Payer Contracts: How To Drive A Hard Bargain

Abstract
Practices often allow their payer contracts to renew automatically each year without re-examining the terms. But that can be a bad mistake. This article discusses why it’s important to understand all of the practice’s contracts, individually and comparatively.

Practices often allow their payer contracts to renew automatically each year without re-examining the terms. But the practice may have changed and added new providers, new services, or a larger patient panel, and perhaps gained an enhanced bargaining position. If so, you may need to make changes to the contract.

Review terms and documentation
First, you need to understand all of the practice’s contracts, individually and comparatively. Prepare a table or matrix displaying the payers, their contact information and key provisions such as:

- Termination requirements,
- Reimbursement history,
- Claims filing deadline, and
- Minimum response time to proposed amendments.

Look carefully at which contracts are better than others. The differences can point to opportunities for positive changes in suboptimal arrangements.

Get out your calculator
There’s a critical calculation to make before initiating negotiations with a payer. Start by ascertaining the fixed overhead of the practice. Then, convert the most common services into relative value units (RVUs) using the Medicare and Medicaid rates.

Next, divide the RVUs into the overhead costs. The result is the volume of service the practice must provide to cover its fixed overhead. Analyze each payer contract to see what reimbursement levels they pay, and the volumes of service they generate for the practice. If the two in combination don’t equal or exceed the overhead, renegotiate the contract.
Negotiate methodically and patiently

To begin negotiations, submit to the payer a detailed request for the desired changes. Don’t treat the process casually — send it through the appropriate channels by a means that requires signatures and allows tracking.

In addition, be sure to have supporting documentation for any changes being sought. Demonstrate exactly how they’ll benefit patients, your practice and the payer itself. Wherever possible, offer performance data, financial projections, benchmark figures, patient surveys, and comparisons with other practices and markets.

Keep in mind that it’s easier to renegotiate a contract before you sign a new contract or renew an old one. You’ll be in a weaker position if you try to change a contract mid-term. Also, remember that the negotiation process will involve a certain amount of give and take. The process can be time-consuming. If your practice doesn’t have the time or resources to engage in it, you may wish to bring in an outside consultant.

Manage for optimum effect

Payer contracts are one of a practice’s most important assets. Analyze yours carefully and manage them for optimum effect. In the event you can’t agree on financially practical terms with a payer, be prepared to drop it and find a better one. © 2016

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