

12

Hidden Costs
One
Knockout Punch
of In-house Medical Billing

Why Outsourcing Might be Much
Less Expensive than you Think

The 12 Hidden Costs — and one Knockout Punch — of In-house Medical Billing

Why Outsourcing Might be Much Less Expensive than you Think

At some point in the quest for optimization, nearly every independent medical practice grapples with the dilemma of in-house billing vs. outsourcing to a billing company.

Battle scars earned on both sides of the equation highlight the difficulty of navigating these waters. Constantly dealing with staff quality and turnover, expensive, technology integration, changing coding regulations and illusive reimbursement results can wear down even the most resilient practice owner managing their own billing.

On the other hand, it's equally gut wrenching to give up a healthy chunk of revenue to a billing company, only to endure frustrating miscommunications,

technical incompatibilities and continual disappointment over missed expectations.

So, what's missing? Some practices obviously seem to get it right.

What's missing from most practice decision processes are crucial details beyond the simple "do I pay my own staff to do billing or hire an outside company?" question. In fact, there are a dozen 'hidden' factors that practices frequently miss, as well as one potential knockout punch that leaves clinics bleeding financially and wondering what hit them.

The truth is, there is no right or wrong answer overall — only what's right for you. But ignoring the hidden costs, and especially getting suckered by the knockout blow, you may end up choosing what's wrong for you.





The Obvious Question: Pay Staff or the Outside Biller?

This is the starting point for most practice decision makers. And it is the first and obvious question. The problem is it only captures about 55% of total costs of in-house billing. A dozen other factors directly impact billing costs that are often overlooked when considering the in-house vs. outsource tradeoff. That's a 45% margin for error – not the best odds for sound decision making. More importantly, it ignores the one big knockout punch that can overwhelm all others.

Let's look at each of these factors in more detail and how they impact the ultimate decision.

The Scenario

We'll frame this discussion around a typical three provider practice that collects \$1,000,000 annually with two in-house billers each earning \$25,000 per year with average employment longevity of two years. Other expense ratios are typical for this size practice and billing operation. Cost percentages are the percentage of total billing cost.



55%

The Obvious Cost: Salary and Wages

The first cost, wages for the billing staff, in reality only comprises 55% of the total cost of running an in-house billing operation. For accuracy, these costs should include payroll of all individuals involved in the billing and reimbursement function, including payroll taxes and other employer-paid amounts.

45%

Hidden Costs - the other 45% of costs

These so-called hidden costs are the dozen or so expenses that many practices overlook when conducting this analysis. They are listed here in descending order of financial impact.

15%

Technology Costs

Includes billing-related practice management, billing and EHR system software licensing fees, and the portion of upgrades, support, annual maintenance, interfaces etc. that pertain to the billing function. Note that state-of-the-art cloud billing technology that is part of a unified, all-in-one medical office automation platform provides the greatest probability of delivering competitive in-house billing performance.

14%

Employee Benefits

Vacation, health insurance, retirement plans, social security, unemployment, and many other benefits may equal as much as 20-30% of salary and wage total.

3%

Real Estate and Occupancy

Space occupied by internal billing staff incurs floorspace cost included in the general overhead of the practice. This space also represents a potential opportunity cost were it to be converted to revenue producing space such as an added exam or treatment room.

3%

Training

Coding and reimbursement rules and regulations are constantly being updated and may change substantially from year to year. Billing staff must stay ahead of the curve in order to maintain reimbursement at the highest levels possible. This includes government regulations and incentive programs, coding updates, and technology changes.

3%

Patient Statements

For practices sending out monthly paper statements, costs include printing, postage, and processing of the statements themselves. Costs associated with electronic statements are typically included in staff salary.

2%

Staffing Turnover

Many independent practices are challenged by high staff turnover, including in the billing ranks. Hiring replacement staff in billing presents a two-edged cost challenge.

First is the direct cost of finding, hiring, onboarding and training a new qualified employee. Experts estimate that on average it costs approximately 15-20% of a billing employee's annual salary to replace them, depending on their level of experience, skill set and specialized expertise.

Secondly, and more importantly, finding certified professional coders and medical billing staff with expertise and experience in your specific specialty and payor mix is always challenging. Finding the right combination of knowledge, expertise and specialized skills – and keeping that person happy and productive – is a major determinant in the magnitude of the 'knockout punch' your practice will experience related to medical billing errors.

2%

Communications

Billing staff incur costs related to extra phone lines, cellphones and other necessary communications support.

2%

EDI

Most medical practices are currently sending claims electronically but also have ERA and eligibility costs.

1% | Equipment and Office Supplies

Billing staff require computers, phones, desks, chairs, faxes, copiers and other standard office equipment, as well as office supplies like paper, pens, postage, envelopes etc.

Variable | Billing Staff Supervision

The cost of time required to manage billing personnel and related issues should be considered. If the function is performed by the physician, opportunity costs include lost patient care revenue.

Variable | Theft and Embezzlement

While the frequency of incurring this expense is fairly low – it affects roughly 5% of practices annually – when it hits a practice the impact can be sizable.

Variable | Patient Communications

Often overlooked, managing patient A/R and communications for the patient-portion of services rendered can feel like running a customer service call center – statement generation, payment reminders, payment capture and collection letters – just to name a few tasks that chew up time.

While many of these expenses seem small and insignificant, they add up. Here's the summary using the typical scenario.

In-house Billing Cost Summary

3 Providers, 2 Billing Clerks

Total collections: \$1,000,000

	Total Cost	% of Collections
Billing wages only	\$50,000	5%
12 Hidden Costs	\$40,700	4%
Total	\$90,700	9%

Quick Outsource Comparison

Billing service firms typically charge rates that range from 4-8% of gross collections. From the summary above, a practice considering only billing staff wages might

conclude 5% in-house cost vs. 4-8% for outsource makes keeping it inside pretty clear cut.

Including the true total costs of an in-house operation by adding the 12 hidden costs may swing the decision slightly toward outsourcing, but not by a large margin.

The Knockout Punch

The missing piece in this equation is the realistic amount of reimbursement a billing staff can recover for the practice. The analysis thus far has assumed 100% reimbursement recovery for everything billed. Unfortunately, this is far from reality.

Numerous studies indicate that the average internal billing department makes errors resulting in losses of 25-30% of practice income. That's just on average! Those are very large numbers. This is the knockout punch many practices fail to understand and that continues to plague their internal billing calculations.

Please note this is not a slam on billing professionals. The majority of these

errors are due to the highly technical, complex and constantly changing nature of medical reimbursement billing. Only the most highly skilled, knowledgeable and experienced billers are able to achieve the lowest loss percentages. It's the nature of our current insurance reimbursement healthcare delivery beast.

With that in mind, let's return to the typical scenario calculation and assume you can attract and retain highly qualified billing professionals (a major accomplishment in and of itself) and that they perform significantly above the average in collections and achieve losses of only 15% of practice income.

In-house Billing Cost Summary - Including Knockout Punch

3 Providers, 2 Billing Clerks

Total collections: \$1,000,000

	Total Cost	% of Collections
Loss due to errors	\$150,000	15%
Billing wages only	\$50,000	5%
12 Hidden Costs	\$40,700	4%
Total	\$240,700	24%

With this added information, the in-house vs. outsource comparison comes more clearly into focus based on total costs and the realities surrounding collections.

Outsource Reality

To be fair, outsource billing companies aren't perfect at the billing reimbursement game either. They will experience medical billing error losses as well. But because they are focused professionals using the best tools, technologies and experts, the most proficient are able to deliver very low loss ratios that, combined with reasonable fees, provide a highly attractive total cost alternative to attempting to duplicate the same level of excellence inside your practice. So, for example, a 7% fee with a 5% loss ratio may be a great solution for your billing woes.

Decision Time

With an analysis of the full costs of in-house billing for your practice, including hidden costs and billing errors loss estimates, you are equipped to better approach the ultimate in-house vs. outsource decision.

To help guide that process, consider these additional questions that help frame the numerical data in key areas of focus proven in thousands of practices to make a difference in the long run.



In-house Billing

1. The numerical comparison of total costs, including hidden costs and billing error estimates, shows a clear advantage for in-house billing.
2. As a practice decision maker, I am committed to, and can provide focused management oversight of a successful billing operation.
3. I can consistently support billing operations with infrastructure items on the hidden cost list, particularly a cloud billing platform that is part of a unified, all-in-one medical office automation platform.
4. I can attract, train, and retain billing specialists who understand and are highly experienced in my specialty.
5. Knockout Punch: My billing department can consistently perform in the 90th percentile (significantly above average) of coding and billing collection success. (Translation: even average or slightly above means you consistently lose money.)

Outsource Billing

1. Their fee structure fits my financial model — between 4-8% of gross collections.
2. They utilize a proven, unified cloud-based billing platform with seamless integration to our current PM and EHR systems.
3. Our values and cultures match — we can form strong, accountability-based partnership, not an adversarial relationship.
4. Knockout Punch: They have a proven track record of near flawless first-pass claims acceptance for my specialty, and 90th percentile overall collections success.

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