The Impact of Managed Care on the Private Practice of Optometry in Michigan

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This research paper represents an analytical attempt to quantify the impact of managed care on the financial viability of private optometric practices in the state of Michigan from 1989 to 1999. The vehicle used was a detailed survey (Appendix 1) that was distributed to a pre-screened group of Michigan optometrists in the fall of 1998. The survey addressed the following specific areas of interest:

1. Impact of managed care on the percentage of self-pay patients seen by Michigan optometrists.
2. Summary of participation in managed care plans by Michigan optometrists.
3. Impact of managed care on private practices' gross revenues and net incomes.
4. Impact of managed care on personal workloads.

As originally conceived, the survey was quite extensive and covered each research area in substantive depth. It was, however, anticipated that the response rate would be inversely proportional to the length and complexity of the survey. Therefore, the level of detail initially envisioned for the survey was significantly diminished to enhance survey participation. The final version of the survey (Appendix 1) included a limited number of bold type questions to be answered. All other questions were listed as optional.

A significant amount of effort was expended to pre-screen the survey mailing to principally private practice optometrists in the state of Michigan. The data base was drawn from a comparison of existing general data bases such as 1998 Michigan Optometric Association (MOA) database of Michigan optometrists, the current Blue Book listing of licensed optometrists in the United States, and the1998 SelectPhone CD-ROM phonebook database (ProCD). The final pre-screened listing tailored database was comprised of 302 private practice optometrists.

A primary objective of this survey was to obtain data on private practice optometrists. This was necessary in order to meet the principal goal of the survey, which was to quantify the impact of managed care on the financial status of private optometric practices. The pre-screened database utilized for this survey resulted in respondents who were nearly all associated with either a solo or a partnership private practice. The following is a breakdown of the survey respondents, by type of practice:

Type of Practice	% of Respondents
Solo	65%
Partnership	29%
Employed (MD/OD)	3%
Employed (Franchise)	3%

The survey was sent out in October 1998, with most of the responses returned before the Christmas holidays. The following is a break down of the survey's participation results:

1. The overall response rate was 21%.
    a. Thirty eight percent of the respondents indicated that they would not complete the survey, but a significant number provided general comments regarding the issues addressed in the survey.
    b. Sixty two percent of the respondents returned their surveys with various levels of completion.
2. Two percent of the surveys were returned undeliverable.

Nearly 40% of the responding non-participants offered as the principal reason for non-participation that they did not maintain, in their practice, the data requested or that the data collection effort was simply too imposing. Respondents in a second group of

approximately the same size were either retired or no longer self-employed. A little less than a quarter of the responding non-participants gave no reason for their non-participation.

The survey covered a ten-year window and divided the respondents into two categories. Category A were those with less that 10 years of private practice experience and Category B were those with 10 or more years experience. Overall, 85% of the respondents fell into the latter category. The respondents in category A had an average of 6.6 years of private practice experience. An effort to objectify the accuracy of the data provided by survey respondents was made through the survey design. Each respondent was requested to complete a "declaration statement" at the end of the survey (Appendix 1, page 4) that asked, on a numerical scale of 1 to 10, to rate the accuracy of the data provided. The correlated data accuracy perception scale was broken down into categories: "accurate", "a reasonable estimate" or "only a ballpark guess". The average numerical reporting score for all respondents was approximately five, which equates to an overall adjective description of "a reasonable estimate". The following is a break down of all the responses received:

Data Accuracy	Corresponding 1-10 Scale	% of Respondents
Accurate Data	(1-3)	29%
Reasonable Estimate	(4-7)	55%
Ball Park	(8-10)	16%

The Impact of Managed Care on the Percentage of Self-Pay Patients.

A primary objective of the survey centered around an attempt to quantify the change, if any, in the size of the private practice self-pay patient base over the last decade. It was assumed that the proliferation of third party insurance programs in Michigan may

have led to a reduction in the number of self-pay patients seen by optometrists. The respondents provided the percentage of their patients who were self-pay 10 years ago and the percentage of those who are self-pay today. Category A optometrists reported that 37.8% of their patients are self-pay today. Category B optometrists reported that 39.3% of today's patients were self-pay while 60.2% were self-pay ten years ago. The overall percentage of self-pay patients seen in today's private practices is therefore slightly less than 40% for both practice categories, that is, those with less, and those with more than 10 years of operations.

An evaluation of the percentage of self-pay patients, by practice location, adds understanding to the statistics. Overall, small community and metropolitan category B practitioners have nearly 46% self-pay patients today while suburban practitioners have only 36%. Small community category B practitioners experienced an 18.5 percentage point drop over the past 10 years. Metropolitan and suburban practitioners each experienced a 16-percentage point drop. It should be noted that the largest percentage of respondents were from the suburban location category, slightly skewing the overall findings in the direction of suburban data.

Summary of Participation in Managed Care Plans.

Respondents to the survey were asked to summarize the percentage of patients covered by either non-government or government third party vision insurance. Forty nine percent of patients in category A practices are today covered by non-government third party vision insurance plans. Similarly, 46% of patients in category B practices are covered today by these plans. Ten years ago an average of 30.7% of patients in category B practices were covered under non-government third party vision plans. Category A

practitioners participate in an average of 11 non-government third party plans. The average number of plans accepted by category B practices is approximately 8.6, up from an average of 4.9 plans ten years earlier. Thus, the overall average number of non-government third party plans accepted by all private practice optometrists is slightly less than 10. The percentage of patients covered by Medicare today is approximately 12% for all private practice optometrists representing a 4% increase over the past decade. The number of Medicaid patients seen by private practice optometrists in Michigan is quite low, ranging from approximately 3% for category A practices to 4% for category B practices. The survey respondents reported little change in the percentage of Medicaid patients seen over the past decade.

Impact of Managed care on Gross and Net Revenues.

The average gross revenue for category A respondents was $448,000, while the average gross revenue for category B practices was $501,000, up from $294,000 ten years earlier. The average percentage of gross revenue resulting from third party payments for category B practices was 34%. The response rate to this question by category A respondents was too small to extract any meaningful data. The following is a break down of the data collected:

Average % of Category B Gross from Third Party Payments	% of Category B Respondents
<20%	31%
20% - 25%	25%
26% - 50%	25%
51% - 75%	13%
>75%	6%

Respondents were also asked whether participation in third party insurance plans increased or decreased the gross revenue of their practices over the last 10 years. Most category A practices responded to this question and, as a group indicated that their gross revenues increased by 12.7% over an average 6.6 years of practice operations. Two thirds of category B practices reported that third party plans also increased their gross revenue over the last 10 years by an average of 15.6%. Interestingly, however, one quarter of category B respondents reported that their participation in third party insurance plans resulted in a decrease in gross revenues for their practices by an average of 17.6% over the same 10 year period. And, an additional 10% of the category B respondents reported that third party payments had resulted in no change in their gross receipts.

The average net income, as a percentage of gross revenues, for category A respondents was 30%. It was 28.2% for category B, down slightly from 29.5% ten years earlier. Over 48% of the respondents reported their net income, as a percentage of gross revenues, at slightly more than 30% ten years ago while today, only 31% of the respondents reported a greater than 30% net income as a percentage of gross revenue. Survey data appears to suggest one possible explanation for the reported reduction in the average net income as a percentage of gross revenues: the drop in the percentage of self-pay patients of nearly 20% over the past 10 years, as previously discussed.

Lastly, in the area of practice overview, survey participants were requested to provide their average chair costs. The number of category A respondents who answered this question was statistically insignificant while nearly 50% of category B practitioners did respond to the question. Those who responded reported that their average chair costs

are currently $81.70, up significantly from an average of $60.58 ten years earlier but only slightly more than the increase in inflation over the past decade (Taylor).

Impact of Managed Care on Personal Workload for Category B Practitioners.

The number of patients seen per hour by category B practitioners rose approximately 35% from an average of 1.7 patients per hour to 2.3 patients per hour during the past decade. Nearly, 79% of category B respondents reported no change in the number of hours they scheduled themselves in the office over the past 10 years. Only 21% reported they found it necessary to schedule themselves an average of an additional 6.8 hours per week from 10 years ago as a result of their participation in managed care plans. Most of these same doctors, almost 90%, reported they had not been required to increase the number of weeks worked per year. Conversely more than 10 % of respondents reported they found it necessary to increase the number of weeks worked by an average of 1.8 weeks from 10 years previous.

Summary of Respondent Comments.

The survey included a General Comments section which numerous respondents utilized to provide unstructured feedback. All participants were specifically asked to identify the two most significant concerns related to their participation in managed care plans. Nearly ninety percent of the respondents who offered comments regarding managed care concerns pointed to low reimbursement fee schedules as the area that had the greatest impact on their practices. A general impression formed from the survey comments could be best summarized by one optometrist who offered his view that, " most plans want a refractionist, not [a primary care] OD". Many optometrists reported that their participation in managed care plans allowed them to maintain gross revenues, and with extra effort,

report a slight increase in gross revenues at least in the short term. The increase in net income, however, appeared to be significantly less than the increase in gross revenues over the past decade.

The second most frequently reported concern was mentioned by nearly 20% of the respondents. These respondents reported that managed care plans are often associated with the development of a strain in doctor-patient relations. Specifically, it was reported that a portion of patients with third party insurance believe they are "fully covered" for all professional fees and optical products by their insurance plan. The optometrist or his optical staff, not the insurance carrier, is often viewed by the patient as the cause of billing problems. Several optometrists reported that they had been involved with flat refusals by some patients to pay for professional services rendered or optical products sold to the patient. Patients in these cases often feel that the financial aspect of their vision care is an issue that should be resolved by the doctor and their insurance company without the patient's direct personal involvement. Related to this issue, the third most frequently reported concern for 15% of the respondents was the failure of managed care plans to reimburse for medical eye care. This issue seemed to frequently surface in relation to professional fees for medical services charged to Blue Cross/Blue Shield and eventually not approved for payment by the carrier.

A different twist to the doctor-patient relationship issue is the problem of long term, loyal patients who sign with, or are signed up by their company, for a poor vision plan not accepted by the doctor. Many of these patients desire to remain with their family practitioner, which may necessitate the participation by the practice in poorly administrated plans. Some optometrists now find that the process can, over years, result in a significant

number of loyal patients enrolled in a maze of poorly managed plans. It may be these very plans that lead to the undermining of the financial soundness of the practice through shrinking revenues and increasing administrative and overhead costs thereby dramatically decreasing the practice's net income. At this point in the life of a practice, there are no good choices remaining for those optometrists who have embarked down this road. The optometrist attempting to increase practice profitability has three choices: working longer hours, reducing overhead costs or dropping out of less productive plans in which loyal patients are enrolled. Each option presents difficult choices for the optometrist.

Many of the respondents offered general comments about excessive paperwork often associated with the myriad of plans presently available to patients. It was pointed out by some that the recredentialing process alone for a single plan can be a formidable administrative task. The average number of non-government third party plans currently accepted by the private optometric practices in Michigan is slightly less than ten plans. This single aspect of the administrative burden associated with managed care plans is indicative of the overall problem. It is therefore clear that the overall administrative burden of managed care can lead to significant overhead costs for a practice. The unique forms, coverage and benefit options, and administrative procedures of individual plans have a dramatic cumulative impact on a practice's overhead costs associated with participation in these plans. It is particularly frustrating when the number of patients enrolled in a particular plan is quite low and the plan is poorly managed making low reimbursement collections an unprofitable activity.

An interesting aspect of managed care participation is the fact that Michigan optometrists' participation in non-governmental medical plans is severely restricted by the

tie-bars in the legislation authorizing the utilization of Therapeutic Pharmaceutical Agents (TPA) by optometrists. If it were not for these legislative restrictions, there might actually be more third party medical insurance plans accepted by Michigan optometrists.

In summary, a total of twelve other areas of concern were reported by the respondents but all with significantly less frequency than those previously discussed. The overall tone struck by many of the comments provided by survey respondents highlighted the impact of managed care on the quality in patient care. It now appears clear that, in the minds of many optometrists, there is a direct link between reduced quality of patient care and poorly administered managed care plans.

Summary and Comments.

The response rate achieved in this survey was clearly lower than desired. A lower than average response rate had been anticipated in light of the complexity of the survey and the workload of the private practitioners surveyed. The survey forms' option for a reduced scope of questioning (see bold questions within appendix 1) did not appear to provide the hoped for incentive intended to yield an increase in the overall number of survey participants. A general comment by nearly 40% of survey respondents was that many did not maintain the data requested by the survey. There may be numerous reasons why this information is not often tracked by many optometrists. Lack of time was most frequently mentioned in the General Comments section. Complicating the data collection effort was the fact that the survey covered a 10-year window and many practices do not retain data this old. It could be assumed that most practices did not have computerized record-keeping systems in operation 10 years ago. Even with these hurdles, however, a

significant percentage of the survey respondents (84%) were able to contribute information self-evaluated as either a reasonable estimate, or accurate.

A principal objective of this research project was to establish the impact of third party insurance on the percentage of self-pay patients in Michigan. It is clear that during the past decade there has been a significant drop in the number of self-pay patients seen by private practice optometrists. The survey data suggests there was an average drop of 20%, from approximately 60% to 40%, for all practice categories over the past 10 years. Some respondents pointed out that the actual number of self-pay patients might actually be lower. This survey was not sophisticated enough to identify those patients who participated in flexible spending plans for their vision care covered by their workplace medical benefits program. It was initially assumed these patients were counted by survey respondents as self-pay. A spot check of a small number of respondents confirmed this assumption. It is, therefore, reasonable to assume that the actual number of patients not covered by third party insurance is somewhat smaller than the number reported in this survey.

Distinctions between self-pay patients and those patients covered by "quasi-self-pay" managed care plans do exist. Flexible pay plans represent a relatively recent change in the managed care mosaic. It is assumed that the impact of these plans on the number of self-pay patients at the beginning of the decade was of little significance. It was postulated, for purposes of this study, that any impact of flexible pay plans on the number of self-pay patients is reflected primarily in today's percentages and not the percentage of self-pay patients 10 years ago. From an optometrist's perspective, however, a third party

insurance patient participating in a flexible spending plan from work represents the closest thing to a self-pay patient seen in the managed care arena.

It is unclear why the percentage of self-pay patients would be 10% fewer in suburban practices than in metropolitan and small community practices. It was anticipated that the smaller number of self-pay patients would be associated with the metropolitan practices. The trend may simply be another aspect of the flight of the middle class from cities during the past four to five decades. In general, these families are white-collar or higher paid blue-collar workers living in the suburbs with the types of jobs which frequently provide third party health and vision insurance.

Respondents reported that somewhat less than 50% of their patients are covered by non-government third party insurance. Slightly less than 15% are also covered by Medicare and Medicaid. The total percentage of patients covered by third party government and non-government insurance plans is slightly more than 60%. This would appear to confirm the validity of the separate section of the survey, which suggested that the percentage of patients seen today as self-pay is approximately 40%.

Given that the type of practices targeted by this survey were private, the profile of the respondents' practices (94% solo or partnership) forms the basis for a broad overview of private practice optometry in Michigan. For example, the average gross revenue reported by category A practices operating for an average of 6.6 years was $448,000 while the average gross for category B respondents was $501,000. These figures suggest that the gross for the newer practices represented in this survey may have grown somewhat more quickly than might be expected based upon historical financial perceptions within the profession. As mentioned previously, the average percentage of gross revenue from third

party payments for category A practices was statistically insignificant because of the small number of responses to this question. It was interesting to note that net income, as a percentage of gross revenues, was approximately 2 percentage points greater for category A practices with an average of 6.6 years of operations than for category B practices. This may be an anomaly due to the small number of category A respondents. It may also have been a coincidence that this number for the newer practices is almost exactly the same percentage of net that the longer established practices had achieved a decade earlier. In any case, this 2-point difference presents an interesting, yet minor, observation of the financial operations of private optometric practices in Michigan.

The impact of managed care on the personal workload of the private practice optometrist raises several issues. It could be presumed that managed care in optometry may be leading to doctors becoming much more efficient in their examinations or to a decline in the overall quality of patient care (or some combination of each). Optometrists are now seeing nearly 35% more patients per day than they were a decade ago. Yet, nearly 80% reported no change in the number of hours worked per week and nearly 90% reported no increase in the number of weeks worked per year. This data appears to support the issue of patient care which was reported in the General Comments section of the survey by a number of respondents. If the hidden managed care agenda is to seek covertly refractionists, and not the professional services of primary eye care optometrists, the question of patient care may very likely become a prominent issue as managed care begins to exert more influence over the optometry profession in the future.

Participation in managed care programs by private practice optometrists appears to present an element of financial danger, a point which is alluded to by some of the reported

data. All category A respondents reported that third party insurance payments resulted in an approximate 13% increase in gross revenues over 6.6 years. Additionally, two thirds of the category B respondents also reported an average 16% increase in gross revenues. It appears that managed care had a positive impact on the gross revenues for most optometric practices over the past decade. Can it be assumed that the financial impact of managed care on private practice optometrists in Michigan will be generally positive? The overall increase in gross revenues does not necessarily take into account the increased burdens managed care places on a practice which can lead to increased overhead costs and an overall decrease in a practice's net income. A case could be made that the 2-point drop in the average net income, as a percentage of gross revenues, over the past decade reported by category B practices may reflect the impact of managed care on the net income of these practices.

Nearly one quarter of the category B respondents reported a decrease of almost 18% in gross revenues during the past decade's movement toward managed care. And, approximately 10% of category B respondents reported no change in gross revenue over the same period of time. These facts alone appear to confirm a significant potential financial downside to managed care for some private practice optometrists. Another aspect to this financial downside is the fact that nearly all of the practices that reported a decrease in net income associated with participation in managed care plans also reported either stagnant or an actual decline in gross revenues over the past decade. This is particularly significant given that the increase in net income levels seen by optometric practices over the past decade have risen significantly slower than the rise in gross revenues which is presumably attributed to participation in managed care plans. More significant, however,

is the fact that a decade ago almost half of the category B participants reported a net income, as a percentage of gross revenues, at slightly more than 30% and today less than a third are reporting the same net income for their practice. It appears that managed care plans harbor the potential to deal a financially crippling blow to a practice if the overhead costs associated with plan participation are not effectively controlled by the practice.

The issue of chair costs yields several interesting observations. A significant percentage (greater than 40%) of the respondents reported they did not track chair costs in their practices. A review of these practices' average gross revenue and net revenue did not demonstrate a link between lower revenues and non-monitoring of chair costs. However, those who do track their chair costs are able to track and, thereby presumably better control, their overhead costs. Optometrists who track their chair costs were divided into two groups: those who reported accurate data and those who reported a reasonable estimate. Optometrists who reported a reasonable estimate documented that their average chair costs today are $63 compared to $44 ten years ago, slightly higher than the increase of inflation over the past decade (Taylor). Significantly, those who reported accurate data documented average chair costs of $113 today compared to $93 a decade ago, slightly less than the increase in inflation over the past decade (Taylor).

It would appear that optometrists who do not accurately track their overhead costs may have been consistently, and significantly, under-estimating the costs associated with opening their doors for business over the past decade. It should be emphasized that optometrists who did maintain accurate chair costs did not necessarily correlate to respondents who had seen an increase in their gross revenues over the past decade. That is to say, survey findings suggest that many optometrists in the past have been able to survive

quite well with only a limited understanding of their actual overhead costs. It may, however, be prudent for private practitioners who intend to enter into the Twenty First century with managed care optometry to ensure they have a reasonable idea of what their overhead costs are and how to control their growth. This approach should allow the practitioner to effectively compete in a dynamic and changing managed care environment that clearly holds a significant financial downside associated with it.

Works Cited

ProCD. SelectPhone. Omaha NB: ProCD 1998 edition.

Taylor, Bryan II, PhD. "Global Financial Data." 1999. <http://www.globalfindata.com > (14 February 1999)

Michigan Optometric Managed Care Survey –1998

Caveats:

1. Indicate years in practice if less than ten: _____years
2. Partners need fill out only one survey.
3. Please excuse error if you were sent you more than one survey letter.

Summary of Managed Care Impact on Your Practice's Patient Base

1. **What percentage of your patients are presently self-pay (10 years ago?)?**
   _____(_____)

2. **What percentage of your patients are covered by non-government third party vision insurance or managed care plans (10 years ago?)?** _____(_____)

3. **What percentage of your patients are covered by non-government third party medical insurance or managed care plans (10 years ago?)?**_____(_____)

4. **What percentage of your patients have government vision insurance coverage today (10 years ago)?**
   _____(_____)
   a. **What percentage are Medicare?** _____(_____)
   b. **What percentage are Medicaid?** _____(_____)

5. How would you describe the income profile of your patient base (break down by percentage)?

Income Bracket	Today's Percent of Patient Base	10 Years Ago
> $250,000	_____	_____
150,000 to 250,000	_____	_____
100,000 to 150,000	_____	_____
50,000 to 100,000	_____	_____
25,000 to 50,000	_____	_____
< 25,000	_____	_____

Summary of Managed Care Plans Utilized by your Practice

1. **How many non-government third party plans do you participate in today (10 years ago?)?**
   a. **Vision** _____(_____)
   b. **Medical** _____(_____)

2. Please list the non-government third party vision plans that you participate in today, listing them in order of highest percentage of patients participating. Please list the percentage of gross that each plan contributes. **Appendix 1**

	Plan	% of Patient Base	% of Gross
a.			
b.			
c.			
d.			
e.			
f.			
g.			
h.			
i.			

3. Please list the non-government major medical plans you participate in today, listing them in order of highest percentage of patients participating. Please list the percentage of gross that each plan contributes.

	Plan	% of Patient Base	% of Gross
a.			
b.			
c.			
d.			
e.			
f.			
g.			
h.			
i.			

4. What were your major non-government vision plans 10 years ago?
   a. _____
   b. _____
   c. _____

5. What were your major non-government medical plans 10 years ago?
   a. _____
   b. _____
   c. _____

Summary of Practice

1. **What type of practice are you associated with?**
   a. Solo.
   b. Partnership or group.
   c. Other: _____.

2. **Is your practice location a metropolitan, suburban or a small-community practice?** _____

a. **Is your practice in metro Detroit?** Yes/No (Circle one)
b. **Has your practice type or location changed in the past 10 years?**
Yes/No (Circle one) How has it changed?_____

3. What is the average gross income of your practice today (10 years ago?)?
_____(_____)

4. What is your net income as a percentage of your practice gross (10 years ago?)?
_____(_____)

Impact of Managed Care on Your Practice's Profits

1. **Has your participation in managed care plans increased or decreased your practice's gross income over the past 10 years?**
Increased/Decreased (Circle one)
By what percentage? _____

2. **What are your current chair costs for your practice (10 years ago?)?**
_____(_____)

3. How much has the change in the Medicare law regarding optometric reimbursement affected your net income - percent of increase/decrease (Circle one)?
_____

Impact of Managed Care on Your Personal Work Load

1. **How many patients per hour do you now see today (10 years ago?)?**
_____(_____)

2. **Have the number of doctor hours scheduled per week increased as a result of your participation in managed care plans over the past 10 years?**
Yes/No (Circle one)

a. **If yes, by what amount (number of hours per week increase)?**
_____

3. Have your number of weeks worked per year increased as a result of your participation in managed care plans? Yes/No (Circle one)

a. If yes, by what amount (number of weeks more)? _____

Optional Comments

1. What are your two most significant problems that you face with your manage care plans that your participate in?

a._____

_____

_____

b._____

_____

_____

Declaration:

Did you use actual data from your practice or a "reasonable estimate" in completing this questionnaire (please quantify on the following scale)?

1 2 3 4 5 6 7 8 9 10

Accurate Data Reasonable Estimate "Ball Park"

Note: ***If this declaration does not apply to all of your answers, circle a "scale number" (i.e., 1 to 10) by the appropriate question which is different from your declared quantification of your answers.***

General comments or name and address of any private practice OD that you feel should be included in this survey: