The Uncertain Future Of Pediatric Practices As The COVID19 Pandemic Evolves

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Ask any Pediatrician about the financial affairs of their practice and they will agree that the financial aspect of a pediatric practice is akin to running a local Walmart with high volume and low margins to keep their doors open. For pediatric practices to remain financially viable and care for the millions of children every day, it is incumbent that they have a steady flow of patients through their office to generate the revenue needed to cover their high fixed costs. Pediatric practices are locked into juggling between the mission of their profession and financial impact stemming from the COVID19 pandemic. Most pediatric practices run operational overhead rates well above 65% before considering reasonable compensation for themselves, nurse practitioners and/or physician assistants. Despite their best efforts to work within these realities, they remain at the bottom in terms of physician compensation[i].

Since the announcement of the Paycheck Protection Program (PPP), the Pediatric Management Institute (PMI) has been working with pediatric practices from around the country to develop various strategies to bridge the divide between now and a new future that awaits them. Despite an unprecedented shift to telemedicine visits from less than 1% of visits to over 50% in less than four weeks[ii], pediatric practices are limited in their options to remain financially solvent. Like many other businesses in the United States, these uncertain economic times are forcing pediatric practices to turn to a variety of financing options during this time.

Based on the experiences of PMI clients, the PPP, while noble in its intent, is not providing the needed timely assistance to those whose mission is to care for our most vulnerable population- the children of our country. The PPP was designed to provide businesses such as pediatric practices a lifeline to obtain low-cost financing that could be forgiven if used for qualifying expenses[iii]. Unfortunately, the viability of the PPP as the solution for pediatric practices is predicated on the pandemic being a relatively short-term event and reasonable access to funding- both of which are unpredictable.

The PPP Details Are Important

The PPP loan amount is determined by a calculation that considers the practice's payroll costs over twelve months to arrive at an "eligible loan amount". Based on certain conditions being met, much, if not all the loan will be forgiven. For many pediatric practices, this program represents an unprecedented opportunity to continue employing front line workers tasked with ensuring the health of our children. Simply put, this is a lifeline not only for 90,000+ pediatricians across the United States[iv], but a major step towards ensuring the children of our country receive the care they need.

According to a recent Bloomberg report[v], by mid-day, Tuesday, April 14, 2020 "almost 1.1 million applications, totaling more than $257 billion, had been approved since the Small Business Administration program launched April 3". On the next day, it was reported that $296 billion had been allocated across 1.3 million PPP loans[vi] with projections that the all available budgeted funds would be exhausted. Based on our preliminary analysis, it appears that the average loan secured by businesses thus far is approximately $230,000. After reversing the formula to determine the average loan amount approved, it appears that the average payroll for companies who have the PPP loans approved thus far is approximately $1.1mm[vii].

According to census data examining 7 million businesses across the top 33,731 geographic areas across the United States, the average business payroll is approximately $605,401[viii].

Metro Areas Examined	33,731
Businesses	7,712,464
Employees	119,895,879
Average Salary	$ 38,943
Emp/Bus	15.55
Per Business Payroll	$ 605,401

Additional analysis of the census data, excluding the top and bottom 10% in terms of average salary, revealed consistent average salary per employee and business size:

Metro Areas Examined	26,333
Businesses	6,200,864
Employees	87,603,267
Average Salary	$ 36,630
Emp/Bus	14.13
Per Business Payroll	$ 517,499

When comparing the estimated payroll size for each approved PPP loan amount with the data from the U.S. Census data, it seems inconsistent with the average business in the United States after generous allowances for the additional expenses permitted to calculate the average PPP loan amount. While refinement of the data to exclude businesses with more than 500 employees is warranted, the noticeable disconnect remains- leading many to speculate that the businesses being approved for PPP loans may be larger than your average "small business" the PPP is touted as being provided for.

With regard to pediatric practices, they are unlikely to have $1.1 million in payroll expenses until they have more than 4-6 providers- suggesting that a large number of pediatric practices may currently be without access to PPP funding. While many pediatric practices with less than four providers have reported to us receiving approval of their PPP loans, thus far it has been anecdotal, at best. Until all relevant data is made publicly available and properly analyzed, confirmation of our initial assessment is not possible. However, given that time is of the essence to properly support the financial viability of pediatric practices, it is important to examine the situation sooner, rather than later.

What Incentives, If Any, Are At Play?

According to the U.S Treasury, the lender processing fees are as followed[ix]:

- Five (5) percent for loans of not more than $350,000;
- Three (3) percent for loans of more than $350,000 and less than $2,000,000; and
- One (1) percent for loans of at least $2,000,000.

An analysis of the lender fees permitted by the SBA to be paid for processing and releasing the funds to the PPP loan recipients is as followed:

Loan Amount	$ 350,000	$ 300,000	$ 250,000	$ 200,000	$ 100,000	$ 50,000
Lender Fee (%)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Lender Fee ($)	$ 17,500	$ 15,000	$ 12,500	$ 10,000	$ 5,000	$ 2,500

While the inner workings to process a PPP loan vary according to each lender's internal processes, it is hard to rationalize that a loan for $350,000 warrants a fee sevenfold more than a loan for $50,000 given that the U.S. Treasury reports that "the SBA guarantees 100% of the outstanding balance, and that guarantee is backed by the full faith and credit of the United States.". There is no increase in risk to the lenders and it would likely be dubious to claim that larger loans require seven times more resources to provide such services. PMI hypothesizes that smaller businesses may not have the in-house expertise to properly assemble the requisite documentation to submit for PPP approval—necessitating additional resources being allocated by lenders to help smaller businesses. Based on the experiences of PMI's clients, it seems logical to conclude that the lenders are incentivized to process and approve larger loan requests than smaller loan packages—which jeopardizes smaller businesses and a large cohort of pediatric practices across the United States.

Limited Time and Funds

Most pediatric practices can expect to see services rendered to be fully adjudicated by third-party payors within approximately 35 days. As with most PMI clients, an overwhelming majority of pediatric practices have recently reduced payroll costs in advance of the expected decrease in revenue stream as a result of the COVID19 pandemic. For an overwhelming majority of pediatric practices, revenue is not generated until a provider sees a child in the office. Since state and local government-mandated social distancing measures, pediatric practices have seen a decrease in in-person visits by 50-70%[x]. As such, many pediatric practices are in imminent danger of irreparable harm to their financial sustainability. Despite the SBA's attempt to overcome the volume of loan applications to process, pediatric practices are running out of time.

Adding insult to injury is the concern related to the funding of the PPP. While $349 billion has been allocated to the PPP program, it has been reported that over half of such funds have already been earmarked to PPP loans already approved by April 12, 2020. While political differences are preventing additional funding of the PPP at this time, estimates of an additional $250 billion[xi] may not be enough to help pediatric practices in a timely manner as long as the current lender incentives and operational inefficiencies remain in effect.

Back-Up Options Are Slow Too

Many PMI clients submitted applications with the SBA for an Economic Injury Disaster Loan (EIDL) once the program began accepting applications. EIDLs provide conventional financing for Pediatric practices up to $2 million with low interest rates and payment terms up to 30 years[xii]. As of this writing, the only affirmation PMI clients have received related to EIDLs has been the confirmation number provided after the online submission. Recent phone inquiries with the SBA by PMI clients revealed hold times approaching an hour with no signs of tangible progress related to the processing of such applications.

Given the expected limited funding of the PPP combined with inadequate timing for Pediatric practices to receive such funds from EIDLs, many practices are turning to banks to provide them with necessary credit. While many banks are reported to have increased lines of credit to small businesses[xiii], there is no way to anticipate whether non-government backed credit instruments will continue to be expanded (or available) in the future. Given the uncertain economic future of the United States, only time will tell if the banks adjust their terms to reflect increased risks associated with the expected increase in unemployment[xiv]- which would drive up the cost for pediatric practices or simply make obtaining financing much more difficult.

Future Government Provisions

While The Centers for Medicaid and Medicare Services (CMS) earmarked $100 billion to provide financial assistance to healthcare entities on top of the previously announced $34 billion, as of April 12, 2020, only $30 billion had been released[xv]. The funds being released by CMS are based on Medicare fee-for-service reimbursements in 2019—which is not applicable for pediatric practices. Efforts to provide funding for children's hospitals across the United States[xvi], while admirable in its intent, does not provide hope that pediatric practices will directly receive such financial assistance.

Many of PMI's clients across the country provide care to children via their respective state's Medicaid programs. The percent of Medicaid patients in a practice is usually driven by the local and state economic activity and the pediatrician's willingness to accept below-market rates to provide care for children in their community. With the loss of 16 million jobs in the previous three weeks[xvii], it is expected that more pediatricians will be providing care to children through their respective state Medicaid programs as more families lose their private healthcare coverage. If this expectation becomes reality, we expect that the number of pediatricians willing to treat children enrolled in the Medicaid programs will be inadequate.

Pediatricians Don't Have Time For Games

As with every other medical specialty, after a pediatrician provides medical services to a child, they summarize the services provided via a series of billing codes[xviii]. The Current Procedural Terminology (CPT) codes are alphanumeric codes curated by the American Medical Association utilized by Medicare, state Medicaid programs and insurance companies to articulate the services performed during patient encounters. Not only are the CPT codes used for billing purposes, but they are also often relied upon to measure a variety of clinical metrics.

While each CPT code comes with guidelines on how they are to be used, many insurance companies and state Medicaid programs continue to require the use of codes that do not accurately convey the services provided. In fact, many payors provide instructions for pediatric practices to forgo using more appropriate codes that accurately convey the services provided to the patient for a variety of arbitrary reasons. The practice of allowing antiquated CPT codes continued use poses many logistical concerns. For a pediatric practice in a given state, they have to keep track of up to a dozen different combinations of codes just to get paid for the same standard telemedicine visit. The lack of standardization in the utilization of such codes has led to delays in pediatric practices receiving timely payment for essential front-line services provided during the COVID19 pandemic. Such delays add unneeded complexity to the situation and result in delayed payment(s) for services rendered to children.

Over 45 years ago, federal legislation was implemented under The Employee Retirement Income Security Act of 1974 (ERISA) to provide a framework to ensure minimum standards related to pension plans. Over the years, it has evolved to include framework related to health insurance products offered across multiple states under a single plan[xix]. Unfortunately, ERISA plans have consistently preempted state laws and formulated their own series of guidelines that require fewer coverage requirements than health plans subject to the requirements under the Affordable Care Act (ACA). While the ACA specifies 10 broad areas of coverage required for lives covered under such plans, *large employer group plans and self-funded plans are not required to comply with the essential benefit requirements.*[xx]

Because of the exemptions ERISA plans have in place, they are free to exclude themselves from following the American Academy of Pediatrics' "Bright Futures" recommendations for preventative healthcare services for children. Further, some ERISA plans can circumvent the ACA-mandated provisions such as the requirement to provide coverage for vaccines- which then shifts the financial responsibility of such life-saving options for children onto the families. Additional complexities from ERISA plans as related to the COVID19 pandemic is that health insurance plans subject to the ACA are required to cover any child's telemedicine visits for COVID19-related illnesses at the same rate as an in-office visit while ERISA plans can preempt such state mandates. While the ACA provided a common set of benefits that most health insurance plans are required to cover, ERISA plans are extremely difficult for pediatric practices to manage due to the varied benefit levels- often to the detriment of the children's health.

Solutions for Pediatric Practices

We are already advising pediatricians across the country on how to adhere to sound business principles. Below are four things that the state and federal governments can do to support and protect the guardians of our children's health:

1. State Medicaid programs should be given the necessary latitude to provide advance payment of incentive payments historically made to pediatricians based on the number of children assigned to each pediatric practice. Similar to the to advance payments being made to Medicare providers, such payments could be made in a timely manner to provide the infusion of cash pediatric practices need;

2. Every state Medicaid program should immediately implement fair payments for all services provided by pediatricians by ensuring that they are paid at least 100% of fee-for-service Medicare rates;

3. The federal government should immediately resolve delays in the processing of EIDLs being offered by the SBA to ensure the pediatric practices have timely access to low-cost financing;

4. The federal government should immediately implement consistent billing guidelines related to telemedicine visits instead of the continuation of such policies being determined on a state-by-state basis aggravated by each commercial payor's preferences. Further steps should be taken to ensure ERISA plans follow similar guidelines.

About Pediatric Management Institute:

Pediatric Management Institute is a consulting firm providing an array of financial and operational consulting services exclusively to pediatric practices and organizations. For more information and access to complimentary resources, please visit the following website: www.Pediatricsupport.com.

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