Top Finance Issues for Physicians & Their Practices

By Jim Rieniets

Events of the last few years, the economic recession and manifestations of healthcare legislation being the most significant, have made it necessary for medical professionals to pay even more attention to matters involving investment, finance, and cash flow. While many doctors engage CPAs, practice managers and other experts to handle the details, it is prudent for physicians to pay attention to these issues. As the second half of 2013 unfolds, there are a few aspects of finance that physicians may wish to explore to maximize opportunity and/or minimize risks.

INTEREST RATES ON WATCH

With a slow but improving economy, all eyes have been on the Federal Reserve as speculation mounts as to when interest rates will increase from current levels. During the second quarter, comments from the Fed's Board of Governors sparked market reaction, which saw yields on the 10-year U.S. Treasury note spike almost a full percentage point. While the Fed has maintained its position that the target Fed Funds rate is likely to remain unchanged into 2015, the interest rate futures market now implies a lift in rates over the intermediate term. With these market forces in play, now may be a good time for prospective borrowers to take action and lock in rates while they are still near historic lows. Rates on loans with amortizations of seven years or less have been less affected by the recent market forces, making equipment finance very attractive for the time being. Longer amortizing loans, such as those for real estate finance, have seen rates increase but they, too, remain attractive by historic standards. In situations where there is a strong likelihood for a large commercial borrowing need over the coming quarters, but not with absolute certainty, opportunities exist for businesses to purchase options to lock in fixed rates. This can be an effective tool to manage exposure to rising rates.

TAX PLANNING FOR CAPITAL INVESTMENT

Deductions for IRS code Section 179 were extended into 2013 as part of the American Taxpayer Relief Act intended to stimulate the economy. This allows businesses to directly write off up to the first $500,000 of qualified capital expenditures, subject to dollar-for-dollar phase-out once these expenditures exceed $2 million in the 2013 tax year. Additional tax benefits may be available if capital expenditures exceed $2 million, as bonus depreciation was reinstated to 50 percent by the same legislation. While Section 179 benefits have been around for the last several years, the likelihood of an extension of these benefits decreases with an improving economy. As a consequence, if physician practices are contemplating investment in new equipment, the calendar year 2013 may be a wise time to make purchases. As with any tax matter, business owners should consult a qualified tax advisor for details specific to their business.

ICD-10 & CASH FLOW RISKS

Much has been written and discussed about the impending implementation of ICD-10 next fall. Among the related topics are the potential for negative cash flow consequences in the event that physician practices experience a temporary increase in rejected claims. While proper preparation including training of employees should minimize problems with claims, practice managers would be wise to also focus on their collection practices and receivables management. Another best practice is reaching out to your primary third-party payers to understand how they may be implementing changes for claims submissions and/or re-submissions. In addition, a proactive discussion with the practice's banker to discuss potential working capital financing needs is advisable. Bank lenders tend to have fewer concerns when a borrower addresses a need in advance of a situation, and should ICD-10 manifest in cash flow challenges industry-wide, medical bankers may be overwhelmed with requests for line of credit extensions or increases. A good banker should be able to assist physicians' practices in modeling cash flow projections for a "stressed" scenario, whereby some portion of claims are rejected. As with most financial matters, planning ahead can minimize challenges. ✚

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