

# AAOE-AOC National Residency Curriculum

*Preparing Orthopaedic Residents, Fellows, and  
New Faculty for What's Next*



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**NATIONAL RESIDENCY CURRICULUM**

# ***Enterprise Level Finance, Physician Level Finance, & Benchmarking***

***Presented by Ron Faulbaum***

***February 2021***



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***Washington University in St. Louis [1995 – 2019]***

***MBA University of Missouri***

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***No conflict of interest nor financial relationships to any companies, products, or services discussed in this presentation***

# *Presentation Goals*

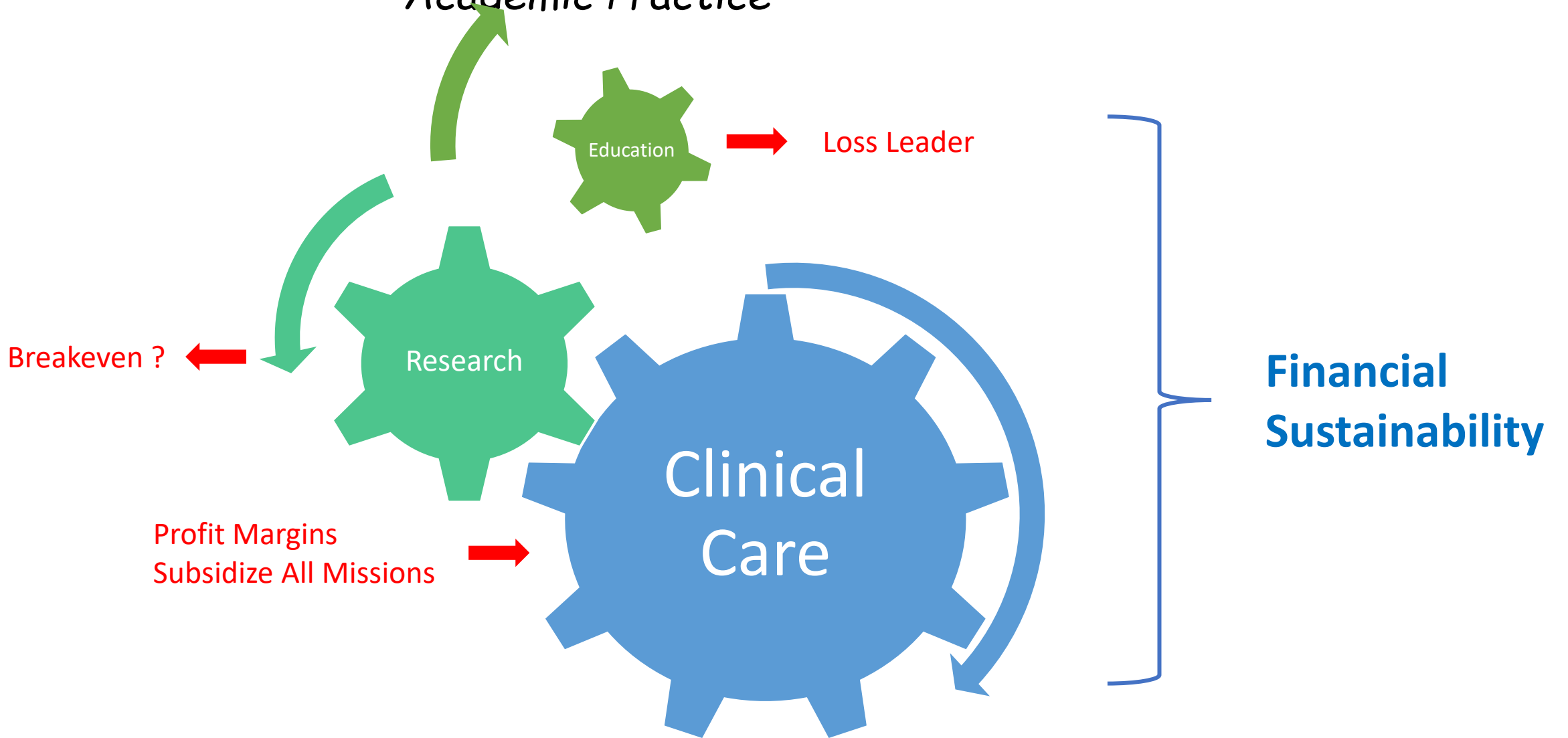
- ❖ Discuss funds flow at the enterprise level in academic practice
- ❖ Present examples of physician level funds flow and profitability measurement
- ❖ Discuss practice overhead and how it impacts physician compensation
- ❖ Provide contrast of value-based versus volume-based reimbursement

*The Tri-partite Mission of  
Academic Practice*

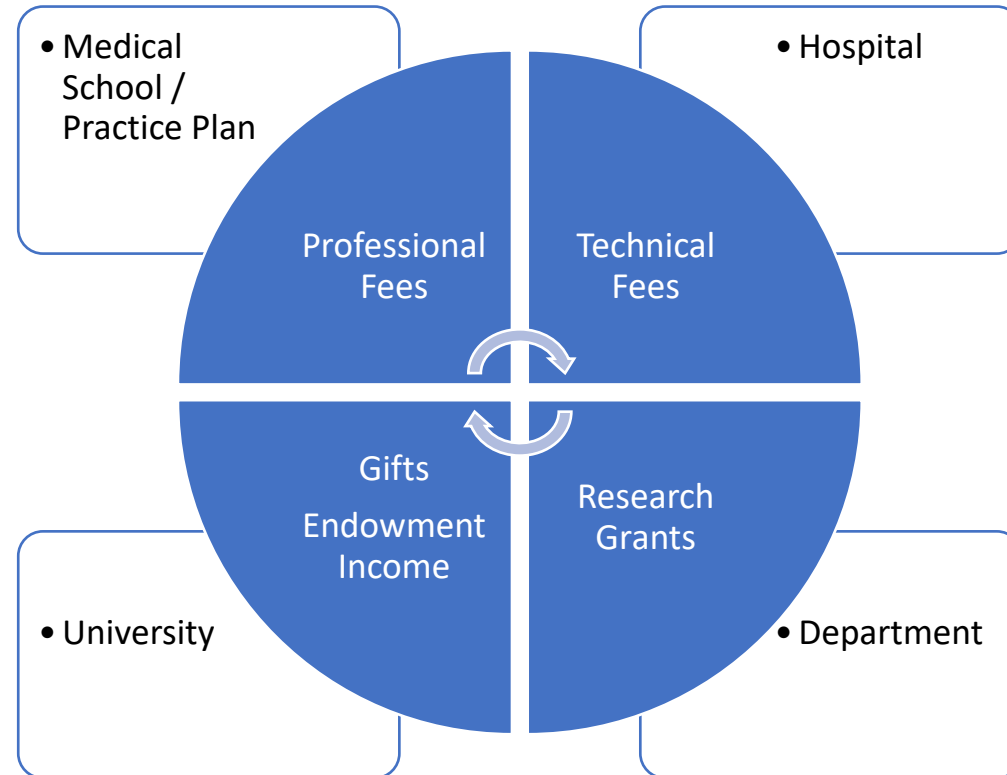


**Mission  
Success**

# The "Other" Mission of Academic Practice



# *Funds Flow in the Medical Enterprise*



# *Physician Funds Flow and Compensation*

## *Key factors in physician compensation :*

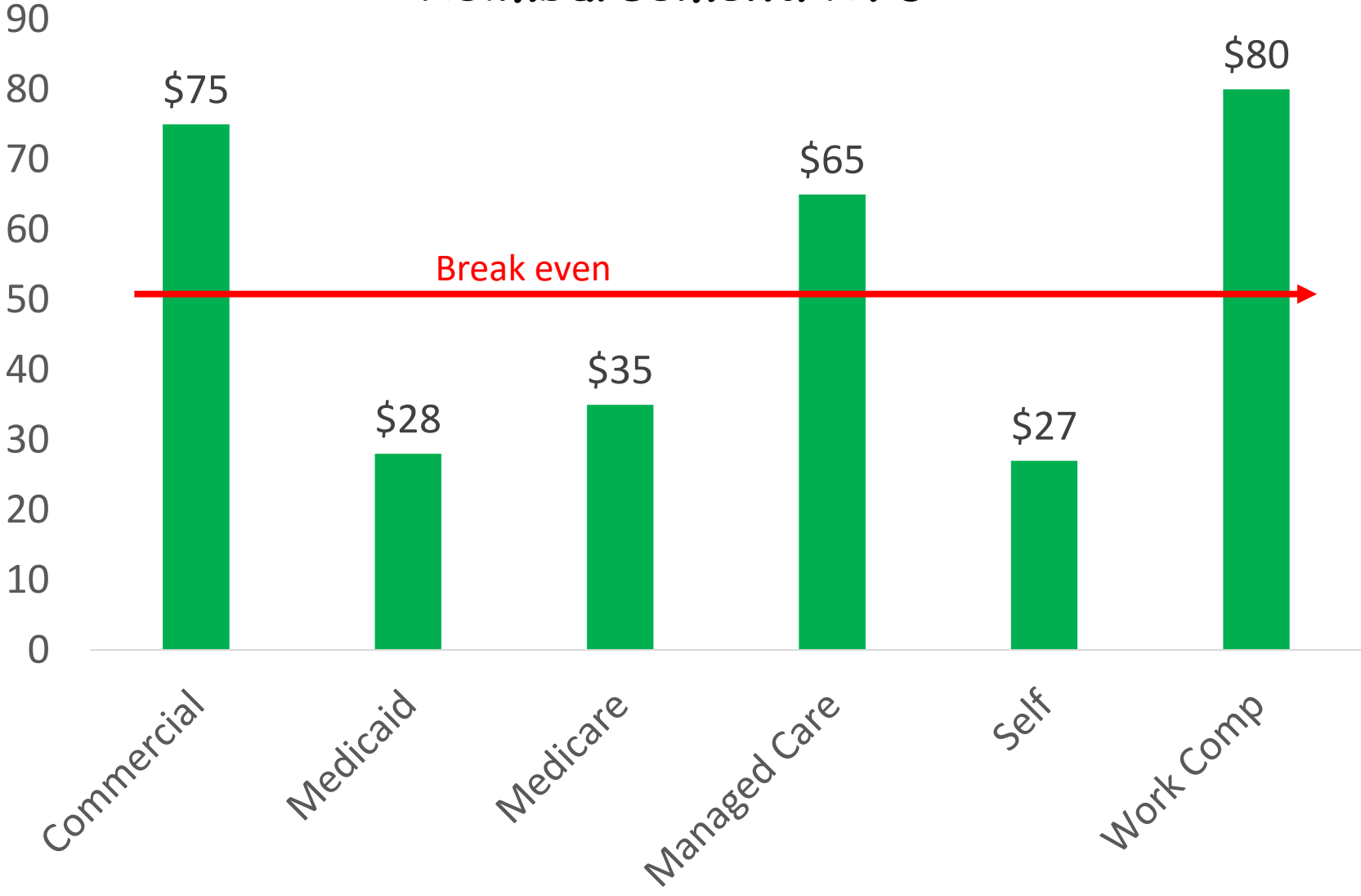
- Productivity – individual effort as measured by RVU, cases, visits, etc.
- Payer mix – influenced by sub-specialty type & practice location
- Payer contracts – reflect organization's degree of leverage with payers
- Effective (net) collection rate – measures effectiveness of the billing / collection process
- Practice overhead rate – measures efficiency of practice operations



## Measuring Reimbursement

Service Performed	CPT Code	Description	RVU	Charge	CMS 2021 CF = \$35/RVU	Private Payer CF = \$50/RVU
Established Patient Office Visit	99213	Level 3 – total visit time 20-29 minutes - low complexity decision making	2.65	\$ 230	\$ 92	\$ 132
					Contractual w/o	
Carpal Tunnel Release	64721	Neuroplasty and/or transposition; median nerve at carpal tunnel	13.05	\$ 1,370	\$ 455	\$ 653
ACL Repair	29888	Arthroscopically aided anterior cruciate ligament repair / augmentation or reconstruction	28.84	\$ 3,020	\$ 1,006	\$ 1,442
Gross Collection Rate					34%	48%

# FFS Reimbursement/RVU



## ***Physician Operating Statement***

Revenue	Amt	Comments
Gross Charges	\$ 2,800,000	Professional billings for visits, dme, supplies, & procedures
Contractual W/O	( 1,500,000)	Amount of “discount” provided per payer contracts
Bad Debt / Other	(100,000)	Patient uncollectable accounts, billing errors, payer denials, etc.
Net Collections	\$ 1,200,000	
Gross Coll %	43%	Net Collections ÷ Gross Charges
Effective (Net) Coll %	92%	Net Collections ÷ (Gross Charges – Contractual W/O)
		\$ 1,200,000 ÷ ( \$ 2,800,000 – \$ 1,500,000)

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## ***Physician Operating Statement***

<b>Direct Expenses</b>	<b>Amt</b>	<b>Comments</b>
Base Salary / Benefits	\$ 450,000	Base Salary = \$ 420,000
Staff Salary / Benefits	105,000	Assume RN + Med Assistant + 20% Administrative Secretary
Professional Expenses	10,000	Dues, subscriptions, licenses, registration fees, travel, etc.
Professional Liability	35,000	Medical malpractice insurance premium
Direct Expense Total	600,000	
Contribution Margin	\$ 600,000	Net Collections – Direct Expenses

# Physician Operating Statement

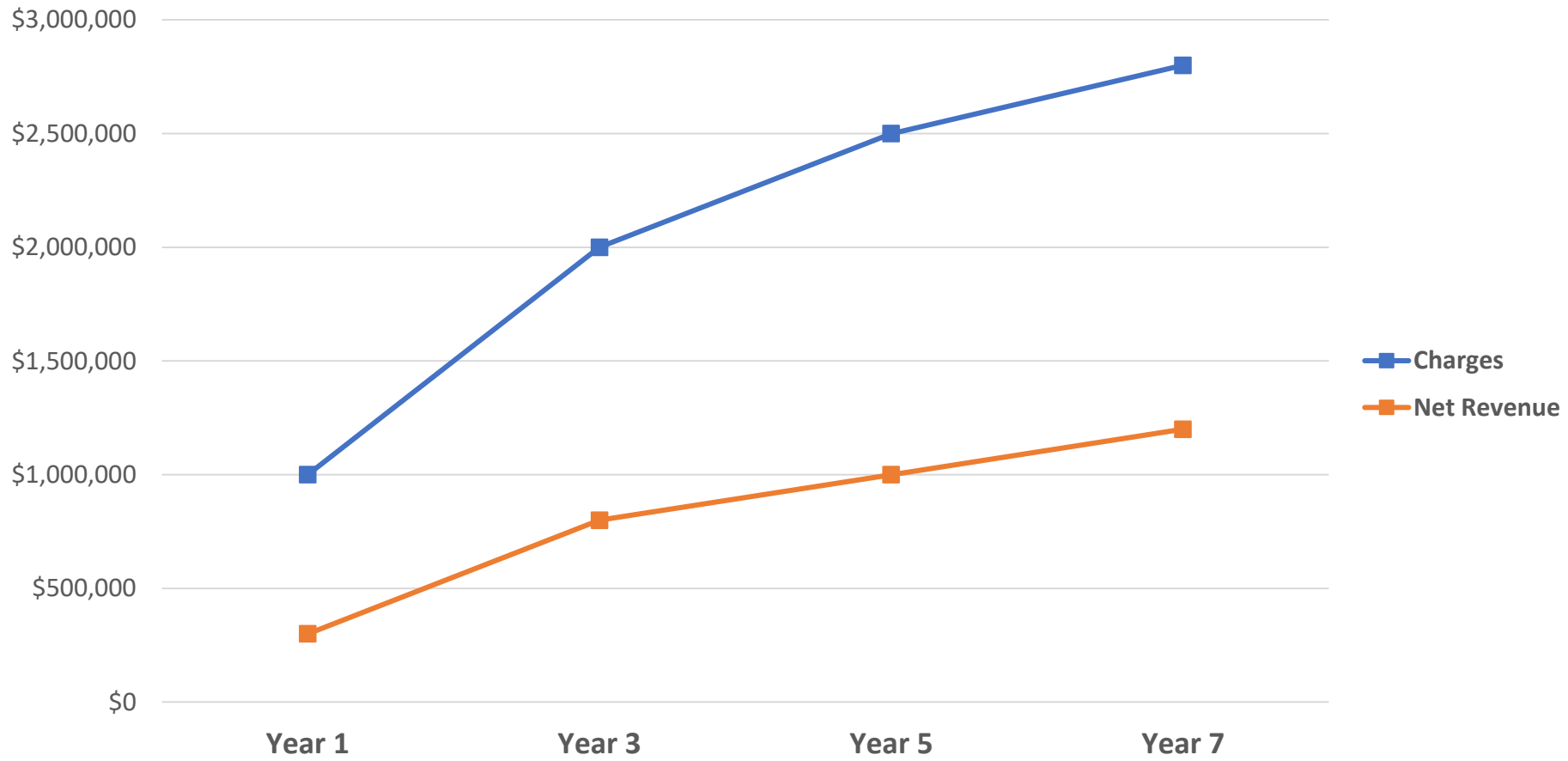
Overhead Expenses	Amt	Comments
Rent	25,000	Building maintenance, utilities, financing, insurance, etc.
Clinical Operations	85,000	Patient call center, arrival staff, orthopedic techs, nursing supervisors, supplies, services, etc.
Office Operations	20,000	Business office, grants, HR, marketing, etc.
Billing & Collection	70,000	Coding, medical records, collections, appeals, etc.
Practice Plan	60,000	Allocation for services e.g. credentialing/contracting office, EHR system, rev cycle system, IT services, legal services, etc.
School Tax	60,000	Allocation for support of School and/or University
Total Overhead	\$ 320,000	



# Physician Operating Statement

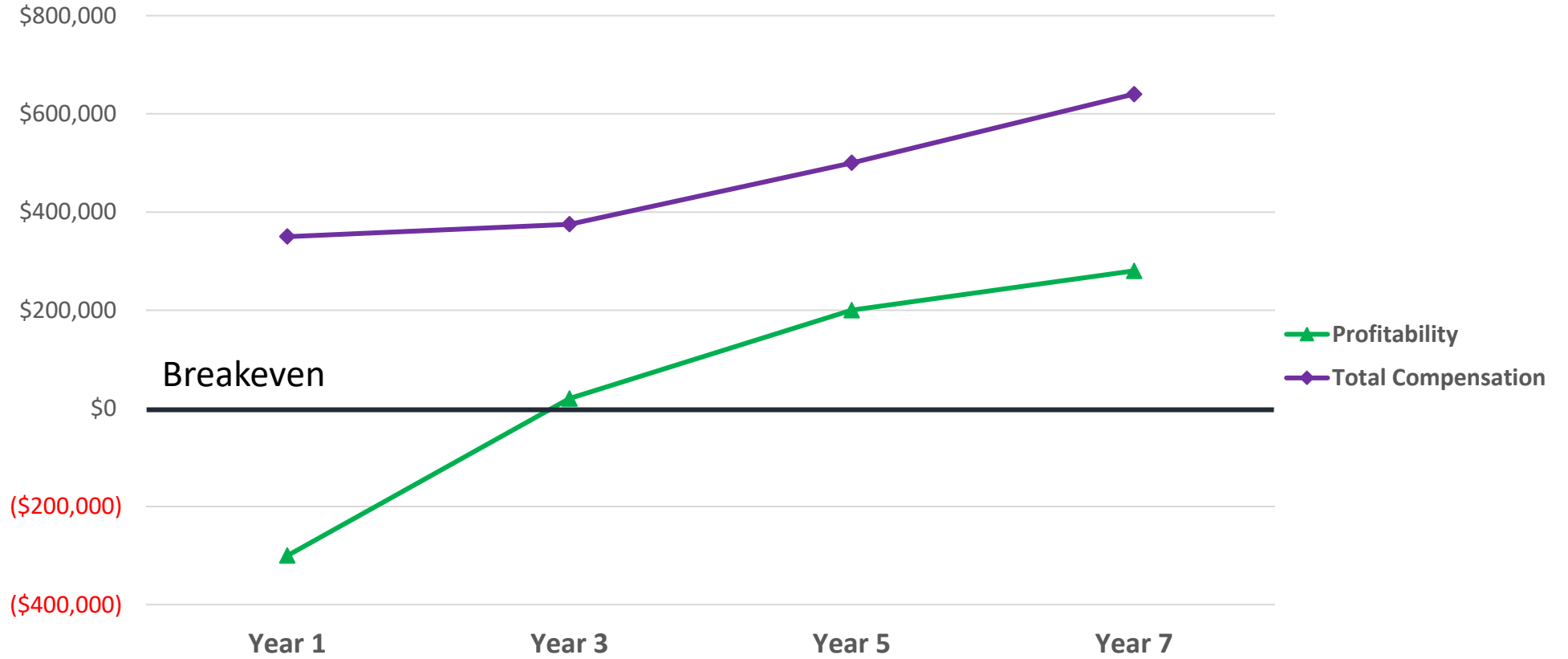
Summary	Amt	Comments
Gross Collections	\$ 2,800,000	
Net Revenue	1,200,000	
Direct Expenses	(600,000)	
Overhead	(320,000)	
Total Expenses	(920,000)	Physician base salary & benefits = about half of total expense
Net Margin	280,000	Net revenue – total expenses
Dept Surplus Share	(60,000)	Dept tax for Chair support and compensation cross-subsidies
Physician Surplus Share	220,000	Performance bonus
Physician Total Compensation	\$ 640,000	Base salary \$420K + bonus \$220K or 53% of net revenue
Department Total Overhead	\$ 560,000	(Direct expenses – base salary) \$180K + overhead \$320K + dept tax \$60K or 47% of net revenue

# *New Physician Practice Trends*





# New Physician Practice Trends



# *Alternative Payment Models*



= Fee For Service



= Bundled Payment

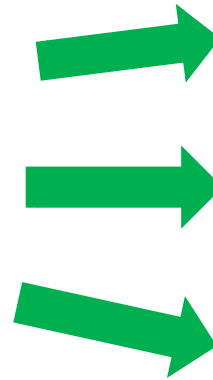
90 Day Care Period



# Risk Contracts

Actual Costs < Target Amount = Gain Share Amount

Payer



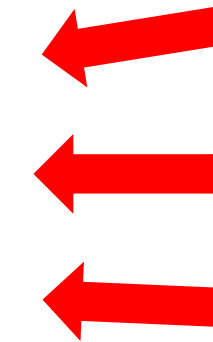
Hospital

Physician

Dept or Practice

Actual Costs > Target Amount = Penalty Amount

Payer



Hospital

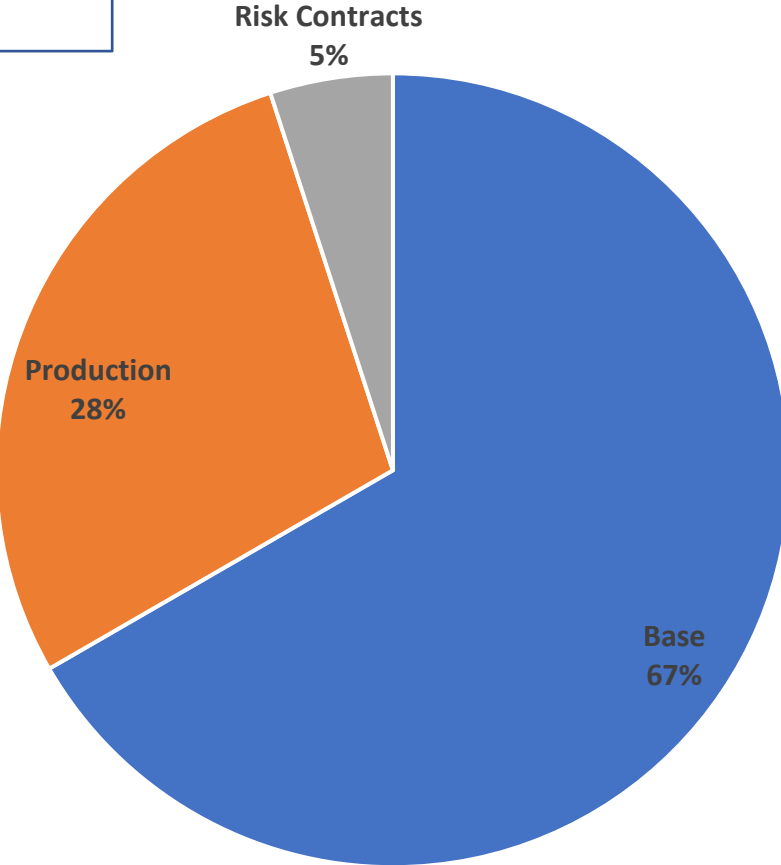
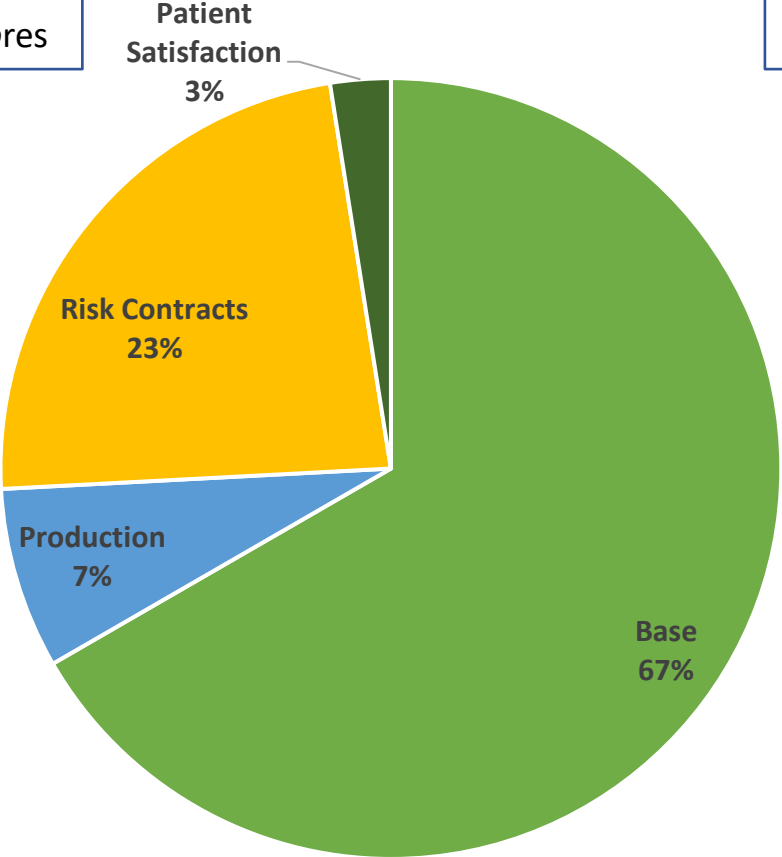
Physician

Dept or Practice

# Value Based vs Volume Based Compensation

- Value Based Metrics**
- LOS*
  - Readmission rates*
  - Infection rates*
  - Cost / case*
  - Patient satisfaction scores*

- Volume Based Metrics**
- Wrvu*
  - Visits*
  - Cases*
  - Payer Mix*



“The transition will be neither linear nor swift, and we are entering a prolonged period during which providers will work under multiple payment models with varying exposure to risk.”

Porter ME, Lee TH. The Strategy That Will Fix Healthcare,  
*Harvard Business Review*, October 2013.

*Thanks For  
Listening !*