

The Business of



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Abstract

This article offers an introduction to the business side of therapy. Its first goal is to increase health care providers' awareness of the need to pay more attention to the effects of certain costs and liabilities of health care practice. Second, it is presented to encourage health care graduate programs to add business courses to their graduate curriculums so that future health care providers are better prepared to provide psychotherapy while dealing with the challenges inherent in private or group practice. Third, it is hoped that this article will encourage health care providers to find ways to become more active and vocal in the political and legislative process that affects the funding of psychotherapy programs. Finally, therapists can use this article as a springboard

to obtain more CEUs (continuing education units) that discuss the business side of therapy.

Therapists will be more effective in their practices if they are equipped with information about the business and liability sides of therapy. This will enable therapists to identify, store, and present more effective data about their practices and their value. If therapists are going to

stay in business, they must learn to better communicate their value in society.

When starting a new business, an entrepreneur must consider many factors, such as the business location, what products or services to offer, the pricing of products and services and the desired profit margins, what the market will bear, and the target populations for the business. The entrepreneur will likely have some experience working in the business he or she is starting, or if not, will spend a great amount of time researching and learning about that business. Just as there are many factors to consider when starting a new business, there is a business side of therapy that must be studied and understood before a psychotherapist embarks on establishing a private practice. Factors to consider include those listed above, in addition to the many expenses and liabilities encountered in practice.

Little Training in Private Practice

Most therapists who set up a private practice have little or no prior experience in private practice. This is because few private practices can afford to train a non-licensed individual. For example, in Texas, professional counselors need 3,000 hours of supervised training to qualify for the Licensed Professional Counselor exam and license. This is the equivalent of about 2 years of practice, and people cannot go 2 years without an income unless they are independently wealthy. Therefore, beginning therapists usually work for hospitals or non-profit organizations that have deeper pockets. As a result, none of the 3,000 hours of training they receive include anything

Therapy:

The Need to Educate Therapists in the Business Aspects of Practice

about the business side of a psychotherapy practice.

The Changing Health Care Field

The practice of health care has changed during the past 2 decades in many ways. Reasons for these changes include the emergence of managed care, fluctuations in the economy, varying political priorities, an expanding national health care debate, new laws affecting state licensing requirements, state and federal alterations in laws affecting the delivery and administration of health care, new laws affecting the workplace and minimum wage requirements, and new laws used in the prosecution of insurance fraud. Most of these laws directly or indirectly affect a practice's bottom line.

Since health maintenance organizations (HMOs) entered the national health care scene, predictions have abounded that therapists in private practice would gradually be phased out. The trend from being self-employed to being part of a bureaucratic system is one that most independent therapists resist. The traditional therapist is an entrepreneur, developing the skills needed to promote his or her own practice. Sometimes therapists hire consultants or expert staff to break down the barriers of ignorance and other obstructions, a difficult and challenging task. Health care providers have been forced to be creative to keep up with the cutbacks in reimbursement and limits on liability coverage. Developing programs to answer a specific need is an important business decision, but the costs of developing and administering these programs must also be calculated.

Additionally, the national economy has affected state and federal budgets, as well

as the amount of money foundations have available to give to non-profit organizations. State and federal budgets cannot be ignored. Certain areas, such as education, the military, and the oil, food, utility, and technology industries, have millions of dollars to spend on lobbyists. Not surprisingly, state and federal politics affect the priorities placed on health care. Changes in government leaders and administrations often bring different funding priorities. National debate can influence budgetary priorities and the addition or deletion of government-funded programs.

Another hurdle psychotherapists in private practice must deal with is that most states are cutting reimbursement rates. State legislatures have found they are able to balance the state's budget by jeopardizing the health of the mentally ill and working poor. For example, the Texas legislature recently cut all mental health benefits for the CHIPS (Confidential Help for Impaired Professional Students) program and removed all practitioners except psychiatrists from mental health reimbursement lists for adults 21 years of age or older. This essentially eliminated funding for all mental health services for people with major depression, bipolar disorder, schizophrenia, and other mental health issues, since mental health and mental retardation (MHMR) agencies were experiencing drastic cuts in funding as well. Therapists working with these populations could



have lost a significant percentage of their practice. This is the equivalent of attorneys only seeing children under 21 and everyone 21 or older having to find a judge to represent his or her case.

Administering Mental Health Services

The administration of mental health services for those in private or group practice has been drastically changed by the advent of HMOs, preferred provider organizations (PPOs), independent practice associations (IPAs), reduced reimbursements, added pressures to justify services provided, increased prosecutions of insurance fraud, and new governmental regulations (e.g., Starks Amendment, HIPPA).

Medicaid programs, for instance, are presenting problems for psychotherapists, as administrators of Medicaid programs are delaying payments, losing paperwork, placing a caller on hold for 15 or more minutes before transferring that caller to another department, or even giving inaccurate answers to questions and inquiries.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) can also be extremely confusing for practitioners. HIPPA is designed to secure medical information. If you do not attend a seminar on HIPPA, pay for a HIPPA consultant, or buy a HIPPA training program on the Internet, you could face costly fines for noncompliance. Some of the HIPPA requirements have little impact—if any—on the security of patient information (for example, how you can display pictures and information on the walls of an office). While hospitals employ attorneys and other professionals to handle these new regulations, private practitioners cannot afford such representation and consultations. This is just one of the many costs that are often overlooked when deciding to open a private practice or join a group of professional psychotherapists.

Additional administrative problems

exist for therapists who handle workers' compensation cases. These therapists often have to wait 2 or more months for reimbursement or rejection of a claim. Then, if a claim is rejected, these therapists may have only 10 days to file for a hearing on the case. A hearing must also take place for the patient, so it can take another month or longer to get the problem resolved. If payment comes, it could be 6 months or longer before the therapist receives the reimbursement, another cost often not factored into the equation when developing a budget or business plan for a private practice.

Currently there is much discussion about the funding, priorities, and administration of health care. There is even talk of a one-provider health care reimbursement system (the federal government). If you believe it is next to impossible to provide adequate and compassionate health care now, consider the many ways federal and state bureaucrats could sabotage and frustrate health care providers under such a system.

Investigating Fraud, and the Problems That Result

Growing deficits have forced the government to be creative in cutting costs. A result of this has been the development of departments and agencies geared to intimidate and investigate for fraud in the health care field. The Federal Bureau of Investigation (FBI) created a school in Georgia that recruits practicing psychotherapists, medical doctors, and others to learn ways to "go after" health care providers. The departments of health in several states have created departments of integrity to perform audits. State attorney generals have organized teams to investigate alleged insurance fraud. They work closely with Medicaid administrators, the FBI, the Internal Revenue Service (IRS), the Immigration and Naturalization Service (INS), and other state and federal agencies to investigate cases, and U.S. attorneys prosecute the cases. In the meantime, Medicaid administrators have been placed in an adversary role in deal-

ing with health care providers. For example, if a person calls for clarification on an issue related to the delivery of health care, he or she may talk to several representatives and even an in-house attorney and receive numerous different responses from each individual. If a person submits an application for a new therapist or provider to join a group or practice, it can take 6 months or longer to obtain a Medicaid number. When audits are performed, they are often executed by individuals who do not seem to understand private or group practice. This can create problems when there are questions or challenges to procedures and policies.

If your practice is under investigation, the attorney general's teams will often send out letters to your patients listing the amount of reimbursement to the treating therapist for each session conducted and asking the patients to check "yes" or "no" on each date that they were billed. Then the team will follow up with a home visit, and will report to your patients that they are investigating you for Medicaid fraud, money laundering, or a number of other charges. If you are a "target" of these investigations you will have to hire legal representation. Such representation can cost \$5,000 and up to \$50,000 or more depending on whether the case goes to trial or if an out-of-court settlement is made. Some therapists have been told to pay the \$50,000 and the case will go away. Some medical case management services have been "sanctioned" but allowed to practice if they purchased a \$100,000 bond. Some therapists have lost their houses, licenses, and practices; others have received stiff fines, and some have gone to jail (fines can run up to \$250,000, plus a requirement to repay the alleged defrauded funds). These are costs that are not often considered, and most practicing psychotherapists do not plan for such events. One such group was billing more than \$1 million a year when they were investigated. As a result of the investigation, most of the therapists left the company, and many of the referral sources sent their

referrals to other agencies. After 2 years, the FBI sent back the records with no comment. The company had lost over \$800,000 a year in billings. No crime was committed, there was no plea-bargaining and no trial, and yet the company lost nearly \$2 million over the following 3 years. Such costs of doing business are very difficult to budget for, let alone pay for. As a result, many therapists choose to close their practices or use their practices for secondary revenue while working full time with another agency.

The Business of Psychotherapy

Health care providers often have a fundamental incongruity with the managed care process. Part of this is because these health care providers are individualists who work hard and ask very little in return. Their concept of the ideal aim of private practice is to help people improve their problem solving skills, to increase people's control over irrational thoughts and pain, to help parents release their fears long enough to find more effective parenting skills, to assist in the search for inner peace and a sense of balance, etc. In the real world, however, psychotherapists are often submerged for hours and days in a tumultuous pond of murky regulations and stormy emotions. Another element of this cognitive dissonance is the way health care providers are trained. Their training creates an attitude that is demonstrated in their need to see patients first, consider individual insurance forms and procedures second, and finally, consider reimbursement. Therapists do this because of their need to help their patients conquer their diseases or disorders. This attitude overrides most business-related issues involved in practice. Most therapists and health care providers know virtually nothing about the business of health care outside of the clinical issues, not to mention the huge cost of doing business. How many individuals or organizations can afford to do business like this?

Patrick Shumaker stated that "with the advent of prospective payment and man-

aged care the pressure on hospitals and other providers to reduce cost has continued to mount with no let-up in sight." He also stated that all health care providers should be knowledgeable about the business side of health care. "We need a radical change in the way we run our health care businesses to begin to fully utilize the enormous intellectual capacity of the staff in our organizations" (Shumaker, 2003).

At one time, therapists could afford to open an office and do all the billing, marketing, and networking themselves, and still make a comfortable living. Now we spend our time filling out forms and preparing for audits, attempting to justify the number of sessions we conduct with our patients. We spend hours trying to get paid in a reasonable amount of time (despite laws requiring payments within 45 days, payments are *still* delayed). As a result, therapists are spending more time on these tasks than they spend practicing psychotherapy. Psy-

chotherapists, like other professionals in the medical field, are thrust into a defensive posture that makes them feel frustrated and intimidated. Because of these challenges, therapists are supplementing or replacing their income by teaching full or part time, consulting, contracting, entering community schools, or finding other jobs in areas like real estate sales or in an HMO or hospital system.

In order to continue practicing psychotherapy, therapists are becoming inventive, finding ways to keep expenses down, using tactics such as only seeing a certain group of patients (for example, only adults), only accepting patients from certain insurance organizations, and finding ways to reduce office expenses by sharing an answering service, receptionist, and office space with a fellow psychotherapist or other types of professionals.

It is becoming even more difficult to schedule appointments, do the billing (electronically or/and on paper), advertise services through brochures and other mar-



keting materials, take time to speak on panels, do pre-authorizations, etc. In addition, there are new state and federal regulations that need to be studied, applied, and monitored in order to “stay compliant.” The effort to stay compliant with all regulations is a business cost in itself.

Some therapists are uniting with other therapists to share costs. Collaborations have advantages and disadvantages, all of which must be considered before joining such a group. Some of these psychotherapist partnerships develop limited liability companies (LLC) to reduce their legal risks. Whenever there is collaboration or a joint venture, each psychotherapist involved needs legal advice because of anti-competition laws. If a therapist decides to have more than one business, e.g., a mental health clinic and a medical case management company, the attorney general will be looking for a trail of illegal or unethical self-referrals and commingling of funds.

For groups who hire full time and contract workers, there are issues of employment laws with which most therapists are unacquainted. These issues require management education and training in human resources, training that very few therapists have. It also requires experience complying with state and federal employment laws, including wage and hour restrictions, Family and Medical Leave Act guidelines, workers' compensation, Occupational Safety and Health Administration (OSHA) regulations, and the Americans with Disabilities Act (ADA). This is a cost of doing business as a group. The IRS is continually looking at contract employment as a way to avoid taxes, and has been known to go back several years and charge the non-compliant employer back taxes plus penalties. Defending the organization's position is a cost of doing business, but it detracts from a focus on clinical skills or conducting therapy.

Business Terms and Practices to Know
During the past 2 decades there has been an influx of terms and acronyms that

describe the changing field of psychotherapy. For example, *access* is the ability to obtain medical care, such as location of facilities, patients' acceptance of services, costs of service, transportation, and hours of operation. A *gatekeeper* is a primary care physician who serves as the patient's initial contact for medical care and someone who can make referrals to specialists like mental health practitioners. An *individual practice association* (IPA) is a health care model that contracts with an entity, which in turn contracts with physicians, to provide health care services in return for a negotiated fee. Additional terms to become familiar with include *cost-benefit analysis*, *opportunity costs*, *marginal analysis*, and *fixed assets versus variable assets*.

Business concepts that could be very helpful in private or group practice include developing a strategic marketing plan and a good service (or product) mix. To develop a marketing strategy you need to know the scope of your company mission. If you are in private practice, you *are* the company. What is your mission? Your vision? How should you allocate your time and expertise among patients and referral sources? If you plan on hiring others, is it more economical to hire full-time employees or contract therapists?

Other important concepts and ratios include *unit cost of services* (the total revenue received minus total expenditures, divided by the number of patients served), *point of diminishing returns* (the point when the value of providing a service passes its maximum value and begins to have less value for each unit of service), and *financial forecasting* (making certain assumptions about variables in the future and how they will affect the bottom line). Being able to create financial statements using tools such as QuickBooks is ideal for small businesses and makes the creation of financial statements fairly easy.

Businesses of all sizes need accurate and adequate information in a timely fashion. Information is “king,” as the saying goes, because it helps you make sound decisions on a number of critical issues per-

taining to success or failure. Waiting for something to happen prior to making a decision is only asking for a disaster. For example, if you want to make \$80,000 per year, then you need to do more than divide \$80,000 by 52 weeks to know how much you must earn each week to reach that goal. If you work for an organization that pays you a salary plus benefits, then all your work has been done for you. MHMR and group practices stress weekly quotas (the number of billable hours a therapist needs to bill each week). The therapist may know exactly what to expect each payday, but he or she must see and bill a certain number of patients per week.

If you are self-employed, you never know how many cases you will see each week. Therefore, you can only estimate your weekly revenues. For example, if you have clients who are children in schools, you have to factor in lost time during summer months, holidays, and standardized testing dates. These variables must be identified before you create a formula for forecasting revenues and expenses. For example, how many weeks do you want to take off for vacation? Are you taking any holidays off? What about sick days? What if your vehicle breaks down, or the computer crashes, or your employees fail to do what you need done? There is also the variable of access and transportation, especially for rural health care. Another term therapists need to be aware of is *margin of profit*. The margin of profit is the percentage of the net profit to the yearly budget. Most firms operate at 5% to 8% profit. In health care, a negative margin is not uncommon. Some would say therapists are doing “missionary work,” the only difference being that missionaries at least have a religious organization supporting them.

In 2001 the Texas Department of Health Data, Policy and Analysis released information about medically underserved areas (254 counties across the United States, including whole and partial counties), and health professional shortage areas (334 counties, including whole and

partial counties). It has become even more expensive to practice in rural areas because there are greater demands due to lack of alternatives, meaning you consequently work longer hours. There are also additional expenses to travel to a rural community, such as mileage and hotel accommodations. The commute may take several hours on the road, creating "dead" time when the therapist is not reimbursed for time spent on the road. In the more metropolitan communities, there can be fewer hours required and lower costs. However, therapists who work in rural communities are usually paid mileage and hotel costs. Therefore, if a contract therapist conducts 8 sessions per day for 2 days, and he or she is paid \$30 per billable hour, then the contract therapist is paid a total of \$270. If a contract therapist is paid mileage to travel 155 miles to a rural community (\$120), plus a hotel room (\$70 per night), then there will be an additional \$190 added to the expenses. In this example, your expenses increase by \$16 per unit above what the city contract therapist is paid. This is yet another cost of doing business that psychotherapists must consider before going into practice.

Formal Training in Business Practices

The curriculum of graduate schools contributes to the incongruity felt by many therapists between what they are taught and what they see in daily practice. Until recently, business courses were not part of graduate study in a health care program. Now business courses are only offered as electives in a number of universities. Until recently, such business courses were also seldom offered in continuing education seminars. Mental health graduate schools have traditionally focused on clinical and ethical curriculum courses. Over the years, the focus of graduate curriculums for clinical psychologists, professional counselors, marriage and family therapists, and social workers has remained the same. With the advent of managed care, the emphasis in the field of practice has changed the way

therapy is delivered and administered. This has not been reflected in the graduate school curriculum, except through the availability of elective courses in business subjects. This discrepancy has left most therapists, social workers, and psychologists without adequate preparation for private or group practice. Considering that the price of graduate school can easily exceed \$40,000, the price of taking a few additional business-related courses (which might be less than \$1000) is a relatively small cost when compared to the costs of not being prepared to handle the business aspects of therapy.

Recommendations

The following are recommendations for improvement in these areas:

- 1.) HMOs and state and federal programs need to increase the reimbursement rate for those working in rural communities. This would serve as an incentive to work in rural communities.
- 2.) Graduate programs should add business course requirements on legal liability, business management, and business ethics as part of their graduate course work.
- 3.) There need to be more continuing education courses that present and discuss issues involved in the business of therapy.
- 4.) Medical doctors, psychologists, social workers, allied health professionals, and other professionals involved in the national association of professional counselors should take a more active role to support a more unified political action group(s) to support and represent the needs and interests of health care providers to legislatures. Working in concert is much more effective and powerful than working alone. Legislatures are ignoring mental health issues, and are focused solely on cutting costs and services. When health care providers find a way to unite, they can make a positive impact on the policies and decisions that affect

each provider, regardless of discipline.

- 5.) Therapists should participate in more community joint ventures, such as working with probation departments, courts, hospitals, psychiatrists, psychologists, and housing authorities.
- 6.) Therapists should find ways to develop finance programs and services, such as grants or buying into groups and sharing expenses, rather than working for X-number of dollars per billable hour. This may foster a greater sense of ownership and decrease the high turnover rate for therapists, full time or contract.

- 7.) Therapists should learn more about the costs of doing business and find ways to lower expenses and increase referrals and revenue within the scope of state and federal laws.

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About the Author

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