

Healthcare: Adjusting to Medicare cuts As Medicare payments decline, health care businesses must find new revenue streams

Premium content from Dallas Business Journal - by Bill Hethcock, Staff writer

Date: Friday, March 18, 2011, 5:00am CDT

Related: [Insurance](#)

[Click to Print Now](#)

Health care-related businesses that rely heavily on Medicare are increasingly feeling the squeeze of cuts in reimbursements by the government health care program for the elderly and disabled.

Texas doctors, tired of Medicare's declining reimbursements, are increasingly opting out of the program or limiting their involvement in it, said **Nancy Moore**, president of NBP LLC, an Austin-based consultancy that helps many North Texas physicians with practice management, medical billing and cash flow operations.

The percentage of revenue physicians receive from Medicare reimbursements varies widely by specialty, from none for pediatricians to about 20 percent for family practice doctors and more than 50 percent for cardiologists, whose patients are older, Moore said.

More than a third of Texas doctors either limit the number of Medicare patients they accept or do not accept any new Medicare patients, according to a study by the Texas Medical Association.

Medicare reimbursement to physicians has been cut about 20 percent since 2001, after adjustment for inflation, according to the American Medical Association.

Physician practices that don't begin prescribing medications online by June 30 face an additional 1 percent cut beginning in 2012, which could amount to a more than \$40,000 revenue decrease for the average midsize practice, Moore said.

She advises physicians to thoroughly assess their practices and become as efficient as possible to survive continued reimbursement cuts. One physician's office, for example, was able to better educate its patients and increase its collection of deductibles at the time of service by 33 percent, Moore said. That offset a significant part of the practice's Medicare loss, she said.

"Medicare is not going to pay physicians any more, nor are the private carriers," Moore said. "So the answer is to recognize the areas where improvements can be found and the opportunities for new revenue streams."

Medicare provides health insurance to more than 38 million older Americans and another 7.6 million disabled Americans. Medicare spending will nearly double in 10 years, to about \$1 trillion, according to Congressional Budget Office projections, largely because health care costs are rising faster than the rate of inflation and because 78 million baby boomers will become eligible for benefits over the next 20 years.

Declining Medicare payments date to 1997, when Congress changed reimbursement formulas in an attempt to curb spending and control the deficit.

Any cuts in Medicare or Medicaid reimbursements ultimately shift costs to commercial insurance carriers such as Blue Cross and Blue Shield of Texas, said **Darren Rodgers**, president of the Richardson-based company, who doesn't expect to hire additional employees as a result of the shift. "The underfunding of government programs impacts everyone," he said. "Hospitals and physicians don't want their revenue to shrink, so they have to make it up somewhere else."

Congress needs to find a new formula to calculate Medicare reimbursements that reflects the realities of the aging population and the need to control the deficit, Rodgers said. He is skeptical that will happen soon, though, because the issue is too politically charged, he said.

"The (Medicare) program, as it is, is unsustainable," Rodgers said. "It really needs to be revamped entirely. Right now, nobody is happy."

The Edgemere retirement community in Dallas has factored a 2 percent to 3 percent reduction in Medicare reimbursements into this year's budget, said **John Faldine**, managing director of the facility, which includes independent living, assisted living and skilled nursing. Twenty-two of Edgemere's 72 skilled nursing rooms are Medicare certified, he said.

"The way it changes your business model is that decrease in revenue has to be made up somewhere," Faldine said. "If you lose revenue from the (Medicare) reimbursement, it's a cost of doing business. You have to adjust for it."

That could have a wide variety of results, such as raising service fees for residents, trimming food costs or reducing the number of bus rides available to residents.

The Medicare funding reductions combined with Medicaid cuts threaten seniors' care as well as job stability, said **Buddy Parker**, a representative of First Choice Medical Supply in Garland and a member of the Texas Coalition for Long Term Care Business. "Medicare funding stability in Washington has a significant impact on local economic activity and jobs," Parker said.

First Choice Medical, like many suppliers to long-term care facilities, has experienced an approximate 12 percent drop in sales because of declining Medicare reimbursements, Parker said. That has forced many suppliers into staff lay offs, he said.

"You'll see that (sales decrease) throughout the industry, whether it's the mobile X-ray business, the pharmacies that serve long-term care or the linen companies that sell (bedding) to them," he said. "We're all feeling that pinch."

Texas ranks 4th nationally in nursing home employment, with 98,700 jobs, and in nursing-facility-generated economic activity, at \$12.7 billion annually, according to the Washington D.C.-based Alliance for Quality Nursing Home Care. The skilled nursing sector is Texas' second largest health facility after hospitals, according to an analysis by



ViewPoint Bank.
Local banking for local business.

Business Equipment Loans

- No origination fees
- Available for amounts from \$25,000 to \$30 million
- Up to 100% financing for qualified businesses
- Flexible terms
- Competitive rates

Click here to visit us at viewpointbank.com [Get Started](#)



JAKE DEAN

Doing more with less: Physical therapist John Barron works with a resident at the Edgemere retirement community in Dallas, which has factored a 2 percent to 3 percent reduction in Medicare reimbursements into this year's budget.



when it comes
to the dividend
program."

TexasMutual
Insurance Company

STEVE GLUDIEN
Director of Human Resources
Landy's Tire and Automotive Centers

Click here for more information on
workers' comp insurance for Texas.

the alliance.

Nursing homes in Texas and across the nation are reacting to the funding squeeze by submitting late payments to vendors and delaying facility maintenance and repair, said Emil Parker, the lead author of the analysis. With an average age of nursing home facilities 29 years, delayed maintenance threatens residents' quality of life, he said.

Nursing facilities treat half of all Medicare beneficiaries discharged from hospitals to post-acute care. If nursing home maintenance slides, the sector's capacity will decline and patients may be forced to spend more time in higher-cost acute care hospitals because of delays in transfers to nursing facilities, driving up health care costs for seniors and the rest of society, Parker said .

The overall median Medicare profit margin for the hospice community could fall from 2 percent in 2008 to minus 14 percent by 2019, according to a recent study by the National Hospice and Palliative Care Organization. The analysis, released in early March, further concludes that 88 percent of hospice programs could have negative margins by the same date.

The Centers for Medicare and Medicaid Services in 2009 started a seven-year process that ultimately will result in a permanent 4.2 percent reduction in hospice reimbursement rates, said **J. Donald Schumacher**, president and CEO of the Alexandria, Va.-based hospice organization. The 2010 Patient Protection and Affordable Care Act again changed the Medicare hospice rate formula in a way that will further cut hospice payments by about 11.8 percent over the next 10 years, Schumacher said.

Hospices care almost exclusively for Medicare and Medicaid beneficiaries. Patient access will inevitably be negatively affected by the cuts, Schumacher said.

The hospice group's lobbying arm, the NHPCO Hospice Action Network is pursuing legislation that would soften the cuts to hospice programs. The nation's hospices employ approximately 200,000 medical professionals, administrators, social workers and clergy nationwide.

bhethcock@bizjournals.com | 214-706-7125