

## IN-HOUSE MEDICAL BILLING -VS- OUTSOURCED REVENUE CYCLE MANAGEMENT WHICH CHOICE IS RIGHT FOR YOUR PRACTICE?



With the current health care environment creating uncertainty and angst around healthcare payment systems, reimbursements and policy, providers and physician groups find themselves devoting more time monitoring and adapting to these complex changes. These changes and contradictions in policy are forcing downward pressure on reimbursement rates, increasing employee costs and the costs associated with purchasing and maintaining the technology needed to provide patient focused care.

Due to these pressures, more providers and group practices are taking steps to determine which option, managing their billing in-house or out-source the revenue cycle management functions will provide them with the greatest return. The goal of the analysis is to reduce the time spent on administrative functions, and improve coding, billing and collections that ultimately allows the physician more time with patients. Due to the unique characteristics and needs of hospital employed specialty physicians and physicians in independent group practice settings, there is no simple, “one size fits all” medical billing option.<sup>1</sup>

While it may seem the most obvious question is always “How much does a billing service cost versus my in-house billing?” the answer is not as simple as providing a percentage of billing cost, and is dependent on the number variables such as annual claims submitted by each practice, postage, reporting requirements compared to the existing internal capacity to carry out the entire revenue management cycle process. For example, a small practice which already requires its staff to take-on multiple roles to cover the practice’s many services and responsibilities may find the additional task of managing its billing within the house to be complex and time-consuming. In an already overextended practice, finding available time and staff necessary to properly manage the coding and billing process can be a significant challenge. The danger of overextending current staff can result in coding and billing errors when coupled with the lack of follow-up on denials could potentially result in delayed payments or increase the risk of revenue loss.

At the same time, smaller practices with less than 500 claims per year may not have enough revenue to cover the fixed costs of billing. For these practices maintaining in-house billing can often be less-costly and allow more control over the billing process.<sup>2</sup>

1. Kroken, P. “Radiology Billing: In-House or Outsource,” [RBMA Bulletin](#), retrieved February 2017

2. Uzialko, Adam, “Best Medical Billing Services: Our Recommendations,” [Business News Daily](#), January 2017

In this paper, we highlight the three overarching factors<sup>3</sup> to take into account when weighing your options with recommendations for quantitative comparisons wherever possible.

1. **PRICE:** The overall cost of services.
2. **PERFORMANCE:** The steps involved with successful claims processing.
3. **PRIVACY:** Maintaining compliance and client confidentiality throughout the billing/collection process.
4. **PRICE:** IN-HOUSE -vs- BILLING COMPANY Costs

When considering billing options, it is important for any practice – regardless of size – to investigate the costs of both in-house and outsourced billing.

## IN-HOUSE

Costs associated with in-house billing operations will include quantifiable costs as well as the associated “opportunity costs” and the amount of leadership time that is required to manage the billing operation.

When evaluating the fixed and variable costs, practices must accurately determine which bucket the practice costs fall. For example, while in theory all costs are variable, the associated costs of hardware and software are fixed while statement and postage costs are generally variable based on volume.

Quantified costs should include:

- Hardware required for the billing and supporting system(s);
- Initial and ongoing costs of practice management software to keep track of patients’ balances and send bills to payers;
- IT staff costs associated with interfaces to hospital, EMR and other systems;
- Direct costs associated with the billing: statements, postage, EDI, etc.;
- Less obvious hardware/software costs including disaster recovery, communications (for inbound and outbound patient calls), telephones, PC’s, etc.;
- Billing staff costs: certified medical coders and direct staff, including supervisors and managers to oversee the operation, and the practice will be responsible for responding to any rejections or denied claims;
- Benefits, taxes, bonuses, annual increases and other costs associated with the staff;
- Less obvious staff costs: training, HR (recruiting, benefits administration, etc.), reference documents, etc.;
- IT supports for the staff, billing system, communications, etc.
- Overheads including space, utilities, supplies, etc.

## BILLING COMPANY

Most billing companies’ fees are based on a “percent of net collections” basis, except where state laws prohibit that pricing methodology. Professional companies will only quote a fee after analyzing the practice’s payor mix, procedure mix, and volumes. This is because most billing company costs are proportional to procedures or patients. A practice with an attractive mix of payors and/or procedures should see a lower rate than one with a less attractive mix.

A critical billing company service cost requiring evaluation is the amount of account and practice management support that is included in the pricing model. Some companies operate as a business partner with an account manager not only to answer

3. Thorman, C. “Should Your Practice Outsource Medical Billing?” [Physicians News](#), retrieved March 2017

questions but in a position to provide important recommendations to the practice on coding, process improvements, payor negotiations and much more. Other billing companies offer very limited account management and service. Account managers with some billing companies are skilled analysts able to identify issues and communicate them clearly to the practice. In many cases, this represents a significant savings and benefit to their client practices. The final point to consider regarding billing company costs is that they are variable; i.e. the percent of net collections varies directly with practice volume, unlike in-house expenses where most cost elements do not vary with volume.

## COST ANALYSIS

Sometimes an “apples to apples” comparison is difficult to make between billing companies because one company quotes an all-inclusive fee versus another company with a menu of pricing elements, such as credentialing, interfaces, implementation, patient statements and refund processing. Ask the company with the a la carte menu to provide quantified estimates for each item so you can create the correct comparison.

In either case, it’s important for a practice to understand and factor in their individual costs and preferences when deciding whether or not to outsource their medical billing. To aid in the evaluation process and to ensure all boxes have been checked, the chart below compares the costs associated with each billing option.

### FINANCIAL COMPARISON: IN HOUSE VS. BILLING COMPANY

		IN HOUSE		BILLING COMPANY	
		One Time	Monthly	One Time	Monthly
<b>COSTS</b>	<b>Hardware, Software, Related Services</b>				
	Hardware	\$		NA	
	Installation/Training Costs	\$		NA	
	New Releases, Code Sets, etc.	\$	\$		NA
	Statements		\$		\$?
	EDI/Clearinghouse		\$		\$?
	Hardware Support, Disaster Recovery, etc	\$	\$		NA



# LESSONS FROM THE FIELD: THE 3 COMMON ASC IMPLEMENTATION BILLING ISSUES

	IN HOUSE		BILLING COMPANY		
	One Time	Monthly	One Time	Monthly	
<b>COSTS</b>	<b>Service Fees</b>				
	<b>Practice Staff</b> (incl. Benefits, Taxes, etc)				
	Billing Supervisor(s)		\$		NA
	Compliance	\$	\$		NA
	Coding		\$		NA
	Payment Posting		\$		NA
	Customer Service (Patient Calls)		\$		NA
	Training Costs	\$	\$		NA
	HR Costs: Recruiting, Turnover, etc	\$	\$		NA
	Installation (if New Billing System)	\$		NA	
	Ongoing		\$		NA
	<b>Practice Overheads</b>				
	Space, Utilities, Insurance, etc	\$	\$		NA
	Office Equipment (e.g. PC's, Desks)	\$	\$		NA
	Supplies: Paper, Envelopes, etc		\$		NA
	<b>TOTAL COSTS*</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	*Plus Opportunity Costs: e.g.physician, other leadership time				



		IN HOUSE		BILLING COMPANY	
		One Time	Monthly	One Time	Monthly
REVENUE	Current Net Collections		\$		\$
	Increase or Decrease				
	Low Estimate	%	\$	%	\$
	High Estimate	%	\$	%	\$
	Best Estimate	%	\$	%	\$
COMPARISON	Revenue Increase/Decrease		\$		\$
	Cost	\$	\$	\$	\$
	Net: Revenue Minus Cost	\$	\$	\$	\$

**PERFORMANCE:  
IN-HOUSE -VS- BILLING COMPANY PROCESS**

The difference in costs should only be evaluated once you understand your current billing effectiveness in comparison to what the billing company can achieve. If the in-house billing operation is very effective, the billing company may offer little, if any improvement. This should be the case for well-run operations with good systems, processes and staff. The only way to know for sure is by conducting an audit of the current results, and comparing to standard industry benchmarks like Days in A/R, net collection rate, etc.

**IN-HOUSE**

When all aspects of practices billing is in-house, the procedure for processing insurance claims involves a number of universal steps:

1. Following visit, patient formation (physician notes, diagnosis codes, treatment codes, etc.) is entered into medical billing software program.
2. The claim is then submitted to a medical billing clearing house (hired by practice), which verifies the claim and sends it to the payer.
3. The clearing house then audits and verifies the claim before passes the bill on to insurance for payment.
4. The insurer then reviews and makes decision to either rejects or accepts the claim.
5. Notification of the claim’s status is returned to the clearinghouse, which then updates the provider on its status.
6. If the claim is accepted, the insurer provides payment, and all involved parties are notified.
7. If a claim is rejected, the provider will collect further information to support the claim and then resubmit for payment via the clearance house.



## BILLING COMPANY

When working with a billing company, the claims process similarly involves a number of steps, but less involvement from practice staff:

1. Basic patient information is entered, related documents are scanned, and then sent (electronically or mailed) to contracted medical billing company.
2. The billing service staff then completes data entry and reviews/audits claims as determined with provider.
3. Once information is confirmed and the claim is verified, the billing service submits claim to insurer on behalf of the provider.
4. The billing service is responsible for following up on rejected claims, pursues delinquent accounts, sending invoices to patients, and notifying involved parties.

The billing process generates data and information that represents the financial and operational lifeblood of the practice. Every practice must be confident that its in-house operation or billing company can and will provide exactly the information needed to make timely and effective business decisions. Whether using Practice Management systems or Electronic Health Records (EHR) systems to collect data and run reports, it is essential to employ experienced staff with technical skills required to maintain systems and provide accurate, customized reports.

As stated in the *Health Information Science and Systems* study, Big Data Analytics in Healthcare: Promise and Potential<sup>4</sup>: real-time analytics can improve and monitor a practice's clinical and financial performance. A capable internal operation or billing company can provide customized reports and data. Though some billing companies provided only hard copy reports, a key measure is the ability of the billing company to provide web enabled, accessible analytics and reporting in standard and ad hoc reports with drill down capabilities in near real-time.

Perhaps your accountant needs certain data at the end of each month. Ask your candidate billing companies for a sample of how that data would be provided. Ideally, it will be in Excel or a similar format easy to analyze and import into other applications. Also ask to see examples of reports and analyses performed by the billing company for other clients. At the same time, inspect how well your in-house operation meets the same needs.

## PRIVACY: IN-HOUSE -VS- BILLING COMPANY COMPLIANCE & CONFIDENTIALITY

Section 6401(a)(7) of the Affordable Care Act requires physicians who treat Medicare beneficiaries to establish a compliance program and in the eyes of federal and state regulations, regulatory compliance is ultimately the practice's responsibility.

## IN-HOUSE

When billing in-house, it's imperative that the practice establishes and follows a compliance program to ensure claims are submitted accurately, reduce the chance of error, and avoid fraudulent activities. According to CMS, the following seven components provide a solid basis upon which a physician practice can create a compliance program<sup>5</sup>:

4. Raghupathi, Wullianallur; Raghupathi, Viju. "Big Data Analytics in Healthcare: Promise and Potential." *Health Information Science and Systems*. 2014; 2: 3.

5. "Avoiding Medicare Fraud & Abuse: A Roadmap for Physicians Fact Sheet," *CMS*, 2015

1. Conduct internal monitoring and auditing
2. Implement compliance and practice standards
3. Designate a compliance officer or contact
4. Conduct appropriate training and education
5. Respond appropriately to detected offenses and develop corrective action
6. Develop open lines of communication with employees
7. Enforce disciplinary standards through well-publicized guidelines

## BILLING COMPANY

Physicians and practices working with a billing company are also required to have compliance programs in place. In addition to coding management, a professional billing company with a strong compliance focus and robust plan will likely be an asset since the plan will cover most of the details of the coding and billing process. A competent billing company will also provide additional oversight around providing information and guidance on applicable federal and state statutes, changes in industry regulations, payer requirements, and, in the event that your practice requires it, assist you with payor audits.

## WHICH CHOICE IS RIGHT FOR MY PRACTICE?

Whether billing is kept in-house or outsourced to a billing company, there are a number of billing-related tasks for which providers and practices will be responsible, such as submitting accurate, timely billing information, verification of insurance, patient registration, and coding. For those leaning towards in-house billing, it is imperative that the practice has an on-going maintenance plan in place to allow sufficient time for billing and collection processes, adequate staffing to perform tasks, as well as monitor and stay up-to-date with rules and regulations to remain compliant, avoid fraud, and loss of revenue.

An experienced medical billing team can help alleviate the burden brought on by billing and revenue cycle management. The client service and coding staff employed by medical billing companies should be experts in their field, maintain an active coding certification from standard healthcare coding associations (such as the AAPC (American Association of Professional Coders), AHIMA (American Health Information Management Association), RCC (Radiology Coding Certification), etc.), as well as the additional training and experience needed to process claims efficiently and accurately, increase collection rate, reduce rejections and denials, provide audit and analysis services of accounts receivable, generate reports, monitor and uphold industry regulations and ultimately take over revenue cycle management to allow more time to focus on what matters most to your practice: your patients.

At AdvantEdge our highly trained and experienced staff respects how precious time is for providers as well as recognizes that every practice has unique and specific needs. Our hands-on, *ClientFirst* billing approach backed by/combined with highly reliable IBM Power Systems technology provide high-tech solutions to enhance workflow and drive billing productivity to meet the specific, and demanding, needs of *each and every* client's practice.

To ensure your practice is receiving timely payments and reimbursements (More Money, Faster), has accurate information and easily accessible data and reports (Information Anytime, Anywhere), remains informed and up-to-date on coding updates, compliance, and healthcare regulations (Privacy and Security), and improve decision making and streamline operations to best meet your practices specific needs (ClientFirst Service) – contact us at **877 501 1611** or e-mail [information@ahsrcm.com](mailto:information@ahsrcm.com).