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On the topic:
Pros and Cons of In-House vs. Outsourced Billing

Pam Joslin
MM, CMC, CMIS, CMOM
Faculty
Practice Management Institute
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Pros and Cons of In-House vs. Outsourced Billing

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In-House vs. Outsourced Billing

• Differs from practice to practice, based on:
  – Age of business
  – Size of local labor market
  – State of practice finances
  – Return on Investment (ROI)
    • Once the practice has invested in training
    • Medical billers and technology, outsourcing
    • Means losing lots of time and money
Five Statistics on Physician Medical Billing Plans and Preferences

• 99% of physicians prefer a U.S.-based vendor account management team
• 94% of physicians prefer an onshore U.S.-based call center for patients
• 91% of physicians prefer the most cost-effective option
• 42% of small practices hope to have outsourced billing services within the next year

Pros of Outsourcing

• Consistency in billing
  – Regularly send claims to insurance companies
  – Contractually obligated to follow-up on all unpaid and denied claims
• Regularity of billing
  – No worry about bills not being sent out in a timely manner because of staff illness or heavy workload
  – Hired to focus on one thing: medical billing
• Practice’s better idea of billing operations
  – If requested, required billing performance reports
  – Able to measure how well the practice is doing financially
  – Able to evaluate the performance of the billing company
Cons of Outsourcing

• Not a great option for a hands-on doctor
  – Such doctors prefer to evaluate the billing operations.
  – Having off-site will not be a “good fit.”

• More difficult to budget
  – Many billing companies don’t charge a flat, monthly, or annual rate.
  – They base their fees on how many claims are sent out.
  – If provider is doing more business one month, they will be charged more.

Cons of Outsourcing

• The possibility of hidden fees
  – Ask about extra fees prior to hiring a medical billing company.
  – Some companies charge a sign-on or start-up fee.
  – Provider may also be charged a printing rate plus the cost of mailing claims.
Why In-House Medical Billing May Be Best

• The biller is close at hand.
  – If issues arise, doctor will have access to discuss with staff.
  – Billing issues are more easily resolved.

• The doctor can retain more control.
  – Some doctors prefer to manage every aspect of their practice and would not be comfortable giving that much responsibility of their operations to being outsourced.

The Downside of In-House Billing

• Billing operations can easily stall
  – Whether staff in one person or three, if someone is out of the office, the billing department can see a sharp decline in productivity.
    • Those left behind will have more to do
    • The biller will have much work to catch up when they return
    • Cash flow will decrease due to stall in billing operations
The Downside of In-House Billing

- Higher costs
  - May be cheaper than hiring an in-house billing staff
  - Why?...More overhead
    - Wages, medical insurance, sick time, paid vacation
- More liability for the company
  - Miss-billings
  - Inconsistent follow-up
  - Embezzlement opportunities

Cost Analysis

For many practices, the outsourcing decision boils down to one factor:

**cost**

To help compare the costs of in-house billing versus outsourced billing, The Profitable Practice created a hypothetical, three-physician practice.
Cost Analysis

To arrive at these numbers, The Profitable Practice used what we believe to be industry averages. Here are the characteristics of this practice:

- Three primary care physicians;
- Two medical billing specialists;
- 80 insurance claims filed per day (~20,000 per year);
- $125 billed per claim on average (~$2,500,000 per year);

and,

The Profitable Practice assumed that the billing service has a high collection rate on claims.

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Cost Analysis

So, how much does each billing approach cost? Take a look at the annual costs:

<table>
<thead>
<tr>
<th></th>
<th>In-House</th>
<th>Outsourced</th>
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<tbody>
<tr>
<td>Billing department costs</td>
<td>$118,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Software and hardware costs</td>
<td>$7,500</td>
<td>$500</td>
</tr>
<tr>
<td>Direct claim processing costs</td>
<td>$3,600</td>
<td>$122,500</td>
</tr>
<tr>
<td>Software and hardware costs</td>
<td>$5,500</td>
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<tr>
<td>% of billings collected</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>Collections</td>
<td>$1,370,900</td>
<td>$1,623,000</td>
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<tr>
<td>Collections costs</td>
<td>$129,100</td>
<td>$127,000</td>
</tr>
<tr>
<td><strong>Collections, net of costs</strong></td>
<td><strong>$1,241,800</strong></td>
<td><strong>$1,496,000</strong></td>
</tr>
</tbody>
</table>
Billing Staff Costs

**In-house:** The Profitable Practice calculated this by adding up the median salary of two medical billing employees ($80,000), healthcare costs for two employees ($9,000), federal and state taxes for two ($12,000), and training costs to keep the employees updated on the latest industry developments ($2,000). Finally, The Profitable Practice included $15,000 in ancillary costs for statement paper, office space, office hardware and other miscellaneous costs.

**Outsourced:** The Profitable Practice factored in five hours of time per week required to manage tasks related to billing at approximately $15 per hour. Even the best medical billing service will require follow up from a practice about particular issues. That adds up to approximately $4,000 per year in administrative costs.

Software and Hardware Costs

**In-house:** The Profitable Practice factored in an annual cost of approximately $7,000 for practice management software (~$200 per month, per doctor) and another $500 for computer hardware costs. This does not include the upfront cost of a software system.

**Outsourced:** This reflects the computer and printer the practice would still need to interact with the billing service and print documents.
Direct Claim Processing Costs

**In-house:** Clearinghouse fees for a provider submitting 20,000 claims per year would be approximately $300 per month ($100 per physician), or $3,600 annually.

**Outsourced:** A medical billing service usually charges a percentage of the amount collected as their fee. The industry average varies widely by specialty. The Profitable Practice used 7% for their primary care practice.

Percentage of Billing Account Collected

**In-house:** The percentage of revenue that a practice collects varies widely by specialty as well. The Profitable Practice’s hypothetical practice collects 60% of what it actually bills. According to industry experts, this describes an in-house billing department that is average at bill collection.
Outsourced: A practice can expect a 5% to 15% increase in the amount they’re able to collect by switching to a billing service. The Profitable Practice factored in a 10% increase in the amount of money collected by a billing service as an average between the two. Many firms can help increase collection rates even more.

The Profitable Practice’s cost comparison favors outsourcing billing, mainly based on the ability of a billing service to collect a higher percentage of the billed amount. Of course, this introduces a big “if.” That is, outsourcing makes more sense if the billing service improves collections significantly (i.e., on the order of 10%).

But there are other factors – beyond costs – that a provider must consider in its decision making. Let’s examine the two approaches to compare advantages and disadvantages.
In-House Process

The in-house procedure for processing insurance claims involves a number of steps that are universal to every practice. First, employees enter information into the medical billing software program from a “superbill,” which is gathered during a patient’s visit. The superbill contains particular diagnosis and treatment codes, among other patient information, which the insurance company uses to determine if the claim is legitimate.

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In-House Process

Via the practice’s billing software, the provider then submits the claim to a medical billing clearing house, which verifies the claim and sends it to the payer. The clearinghouse scrubs the claim for the errors (for a fee) before passing it on to the payer. By not submitting claims directly to a payer, the provider saves time, money and lowers rejection rates. The clearinghouse also has the ability to format and submit claim data en masse in the various insurance company formats.

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In-House Process

Once the claim is rejected/accepted by the payer, notification of the claim’s status is sent to the clearinghouse, which updates the provider on the status of a claim. If a claim is rejected, the provider’s staff resubmits the claim once additional information has been gathered. The practice will be charge for each claim submission, even if it’s a correction.

EHR software – especially those EHRs with a integrated practice management system – has the potential to make in-house billing easier for a practice. EHR software, when integrated with a practice management system, will populate both system’s data fields. Diagnosis codes and other information needed for billing doesn’t need to be keyed into another system. This eliminates a second round of data entry. This tighter integration may be one factor that helps keep billing in-house.

Outsourced Process

The process for outsourcing billing is more straightforward for practice staff. Superbills and other documents are scanned and electronically sent or mailed to the medical billing service. The medical billing service takes care of the data entry and claim submission on behalf of the provider. Most billing services charge a percentage of the collected claim amount. The industry average is approximately a 7% charge for processing claims through a medical billing service.

The medical billing service takes care of much of the “dirty work” associated with the billing process. It will also follow up on rejected claims, pursues delinquent accounts, and even send invoices directly to patients. The convenience factor is a major reason that providers choose to outsource.
Outsourced Process

If a practice is using EHR software, then the process is even easier. Information from a patient's superbill is stored in the EHR and electronically transmitted to the billing service. This eliminates the need to send paper records to the billing service. And because the EHR software eliminates an extra round of data entry, accuracy is also improved.

One possible issue here is data integration between the EHR software and the billing service. The type of data being exchanged between the provider and the billing service will need to match, or else the data will need to be converted to a different format. Depending on the billing service, data conversion may be an option.

Should You Outsource Your Billing?

Besides costs, there are other factors that would spur a provider to consider outsourcing their billing.

• **Your billing process is inefficient.** If you’ve been watching your collections drop while the time to collect increases, you may have issues in your billing department. Outsourcing to a third-party billing service typically decreases the number of rejected claims and decreases the time it takes to receive payment from a payer.

• **You have high staff turnover.** Turnover is an issue in any industry but turnover in a provider’s billing department is especially damaging. Claim processing is the economic life blood of a practice and a new addition or replacement in the billing department will inevitably lead to slowdown in the processing of claims.
Should You Outsource Your Billing?

• **You’re not tech savvy.** Keeping your billing in-house will require an investment in practice management software. Add in training for your staff and the significance of this investment becomes clearer. If you don’t want to deal with software upgrades and occasional technical issues, outsourcing is probably a good choice.

• **You’re a new provider.** New providers have plenty to learn and worry about aside from their billing. Outsourcing their billing right off the bat can give them much needed relief from the day-to-day stress of launching a new practice, without a trial by fire in hiring, training and managing employees.

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Should You Outsource Your Billing?

• **You have different priorities.** Many doctors are not strong on the business side of running a practice. They became doctors to help patients – not worry about the administrative/clerical side of the business. Outsourcing the billing process eliminates the hassle and frees doctors to concentrate on patients.

It’s important to note that a medical billing service isn’t a silver bullet for in-house billing issues. Billing services can vary widely in their efficiency and accuracy when processing claims. If a provider chooses a billing service that is lax and prone to errors, the headaches surrounding billing issues won’t get better – they’ll get worse.

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Which Approach Should I Choose?

It’s important for a practice to factor in their individual costs and preferences when deciding whether or not to outsource their medical billing. In an apples-to-apples comparison, we found that outsourcing had the higher net income. However, cost isn’t the only issue practices should consider. There are plenty of other factors involved in this business decision that may be as – if not more – important than costs.

References


Tips, Tools, and Techniques

• Conduct cost/benefit analysis between in-house and outsourcing
  – Personnel
  – Training
  – Technology
• Reporting claims performance (accuracy, frequency)
• Encourage provider, management, billing engagement

Questions

• Thank you for your attendance!

• Get your questions answered on PMI’s Discussion Forum:
  http://www.pmimd.com/pmiForums/rules.asp
Considering Outsourcing?
Questions to Ask the Billing Company

✓ What certifications or association memberships do your employees have? And do they have experience in our specialty?

✓ What are your processes for dealing with common challenges like down-coding, denied claims, and aging receivables?

✓ How does your service stay on top of major changes like ICD-10, bundled payments, and coordinated care?

✓ Will we have a dedicated contact we can work with to solve problems?

✓ Who will be working our daily claims and receivables?

✓ What benchmarks do you use to evaluate your own performance?

✓ May we see a full set of sample reports?

✓ Will we be able to run our own reports and view billing and collection information at will?

✓ What type of technology training is offered at start up?

✓ If we have to convert to a new software platform, what is the process and how will you assist us?

✓ What kind of protections do you offer practice clients from fraud, theft, or errors by your employees?

✓ Do you indemnify your clients against any of these?

✓ Can you provide us with references we can speak with?