DRA's Effect on Imaging Centers

Reimbursements Fall as Payors Adopt DRA Rates

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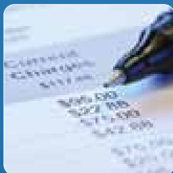

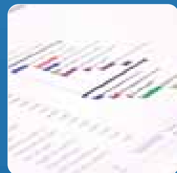

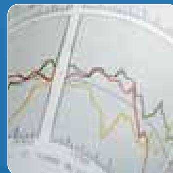

MMP RADIOLOGY

PHYSICIAN BILLING | PRACTICE MANAGEMENT

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Free-standing imaging centers scrambling to adjust to deep Medicare cuts triggered by the Deficit Reduction Act (DRA) now face a new and even more ominous threat: Commercial carriers are beginning to follow the federal government's lead and tie imaging payments to the reduced Medicare rates. Although private sector adoption of the lower Medicare rates is not entirely unexpected, given Medicare's influence in establishing reimbursement levels nationwide, some observers are alarmed by the speed at which carriers are moving to the Medicare pricing.

"It's happening very fast and without a lot of warning," said Jeannette Gontarek, a director of radiology operations with Medical Management Professionals, Inc. (MMP), the physician billing and practice management division of Cleveland-based CBIZ Inc. "For a lot of groups, it's getting pretty scary." Gontarek and others warn that widespread cuts in managed care payments will increase the already-intense financial pressure facing many independent imaging centers and accelerate the industry-wide shakeout set in motion by the DRA reductions of January 2007.

As a result, revenue cycle experts are urging free-standing centers to begin planning today for major reductions in their commercial book of business. That means reviewing managed care contracts to ensure that commercial carriers are adhering to agreed-upon payment formulas, budgeting for reduced revenues and working to increase volume. Financially healthy groups, meanwhile, may be in a position to capitalize on the growing turmoil by acquiring competitors, purchasing deeply discounted equipment and increasing marketshare.

Aetna Takes the Lead

Aetna and a handful of regional Blue Cross plans have begun pegging technical imaging reimbursements to the lower Medicare levels, according to Kevin Dial, also a director of operations for MMP. But Dial believes it is only a matter of time before the majority of national and regional carriers follow suit.

"Major insurers are going to have to adjust if they want to remain competitive on premiums and unit pricing," he said. "So if Aetna changes the way they reimburse for imaging, then eventually United Healthcare and everyone else will have to make equivalent cuts."

A Double Blow

At the core of the reductions lurks the DRA, which cut Medicare payments to stand-alone imaging centers for the technical component of key radiology services, notably CT and MRI, by as much as 35 percent in January 2007. The DRA accomplished the reductions by mandating that Medicare pay the lower of the technical rates from either the Resource Based Relative Value System (RBRVS) or the Hospital Outpatient Prospective Payment System (HOPPS). In virtually all cases, the HOPPS rates for MRI and CT modalities are significantly lower than equivalent RBRVS rates. Although Congress initially estimated the cuts would save $2.6 billion over five years, others in the industry have put the number much higher, at between $6 billion and $13 billion over three years.

The impact of the DRA cuts has varied, depending on a group's payor and modality mix. Generally speaking, though, free-standing radiology groups are seeing a 35 percent reduction in reimbursements for Medicare technical services. Medicare typically makes up between 10 and 40 percent of the average center's volume. Because most imaging centers depend on their commercial business for the lion's share of revenues, an equivalent 35 percent cut in that segment could have devastating consequences, Dial said. "With DRA cuts to Medicare alone, it could equate to an overall reduction in total revenues of 10 percent or more," he said. "So that means that if you don't have a margin of 10 percent, you just went into the red."

Contract Language Critical

Dial says that Aetna and other carriers are unilaterally executing the reimbursement reductions through contract language that ties payment to a percentage of current-year or prevailing Medicare rates. It is therefore important that groups revisit their managed care contracts to determine whether the contract states that payments will be based on a percentage of Medicare generally, or more specifically, on a percentage of RBRVS. The distinction is crucial, he said. If payments are based on RBRVS, then carriers that attempt to ratchet down reimbursement by citing current Medicare (e.g. HOPPS) rates arguably are in violation of the terms of the contract.

That logic apparently has been lost on some carriers, Dial said. He noted that he was aware of several radiology groups that saw their payments reduced despite contract language that specifically tied reimbursement to the RBRVS. When the error was brought to the carrier's attention, the company reluctantly acknowledged the mistake and made arrangements to reimburse the group for the difference in rates. Dial said he didn't necessarily believe that carriers were willfully attempting to mislead physician groups.

"Many of these companies have a variety of contracts that utilize either percentage-of-RBRVS or percentage-of-Medicare," he said. "Administratively, they can't keep track of them all, so they basically apply the lower rate to all of them."

Groups currently in contract negotiations can take several steps to reduce their exposure going forward, Dial said. First, they should attempt to tie reimbursement to RBRVS and not "current or prevailing Medicare rates." If they're unable to win this point, they should hold out for a higher reimbursement percentage of Medicare in order to offset the impact of the HOPPS payment schedule. Physicians also should push to designate a fixed-year, pre-DRA Medicare rate as the baseline for percentage-of reimbursement, as opposed to using "current year Medicare" or the "prevailing Medicare Fee Schedule."

In all cases, radiology negotiators should do their homework before coming to the negotiating table. That means being fully aware of the payor's financials, market share, and stated strategic objectives. It can also be useful to speak with other providers to get their perspective on a carrier's reputation and track record.

Professional Radiologists at Risk

On a separate but related front, radiologists that are employed by free-standing imaging centers but are not equity owners likewise should review their employment contracts to ensure that they continue to receive full professional reimbursement. Because the center's global revenue may be greatly reduced, it is possible that the owner will attempt to pass a portion of this reduction through to the physician for professional services. Consequently, the professional radiologist should be sure that contract language explicitly states that the physician will be paid based on a percentage that neutralizes reductions to the professional component and is not based on a straight percentage of the reduced, global component.

Preparing for the Worst

If a review of existing managed care contracts by equity-owning physicians shows that reimbursements are tied not to the RBRVS but to current-year Medicare rates, groups should prepare for the worst and begin budgeting with the assumption that cuts of up to 30-35 percent could eventually come to the critical CT and MRI modalities across the entire commercial book of business. A good first step, according to Dial, is to conduct a detailed audit of revenue cycle capabilities, including physician documentation and coding and claims management. This process may reveal key areas of underperformance that could be strengthened to improve cash collections. In addition, if billing is handled internally, groups may want to explore the possibility of outsourcing their billing operations. Reliance on professional billing companies in most cases can boost collections while decreasing overhead.

Groups should also conduct a thorough review of the expense side of the ledger and seek to reduce costs and improve efficiencies whenever possible. Equipment lease rates should be examined and, if possible, renegotiated. In addition, lower pricing for key supply items like contrast may be available by seeking bids for volume purchases from a number of vendors. Labor cost also is a critical area that should be assessed. A thorough evaluation of the current production process should focus on peak hours of operation versus demand for services. An imaging provider needs to be sure that staffing for the center is meeting true demand. Some shifts in operational hours may be required.

Grow or Die

Ultimately, Gontarek and Dial said, volume growth represents the most effective way to counter the combined impact of the DRA and commercial carrier rate cuts. Imaging centers should therefore concentrate on strengthening referral relationships and providing unmatched customer service in order to sustain and grow volume. Groups should monitor turn-around time, scheduling backlog and patient satisfaction to provide existing and new clients with clear metrics that demonstrate superior customer service.

An imaging center may also want to revisit their marketing strategy to ensure that the plan is meeting the needs of the center. A center should strive to accommodate current referring physicians while searching for new opportunities and relationships with both existing physicians and those currently not using the facilities. Other businesses, such as self-insured employers, may represent a potentially significant growth area. Regardless of how it is generated, steadily increasing volume will be critical in the months and years ahead. "In the past, many free-standing imaging centers needed to do about five MRIs per day to break even," Dial said. "But now, that number could be closer to seven or eight. It all depends, of course, on a range of variables, including costs, payor mix and rate structures."

Opportunity from Chaos

Despite the risks associated with running a free-standing radiology clinic in today's environment, groups that are operating at maximum efficiency and generating significant volume should be able to weather the storm, Gontarek said. In fact, they may be able to capitalize on the market upheaval by acquiring failing competitors and/or capturing greater marketshare. Moreover, because the production cycle of high-end radiology equipment is only now responding to reduced demand, numerous opportunities exist for acquiring or leasing equipment at discounted levels. According to Gontarek, the opportunities for exploiting market conditions may be greatest for hospital-based radiology groups, many of which have suffered significant reductions in volume over the past decade as free-standing imaging has grown in popularity.

It has been said that "in the middle of every difficulty lies opportunity." Today's marketplace presents an opportunity for imaging centers to closely examine their organizations and decide if there are better ways to execute all aspects of the business, from managed care contracts to marketing and process improvement. Those that can adapt and grow stronger in this difficult environment will be the ones that survive.

Jeannette Gontarek, MBA, serves as director of operations for the West Region of MMP based in Plano, Texas. Mrs. Gontarek is an experienced healthcare industry professional specializing in managed care, accounts receivable management, and strategic planning. She has been providing services to medical practices for more than 12 years. Ms.Gontarek obtained her bachelor's degree from Texas State University and received her master's degree in healthcare administration from Our Lady of the Lake University. Prior to joining MMP, she worked for a national medical billing and practice management firm, running a large billing operation in Houston, Texas, which served practices in various specialties in Texas and surrounding states. Ms. Gontarek began her career with MMP in April 1997.

Kevin Dial, MBA, serves as a senior operations manager with MMP based in Dallas, Texas. Mr. Dial has worked in the healthcare field for more than 10 years in the areas of managed care contracting, provider consulting, and third party administration. He is a graduate of Baylor University with a bachelor's degree and a master's of business administration. Mr. Dial's experiences include building and maintaining provider networks for a national provider network, serving as a strategic consultant to physician hospital organizations in the development of provider sponsored health plans, and helping build a Third Party Administration (TPA) business. His roles within the TPA included account management as well as operations/technology management. He began his career with MMP in February 2002.

About MMP

Medical Management Professionals, Inc. (MMP) was founded in 1993 and is a leading provider of billing and practice management services to radiology groups and imaging centers. MMP's flexible solutions range from billing-only services to full-practice management services.

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