Those who keep tabs on the stock market via Internet sites and cable television stations have no doubt welcomed the preponderance of lime-green arrows replacing the parade of cringe-provoking red indicator triangles. For several weeks now, the markets have closed up, and many analysts acknowledge that this development bodes well for the national economy. Of course, other indicators have failed to show improvement, prompting those same analysts to warn that a significant economic turnaround is still probably months away.

The effects of the current recession are far-reaching, impacting every sector of the economy. All physicians and their patients are affected. Most dermatology practices are experiencing a drop in revenues, and the physicians who own and staff those practices are flirting with stagnating or declining compensation. To help you better understand your position and protect your practice, we talked to experts about income and practice trends and identified three strategies to improve revenues.

Compensation Trends
The decline in the national economy came at a time when compensation for dermatologists was already showing restricted growth. According to data from the Medical Group Management Association (MGMA, mgma.com), whereas dermatologists’ median compensation had increased 8.11 percent from 2003 to 2004 and 8.23 percent from 2004 to 2005, it had increased only 4.32 percent from 2005 to 2006 and 4.82 percent from 2006 to 2007.

Nonetheless, dermatologists have enjoyed nearly a 28 percent growth in compensation from 2003 to 2007, compared to 12.14 percent growth in the same period for all specialists and 16.2 percent growth for primary care. When data for all specialties are taken together and adjusted for inflation, the 3.16 percent increase in median compensation from 2006 to 2007 reduces to a measly 0.31 percent.

According to Mark Nolen, a Principal at Medicus Partners (medicuspartners.com), a national physician search and consulting firm and member of the National Association of Physician Recruiters (NAPR), the current median compensation for dermatologists is $357,945 with the average compensation a little over $400,000 nationally.

While data from MGMA for 2008 are not yet available, they’ll likely show stagnation or even contraction in compensation. “Generally, physician incomes across the country have dropped,” observes Martin Billips, President of Dermatology Solutions, LLC (dermprofits.com), a national practice management firm. “Some parts of the country have been hit harder than others,” he says, “Dermatologists have not been spared.” He cites three factors that confound physician income growth: the economic slump, declining reimbursement rates, and growing overhead costs for practices nationwide.

Most dermatologists have likely found the current year has started off slowly. Mr. Billips points out that January and February are traditionally slow months, while practices may be busier in the last quarter as patients complete deductibles at the end of the year. Mr. Billips estimates that so far this year practices are down about five to 10 percent on revenue from medical services/procedures and as much as 15 to 30 percent for cosmetic services/procedures.
Interestingly, Mr. Billips says, practices that have a smaller cosmetic component may see a less significant decrease in associated revenues compared to practices with a greater focus on cosmetics. In a practice with a strong medical component, “relationships are stronger because all of the patient’s skin care needs are met,” he explains. “Over time the patient and the physician have built levels of trust.” A primarily cosmetic practice, according to Mr. Billips, is one in which more than 70 to 80 percent of services provided are cosmetic.

Dermatology practices that have a strictly or primarily medical focus may be better prepared to “ride out” the current economic downturn, Mr. Billips says, but that doesn’t mean that now is the time for a reactionary realignment of a practice. Determining the practice mix is one of the fundamental decisions a practice must commit to. “To build the practice of her dreams, the dermatologist must find the right mix of offerings that is true to her style,” he says. The profit strategy—determination of where money will be made in the practice—should focus on achieving the optimal revenue mix for the practice that matches the skills and desires of the dermatologist.

Perhaps more than ever, dermatologists may know exactly what they want their practices to look like. “Dermatologists considering new opportunities are becoming more selective of the procedures they wish to perform in their new practice or group,” observes Bob Collins, Managing Partner at Medicus Partners. “The majority of the physicians looking for positions are trained in Mohs and require that as an option in their chosen practice. Others seek more cosmetic procedures like Botox, and a few dermatologists are interested in dermatopathology if it doesn’t conflict with existing contracts with pathologists,” he says.

Maintaining some degree of flexibility in the service menu is essential so that a practice can meaningfully adapt to—and not simply react to—shifts in the marketplace. Mr. Billips likens the practice to an investment portfolio in this sense. An investor may always retain some high-growth or high-risk investments, but the proportion of these must change in light of the current environment. Similarly, a practice may slightly expand or contract its cosmetic offerings in response to market demands.

### 2. Make Meaningful Operational Improvements

In light of shrinking revenues, practices can make changes to improve the bottom line and hopefully preserve or boost dermatologists’ compensation. Operational improvements are the ones most likely to provide a “quick lift” to the practice, Mr. Billips says. Their impact can be important and substantial. But practices should not overlook structural improvements, if needed. These tend to represent more costly practice investments, but the long-term return can be significant.

Operational improvements eliminate waste and improve the patient experience. Mr. Billips identifies three key areas for improvement: third party billing and collections, patient collections, and patient communication. There are multiple areas within billing and collection that practices can improve upon, given that Mr. Billips says practices generally give up on average $35 per claim. This breaks down to $20 lost per claim in denials, $5 per claim lost due to low compensation insurance contracts, and $10 per claim in payment delays from all payers and patients. A thorough analysis of processes—sometimes by a third party—can identify areas ripe for change.

In terms of patient collections, “A large number of practices really do a terrible job with collecting co-pays and deductibles,” Mr. Billips states. Patients’ financial responsibility for medical care is increasing as employers change insurance provisions and shift responsibility to employees.

### Physician Extender Trends

Data from the American Academy of Dermatology Association (AADA) suggest that about a third of dermatology practices have a PA or NP on staff, while another third are considering adding an extender. This trend has been evident to Medicus Partners. “We’re seeing physician extenders are being utilized more in dermatology practices due to the dearth of active, job-seeking dermatologists,” Mr. Nolen observes.

Reimbursement models for PAs and NPs can vary tremendously from practice to practice. 2008 Census data from the American Academy of Physician Assistants show that the mean income for PAs employed in dermatology full-time (32 hours or more per week) was $104,474, compared to $89,487 mean income for respondents in all specialties and primary care. The median reported income for derm PAs was $97,489, compared to $85,468 median income for all specialties and primary care.

Among Dermatology PAs, 17.9 percent receive a bonus not based on productivity/performance, 15.2 percent receive a bonus based on practice productivity, while the majority (47.7 percent) receive a bonus based on their own productivity/performance.
Generally, 20 to 30 percent of a practice’s income related to medical care is associated with patient co-pays.

In the past, many practices would not collect from patients at the time of service. Instead, they would bill the insurance carrier and then, 30-45 days post-visit, they would bill the patient any co-pay or balance remaining. Such procedures incur costs for the practice (bill generation, postage, etc.), and may decrease the likelihood of receiving payment. As more time elapses between the provision of service and a bill arriving in the mail, the less likely a patient is to pay, Mr. Billips says. This is especially true for a specialty like dermatology, where patients may not require multiple follow-up visits over time. If the patient expects not to return at all or in the near future, he or she may overlook bills.

A simple solution to this problem is to collect co-pays at the time of service. A better solution is to take advantage of the new trend in Health Savings Accounts (HSAs). A large and growing proportion of patients have these accounts through their employers, and most are linked to a spending card, similar to a credit card. Mr. Billips encourages practices to capture the card numbers of all patients at the time of service, advising them that any money due to the practice by the patient after the insurance company pays its portion will be charged to the card. The emergence of HSAs is causing, “A fundamental shift in the processes that practices should use to collect co-pays and deductibles,” he notes.

Finally, “many dermatology practices need to deploy an online patient portal,” Mr. Billips urges. A well-designed and implemented web-based interface provides patients with access to the practice 24/7 while diminishing the demands on staff. In fact, an efficient portal may even allow for a reduction in staff. Through the portal, patients should be able to schedule or change appointments, request prescription refills, pose non-emergent medical questions, pay bills, and complete registration and insurance verification forms.

3. Recognize Opportunities

Despite the current economic forecast, opportunities exist for dermatologists who seek them out. Those just starting out in the field or seeking to relocate may find opportunities in the central and northern regions of the US, where Mr. Nolen observes there remains a shortage of providers. “We are finding fewer dermatology physicians interested in the central and northern regions of the US, unless they have family located in these areas,” Mr. Nolen says. There are many locations across the country which have been looking for a dermatologist for over three years and are still looking. He notes that among dermatology job-seekers, “East and West coast locations are strongly preferred, where they will see more patients with sun-related issues.”

For those already established in practice, opportunities to grow the practice and revenues are also emerging. The Obama administration has signaled that it wishes to improve the quality and efficiency of medical care and decrease medical errors, and to that end is encouraging adoption of EHR. In fact, Mr. Billips notes, physicians can earn up to $44,000 over five years for meaningful implementation of EHR.

There are, of course, some caveats. Data suggest up to a 73 percent failure rate for implementation of EHR, indicating that 12 months after implementation nearly three-quarters of physicians who adopt systems are not using 80 percent of the system’s functions they had intended to use. Among recommendations to guide dermatologists to worthwhile systems they will use, Mr. Billips says it is important to speak to owners of a system to determine how they use the system and why (or why not). Don’t allow yourself to be sold on “bells and whistles.” Instead, focus on the key features you will use on a daily basis, he says.

There are also opportunities in store-and-forward teledermatology, Mr. Billips says. While he acknowledges that payers are still grappling with reimbursement models, he suspects reasonable reimbursement schemes will soon emerge that will make it worthwhile for dermatologists to render diagnosis and treatment plans for cases presented electronically. Importantly, this is work that dermatologists can do on “off-hours,” before starting their clinic day, during mid-day breaks, or after office hours.

Avoid the temptation to decrease fees for service, which generally is not a wise tactic, Mr. Billips warns. He says that some practices have so significantly cut fees that, even if their patient volume rose as a result, the practice would still lose a great deal of money, because it is providing services below cost. Radically cutting prices often violates the first of Dermatology Solutions’ Five Rules for Success (see sidebar): Sell it for more than it cost you.

Five Rules for Success

— from Dermatology Solutions

1. Sell it for more than it cost you.

   Know the costs of supplies and services and bill accordingly.

2. To thine own self be true.

   Practice the type of dermatology you want to, focusing on the services and procedures you enjoy.

3. Treat your patients great and your employees even better.

4. Better, faster, and cheaper are good, but easier is best.

5. It’s all about the processes.

   Focus on how the practice delivers services.

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