

A collage of financial and medical symbols. On the left, a portion of a silver calculator is visible with buttons like 'M+', 'M-', '9', '8', '7', '4', '2', '1', '0', 'AC', 'ON', 'CE', '+', '-', 'x', and '÷'. In the center, a silver stethoscope is draped over a stack of US dollar bills, including a prominent \$100 bill. The background is a grid of numbers, some in red and some in black, suggesting a financial spreadsheet or ledger. The overall color palette is a mix of blue, silver, and green.

# Non Surgical Income Options

**Brian S Parsley MD**  
**Assos Professor UTHealth**  
**Houston, Texas**

2019 AAHKS Business of Total Joint Replacement Course

# Disclosure

I have nothing to disclose related to this lecture

# Goals of Presentation

- Convey the importance of creating ancillary streams of revenue
- Outline Potential for Income from Ancillaries, Injectables, and Imaging
- Raise awareness that not all ancillaries work in all practices
- Heighten awareness that private practice viability is increasingly dependent on ancillary revenue streams.
- **Take Home:** Ancillary revenue is vital to the success of orthopedic surgery practices today, it is important to do it right or don't do it at all!

# 4 Ancillaries to Discuss

- **X-ray services: Office x-ray, MRI, CT**
- Medical Legal  
**Individual**
- Physical Therapy  
**Service, group based**
- **Injections: Visco, PRP, Stem Cells**

# Ancillary Revenue Lines

- Separate businesses from orthopedic surgical practice, about which most physicians know little about.
- Ancillary must meet goal for highest quality, uncompromised patient care **FIRST**
- **Theory:** *Physician managed patient care is, in general, better run, more efficient, more profitable, and is associated with better patient satisfaction and perhaps outcomes than large organization managed patient care.*

# Passive v. Active Income

- Time is limited, and efficiencies can only be pushed so far
- **Active Income:** revenue generated by the active participation of a physician. Only So Many Hours in a Day!
- **Passive Income:** revenue that does not require the “active” involvement of the physician, from activities that are outside of the “core” purpose of the beneficiary.
- **Independent of hours worked, patients seen, surgeries done**

“ In this world, nothing can  
be said to be certain  
except **Death**  
and  
**Taxes** ”



Benjamin Franklin, Excerpt from a letter to Jean-Baptiste Leroy

Our Reimbursements Continue to Decrease \$  
*while*

**Our Overhead Increases \$\$\$\$**

# Why is Ancillary Revenue Important?

- Form of “income diversification”
- Hedge against the vagaries of reimbursement
- Income is potentially *scalable* (“*proportional growth*”)
- Recruitment and retention of high quality doctors
- Insulation from inevitable production variability (group and individual)
- ***Allows for physician control of patient care***



# Ancillary Revenue Trend

- 1995                      5% of total income
- 2015                      40% of total income
  
- Note: employed physician (v. private practice) model is rapidly growing.
- This may change the paradigm

# What About Inflation?

- Adjusted for the CPI, *TKA and THA reimbursement dropped 44% from 1992-2007*
- From 2007 until the present, reimbursement is roughly flat, ignoring the CPI!! With the CPI that's roughly another 20% reduction.
- ***Conclusion: Efficiency and increased volume cannot maintain income against declining reimbursement and rising costs.***

# Work with a Business Advisor or Consultant:

- The accounting and legal aspects of a private practice
- Obtaining the proper insurance for practicing and running a business
- Recruitment and training of employees
- Implementing office essentials, from phone lines to digital record systems
- Addressing government regulations and compliance issues
- COST: services is in the \$5,000 to \$7,000

# Adding Ancillary Services

Adding a new business line, about which you may know nothing.....

- ✓ Plan carefully.....
- ✓ Be humble....learn, look around, ask questions
- ✓ Mistakes can be costly and irreversible
- ✓ Errors can damage group culture, take years to resolve

So, how do we avoid errors.....

# Elements of Due Diligence

- Equipment alternatives and financing options
- All start up costs
- Careful volume projections.....assess upward *and* downward scalability
- Assess reimbursement, including potential changes over time
- Analyze operational issues
- Detailed legal/regulatory analysis
- Opportunity cost analysis (often forgotten!)
- ***Effect on Relationships/Balance of Power***

# The Medical Community as an Ecosystem

- Many entities coexist:
  - The Hospital
  - Radiologists
  - Physical Therapists
  - Brace shops

***Critical to carefully analyze how your ancillary service will alter the “medical ecosystem”, and how the resultant changes in the ecosystem will effect your practice.***

# Stark and Anti-Kickback Laws

- **Stark:** prohibits physician referrals of designated health services for Medicare and Medicaid patients if the physician has a financial relationship with the entity. Exceptions exist, one is ASC.
  - **Civil penalties for violation**
- **Anti Kickback:** prohibits the “knowing and willful solicitation, receipt, offer, or payment of any remuneration....to any person in return for referring or inducing to refer an individual to a person for the furnishing...of any item or service for which payment will be made.....”
- ASC “safe harbor”
- ***Can't get paid for referrals***
  - ***Criminal penalties for violation***

# No Ancillary Revenue?

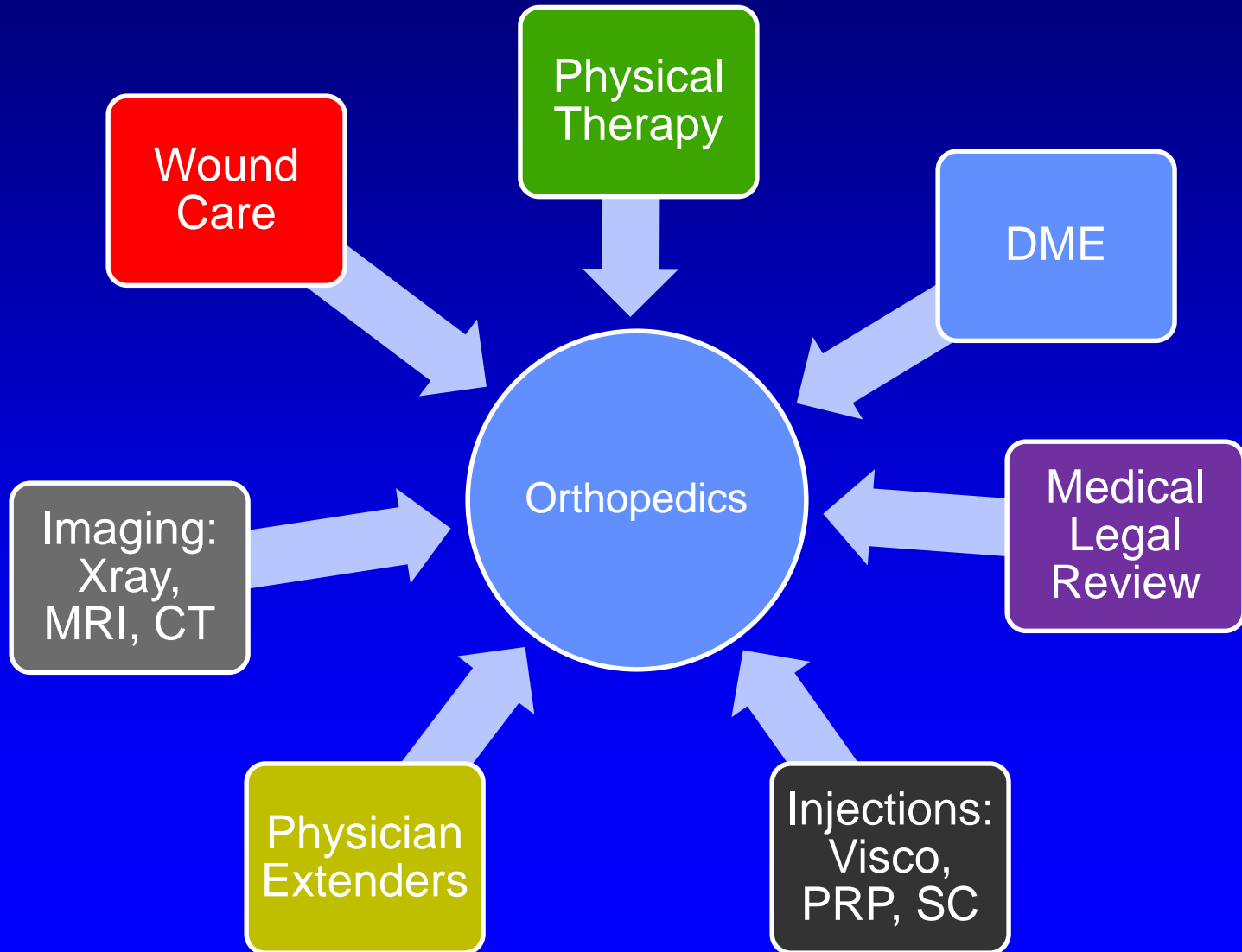
- Income entirely dependent on the vagaries of reimbursement for work units
- No way to maintain income except increasing volume

***Is there long term financial viability of a private group without ancillary streams of revenue???***





# Ancillaries for Orthopedics



# Ancillaries for Orthopedics

## Costs/Benefits of Each Service Source: MedConverge.com/2016/05/19

Service	Start Up Costs	Est Annual Income	Pros	Cons
Imaging	\$50k - \$1 million	\$70k - \$120k	Quick results, Schedule Sx same day	Expensive build-out and equipment, requires very high utilization
Wound Care	\$1k - \$9k	\$50k - 100k	Can be administered by PA or NP, better outcomes	Requires some equipment and supplies, low reimbursement
Physician Assistant	\$75k - \$150k	\$100k - \$300k	Triage, Post-Op care, May bill independently, More Sx cases for MD	Requires high patient volume and demand to not cannibalize MD volume, high compensation and high expectations
Physical Therapy	\$25k for equip + extra rent	\$2k- \$3k/patient	Aging population, osteoporosis; PT improves outcomes	Equipment, Space, Trained Staff, thinner margins, may requires high referral volume, Need PT permit, competitive market

# Size Matters with Ancillaries

## Economies of Scale Creates Advantages

- Large multi-specialty practices can feed referrals, lead to higher utilization and faster ROI
- Investment is amortized over multiple providers
- Risk is also spread among investors

## Many Private Equity acquisitions are driven by the value in

- vertically-integrating practices
- consolidating ancillary services
- maximizing utilization from providers within the practice
- maintain profits within the group

# What Do I Charge?

- Annual practice income/2000 hours = hourly rate (*starting point*)
- Analyze the market:
  - What are other doctors charging?
  - Experience counts
  - True “Market”: supply/demand, quality costs more (foreign concepts to doctors!)
- Group needs to decide how this revenue is treated, can be tricky

# Calculating Costs of the Ancillary Service

## EQUIPMENT & SUPPLIES EXPENSE

- Purchase price
- DIVIDED BY #Years Estimated Useful Life= \_\_\_\_\_
- EQUALS Total Equipment Cost per Year
- ADD the Annual Cost of Supplies and Maintenance = \_\_\_\_\_
- EQUALS Total Cost to Use the New Ancillary Equipment per Year = \_\_\_\_\_
- DIVIDE BY #Days or times Used per Year= \_\_\_\_\_
- EQUALS

**Total Equipment & Supplies Cost/Day**

## STAFF LABOR

- Wage per hour = \_\_\_\_\_
- PLUS Benefit Costs per hour= \_\_\_\_\_
- EQUALS Total Labor Cost per hour = \_\_\_\_\_
- DIVIDE BY 60 (minutes per hour) \_\_\_\_\_
- EQUALS Total Staff Labor Cost per min= \_\_\_\_\_
- TIMES # Minutes Per Day on this service = \_\_\_\_\_
- EQUALS **Total Staff Cost/Day** on this service

## DOCTOR LABOR

- Total Annual Receipts = \_\_\_\_\_
- DIVIDE BY #Total Hours Worked per year= \_\_\_\_\_
- EQUALS Gross Doctor Earnings per hour= \_\_\_\_\_
- DIVIDE BY 60 (number of minutes per hour)
- EQUALS Doctor cost per min \_\_\_\_\_
- TIMES # minutes per day Doc involved with this ancillary service = **Total Doctor Cost/Day**

# Calculating Expenses

## Operating Costs

Total Equipment and Supplies Cost per day



Total Staff Costs + Total Doctor Costs per day



Per Day Allocation for Rent, Insurance, General  
Overhead Associated with this Ancillary



**Total Daily Operating Costs**

for this ancillary

# Projecting Revenue

Estimate revenue based on good data analysis

Total Expected Revenue per Service per day



#Patients/Day (current outsource volume)



**Total Expected Daily Revenue**  
from this ancillary service

# Projected Profitability

How Much Can the Practice Make  
On this Ancillary?



**Total Daily Revenues – Total Daily Expense  
= Estimated Profits/Day**



# In Office Radiology

Plain X-ray: Majority of orthopedic offices

- Pros

- Patient convenience
- Break even economics
- Newer technology
- Convenient assess
- Digital templating
- Image quality control/manipulation

- Cons

- Billing challenges
- Up front cost of new technology
- Labor costs
- Declining reimbursement
- Office flow bottleneck
- Changing insurance concerns

# In Office Radiology-MRI

- Pros

- Patient service/ loyalty
- One stop shopping
- Potential significant economic benefit
- Allows for quality control
- Tele-radiology benefits

- Cons

- Cost and investment
  - Fixed and Variable Costs
- Direct ownership vs outsourcing
- Quality control
- Management oversight
- Space
- Changing reimbursement
- Radiology partnership challenges
- Liability exposure

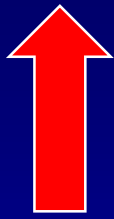
# Physical Therapy

- Practice associated physical therapy improves quality of care
- Major patient and physician satisfier
- “One stop shop”, coordination of care



# Physical Therapy

- Lots to consider for this “relatively simple” ancillary
- Like anything, it can be done poorly or well
- Generally one of the most profitable, and best physician and patient satisfiers
- **Profitable doesn't mean optimized**



# Sustainability



- Are your patient volume projections realistic?
- Does your outsourcing fluctuate seasonally (i.e. end of year)?
- Have your outsourced referrals been rising, stable or declining over past 3-5 years?
- Are patients price-sensitive for this service?
- Is there competition for this service in your community (your hospital)?
- What is the long-term outlook for this service?
- Will there be faster, cheaper, more convenient substitutes on the horizon?

# To Inject or Not Inject



## Viscosupplimentation

- Billing insurance price(markup) is 3x purchase price.
  - Medicare = 30% margin / profit
  - Medicaid –if you get paid 45% margin/profit
  - PPO 55% margin/profit
  - Work comp = 65% margin/profit (mostly pro athletes)

Receiving pre-approval and inventory management is key.

# To Inject or Not Inject



- Pros

- Patient service
- Potential benefit
- Lucrative
- Low up front investment
- Scalable
- Ease of use
- Relative non-invasive treatment option
- Established safety record

- Cons

- ETHICS
- Lack of scientific evidence
- Not FDA-approved
- Human Guinea pigs
- False advertising
- Out of pocket expense
- \$500 to \$5,000 charge

# To Inject or Not Inject

- No quality control
- Over 40 PRP systems exist
- Varying concentrations of platelets, leukocytes, and growth factors
- Cost /syringe ave \$150 (\$50-\$500)
- Est growth Global Market: \$380 mill to \$4.5 billion over next 5-10 years
- Indirect cost: centrifuge, clinic staff, facilities



# To Inject or Not Inject

- Full Disclosure
- Follow high ethical standards
- Honest advertising
- Discuss scientific evidence with the patient



# Medical Legal/Forensic Medicine

## Many Concerns:

- Black Box, “underbelly of medicine”
- We have no training or expertise, fish out of water
- Different language, set of rules, goals
- Conflict resolution not patient care
- Hostile, adversarial environment filled with lawyers trying to make you look bad rather than seeking truth

***So, why do it???***

# Medical-legal practice...Why do it?

- Intellectually challenging
- Makes you a better doctor
- Develop a new skill set that can be useful
  - always good to feel comfortable in a courtroom
- Hedge against reimbursement declines, totally “market based”, scalable
- Impossible to avoid having to render opinions to legal entities

# Medical-legal



- Independent Medical Exams (IME's)
- Disability Ratings
- Med Mal (defense v. plaintiff)
- Personal Injury evaluations (defense v. plaintiff)
- ***Any matter in which someone will pay you to render a forensic opinion***

# Medical-legal

- AAOs *Standards of Professionalism*
  - [http://www3.aaos.org/member/profc\\_omp/ewtestimony\\_May\\_2010.pdf](http://www3.aaos.org/member/profc_omp/ewtestimony_May_2010.pdf)
- Guidelines regarding
  - Subject matter knowledge
  - Qualifications
  - Compensation

# Medical Legal... Developing a Referral Base

- Takes 3-5 years to cultivate
- Personal Injury law firms are excellent client source
- IME “clearing houses”
- Insurance companies
- Courses exist to train in both being an expert witness and developing a business
- Word-of-mouth is the best advertisement

**Thank You!**