Specialty Physicians and Health Reform: Balancing Debt Management With Investments for Growth

Executive summary

The constantly changing landscape of healthcare reform means specialty physicians in private practice will need to balance debt management with the investments required for growth in order to thrive. Fully understanding the debt management versus growth debate is essential to the success of every specialty practice.
Investing for growth

Specialty physicians in private practice want the same things every successful business owner wants—increased revenue, reduced risk, a lowering of costs and a sustainable future. But a combination of healthcare reform requirements and other healthcare industry shifts has made this nearly impossible without significant financial investment.

Investment in the latest software and technology systems is now critical to the success and growth of every specialty physician practice, facilitating compliance with new government requirements like Electronic Health Records (EHR/EMR), new billing and coding system changes like ICD-10, and new administrative processes affecting payers and physician reimbursement.

Most specialty physicians believe that navigating these changes with viable technology and superior service is the surest path to profitability, even when the required investment is above and beyond the financial challenges every business must face, such as balancing cash flow and implementing software changes, along with staffing and payroll needs.

Consequently, medical practice borrowing is on the rise. Specialty physicians are borrowing money to finance anything from new equipment and real estate purchases, to the buying out of a practice partner, says Emily Berry of American Medical News. Loans to medical practices backed by the Federal Small Business Administration (SBA) have increased during the past decade. In 2011, the SBA backed $649.8 million in 1,516 approved loans to physicians, more than four times the amount of borrowed money it guaranteed in the 625 SBA loans approved in 2001, according to SBA data.

Debt management mistakes

Berry describes some of the typical problems encountered by doctors when borrowing money: Qualifying for the loan is the easy part, but shopping for the best terms and best service is not. Details, including whose name is on the loan, items listed as collateral, and realistic assumptions about repayment schedules are often overlooked.

Physicians often use the wrong borrowing tool—lines of credit to purchase equipment, for example, when it might be smarter to pay an installment loan or to lease the equipment. Instead, experts advise that lines of credit—and other longer-term debt—should be used to purchase a practice or property. And, according to Berry, physicians often fail to receive a return on investment from the equipment they purchase. She comments:

“No one is arguing that an electronic health record or other technology can’t promote efficiency and either save money or create income. But it’s important to do the math and make sure the shiny new technology is going to pay for itself sometime before it needs replacing. Or, if a physician borrows to purchase a new diagnostic or therapeutic device, the practice should figure out exactly how much income it will generate. It’s not enough to rely on meaningful use incentives, for example, if a practice is planning to invest in a new EHR system. There must be an offset for the cost of buying equipment, either in new revenue or money saved, not just a vague idea of gained efficiency.”

Emily Berry
American Medical News
Debt management and cash flow

Experts in the financial community describe debt management and cash flow as closely associated concepts that are easy to understand but complicated to put into practice. Specialty physicians leverage debt to provide opportunities for a successful practice—opportunities that cash flow could never provide. But cash flow is a limited resource, so physicians must be strategic about the amount of income given to debt reduction versus savings. The idea of paying down debt quickly resonates positively with most of us, but even this must be balanced with other long-term financial goals. For example, a plan to pay off debt during the next decade to the exclusion of allocating money for savings would be ill-advised. Debt is an incredibly useful and powerful tool, but it can quickly become a burden and source of stress when payments can’t be met or when it isn’t balanced with the achievement of other long-term financial goals.2

Counterbalancing investments for growth

Where many financial experts champion investments for growth, others urge caution, advising specialty physicians to coordinate and counterbalance investments against planned and unforeseen changes in healthcare reform.

Citing a survey by physician-staffing firm LocumTenens.com, Larson Financial notes that as many as 90% of doctors believe the public has not been adequately educated about how marketplace health plans will function under the Affordable Care Act (ACA), and that this position has been strengthened by the changes and delays of ACA implementation since it was signed into law by President Obama in 2010.

High-deductible health insurance plans are expected to grow in popularity as a result of the ACA, but physicians may need to bear this burden when an individual is unable to afford the higher deductible. This could lead to a more aggressive collection policy at the time of visit or charging for treatments in advance as the only way to preserve revenue.

Another concern involves an “exploitable loophole” related to exchange plans, where a 90-day grace period before termination of coverage is now granted to enrollees who have stopped paying their monthly premium. The insurer is required to continue to pay any claims filed during the first 30 days of the grace period. But payment can be withheld for the remaining 60 days until the plan is cancelled by the insurer. Families who fail to pay in this instance will face a tax penalty, but won’t receive a fine, a premium rate increase or a repayment order. They also won’t be barred from purchasing another subsidized plan during the next enrollment period.

Other counterbalancing factors include the changes many plan to make in response to healthcare reform. The LocumTenens.com survey illustrated that the majority of physicians are anticipating higher call volumes, an increased number of patient questions and greater administrative complexities. Therefore, practice owners may need to factor in additional training hours and costs for current and future employees, or may find it necessary to have a dedicated staff person to handle the additional ACA paperwork and explain the requirements of the new law to individual patients.3
Balancing debt management and investments for growth: What will you do?

The sweeping changes of healthcare reform are upon us, and surviving and thriving amid new regulatory and technological requirements will require a substantial financial investment—and a paradigm shift in the way business is conducted at specialty physician practices.

Managing growth investments with debt management and cash flow has been complicated by a confluence of factors. Making the right choice will require due diligence, especially if you expect to remain in specialty practice and preserve your financial and clinical autonomy.

You’ll need professional financial analysis and support to find the right equipment financing and leasing options, to prioritize your long-term capital needs and short-term cash flow concerns, and to work through the financial implications of buying real estate or buying out a partner in your specialty practice.

Getting the right financial support from a proven banking expert who understands the challenges you face can allow you to succeed in this period of unprecedented change, and your dedicated Bank of America Merrill Lynch client manager is on hand to help.