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Practice Strategies

A Newsletter for Healthcare Professionals

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Disability Insurance

Are You as Covered as You Think You Are?

The statistics are sobering: You're much more likely to become disabled than to die during your practice years. This includes everything from a diagnosis of Parkinson's to a bad back or heart attack.

The good news is that, as a group, physicians seem to take these statistics to heart. Most have at least some form of disability coverage in place.

However, many physicians are dangerously underinsured when it comes to disability coverage. They may be relying on a low-cost policy acquired through a professional association or a bare-bones policy they picked up during residency.

Even a generous employer-sponsored plan can come with some serious drawbacks. Unlike group and individual disability policies, employer-sponsored policies fall under the Employee Retirement Income Security Act (ERISA), which significantly affects the administration and litigation of disability insurance claims — often to the detriment of the insured.

Closing the Gaps

No doubt, the cost of disability insurance can be daunting — anywhere from 2 percent to 4 percent of the income you are trying to replace. Still, few physicians are prepared to rely solely on their personal savings during an extended period of disability. With that in mind, consider these four steps for ensuring you'll still have a source of income should you ever become disabled.

1) Purchase sufficient coverage. Disability insurance is designed to insure against financial catastrophe. Yet, a typical individual disability policy covers just 60 percent of net income and caps monthly benefits. For physicians in certain surgical specialties, even $10,000 a month doesn't come close to replacing 60 percent of their net income.

Several insurance companies have developed high-limit policies designed to bridge the gap with up to $15,000 extra a month in disability benefits. High-limit policies generally only pay benefits for a maximum of five years. While high-limit supplemental coverage is offered in most states, it doesn't come cheap. And it must be renewed every three or five years, typically at rising premium rates.

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2) Add riders as needed. Beefing up coverage with policy riders can help ensure that you obtain benefits specific to your needs and for as long as possible. Common riders include:

- **Non-Cancelable and Guaranteed Renewable** – This means the insurance company cannot raise rates, reduce benefits, add exclusions or cancel your policy at any time. The policy is portable and coverage follows wherever you go. By contrast, "conditionally renewable" gives the

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Before Making the Offer

Tips for Effective Recruiting

Finding the perfect match for your practice can take plenty of time, effort and money. Identifying viable candidates, pre-screening them and then hosting a memorable site visit are all part of the process.

Therefore, it's critical to make sure your house is in order before professional recruiting gets underway. Here are seven steps to follow before starting the recruiting process.

1) Start with some parameters. Take the time to outline what you are looking for in candidates — the credentials, characteristics and personality your ideal candidate will have. What would you like to see in terms of board certifications and fellowships? What age range is best? Do you want an entrepreneurial go-getter or more of a team player? Just as important, decide who will make the final decision about candidates.

2) Work out rough details. Think through the details, including how many hours your new provider will spend on office visits, specialty procedures, hospital rounds, hospice and nursing home care. At the same time, address work-life issues, which have become extremely important to the new generation of residency graduates. In addition to minimizing call requirements, decide whether your practice can accommodate a part-time schedule or job-sharing arrangement.

3) Structure the compensation package. Utilize benchmarking data from medical societies or consulting firms to create a salary structure that meets recruits where they are at in their career. For example, early-career providers tend to favor income guarantees, while mid-career recruits are often attracted to productivity bonuses and a clear path to partnership. Late-career providers, meanwhile, are often seeking market-based compensation combined with flexible or part-time hours.

Whatever the case, experts advise against setting too low of a base salary for compensation plans that focus heavily on productivity. Despite assurances that they'll make more money through productivity, good candidates can easily be scared off by a stingy base salary. Consider establishing a solid base rate and then easing new providers into the productivity formula.

4) Decide on benefits. Most practices offer health insurance, liability coverage and relocation allowances, plus several weeks of vacation and CME stipends. Debt assistance and signing bonuses can sweeten the deal. Just be sure to structure bonuses over time, as opposed to paying them in one lump sum. For example, a $10,000 sign-on bonus could be paid out as follows: $2,000 upon signing the contract, $4,000 when the provider starts work and the balance after six months.

5) Establish a clear path to partnership. Experts suggest allowing practice buy-in as early as possible. The typical partnership track is two or three years, but you can set your own timetable. You may state a specific purchase amount or indicate that the purchase price will be determined at the time of the buy-in. If the latter, explain how you will determine the practice's value and offer a realistic estimate.

6) Create an offer sheet. While you do not have to get into specifics right at the beginning, at least provide candidates with compensation and employment terms. That way, you avoid wasting time and energy interviewing candidates who are looking for more.

Consider creating a simple, one-page offer sheet that establishes a salary range (including productivity incentives), work hours (including night/weekend call), benefits (malpractice coverage, health/life/disability insurance, vacation, etc.) and the timeline and price tag for buying in. Also outline any restrictive covenants and

make it clear which terms are non-negotiable. Then, present your offer sheet to the candidate as early in the recruiting process as is practical.

7) Have a draft contract ready. Draw up a draft contract prior to the site visit and have it ready. If the candidate is a good fit, an offer can be made at the end of the visit.

Don't Stumble at the Finish Line

The final step in productive recruiting is to draw up an effective, enforceable employment agreement. Unfortunately, the adage "get it in writing" often falls on deaf ears when it comes to employment and partnership agreements. Otherwise savvy providers decide it's cheaper and easier to trust one another than to pay someone to draft these documents.

To craft effective, enforceable agreements, you'll need an attorney who specializes in the medical/dental field. Likewise, when it's time to get a practice appraisal, be sure to work with a professional who routinely appraises healthcare practices. ■

With real-world experience in day-to-day practice management, we can provide valuable guidance on employment practices. Call us today to speak with one of our professionals.

Do You Have Adequate Disability Coverage?

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insurance company the right to decide the price conditions for renewing. "Guaranteed renewable" means the company must renew the policy, but can change your premium.

• **Own-Occupation** – This protects you if you are unable to perform the duties of "your own medical specialty" and continues to pay benefits if you are forced to practice a new specialty or even a new occupation because of disability. Note, however, that own-occupation riders are generally not available to neurosurgeons, orthopedic surgeons, anesthesiologists, emergency medicine physicians and thoracic surgeons.

• **Residual Disability** – With this feature, your policy will pay benefits even if you are not deemed to be totally disabled. For example, most insurers would classify you as completely disabled if you were only able to earn up to 20 percent of your income. If you were able to earn 80 percent or more of your income, you would be classified as completely well. Partial or residual disability provides benefits when you fall in the gray area between 20 percent and 80 percent.

• **Future Purchase Option** – This provision gives you the right to purchase a pre-determined amount of coverage in the future. In particular, it allows residents and early-career physicians to increase coverage as their income grows without having to go through additional medical underwriting.

3) Work with a pro. Disability insurance coverage cannot be purchased directly from an insurance carrier. Instead, you'll need to work with an agent who specializes in disability insurance planning for physicians. Consider working with an independent agent who can shop your coverage with the "big six" disability insurance companies: Guardian (Berkshire), Standard, Metlife, Ameritas, Principal and MassMutual. These companies each look at your location, gender and medical specialty a little differently, so it's critical to look at a variety of quotes.

4) Salt away some savings. Long-term disability insurance typically kicks in only after 90 or 180 days, so it is important to have some savings on hand (at least three months of living expenses) to cover expenses until your benefits start.

Ultimately, the best disability policy is one that is tailored to your specific income replacement needs and specialty. ■

What Brings Docs Down

According to the Council for Disability Awareness' *2013 Long-Term Disability Claims Review*, the following were the leading causes of new disability claims in 2012:

1. Musculoskeletal/connective tissue disorders
2. Cancer
3. Injuries and poisoning
4. Mental disorders
5. Cardiovascular/circulatory disorders

The average long-term disability absence lasts 2.5 years.

For the Sake of the Practice ...

If you have an individual disability policy, your income is protected. But what about the income of the practice? For example, if you are a sole practitioner and a disability keeps you from generating revenue for any length of time, you might not have a practice to return to.

Consider these additional forms of disability coverage that can help preserve your practice in the event of a debilitating injury or illness:

• **Business Overhead Expense Policy** – This helps keep the practice afloat by covering ongoing operational expenses while you recover — everything from rent or mortgage payments to employee salaries and even maintenance and janitorial services. Ultimately, this coverage helps ensure that you don't have to use personal assets to keep the practice open. Note that premiums are deductible by the practice, regardless of whether you are structured as a sole proprietorship, partnership or corporation.

• **Key Man Disability Policy** – For partnerships, key man coverage may be the better choice. Key man coverage is designed to pay the practice in the event that a financially valuable employee becomes disabled.

Since overhead remains the same (at least in the short term), if one doctor can't work, the remaining partners must shoulder more of the overhead, with a resulting cut to their take-home pay. This can get tricky, as each "key man" in the business may require a separate policy, depending on what his or her role is in the practice. ■

For more information on ensuring a viable practice, contact our office today.

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Using Utilization Data to Increase Reimbursement

In this era of accountable care, utilization data — which collectively reflects a provider's efficiency and, in turn, the value he or she can offer — is a critical way of conveying the value you bring to a payer or potential care-model partner (e.g., Accountable Care Organizations).

With the move to robust practice management software and Electronic Health Records, you probably have access to a treasure trove of data right at your fingertips. Here are some ways to put utilization data to work for you:

- **Start with the payer.** Ask the payer to share how your practice compares to its peers in regard to cost drivers like hospital length of stay, pharmacy cost, ancillary cost, cost per patient and cost per particular diagnosis code.

- **Gather your internal data.** If you haven't already, ask your EHR and practice management software vendor to show you how to aggregate operational, clinical and/or financial information in a single report, as well as perform data mining from your database.

- **Crunch the numbers.** Compare your utilization data against national benchmarks, such as metrics from the American Health Care Association, federal government data sites, managed care organizations, independent practice associations, and the hospitals you use.

- **Share the data.** If you can make the case that you are providing high-quality healthcare in the setting of efficient resource utilization, share your utilization data with payers to strengthen payer contracting. ■

As you evaluate provider contracts, you may find the guidance of an experienced accounting professional helpful. Please contact our office today to learn more.