



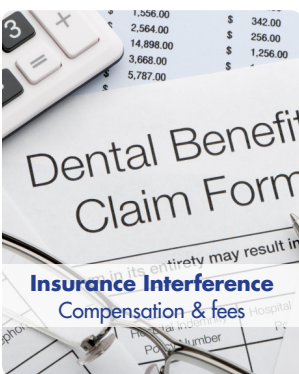
AUGUST 2013

ADS Florida Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST



Pre-payment Predicament



**Insurance Interference
Compensation & fees**



Pre-payment Predicament: Sorting Out Practice Accounts

The value of a practice is determined, in part, by calculating the available income for a purchaser after the practice expenses are considered. Usually, practice financial statements and tax returns are adequate to break down the financial condition of the business, providing a purchaser with a good representation of practice income and expenses. By examining the day sheets, deposit slips and bank statements, a purchaser should find a direct correlation between the services provided to patients and the actual practice income.

New Patient Payment Vehicles Effect Transitions

Recently, though, we have seen some new trends in practices, propagated by the use of healthcare-specific credit cards and financing plans for dental treatment. These credit vehicles have been welcomed by practices, since once the patient is approved, the entire estimated treatment cost is advanced and paid immediately to the practice (less a pre-arranged percentage withheld by the bank).

So what's the problem? When a dentist deposits the money received as prepayment for future patient services into the practice's general bank account, that money becomes comingled with money deposited for services already performed.

While there is nothing illegal or wrong with this practice, if the money has gone into the general account, the due diligence review may not discover the credits. Without full disclosure by the seller, the purchaser may be walking into a practice where many of the returning patients expect their continuing treatment will be provided at no additional cost. Patients will expect that their money has been properly transferred to the new practice owner.

Separate Accounts as a Solution

So how can the general practice adapt? An easy solution is to use a separate bank account solely for prepayments, much as escrow accounts are utilized by brokers and attorneys. As treatment is provided, money can then be transferred to the operating account. Keeping the prepayments separated allows the owner to more accurately track the practice collections and profitability. Further, this separation protects the practice in the event that a patient decides not to complete treatment and requests a refund; the money is readily available and has not been already spent or taken by the owner. Maintaining this separation also allows for easy accounting and transfer of the patient credits in the event of any practice transition.

We urge you to take a serious look at your accounting procedures for prepayment credits, whether or not you are considering a transition.

ADS Florida *Congratulates*

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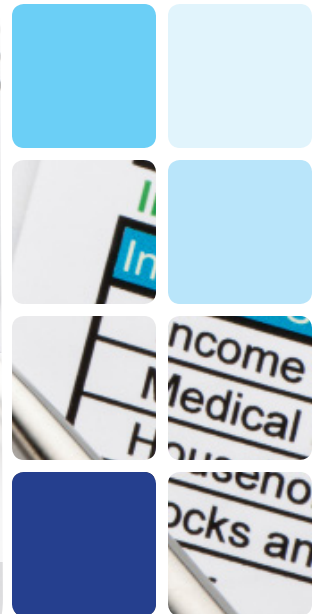
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When insurance is unsure: Stay focused on patient care

Private practice dentistry has in the past been the most popular model for delivery of dental care in this country. For the most part, the profession has fought against the insidious invasion by insurance companies into dentistry, as we have all experienced in medicine.

Insurance companies have essentially skimmed the profits of our profession for many years. Recently however, we have heard more and more discussion by dentists, the ADA and consultants that insurance participation may be the answer to declining revenues. We need to look carefully at this answer. Insurance companies do not generate more profit for your office. On the surface, it may appear that dental insurance generates more money for your practice. It may generate more gross income, more patients and more work, but it takes the profits, not off the top, but off the bottom line – directly out of your pocket.

In the past, we have shown that a 20% discount off of UCR equals a 77% reduction in net income (if not more). In dollars, a porcelain/ceramic crown with a UCR of \$1,100 reduced by 20% equals a payment of \$880. With a 65% operating overhead (which does not change because of your reduced fee) your net income with the UCR fee is \$385. With the reduced fee your net income is \$165. Some will argue that \$165 is better than nothing, and that is an individual practice decision. The insurance companies really don't discern whether the patient actually receives the care, and actually make more money if they never show up in your office. In any event, they have actuarially covered themselves knowing that they will never see 100% care rates and they usually have an annual payment cap anyway.

1 Crown (D2750)	UCR	UCR	UCR	UCR	UCR	UCR
	100%	90%	80%	70%	60%	50%
Fee	\$1,100	\$990	\$880	\$770	\$660	\$550
Overhead (at 65%)	\$715	\$715	\$715	\$715	\$715	\$715
Net Income	\$385	\$275	\$165	\$55	\$(55)	\$(165)

A History of Reduced Fees

Let's consider the history. Reduced fee insurance got aggressive in the 1970s and 80s when there was an over abundance of dental schools, putting out an excess of dentists. Several things happened. For the first time, dentists began to compete with one another through advertising and insurance companies saw the opportunity to threaten dentistry with opening reduced fee clinics throughout the country. They told you that since you had empty chair time available they would fill that with patients. "A dental clinic in every Sears store" was the threat.

The private practice model is definitely under attack. The threat was perceived to be real because physicians, through their affiliation with hospitals, were forced to accept the insurance if they were to continue those affiliations. It was common to hear a dentist express concern that "If I don't join up, all my patients will flee to the clinics for cheaper care."

The latest threat is coming from management companies or corporate owners. Most will take any insurance plan just to get patients in the door. We've heard many reports from practices that have provided 2nd opinions regarding treatment and all of them note that they are seeing an increase in over charging by unbundling services or by diagnosing unnecessary services. We do not know if this is a result of corporate "oversight" and pressure to produce or driven by dentists who feel the need to aggressively treat since they will probably never establish real relationships with the patients. There seems to be no monitoring by insurance companies though.

The Algorithm of Compensation Recovery

As we all know, there is no real dental insurance. Money is paid to an insurance company that then negotiates fees for its subscribers. The company then takes an administrative fee for negotiating reduced fees. You as providers or your patients are then left to fight for compensation for treatment that you provided.

Fortunately, dentistry was, and is, an entrepreneurial profession. For the most part, dentists resisted enough to stem the tide. Some caved in and learned how to "work the system" while others just slogged along and never achieved the dream they set out to achieve. A great many held firm and stood their ground, providing quality fee for service dentistry by building strong patient relationships and rendering excellent patient care.

Stand Your Professional Ground

Recently in California and Washington State, Delta Dental withheld payments to dentists in the Premier program unless they agreed to the reduced fees of the regular Delta insurance program. This is one more strong arm maneuver aimed at breaking the back of the hold-outs. The insurance companies know that the economy is rough and that dentist's gross production is down, so once again they are pressuring the profession to accept that reduced fee dentistry is here to stay.

In looking at the landscape of the existing advice, it is very disappointing that some of our colleagues in dental practice management and consulting are suggesting that ultimately reduced fee dentistry is a given, and we might as well accept it. We suggest that they are, in fact, doing a disservice to the dental profession. Patients still seek out personal care and are willing to pay for it. Service, hospitality and quality of care DO matter. Stay the course and dentistry will not suffer the demise that we have all seen in medicine

ADS F L O R I D A



[PROFile]

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Stuart lives in Pembroke Pines, Florida and manages ADS Florida, LLC on Florida's East Coast. Stuart has been associated with ADS Florida, LLC and Professional Transitions, Inc. since 1994. He is a graduate of the University of Maryland Baltimore College of Dental Surgery, and practiced general dentistry for 18 years. Stuart has been a speaker at study clubs and participated with ACDDA and SFDDA programs. He is married to Marcella, is an avid road biker and has a French bulldog named Cyrus.

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Inside This Issue

- | **The Pre-payment Predicament:** Accurately assessing accounts
- | **Insurance Interference:** Stand your professional ground with patient care
- | **September 20—21:** Strategies Seminar, Philadelphia

