The Mystique of Managed Care

What if I told you that I had the power to build your practice, increase your volume, and dramatically improve your revenue? All you have to do is sit back and let someone else make the decisions about how your business is run, what you can charge, and how much profit you can make. This is the proposition of managed care. Your future could change overnight but is it for the better?

As an optometrist from the U.S. who runs a busy practice, is the editor of a business management journal, and speaks all over the world on practice management; I have a unique perspective into how the world of the Canadian optometrist could change dramatically. Because of this perspective, I was asked to shed some light on the "mystique" of managed care as we know it in the U.S. and how it might look in the Canadian market if some people have their way. I am neither an advocate nor opponent to managed vision care. I believe that like everything in the business world, there is always a way to be successful. You just have to understand the rules and be prepared to make any subsequent business decisions based upon those rules, and take the appropriate actions.

Benefits of Managed Vision Care

Undeniably, there appear to be many advantages to having managed vision care as an integral part of your practice. First off, there is the promise of more patients. The thought is that the managed care company will do all the contract work with many large companies to enroll their employees in the managed care plan. Then, the provider just has to wait as all of these "new consumers" magically appear at your door to receive their eye care. Interestingly, in the U.S., only around 30% of those who have managed vision care plans available to them utilize or purchase these plans. So, while in some instances, there may be an increase in short-term patient volumes, the promise that there will be hundreds of new patients walking through your doors is unlikely. Consumers choose their health care providers based on many factors and perceived value of benefits associated with a managed care plan is only one of them. Other attributes such as access, previous relationships, merchandise selection, office exam efficiency, and location are equally important to many health care consumers. In most of the provinces, the current demographic seeking eye care has already chosen their providers based on these features. A new managed care plan may be initially enticing; however, after their first visit, they may realize that their managed care benefits are not quite what they had hoped or expected.

The second assumption is that a managed care plan will provide an enhanced profit margin per patient. This is simply not true when compared to your traditional fee for service, or cash paying, consumer. The perceived practice financial benefits are typically less than anticipated. Moreover, over the next two to four years most businesses will come to the realization that they have to increase the average price of their products and services to compensate for the discounts that they are forced to take as part of the managed care contract. In turn, these cost increases will drive many of the cash paying, fee-for-service consumers out of the managed care practice in efforts to find a lower cost alternative. Thus the downward spiral begins. As more cash paying consumers leave, the practice accepts more and more managed care plans to compensate for the lost revenue. Additionally, many consumers will continue to

seek their eye care services from the contracted provider but realize that they can actually purchase many of their products out-of-networks at the big box stores for less than what they would pay if they used their managed care benefits at the provider's office. This of course leads to an even greater erosion of revenue and ultimately practice profit. Welcome to the United States model 30 years after the introduction of managed vision care.

Challenges and Pitfalls of Managed Care

How can managed care impact the revenue on the internal business side? Many of the managed vision care companies in the United States force the business owner to utilize certain optical labs to manufacture and finish any and all lenses that are part of the managed care contract. The managed care companies do this in order to control manufacturing costs. They have contracted with certain labs to manufacture all lenses attributable to a specific managed care plan. These labs then manufacture the lens and bill the managed care company; and in the process the provider loses all ability to create revenue or profit in the manufacturing process. In the interim, the doctor can only create revenue by setting the usual and customary fees above their previous standard rate to compensate for the loss of income. By increasing their charges, ultimately the consumer pays some percentage (note I didn't say balance bill the difference) of the remaining total while the managed care company dictates that the provider write off the difference.

To put this in perspective, let's review a sample managed care job. Let's assume that you prescribe a high index digital progressive addition with some mid-level anti-glare. Let's say that you would normally charge $250 per lens or $500 total for the bundled lens package, not including the frame. You would need to have someone pull up the users benefits to determine the exact material co-pay and coverage.

Depending on the managed care company (MCC) your MCC form might look something like this:

Service Description	Code	Charged Amount	Total Compensation	Patient Pays		Lab Payment	MCC payment to Dr.
				CoPay	Payment		
Bifocal Lens-OU	V2207	0	$25		$0	$25	$0
Progressive Charge	V2781	$192	$37	$25	$90	$54	-$42
AR Coating	V2750	$111	$75	$0	$75	$52	-$52
UV Coating	V2755	$10	$10	$0	$10	$7	-$7
High Index	V2783	$72	$209	$0	$72	$48	-$48
Roll & Polish	V2799	$15	$14	$0	$14	$6	-$6
Frame	V2020	$169	$104	$0	$39	$0	$65
Total		$561	$474	$25	$300	$192	-$90

Summary

- Charged Amount=$569
- Practice Revenue=($25+$300-$90)=$235 (remember you still need to subtract out frame cost)
- Lab Payment=$192
- Write Off=($569-$235-$192)=$142

Confused yet? Remember that this is a very simple example and we have only talked about revenue and not the profit side of the equation.

With managed care, you will have to strongly consider hiring and training a part-time to full-time person to bill each of these claims to the managed care company. Expect to pay $35K to $45k for that position. Right now, most of the Canadian systems collect 100% of their revenue (ages 20-64) and thus have little to no accounts receivable. In managed care, the practice would collect some percentage of the revenue, granted everything was billed correctly, and pay an estimated $40K per year to have the privilege of getting paid at a discounted rate by the managed care company.

Are you ready to completely change the way you code each and every exam? There will be no more short and long appointments. In the future, Canadian providers will have to learn, utilize, and correctly code each exam component for each managed care patient. Failure to do so will result in a decline of your claims submissions. Then your new billing person will spend 10-15 minutes per claim determining how to re-code and refile correctly to get paid. But remember they have to do this within 90 days or you will receive a lessor amount that the original billed amount due to "untimely filing."

Of course, we need to also discuss that your exam fees will now be capitated somewhere between $45 and $65 dollars. You can charge whatever you want, but you will only be reimbursed what your contract designates. The larger concern is that the managed care companies are competing with each other to gain "covered lives" and many times to be competitive they need to reduce their expenses which is the provider fees again. Once the contracts have been signed, the managed care companies can alter what they determine is fair market value without your consent. Now, contact lenses work much the same way as the eye glasses, only the managed care company also capitates what you can charge for many of your contact lenses fits and has an upper limit for the consumer as to what they will cover. You will also have to perform a minimum number of tests during the examination process. Failure to do so during an audit could result in repayment of the funds you have received plus a fine.

Questions to ask yourself

So you must each ask yourself a few key questions:

- Does seeing more patients at reduced revenue per patient value fit into your business model and long-term plan?
- Are you prepared to hire and train, and more importantly pay, someone to manage the filing process with the managed care plan?
- Are you prepared to spend 5-10 minutes per consumer to explain how their "new insurance" benefits work and how they, as consumers, are paying only slightly less than they were paying before they had their "new insurance?"
- Will this slow your operations down enough to be worth it?
- Will these "new" consumers ever come back, and if so, at what intervals?

Maybe equally as important as the practice based questions above, are the profession based questions such as:

- Are you prepared to fight to keep control of your own pricing structure?
- Are you prepared to fight to keep your options of selecting whatever lab or distributor you choose vs. having to switch to meet the criteria of the managed care provider?
- Are you prepared to out-market the managed care companies when they decide to direct mail to your consumers? Or to be seen by a retail based provider, other than yourself, who is a lower cost alternative?

Lastly, are you ready to change your current way of life? In a time and place where the Canadian eye care providers already have achieved what most US practices are striving for—less managed care consumers and more cash pay, you must determine if you are willing to work longer and harder to receive less compensation? If you have answered yes to all of these questions then you should sit back and let it happen. After all, you should rest now. You are going to have to work a lot harder later.

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