

COVID-19 taking toll on practice's bottom line? Get help on hard calls

MAY 4, 2020

Marc Zarefsky

Contributing News Writer

The financial impact of the COVID-19 pandemic continues to be felt by physician practices across the United States, and the statistics about the extent of the impact are staggering. From the outset of the COVID-19 crisis through April 7, medical group practices reported an average revenue drop of 55%, according to a Medical Group Management Association Survey.

With revenue falling and so much uncertainty, practices of all sizes are facing enormous challenges balancing revenue and expenses. Labor costs usually make up the highest percentage of expenses for a practice—including employee wages, benefits, payroll and related taxes—and that fact is leading many practices to reevaluate employee contracts. Employment in physician offices fell by 12,000 from February through March 2020.

Decisions about reducing work hours, redeployment, furloughs or layoffs are never easy, but COVID-19 is forcing practice leaders to act. The AMA created “Making tough decisions: Managing the practice’s employee costs” in an effort to help physician practices navigate these challenges. The resource provides practices with helpful tips and hypothetical scenarios to help leaders think through how to manage costs.

“Transparency and communication about the decisions you’re making are critical,” said Carol Vargo, director of physician practice sustainability at the AMA. “Everyone is looking to leadership to set the tone and to be transparent as they set policy and implement procedures in all domains, especially employment. This is a time when consistent and very frequent communication is really important so everyone feels they are as aware as they can possibly be of what’s happening within the practice.”

Learn more with the AMA about overcoming sustainability challenges during COVID-19.

Redeployment strategies

One option when trying to manage and replace reduced revenue is for physician practices to redeploy existing staff members. As the resource explains, “Redeployment allows the practice to address new needs, such as demand for COVID-19 related services, while also keeping the practice’s clinicians on payroll and eligible for benefits.”

Questions raised by front-line practices informed the four different redeployment scenarios shared by the AMA.

The first scenario involves a large, multispecialty practice that is seeing a downturn in visits and procedures due to COVID-19. In this example, specialists can be redeployed to perform COVID-19 related primary care services. For this to happen, the practice may need to amend compensation provisions of employment agreements as well as compensation policies.

Scenario No. 2 features an independent primary care practice that engages a telemedicine vendor in order for its physicians to continue seeing patients who require immediate care. One challenge that comes with this option is that while some insurers pay for covered telemedicine visits at the same rate as an in-person visit, other payers do so at just a fraction of the in-person rate. Practices can sometimes close this gap through conversations with the payers, but if that doesn’t work, additional revenue and expense offsets may need to be found.

The third scenario outlines possibilities for a physician-led accountable care organization that includes care coordinators as employees and is having trouble financing the costs of new vendor arrangements. Among the options leaders at this organization should consider is to review and perhaps modify existing staff compensation as well as explore other potential sources of funds or ways to reduce operating costs.

The final scenario highlights a primary care practice that’s seen a sharp decline in revenue as patients follow the governor’s statewide stay-at-home order. The number of COVID-19 related cases in the practice’s area is low, but a different area of the state is a “hot spot” in dire need of clinicians to run testing and triage COVID-19 patients.

In this example, the practice enters into a services agreement with a health system that has facilities in the hot spot area. The practice creates a separate compensation package for physicians that work at the health system’s facilities and receives payments directly from the system.

Furloughs and termination

Unfortunately, not all practices will find alternative ways to increase revenue and will be forced to either furlough or terminate employees. Furloughs are a common option for practices that want to

lower costs without eliminating positions. Employees who are furloughed are given a temporary unpaid leave of absence, but they are still employed by the practice and expected to return to work at the completion of the furlough time period.

The fact that a furlough keeps employees on staff can put the practice in a better position to operate at a pre-COVID-19 level when that becomes possible. Termination, while helpful in reducing costs in the short term, can have a longer lasting and negative impact if the practice eventually needs to rehire employees, a process that can take time.

Before implementing and announcing a furlough or termination, physician practices should seek legal advice, particularly since laws regarding unemployment benefits vary from state to state. The information in the new AMA resource should also not be relied on as legal, financial, medical or consulting advice.

Stay up to speed on the AMA's COVID-19 advocacy efforts and track the fast-moving pandemic with the AMA's COVID-19 resource center, which offers a library of the most up-to-date resources from JAMA Network™, the Centers for Disease Control and Prevention, and the World Health Organization.