

THE SECOND ANNUAL

# PRACTICE PROFITABILITY



Tracking the Operational and Financial  
Health of US Physician Practices

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 **QuantiaMD**



# ABOUT THE PRACTICE PROFITABILITY INDEX (PPI)

The PPI was created to provide a voice to physician practices across the US regarding issues that impact their financial and operational health. It reflects the belief that better health outcomes for Americans are more likely to be achieved when practices themselves are thriving and efficient.

- The PPI was conceived in 2013 as part of a partnership between leading cloud-based health technology provider, CareCloud, and QuantiaMD, America's leading/largest social learning network for physicians.
- It involved gathering insights via an interactive online survey and related discussion groups. The result is intended to serve as an annual barometer for the operational wellbeing of US medical groups in the year ahead.
- 5,064 physicians contributed their insights to the second annual PPI during March of 2014 – making it one of the largest efforts of its kind in the industry.

## KEY FINDINGS:

### **Physicians have a darkening outlook on their practices' profitability.**

US physicians are now more than twice as likely to foresee eroding, not increasing, profits in 2014. Those with a negative outlook increased from 36% to 39% during the past year, while optimists declined from 22% to 19%. The issues weighing on finances are still led by declining reimbursements (60%); rising costs (50%); requirements from the Affordable Care Act (49%); and the transition to ICD-10 (43%).

### **ICD-10 delay will defer revenue disruptions, but preparation costs remain.**

At the end of March 2014, the Senate approved a one-year delay to the ICD-10 code set switch – originally scheduled for October 2014. The move provides some runway to the majority of physicians who remain unprepared. As of March, nearly half of physicians

(44%) did not know whether they would be ready for the ICD-10 transition in October. Another 25% were certain they would not be prepared. High costs still await as needed preparation begins.

**Patient engagement still has the potential to improve performance...**

40% of physicians indicated patient engagement programs hold the greatest promise for practice performance in 2014. Examples include disease management and population health efforts focused on high-risk populations. Conspicuously low on the list? The fee-for-value/accountable care contracts on which many industry leaders place bets. Just 11% of doctors expect a boost from these payment models in 2014.

**... but growing regulation increasingly buries physicians in administrative work.**

Successful patient engagement requires that physicians have adequate time and space to focus on care. But the percentage of doctors spending more than one day a week on paperwork rose sharply between 2013 and 2014, from 58% to 70%. Nearly one-quarter (23%) spend more than 40% of their time on administration, up from 15% last year.

**Interest in selling out is rising.** While a significant bloc of independent physicians still wish to stay that way, the percentage of holdouts declined from 60% in 2013 to 53% in 2014. Meanwhile, the percentage of physicians considering selling their practice ticked up, from 21% to 24%.

**Almost one-third of physicians aim to rip and replace at least one element of their core technology platforms in the year ahead.**

Why? Cost (36%); usability (31%); non-compliance with ICD-10/MU (also 31%); and a lack of vendor innovation (17%) lead the complaints.



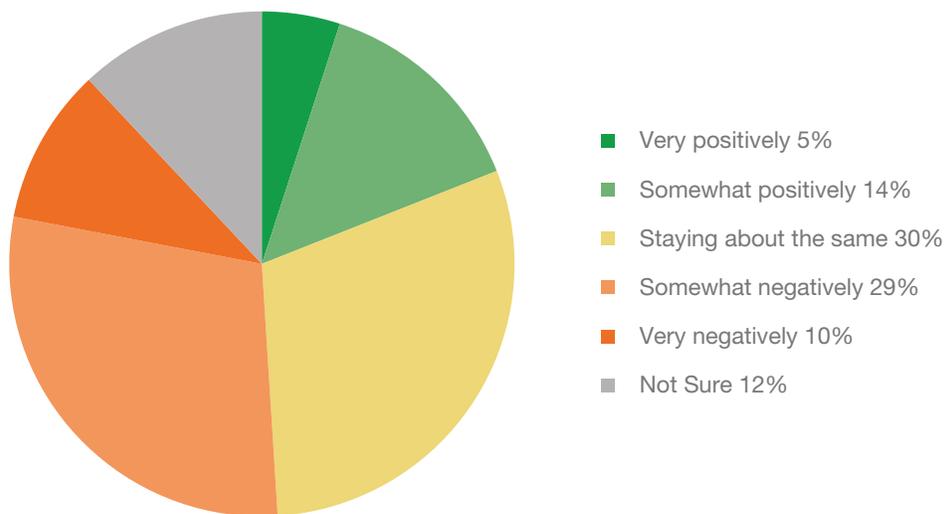
# RESEARCH REPORT:

The past year has been a turbulent one for US physicians. Since the last PPI report, long-anticipated waves of reform – particularly the introduction of the Affordable Care Act – have begun to reach physicians and impact their daily lives. Others, most notably the transition to ICD-10 and meeting Meaningful Use Stage 2 guidelines, are now at hand. These stand to have significant impact on how physician practices operate. With that in mind, the Practice Profitability Index again engaged with more than 5,000 physicians nationwide to take the pulse of their practices' financial health.

## Profitability Trends Point Downward For 2014

The arrival of healthcare reform has coincided with a continued slide in physician practice profitability. In 2014, US physicians are more than twice as likely to anticipate eroding rather than increasing profits in the year ahead. Physicians with a negative outlook increased from 36% to 39%, while optimists declined from 22% to 19%. (see Figure 1)

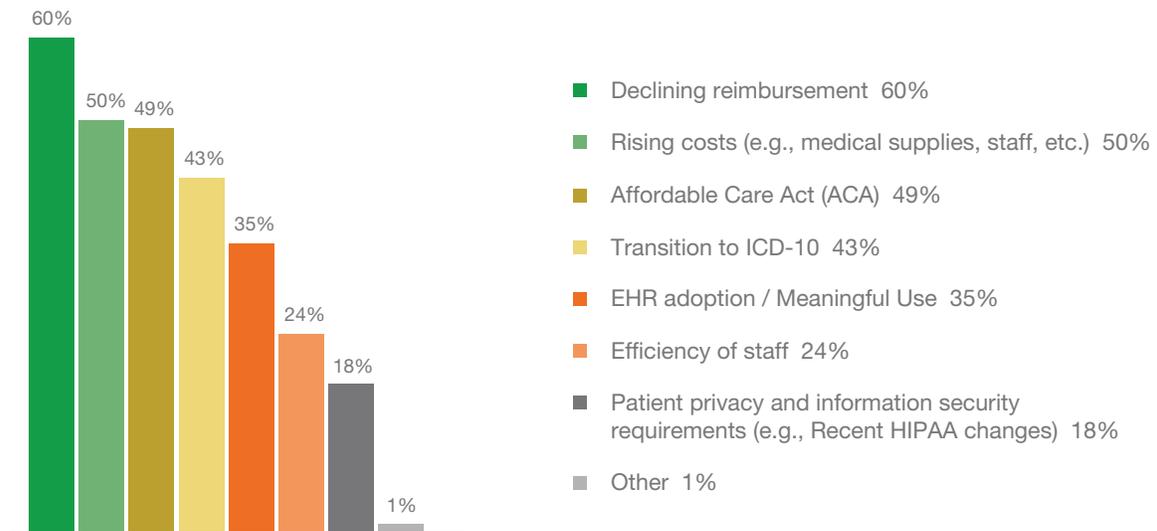
Figure 1: How Physicians See Profitability Trending in 2014



## Regulatory Pressures Conspire Against Physicians' Top Line

The top issues weighing on physician finances remain largely the same as in 2013, led by declining reimbursements (60%), rising costs (e.g., supplies, staff, etc.) at 50%, requirements stemming from the Affordable Care Act (49%) and the transition to ICD-10 (43%). (see Figure 2)

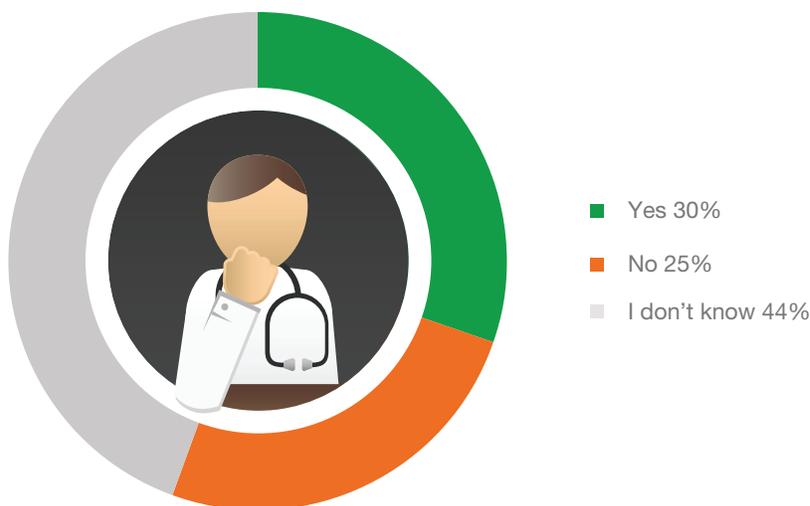
Figure 2: Issues With A Negative Impact On Practice Profitability (multiple responses accepted)



## Preparing For ICD-10? Most Physicians Say No

Until the government extended the switch to the ICD-10 code set by one year, it appeared that most physicians were headed for major disruptions to their billing and collections processes in the fall. Fewer than one-third (30%) were confident that they would be ready. By contrast, one-quarter already knew they would not be prepared and the largest number – 44% – said they didn’t know. (see Figure 3)

Figure 3: Prepared For ICD-10?



Does the extension mean physicians are off the hook until 2015? No. While potential billing disruptions have shifted to 2015, a lot of preparation remains – and it is expensive.

A recent American Medical Association-sponsored report estimates a high cost for ICD-10 preparation. It ranges from \$56,639 to \$226,105 for small practices; \$213,364 to

\$824,735 for medium-sized practices; and about \$2 million to more than \$8 million for large practices.

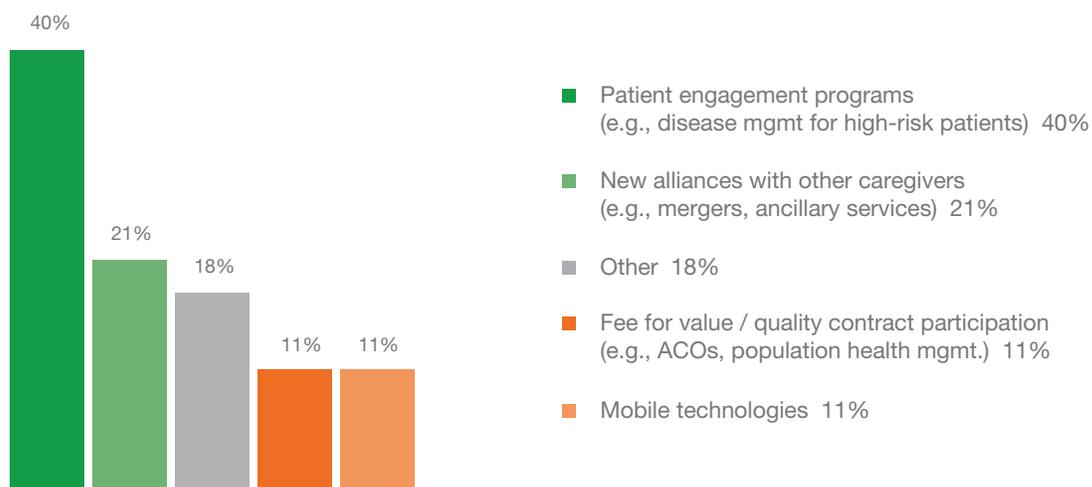
However, ICD-10 isn't the only regulatory mandate with the ability to disrupt physician finances in 2014. Physicians who used an Electronic Health Record (EHR) to attest for Meaningful Use Stage 1 funds in 2013 or earlier now need to raise the bar. An expanded set of requirements is required for eligible providers to receive funds. In this case, physicians rely largely on EHR vendors to obtain the necessary certification.

Again, uncertainty is widespread: Only half of physicians with an EHR (52%) know whether it is certified for Meaningful Use Stage 2 (MU2) so that they can receive stimulus payments in 2014. 38% of physicians say they don't know whether their EHR is MU2-certified; 10% say it is not. To date, hundreds of EHR vendors have not obtained Stage 2 certification, leaving many providers in serious doubt about continued, successful participation in the program.

## Physicians See Promise In Patient Engagement...

In a year filled with change, we asked physicians which new developments could have the most positive impact on their bottom lines (see Figure 4). The most common response: patient engagement programs, such as population health and disease management efforts targeting high-risk patients (40%). By getting closer to their most challenged patients, physicians expect that they can promote better health and outcomes for the benefit of all. (see Figure 4)

Figure 4: Promising Trends to Improve Operational Performance



Equally interesting was a new development that did not receive a ringing endorsement. Just 11% of physicians cited participation in fee-for-value or Accountable Care Organization contracts – which reward them for health outcomes rather than service delivery – as contributing to their operational performance in 2014.

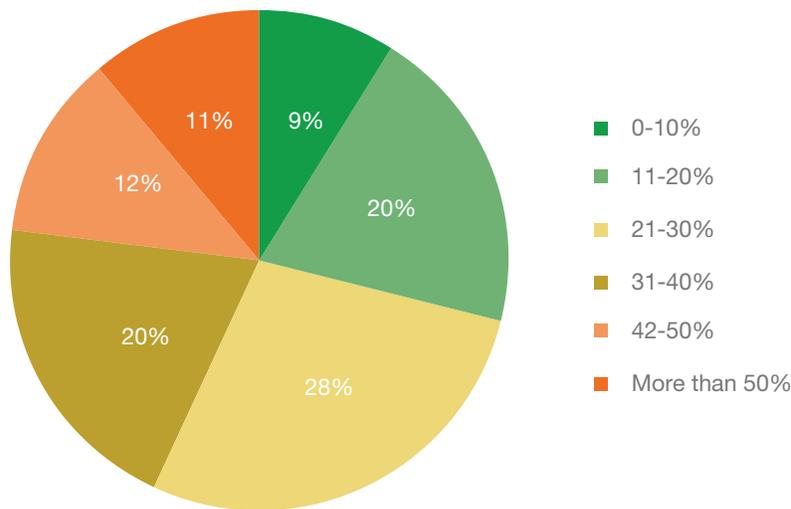
Physicians are also looking in-house for improvements in the year ahead. Areas they are targeting include: billing/collections processes (45%), staffing (30%) and technology (30%).

## ... But Administrative Burdens Crowd Out Patient Care

Successful patient engagement requires adequate time and space to focus on providing quality care. Even as physicians strive for this, they are held back by an increasing load of daily paperwork and process.

The percentage of physicians who say they spend more than one day per week on administration rather than patients grew sharply between 2013 and 2014, from 58% to 70%. Nearly one-quarter (23%) spend more than 40% of their time on administration, up from 15% last year. (see Figure 5)

Figure 5: Percentage of time spent on administrative work per week



The challenges that physicians face in spending time with their own patients likely drive their reluctance to accept new ones. Despite another year of existence, physicians have yet to warm up to the Affordable Care Act or its promise to help millions of Americans enter the healthcare system.

During the past twelve months, the percentage of physicians who say they will not be able to accept new patients barely budged – inching down from 48% to 47%. (see Figure 6)

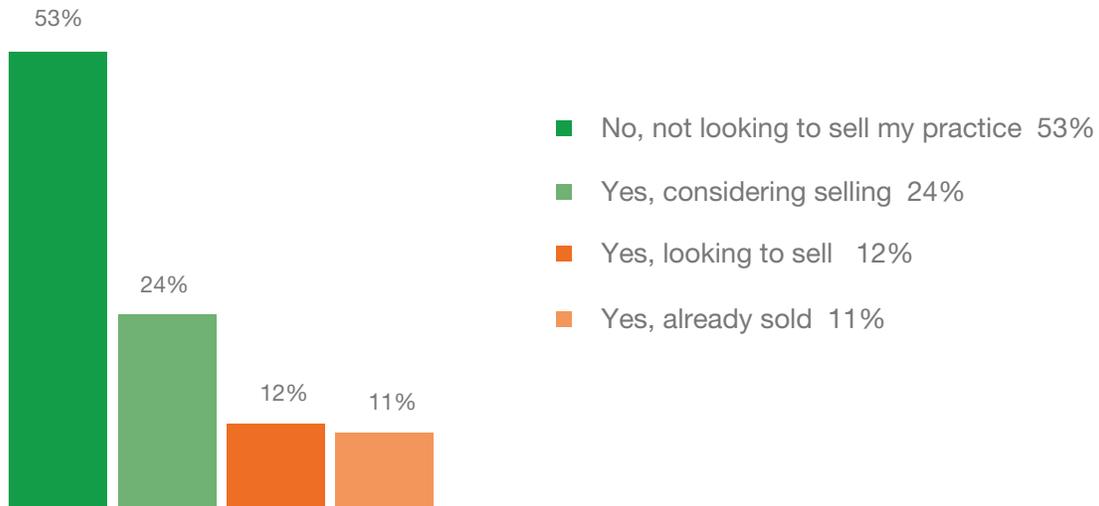
Figure 6: Can Your Practice Accept new ACA Patients?



## More Independent Physicians Consider An Exit

A common theme of the Practice Profitability Index has been the resilience of physicians in the face of industry and regulatory challenges. Indeed, a large bloc of independent practices insists on staying that way. But the number declined between 2013 and 2014, falling from 60% to 53%. Meanwhile, those considering selling their practices to another entity increased from 21% to 24%. (see *Figure 7*)

*Figure 7: Physicians Looking to Sell*



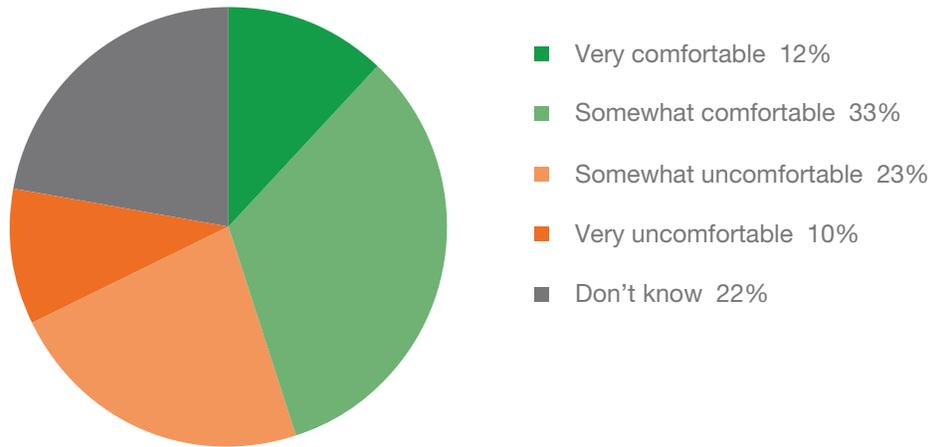
## Physicians Look To Rip, Replace Vendors and Technology

Amid the accelerating pace of industry change, physician practices need solid tools and technology foundations more than ever. Yet, a significant number of physicians are uncomfortable with their vendor viability and are therefore looking for technology replacements in the year ahead.

Since our last report, several healthcare technology vendors have been acquired, suffered high-profile financial difficulties, or announced their lack of support for mandates such as Meaningful Use Stage 2.

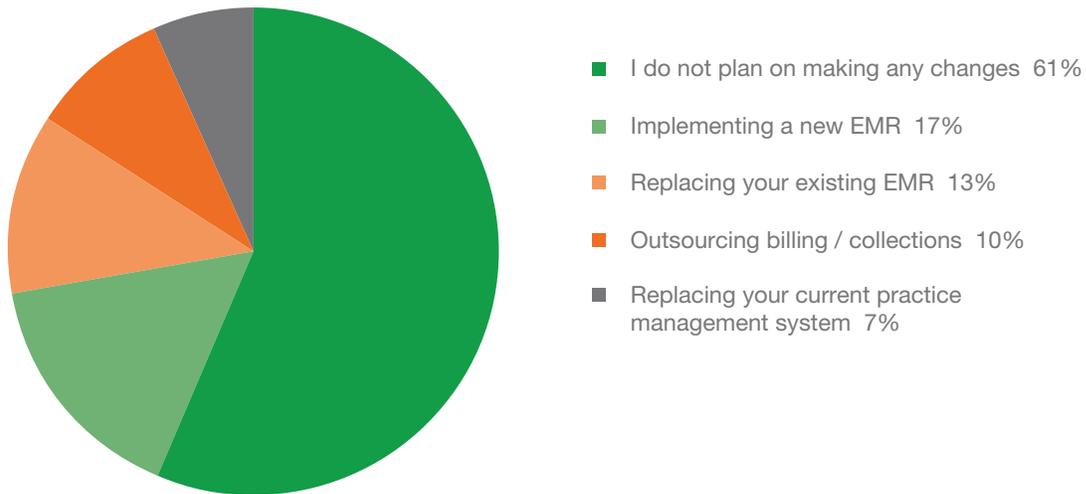
The issues have registered on the radars of their physician clients. The PPI found that 33% of physicians say they are uncomfortable with the stability of their current vendors, with another 22% describing themselves as “uncertain” (see *Figure 8*)

Figure 8: How Comfortable Are Physicians With Their Current Vendor?



The doubt is continuing to fuel an active rip and replace market for practice management and EHR systems. 30% of practices intend to replace some of their core software/ processes in the next year, led by EHR (13%), the outsourcing of billing/collections (10%) and introduction of new practice management systems (7%). (see Figure 9) The reasons for these changes? Physicians cite cost (36%); usability (31%); non-compliance with ICD-10/ MU (also 31%); and a lack of vendor innovation (17%).

Figure 9: Operational Changes in the Coming Year (multiple responses accepted)



## Closing Thoughts

After years of heated debate, healthcare reform – for better or worse – finally became a daily reality for physicians in 2014.

This year's PPI results find US physicians doubtful of the early benefits to their practice operations and uncertain about the arrival of ICD-10 and Meaningful Use Stage 2. In response, they are increasingly buckling down to overhaul the processes and technologies that support them – while independents also re-evaluate whether to continue going it alone. The industry should take note that, despite all of the hype around emerging delivery and reimbursement models, physicians believe most strongly in finding operational success by getting closer to their patients – especially the most vulnerable populations.



CareCloud is helping thousands of physicians to increase collections, streamline operations and improve patient care in over 48 states, and currently manages over \$3 billion in annualized accounts receivables on behalf of its revenue cycle management clients. To learn more about CareCloud, please visit [carecloud.com](http://carecloud.com).

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