

# The Business of Psychology

## The Matter of Fees: How to Decide What to Charge

by Margaret Sears

I've been running a mental health billing service and a collection agency for over sixteen years now, and getting your money in the door is something I'm passionate about. Helping you collect the money you have earned provides a substantial portion of my livelihood. Nothing delights me more than helping a psychologist who is working hard, but collecting poorly turn that around. I'm eager to share all my ideas about how to collect what you've earned, but I realized when thinking about that topic for this article, that I was putting the cart before the horse. Before I suggest how you can improve your collection, it might be more meaningful if you knew how to think about and set your fees.

Many of you have a fee structure in your practice that is comfortable for you and for your patients, and you may not need the information in this article. I want to talk to those of you who wonder if your fees are "right", or who have difficulty deciding when or if to change your fees, or who struggle with how to raise fees. Money is such an important topic in the business and the practice of psychology. On one hand, you want to make a good living. On the other hand, you don't want to lose patients or prospective patients because your fees are too high. You may have moral and ethical values about being accessible that seemingly conflict with having a prosperous business. When open discussion about specific fees for specific services is prohibited by anti-trust laws, it's difficult to figure out what is an appropriate fee structure for your practice. Insurance companies would love to fill that information gap with their "usual and customary rates" or "allowed amounts", but they're setting those rates to make sure their business is successful, and have no investment in assuring the success of your private practice. Not so with me. My business is assuring the success of psychology practices, so I will happily tell what I know and what I think about how to set your fees. My method for calculating the "right" fee for your practice will place your needs first, other considerations second. Let's start with some questions:

What do I net per hour for my services? To calculate this, consider the entire cost of your financial overhead. Be sure to include fixed costs (e.g., furniture, computer, dues, office rent) as well as variable costs (e.g., depreciation, taxes, accounting costs, supplies, utilities). Take a look at last year's gross receipts and subtract from it all expenses, including the local, state and federal business and personal taxes you paid on the income. That will give you your "take home income". Divide that take home income by the number of clinical hours you billed for last year and you will have your "net per hour income".

How many billable hours do I want to work per month? Answering this question is a two

part process. First, we all know that the time spent seeing patients is only a portion of the time it takes to operate a psychology practice. I suggest, if you don't already do so, that you keep a work log for a week or two to track billable hours versus total hours spent on all practice tasks. Be sure to include extras, such as reading and report writing done at home, as well as phone calls with patients and colleagues after hours. This will give you information about the "time overhead" cost of your practice. Next you will need to create a comprehensive time spending plan. Ask yourself how many hours of the 730 hours in each month you want/need for weekends and days off? sleep? relaxation? family time? hobbies? exercise? chores and errands? medical care? spiritual life? education? vacation? haircuts? fishing? etc. Be sure to include all categories of activities you engage in now, as well as those you wish to engage in, then do the math. How many hours are left for work, including both billable hours and "time overhead" hours.

Will I offer any reduced fees for selected patients? Many psychologists in private practice do not reduce their fees and many do, on occasion. If you do reduce fees, I recommend setting some guidelines for yourself about the extent of reduced fees in your practice. Consider these questions: (1) Will reduced fees be available only to existing patients whose circumstances change, or will you offer reduced fees to new patients entering your practice? (2) Under what conditions will you lower your usual fee for a patient? (3) What is the lowest reduced fee you will accept? (4) For how long will you let a patient see you at a reduced fee? (5) How many total reduced fee slots will you allow in your practice at any given time? (6) How many total dollars income a month are you willing to forego for reduced fees?

How much money do I need to take home per month? Next calculate how much "take home income" you need to meet your personal expenses. Be sure to include all personal expenses, including housing, dependent care, savings, retirement, vacations, charitable contributions, etc. In addition, you will need to add in the total dollar cost of any fee reductions you allow for your patients, as this will offset your take home income.

#### Calculating the "right" fee for your practice

The first step is to determine how your current fee matches your time spending plan and your need for take home income. Once you know your current "net per hour income", how many billable hours you will work and how much "take home income" you need after fee reductions, it's a simple matter to do the math. (Example: If you need to take home \$10,000 a month and your "net per hour income" is \$69 for each billable hour, and you are willing to reduce fees up to \$300/month, you will need to bill out 149.3 hours a month or 34.7 hours a week ----  $(\$10,000 + \$300)/\$69$ . Then add in your "time overhead" hours, the amount of non-billable time it takes to maintain your practice. Suppose you have determined that for each billable hour, you spend an additional 20 minutes on practice tasks, then in this example you would need to add 49.8 hours a month or 11.6 hours a week,

for a total of 199.1 hours a month or 47.3 hours a week. If this work schedule meets with your time spending plan, you need go no further. You can earn what you need to earn in the amount of time you have available to earn it and all is well.

If, however, your calculations show that you must work 88 hours a week to earn what you need to earn given your current fees, something likely needs to change. It's a basic rule of money management that when income and expenses don't match, you can earn more or spend less, or do some of both. There are many possible adjustments one could make in this situation, including finding ways to lower overhead, thereby increasing "net per hour income", finding ways to reduce personal expenses to decrease "take home income" needed, deciding to forego those scuba lessons and some fishing time to allow more time for work, finding ways to delegate tasks to reduce "time overhead" or ----- raise your fees!

How good am I at what I do? Before you decide whether or not or how much to raise your fees, you need to know the answer to this question. Be realistic in your assessment of your current clinical and business skills relative to the skills of your colleagues providing the same or similar services. The market value of your services will be based in the end on how much you help people, how well that is known and which people you help. If you're brand new in practice and you're still getting your feet wet, your services will be less valuable now than later when you've had many years of experience. If you're helping people others have found it difficult to help, your services will be much in demand.

What is the market value of my services? It's difficult in private practice to know what others are charging. My clients' fees span a huge range for the same service, depending upon many variables. Anti-trust laws prohibit our sharing that kind of information with each other in any public forum, including this article. What I can suggest is that you ask around, one on one. Ask your colleagues if you're not too shy or call me or other consultants and tell them what you're charging or thinking of charging and wait to see if they gasp. Some of the publications on psychotherapy business do annual fee surveys, usually by region. One of the local insurance companies has a reasonable schedule of allowed amounts. In whatever way you can, find out what the fee range is for the services you provide. Consider not just the county or town in which you work, but in large towns, consider the area of town and the level of affluence of your average patient. Consider supply and demand. Are there many others offering the same services to the same population or are your services in great demand? Then ask yourself one last question.

Am I ready and willing to increase my fees?

If you have answered all the questions above and have determined that it's appropriate and perhaps necessary for you to raise your fees, and if you have new fees in mind, then it's just a matter of summoning the nerve. I've never talked with a client about raising fees

who wasn't nervous about it. For those of you who are too nervous to just take the leap, I've found it easiest to start with new patients to test the waters. When prospective patients call and ask your fee, and you tell them the new fee, and they don't scream, hang up or faint, you'll have your first bit of data that says you're on the right track. Do this for a month or two, until you're nearly comfortable with the new fee and then you can let your current patients know you'll be increasing their fees as of some future date, usually a month or six weeks in the future. It's important to think through in advance what if any concessions you will be able or willing to make for patients who find the fee increase prohibitive. Be sure to include those possible fee reductions in your calculations of needed take home income. Some psychologists prefer to notify patients by letter, sometimes inserted into their monthly billing statements; others prefer to do it in person in session. However you choose to do it, remember, people in our culture really do believe "you get what you pay for". If you've determined you are skilled enough to charge a higher fee, and if you need a higher fee to stay happily and prosperously in business, the increase will benefit both you and your patients. Good luck!

Having spoken about the somewhat tedious topic of fee calculations, next time I will write about my favorite topic, how to get the money in the door! If you have questions or particular topics you would like me to address, please let me know. I hope that in some small way I have helped you create a more rewarding psychology "business" that serves not only your patients, but also the psychologist who owns it!

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