



# BUDGETING FOR THE RETINA PRACTICE



A financial roadmap can help you navigate today's challenging environment.

BY ANDREW MALLER, MBA, COE

Since the COVID-19 pandemic, retina practices have faced many challenges that have affected the financial health of their organizations. Some of these challenges are based on macroeconomic factors, such as inflation, rising interest rates, and the threat of recession. Factors specifically affecting medical practices at the microeconomic level include lower reimbursement rates, staff wage inflation, and the increase in cost to run a successful business. These factors have negatively affected profit margins, threatening retina practices' ability to remain financially viable.

To thrive in this environment, retina practices must take a disciplined approach to managing all facets of their organization. One of the most common tools to achieve this is a practice budget, which serves as the financial roadmap to navigate challenges that may arise.

While most practice leaders would agree that financial planning and forecasting is an important piece of financial management, the reality is that most practices do not go through a formal budgeting process each year. Reasons may include the amount of time the process takes, inability to make accurate projections, and lack of buy-in from physician ownership and administration. While these reasons may be valid barriers, the economic challenges practices face today leave them no choice but to be proactive and make budgeting a priority.

## WHY CREATE A BUDGET?

Before breaking down the steps to create a meaningful budget, it's important to consider the benefits of undertaking this process. When done properly, the benefits easily outweigh the hindrances, and may include:

- Predicting future results by measuring historic and current practice performance, such as the profit and loss statement (P&L), productivity reports, payroll and staffing trends, etc.;
- making plans toward the practice's short- and long-term financial goals;
- providing a sense of financial control by removing the guesswork; and

- addressing threats and analyzing business opportunities, such as assessing staffing needs and growth prospects, purchasing new equipment, etc.

## THE BUDGETING PROCESS

The budgeting process can be boiled down into four essential steps:

1. **Reviewing** historical data,
2. **assessing** changes likely to affect the practice in the budget year,
3. **forecasting** future productivity levels and operating expenses, and
4. **integrating** the budget into monthly management reports and strategic conversations.

### Step No. 1: Review Historical Data

Although there is never a wrong time to start budgeting, ideally the process should begin 2 to 3 months before the forecast year; thus, preparation should start in October or November to budget for the upcoming calendar year.

The entirety of the process should not fall on the shoulders of the practice administrator; rather, it is critical to form a budget workgroup consisting of administration, department heads, and physician owners. This ensures all viewpoints are considered, which is particularly important in larger practices.

During initial planning meetings, it is important to gather the relevant historical information. Although this will vary by practice, some of the most important pieces of information will include the following:

- Financial statements for the current year-to-date (YTD) and previous 2 fiscal years;
- the typical payment cycle to drug vendors for injections (be aware of whether your practice takes advantage of longer payment terms, which can distort true financial results);
- production reports for each provider showing total charges, payments, and volume for the same time period (although production should be measured

**TABLE 1. POTENTIAL FACTORS AFFECTING PRACTICE FINANCES**

| External Factors                                  | Internal Factors                                                                       |
|---------------------------------------------------|----------------------------------------------------------------------------------------|
| Medicare fee schedule changes                     | Provider schedules, especially for newer physicians and others who may be slowing down |
| Commercial fee schedule changes for top 10 payers | Staffing levels and increased wages                                                    |
| Merit-Based Incentive Payment System              | Facility changes                                                                       |
| Interest rates and overall economic effect        | New equipment or service lines                                                         |

**TABLE 2. SAMPLE PHYSICIAN REVENUE FORECAST**

| Current Year (through October)                                                           | MD 1        | MD 2        | Total       |
|------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| Professional fee collected revenue                                                       | \$900,000   | \$1,200,000 | \$2,100,000 |
| Patient encounters                                                                       | 4,500       | 4,000       | 8,500       |
| Clinic sessions                                                                          | 250         | 200         | 450         |
| Revenue rate per patient encounter                                                       | \$200       | \$300       | \$247       |
| Patient encounters per clinic session                                                    | 18.0        | 20.0        | 18.9        |
| Budget Year                                                                              | MD 1        | MD 2        | Total       |
| Estimated clinic sessions                                                                | 300         | 250         | 550         |
| Estimated patient encounters (based on current year)                                     | 5,400       | 5,000       | 10,400      |
| Estimated revenue by provider (based on current year revenue rate per patient encounter) | \$1,080,000 | \$1,500,000 | \$2,580,000 |

based on professional payments only, production by J-code should also be considered when looking at the drug expenses on the P&L statement);

- clinic sessions or days worked by each provider using metrics, such as patient visit volume per clinic session;
- employee data, including staff roster, payroll report showing total gross wages and hours worked per employee, and benefit costs per employee;
- building and equipment lease information; and
- capital expenditures.

Once these historical data have been gathered and reviewed, practices can move on to the next step of the budgeting process.

### Step No. 2: Assess Changes in the Budget Year

This step usually involves more of a strategic discussion, during which the budgeting team considers various external and internal factors that may affect financial results. This important step is often overlooked, but

developing an accurate forecast is difficult without this discussion (Table 1).

### Step No. 3: Forecast Revenue and Expenses

It is now time to start building the first draft of the budget. The setup should look like the P&L statement for the practice, which can be produced by matching the various revenue and expense categories in a spreadsheet or using a template from the practice accounting system. Start by taking the YTD results from the current year and dividing them by the number of months to create monthly averages, which will be useful for creating the various revenue and expense forecasts.

A practice will likely use a combination of objective and subjective data points to estimate its revenue forecast. The practice must gather a few key YTD data points from the current year, including professional revenue, patient visit volume, and the number of clinic sessions worked (Table 2). This will allow for the creation of specific metrics

TABLE 3. SAMPLE EMPLOYEE WAGE SUMMARY

| Employee Name | Current Salary   | Payroll Taxes   | Wage Increase (%) | Budget Salary    | Payroll Taxes   | Benefits        |
|---------------|------------------|-----------------|-------------------|------------------|-----------------|-----------------|
| Tech 1        | \$60,000         | \$4,500         | 10%               | \$66,000         | \$5,000         | \$5,000         |
| Tech 2        | \$50,000         | \$3,800         | 3%                | \$51,500         | \$3,900         | \$5,000         |
| Front Desk    | \$45,000         | \$3,700         | 2%                | \$45,900         | \$3,750         | \$5,000         |
| Biller        | \$60,000         | \$4,500         | 3%                | \$61,800         | \$4,700         | \$5,000         |
| New Hire      | \$0              | \$0             | 0%                | \$55,000         | \$4,300         | \$5,000         |
| <b>Total</b>  | <b>\$215,000</b> | <b>\$16,500</b> |                   | <b>\$280,200</b> | <b>\$21,650</b> | <b>\$25,000</b> |

that can be used to create the forecast in the budget year.

It is important to factor in potential changes between the current and upcoming budget year, such as anticipated schedule changes or newer providers who have been ramping up. Be sure to look at each provider individually to anticipate such changes and the corresponding effect on the budget.

Projecting operating expenses can (and should) be a granular process for many of the larger expense categories, but other, smaller categories be can forecasted through a simple projection (eg, with a percentage increase or decrease).

Staff-related costs for nonprovider employees tend to be the largest fixed expense for a practice, often representing more than 30% of revenue or more. Practices should take a detailed look at each department and employee to forecast current wages and perform a needs assessment for anticipated hires in the budget year (Table 3). Be sure not to project only gross wages, but also payroll taxes and benefits. Other expense categories may include:

- **Occupancy:** Use your historical data to predict changes in base or additional rental costs.
- **Capital:** Although sometimes separate from the P&L statement, many practices also create a capital budget to estimate the effect of new equipment needs, furnishings, leasehold improvements, etc. It is important to identify the timing, anticipated cost, financing terms, and depreciable life of the asset. Depending on the purchase method, the practice will likely incur depreciation and interest expenses, which should be factored into the budget.
- **IT:** The budgeting period is a perfect time to assess new IT equipment needs, such as computer equipment and software licenses.
- **Drugs:** As mentioned earlier, the timing of drug expense payments can muddy the financial results of the practice. Practices should match the estimated

projected expense with the expected revenue. For example, if the estimated revenue or volume from a certain drug can be projected, simply use the cost per unit as the estimated cost.

This list is not exhaustive, and smaller expense categories should also be projected to build an accurate budget. Consider examining each expense type and forecasting whether the expense will increase, stay the same, or decrease in the budget year. Then assign a percentage change from the current year expense.

#### Step No. 4: Integrate the Budget

At this stage, the first draft of the budget is now complete. Unfortunately, some practices consider this the end of the process, which may result in failure to actively use the budget as a true management tool. Rather, consider the budget to be a living document that gets fully integrated into the financial performance review and regular strategic conversations.

For practices that put together monthly financial and performance summaries, consider adding a section to compare actual results versus the budget forecast versus the previous year's performance during the same period.

#### STAY ON TOP OF IT

A proactive, comprehensive budget enables practices to properly track results, identify areas of concern, and quickly intervene when issues arise. Most importantly, a living budget allows practices to navigate the numerous challenges of today's marketplace. ■

#### ANDREW MALLER, MBA, COE

- Senior Consultant, BSM Consulting, Pheonix
- amaller@bsmconsulting.com
- Financial disclosure: Employee (BSM Consulting)