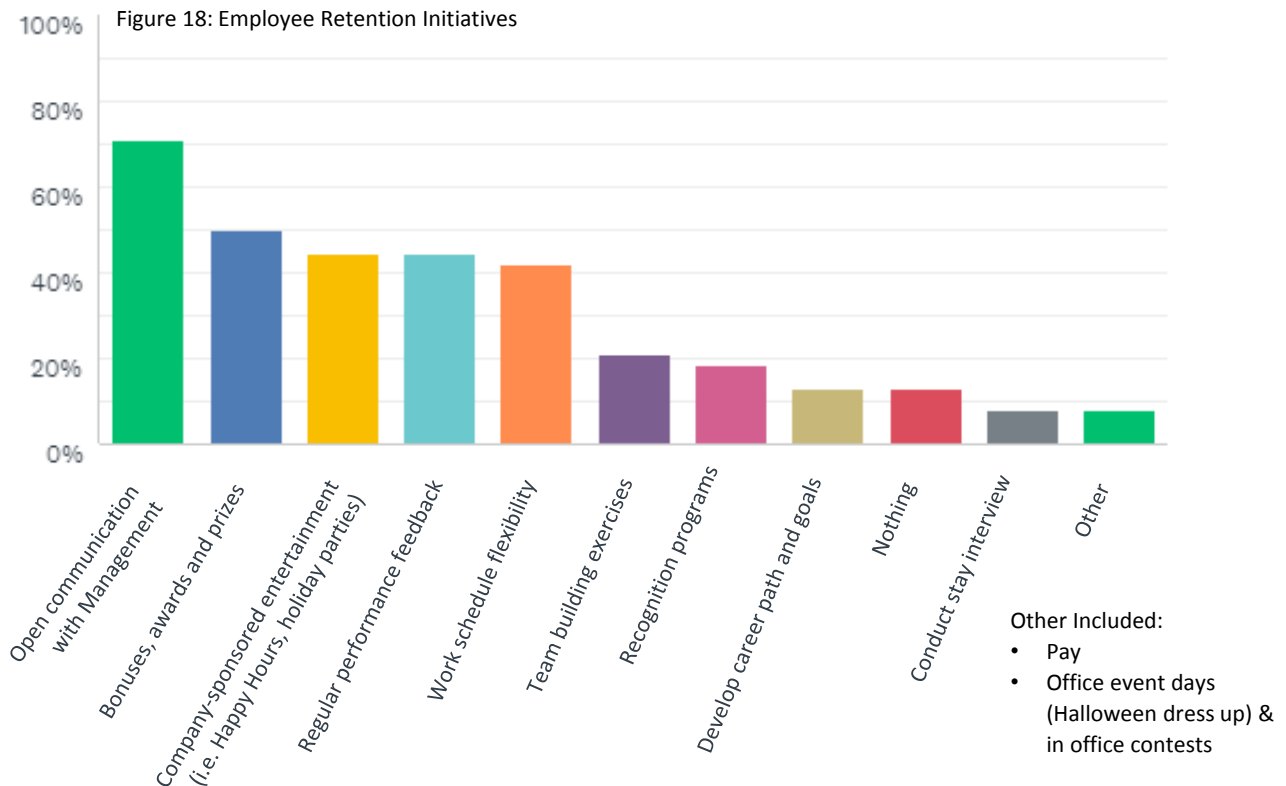


Figure 18: Employee Retention Initiatives

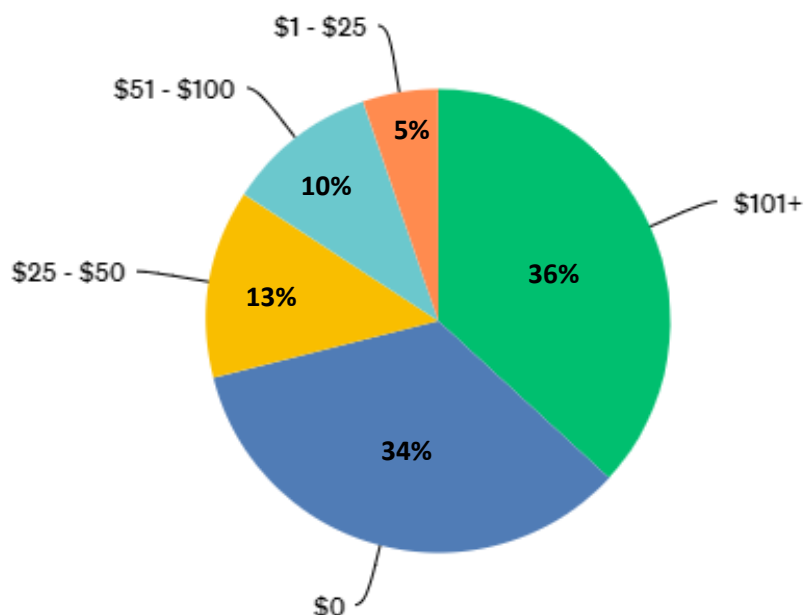


Section 1: HUMAN RESOURCES

RETENTION: AWARDS AND PRIZES

When it came to the average amount a practice pays annually for non-physicians for just awards and prizes over a quarter are making a significant investment of over \$100 dollars.

Figure 19: Average Amount Practices Pay Annually for Employee Awards and Prizes



Although some may dismiss recognition and reward programs as "feel good" activities, evidence suggests a strong link exists between such programs and improved job performance. Organizations consistently recognized as "great places to work" are typically those that frequently recognize, validate and value outstanding work—not only by telling employees they are doing a great job, but also by giving them cash rewards or noncash incentives.

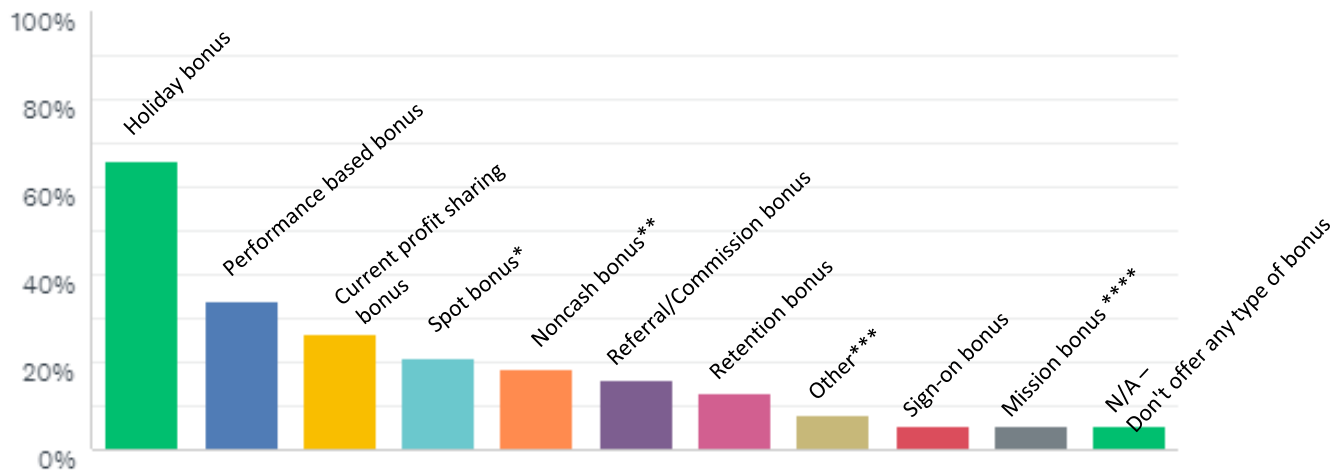
Section 1:

HUMAN RESOURCES

RETENTION: BONUSES

Bonus payments can motivate employees, boost morale and improve retention; however, unstructured or poorly structured payments can lack value for the organization. The below chart identifies the types of bonuses practices are utilizing. Holiday bonuses, performance based bonuses and profit sharing bonuses appear to be the top three used to reward and recognize non-physicians.

Figure 20: Types of Bonuses Provided to Non-physicians



*Spot bonus (reward employees on the spot for achievements that deserve special recognition, typically \$50 and up given by immediate supervisors)

** Noncash bonus (i.e. flowers, reserved parking space, gift card to favorite store)

*** Other Included:

- If practice does well, then employees get a bonus.
- Bonus type varies from year to year. Sometimes it is non cash, other years it has been cash.
- \$25 BIRTHDAY GIFT CARD

**** Mission bonus (also known as a task bonus or a milestone bonus)

Section 1: HUMAN RESOURCES

RETENTION: PRACTICE vs. EMPLOYEE PERFORMANCE BONUSES

Practices are using a variety of bonus tactics to reward their employees. Many medical practices provide year-end bonuses tied in to the spirit of the holidays. The problem is, once initiated, it is difficult to take away this type of bonus. It becomes an entitlement. It may be time to consider alternatives, and to tie bonuses to some type of performance criteria. The two charts below show how some practices are contributing to this type of bonus strategy for their non-physician employees.

Figure 21: Average Amount Practices Pay for Non-physicians Annually for **Practice Performance Bonus**

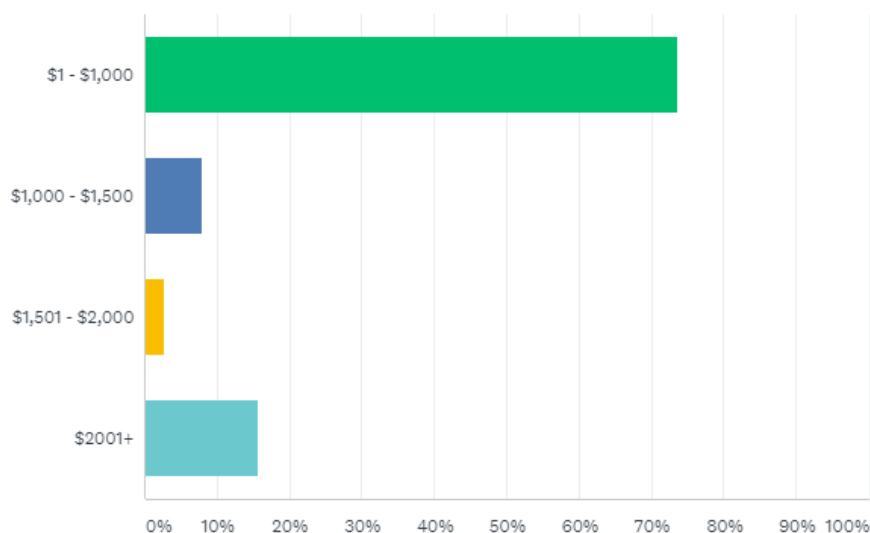
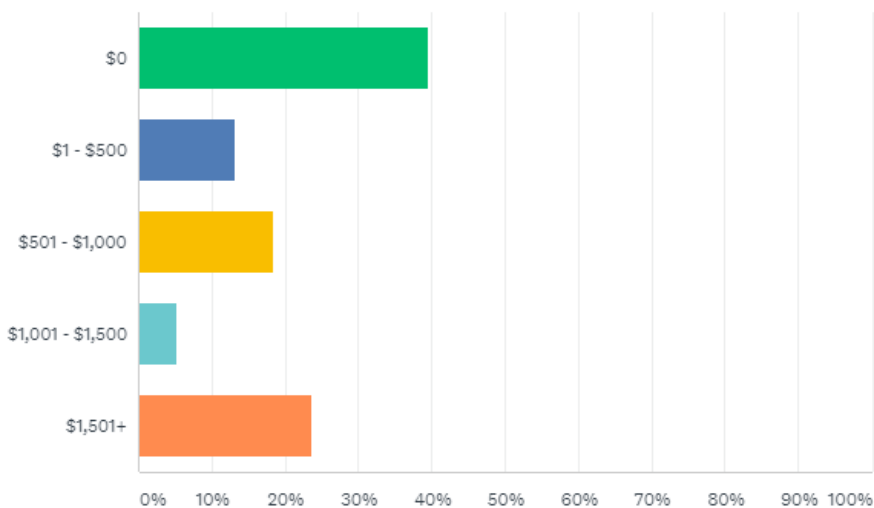


Figure 22: Average Amount Practices Pay for Non-physicians Annually for Practice **Employee Performance Bonus**

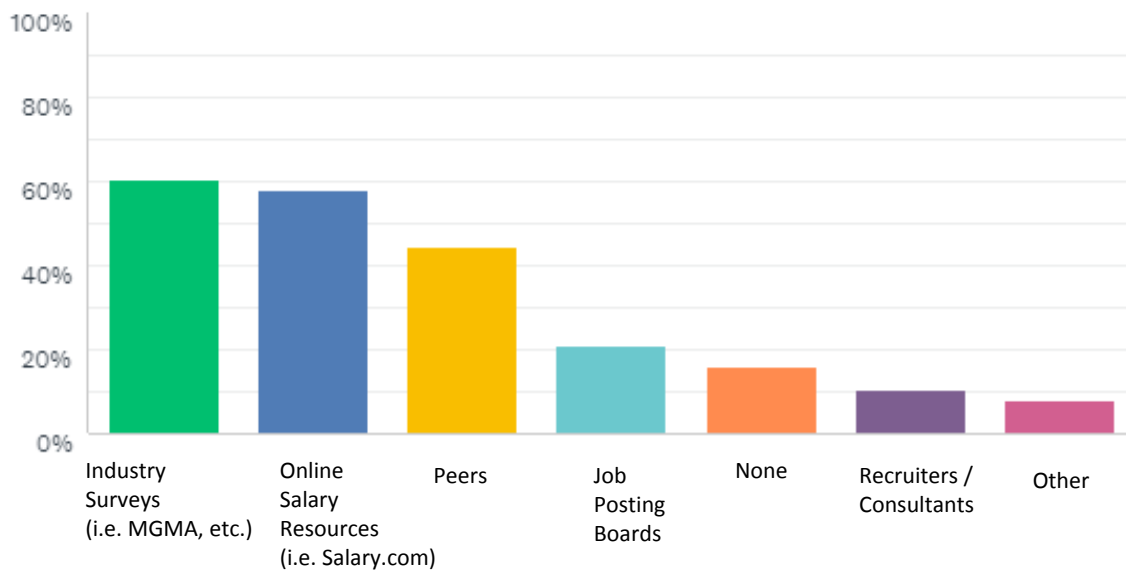


Section 1: HUMAN RESOURCES

RETENTION: COMPENSATION RESOURCES

Practices are using a variety of compensation resources to make salary decisions. However, the professional organization Medical Group Management Association (MGMA) and online salary surveys are the top resources.

Figure 23: Compensation Resources



Other Included:

- Nebraska Department of Revenue
- Industry / Local Surveys
- Internet

Section 1:

HUMAN RESOURCES

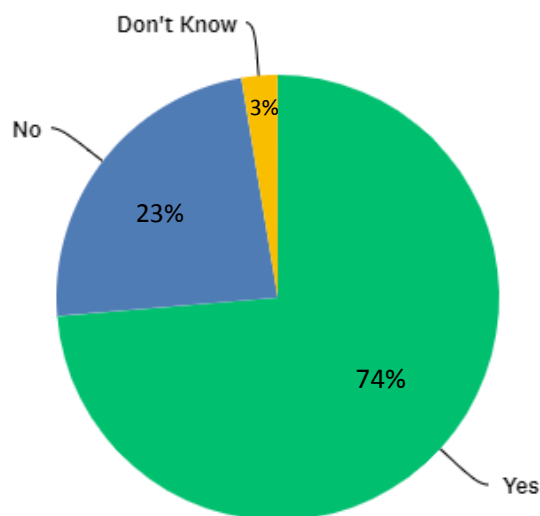
RETENTION: EMPLOYEE PERFORMANCE EVALUATIONS

Documented performance evaluations are communication tools that ensure the supervisor and reporting staff members are clear about the requirements of each employee's job. The evaluation also communicates the desired outcomes or outputs needed from each employee's job and defines how they will be measured.

The goals of the best employee performance evaluations include employee development and organizational improvement; along with helping employees accomplish both personal development and organizational goals.

Based on the results of the survey, 74% of the firms are preparing annual performance evaluations for their employees.

Figure 24: Percentage of Practices that Prepare Annual Performance Evaluations for Employees



EMERGING TREND: Many companies are abandoning the old way of evaluating their employees. Performance reviews are designed to essentially grade employees based on their performance. They occur typically once or twice a year. Fortune 500 companies like GE and Microsoft are replacing their annual employee reviews and ranking systems with consistent feedback and coaching conversations throughout the year. In doing so, they are cultivating a organizational culture of engaging, nurturing, and retaining top employees.

Section 2: FINANCIAL MANAGEMENT

This section deals with procurement, allocation and control of financial resources for practices and it highlights current growth trends within the industry.

GROWTH TRENDS

Merger mania is slowing down. In the next few years we should see a decrease in this trend. The figures below reinforce this statement. As the industry starts to normalize, practices should consider how their organization's growth is impacted by the new structured landscape.

Figure 1: Percentage of practices planning on **being acquired** in the next 16 months

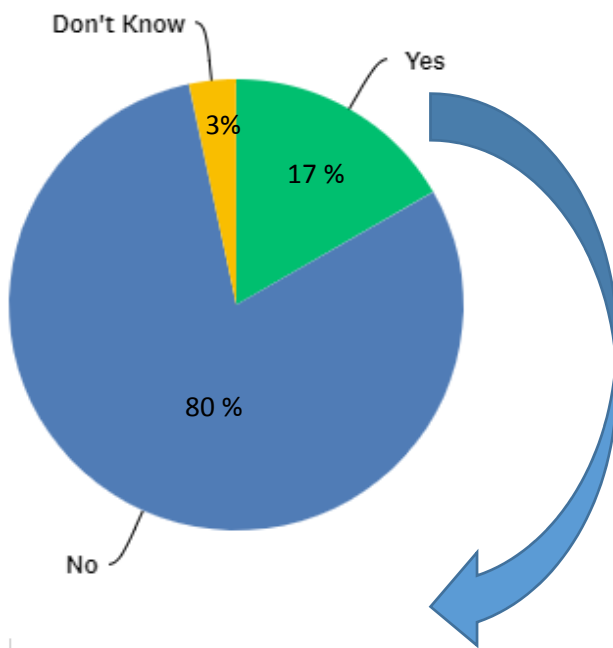
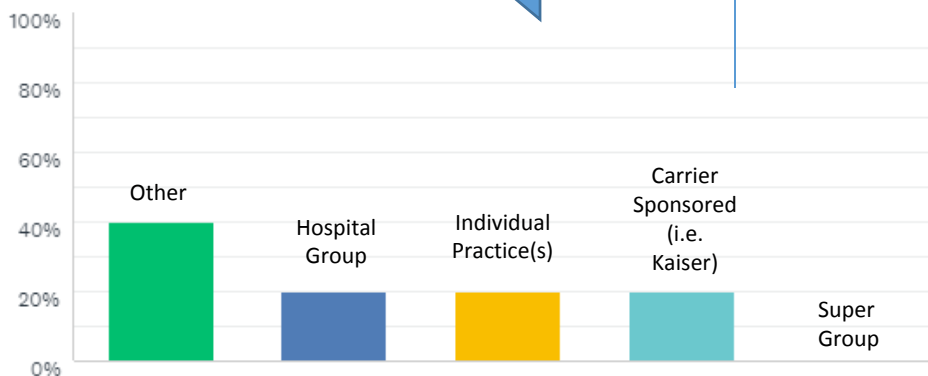
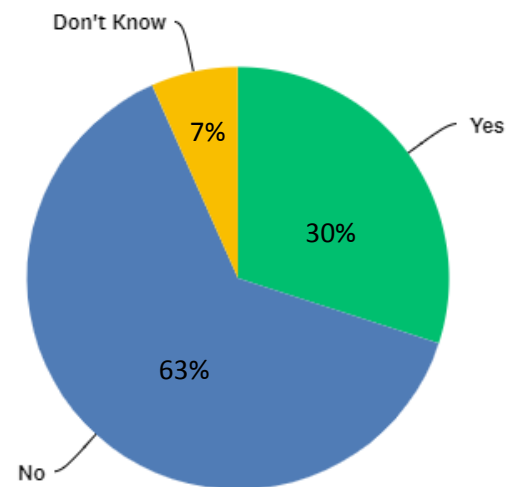


Figure 2: Percentage of practices **looking to acquire** additional practices in the next 16 months



Other Included:

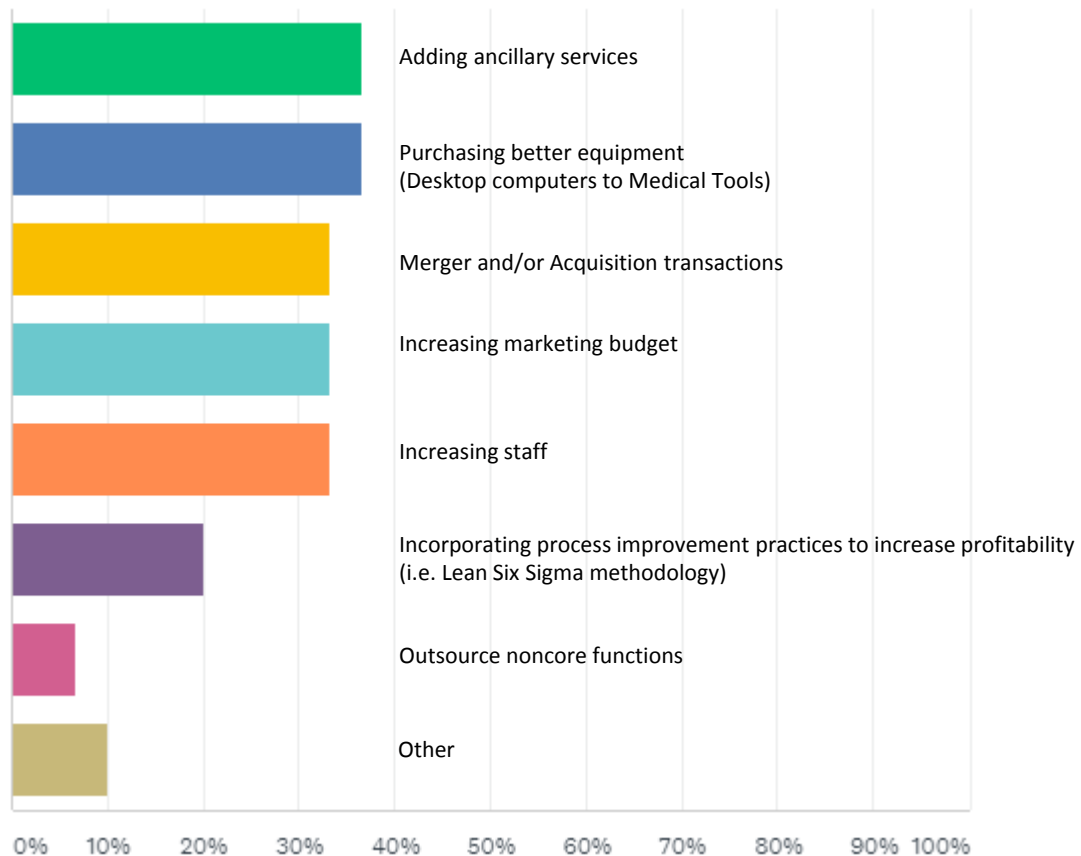
- MDVIP
- Private equity investments

Section 2: FINANCIAL MANAGEMENT

GROWTH TRENDS (CONTINUED)

How are you looking to grow your practice in the next 5 years? Over 37% of practices are considering adding ancillary services; in addition to purchasing better equipment. These appear to be the main strategies for growth for practices that took the survey.

Figure 3: How practices plan to grow in the next 5 years



Other Included:

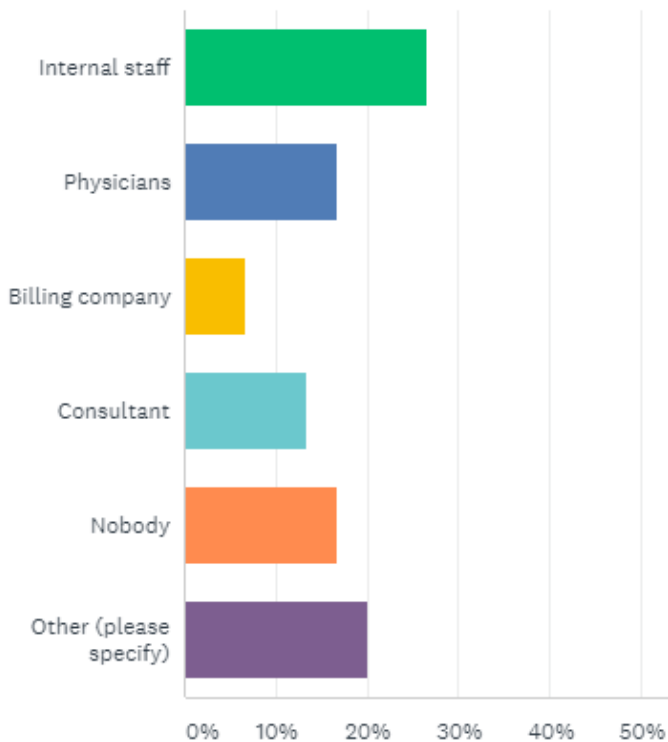
- Maybe hiring more physicians
- Hire additional providers
- Contract negotiations and increases

Section 2: FINANCIAL MANAGEMENT

PAYOR CONTRACTS

Most physician practices know the plans in which they participate. They know they have a contract in place that covers payment terms and rates. Negotiating new contracts with payers can seem daunting, causing many practices to sign every contract without determining the impact to the bottom line or administrative responsibilities. Yet, it is interesting to see that majority of the practices participating in the survey execute this responsibility internally. Less than 30% use a consultant and under 10% a billing company. As a result most are primarily seeing “little success” or “moderate success” (Figure 5) when negotiating contract increases.

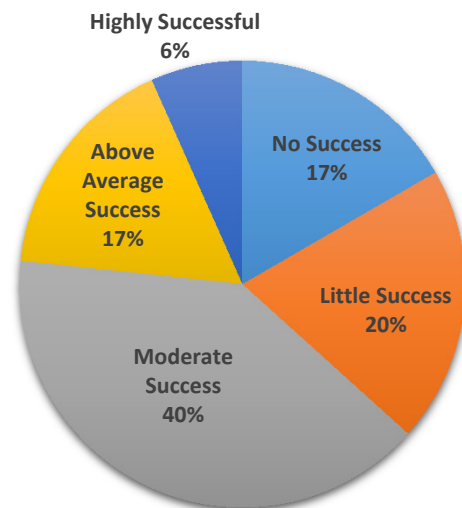
Figure 4: Person in-charge of payor contract negotiations



Other Included:

- Both physicians and consultant
- UNINET and Methodist PHO
- Physician Hospital Organization (PHO)
- Member of ACO
- CEO

Figure 5: Percentage of practices level of payor negotiation increase successes

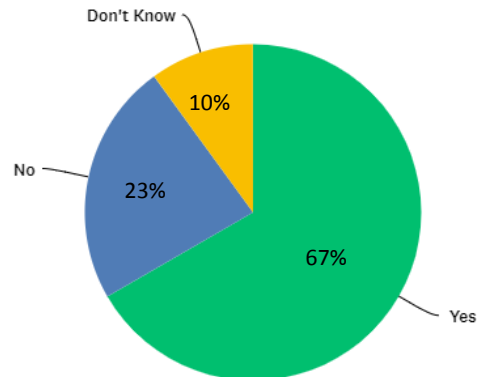


Section 2: FINANCIAL MANAGEMENT

401K/PSP

In the past two years, have you reviewed all of the fees you pay for your 401K/PSP? All too often these are overlooked and can have tremendous impact on your bottom line if they are not considered. The majority of the survey respondents did practice this important financial management procedure.

Figure 6: Percentage of practices who reviewed their 401K/PSP in the last two years.



OUTSOURCING

The decision to outsource is a strategic one and not deciding to outsource is a tactical choice. Put simply, if you do outsource some areas of support you should expect to save money and to have more time to focus on the key part of your practice. It turns out that nearly half of the practices that responded to the survey outsourced primarily their: Retirement plan administration and advisory, Payroll processing, and IT. The list to the right ranks the complete list of outsourced services in order of greatest use to least.

Outsourced Services

*Ranked by % of Practices Who Utilize It
From Greatest to Smallest*

1. **Retirement plan administration and advisory, 63%**
2. **Payroll processing, 57%**
3. **Information technology, 54%**
4. **Data destruction/shredding, 40%**
5. Website development and management, 37%
6. Payor contract negotiations, 30%
7. Billing and collections, 27%
8. Credentialing, 20%
9. Bookkeeping, 17%
10. Recruiting, 13%
11. CFO services, 13%
12. Marketing and public relations, 10%
13. Other,* 10%
14. Human resources, 7%
15. Social media, 7%

Other Included:

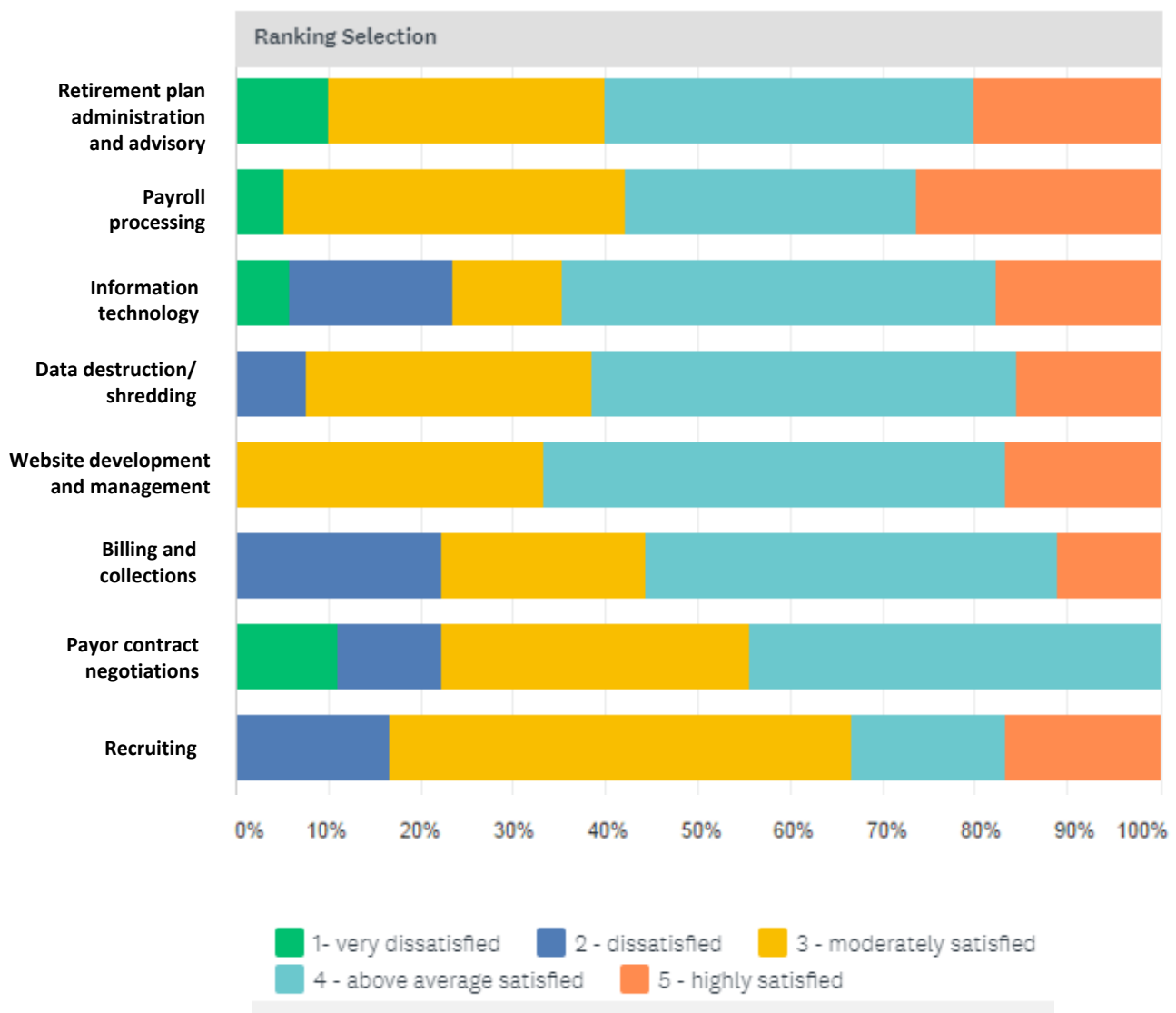
- Some payor negotiations
- Collections only
- Payment posting

Section 2: FINANCIAL MANAGEMENT

OUTSOURCING (CONTINUED)

We asked each practice to rank their effectiveness for those services they outsource. CFO and bookkeeping services appear to hold the highest satisfaction level (see page 27).

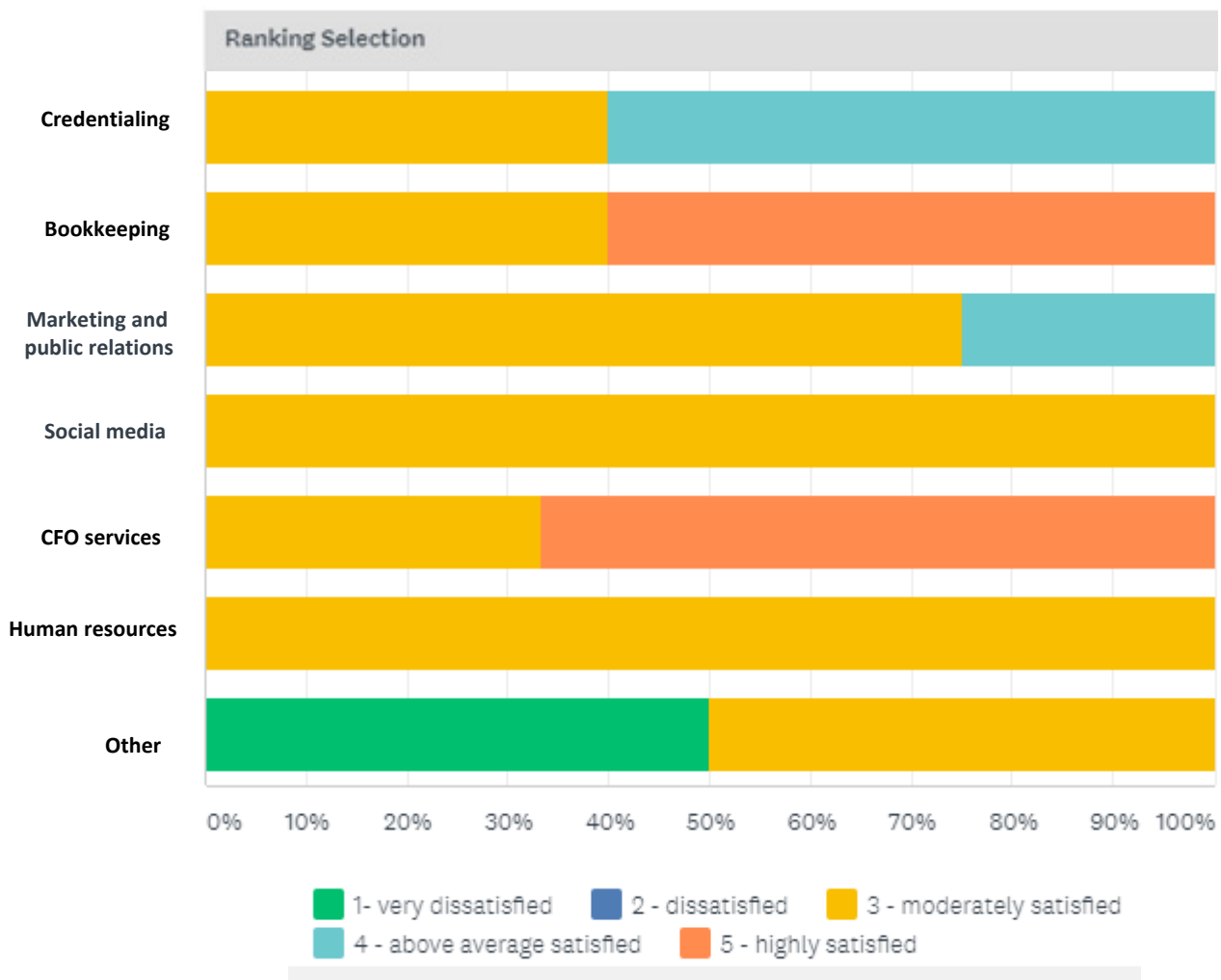
Figure 7: Outsourced services ranked by effectiveness



Section 2: FINANCIAL MANAGEMENT

OUTSOURCING (CONTINUED)

Figure 7: Outsourced services ranked by effectiveness (continued)

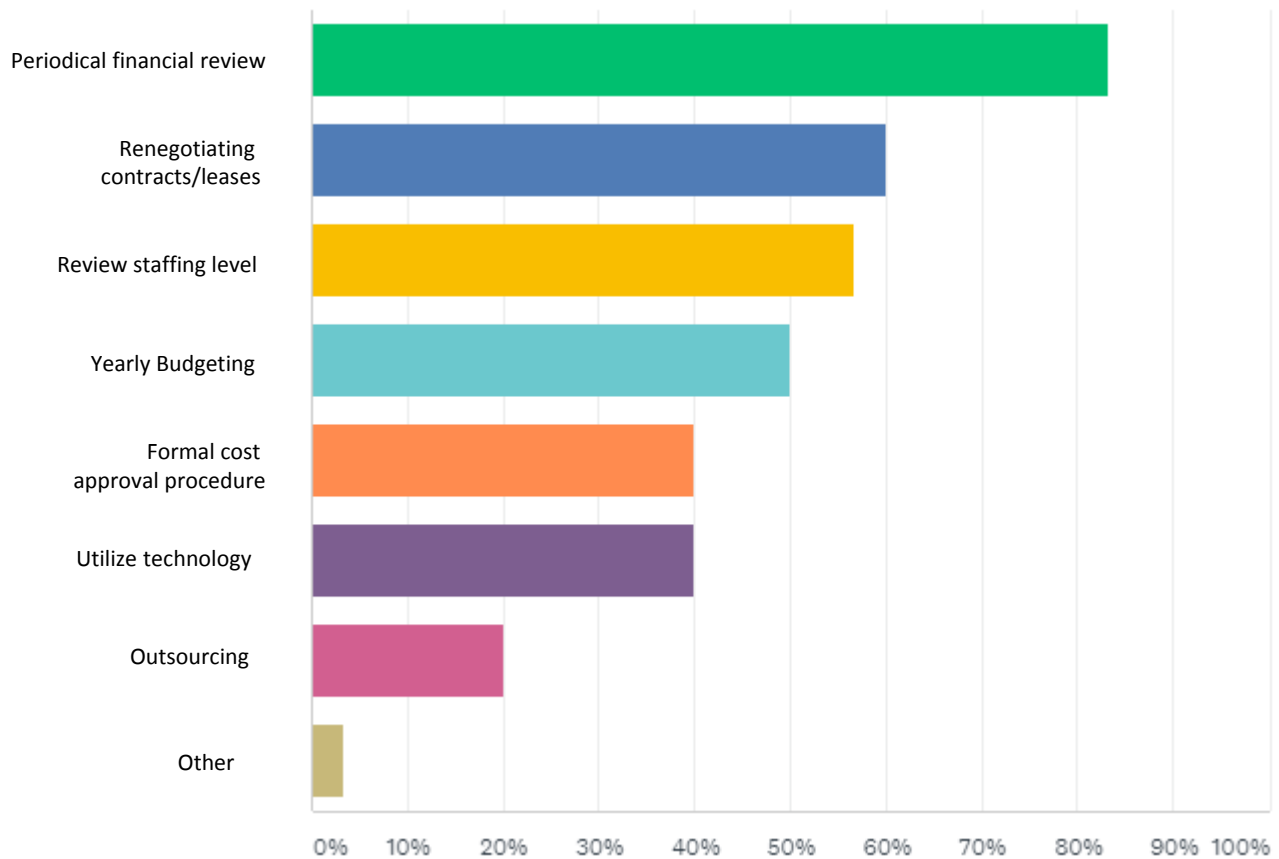


Section 2: FINANCIAL MANAGEMENT

CONTROLLING EXPENSES

Driving the bottom line through profitable revenue growth likely is the objective of virtually every company. This should be the number one focus, of course. If you're not growing, you're dying. But companies also need to focus on controlling costs. The below graph shows the methods used by practices to control expenses. The top three are: Periodical financial review, Review staffing level and Renegotiating contracts/leases.

Figure 8: Methods used to control expenses



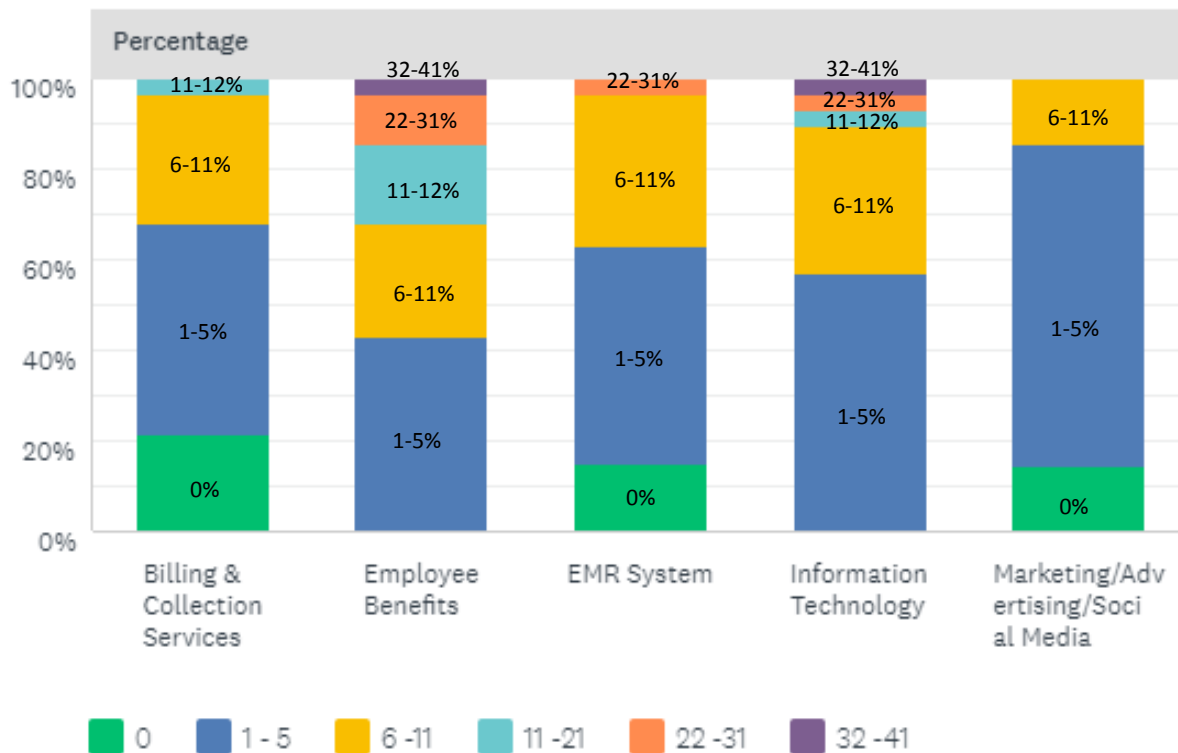
Other Included:
N/A

Section 2: FINANCIAL MANAGEMENT

CONTROLLING EXPENSES (continued)

How a practice decides on how to break up their expenses varies; but on average the survey participants appear to control expenses around key operational items in a similar manner.

Figure 9: Percentage of revenue practices spend on key operational items

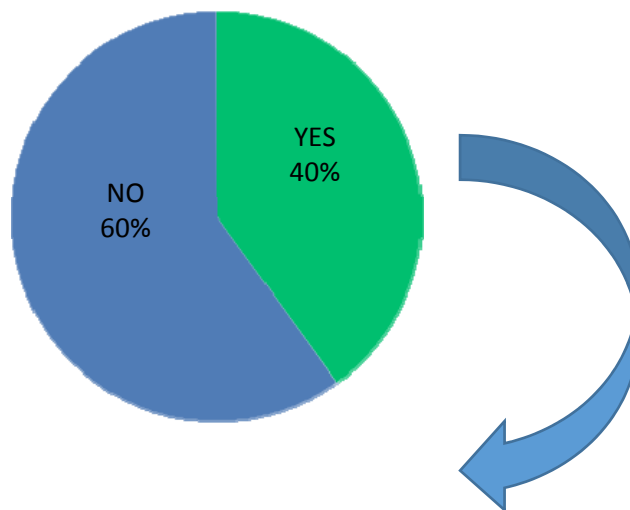


Section 2: FINANCIAL MANAGEMENT

ALTERNATIVE PAYMENT MODEL

Physicians know there are many types of services that could help patients better manage their health conditions, but these services often aren't paid for by Medicare and most health plans and can cause financial losses for the physician's practice. 60% of the respondents stated they did not participate in any alternative payment models other than fee for service.

Figure 10: Percentage of practices using alternative payment models other than fee for service



For those who did confirm they use an alternative payment model they listed the following as to why:

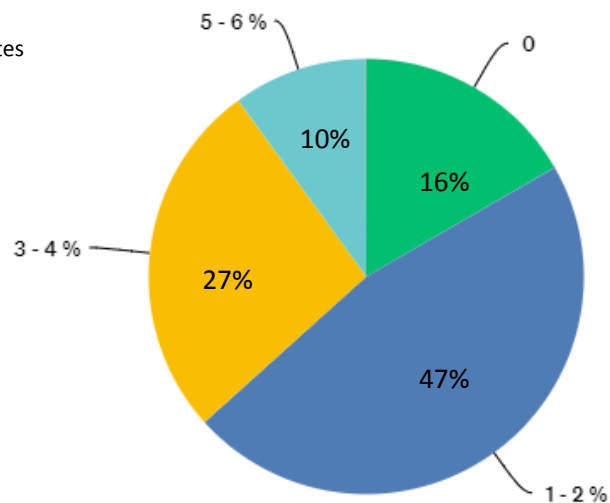
- ACO
- NHN ACO
- MIPS
- Approx. 70% of the patients we see can be attributed to a value-based contract. Our group is involved in upside and downside risk (100% payback) contracts, as well as shared savings arrangements with multiple payers
- Bundled payments
- Insurance
- Salaried Emergency department Locums work plus some additional consulting and coverage for other physicians
- Concierge
- We are an FQHC so we receive PPS rates and also participate in incentive programs.
- Quality Measure Incentives

Section 2: FINANCIAL MANAGEMENT

COLLECTIONS

When asked what percentage of your charges are turned over to collections annually there was a good split with either half of the practices turning over 1-2% of their collections and the others having a 3-4% turnover. There were a few outliers with a few practices indicating none was turned over.

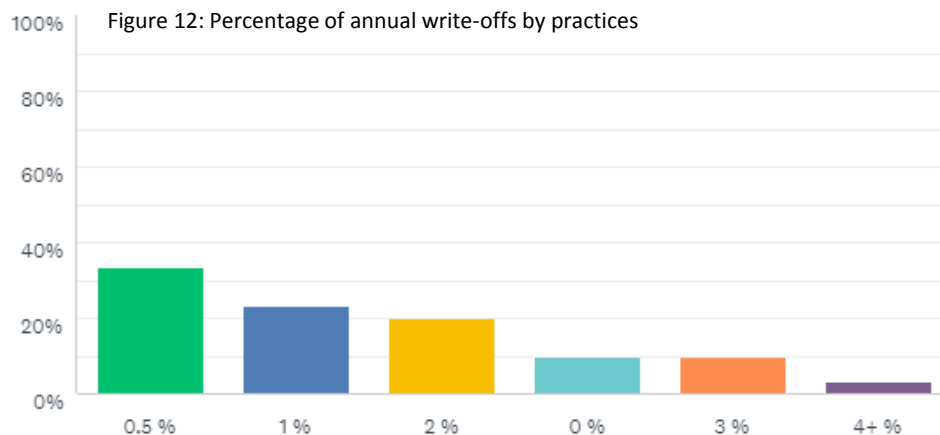
Figure 11: Percentage of annual collection turn over rates



DEBT

When it comes to debt, an important indicator to understand is what percentage of your charges are written off as bad debt annually. The majority of the survey respondents are 1% or lower. A few did report 3% and over of annual write-offs.

Figure 12: Percentage of annual write-offs by practices



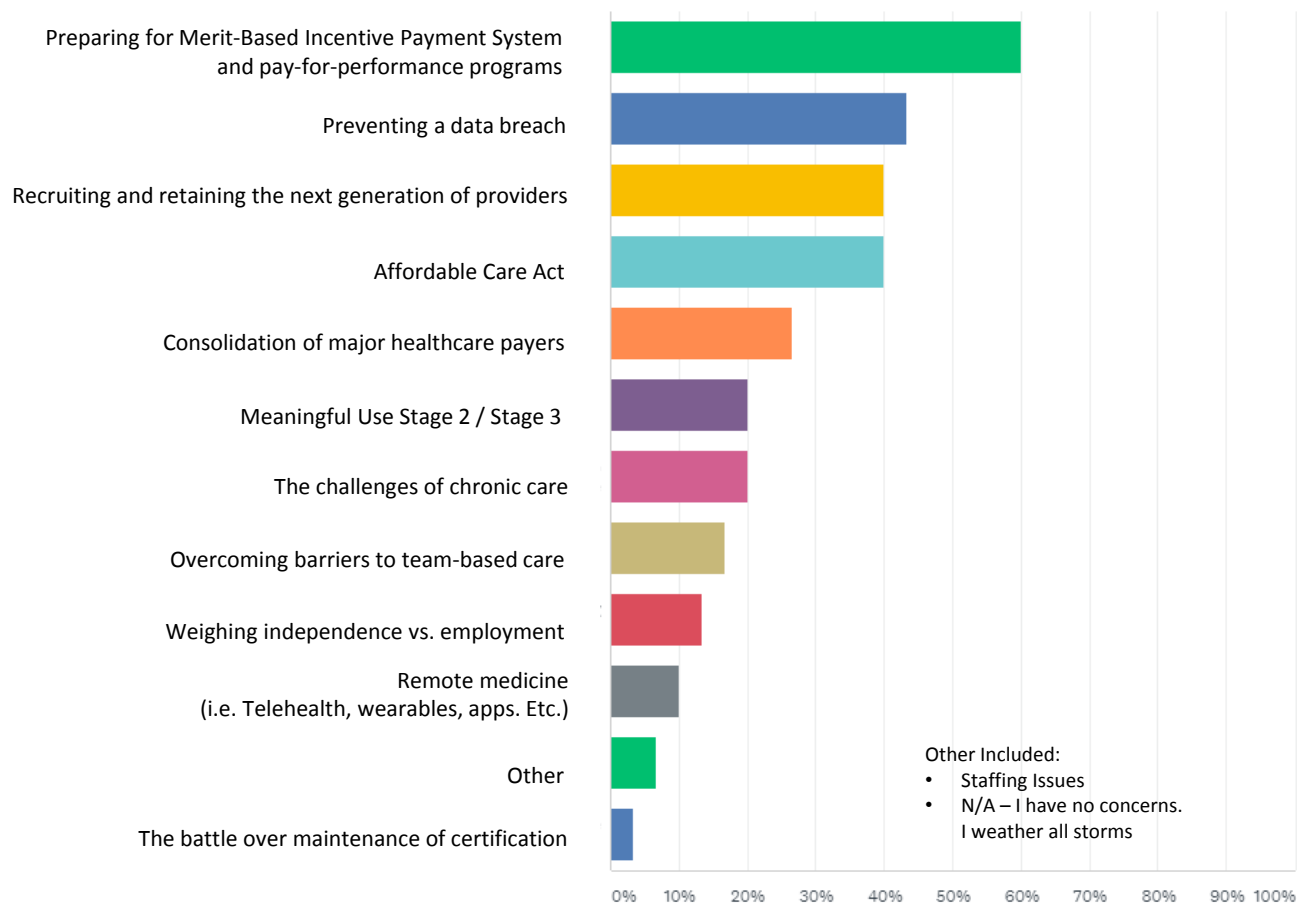
CONCLUSION

TOP 3 CONCERNS FOR 2018

Our survey polled to see what practices may be concerned about for 2018. The top three include a tie for the number three spot:

1. Preparing for Merit-Based Incentive Payment System and pay-for-performance programs
2. Preventing a data breach
3. Recruiting and retaining the next generation of providers; and Affordable Care Act

Figure 1: Practices selection of their top three concerns for 2018



CONCLUSION

2018 MEDICAL OUTLOOK SUMMARY

In today's competitive market, practices are realizing the need to differentiate themselves from the competition, whether it is small practices or institutional groups. It is widely viewed that the arena is changing for medical practices. Those practices in the forefront of the evolving trends, and commitment to it, may see their growth track with the practices long term goals faster than the competition.

We know that practices for 2018 are committed to growth by the desire to add ancillary services and equipment. We can rest assure that the merger and acquisition mania is slowing down. Now there is a focus on understanding of how practices plan to retain employees. The survey provides access to what is successful in benefit packages for employees. Practices can use this information to build their current offerings to their employees to create more attractive compensation and benefit packages to compete for, and most importantly retain, the best talent in the region.

Financial management, when optimized correctly, can provide a broad array of business advantages. Most practices are using best practices to effectively manage cash flow, growth, and financial risks. Outsourcing services continues to grow and is used in some form for all practices, with CFO and bookkeeping services holding the highest satisfaction level. Surprisingly, only a small percentage of practices are taking advantage of the cost effectiveness in outsourcing these services.

The 2018 Medical Outlook Survey succeeded in providing benchmarking data in areas of increasing importance to practice administrators and owners. The deep dive into topics not typically surveyed provides information on how peers are managing their practices and can give insight in how to better the user's practice.

THANK YOU

THANK YOU

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