



In-House vs. Outsourced Medical Billing

A cost comparison to help you determine the best path for your practice.





Introduction

CHOOSING THE RIGHT RCM PATH FOR YOUR PRACTICE.

Some assume that the cost of outsourcing the billing operations would be more expensive than doing the billing in-house. After all, fees typically range from 3% to 8% of net collections.

However, a report conducted by National Healthcare Exchange Services reports that physician practices are spending as much as 14% of their total collections to ensure accurate reimbursement from health insurers.

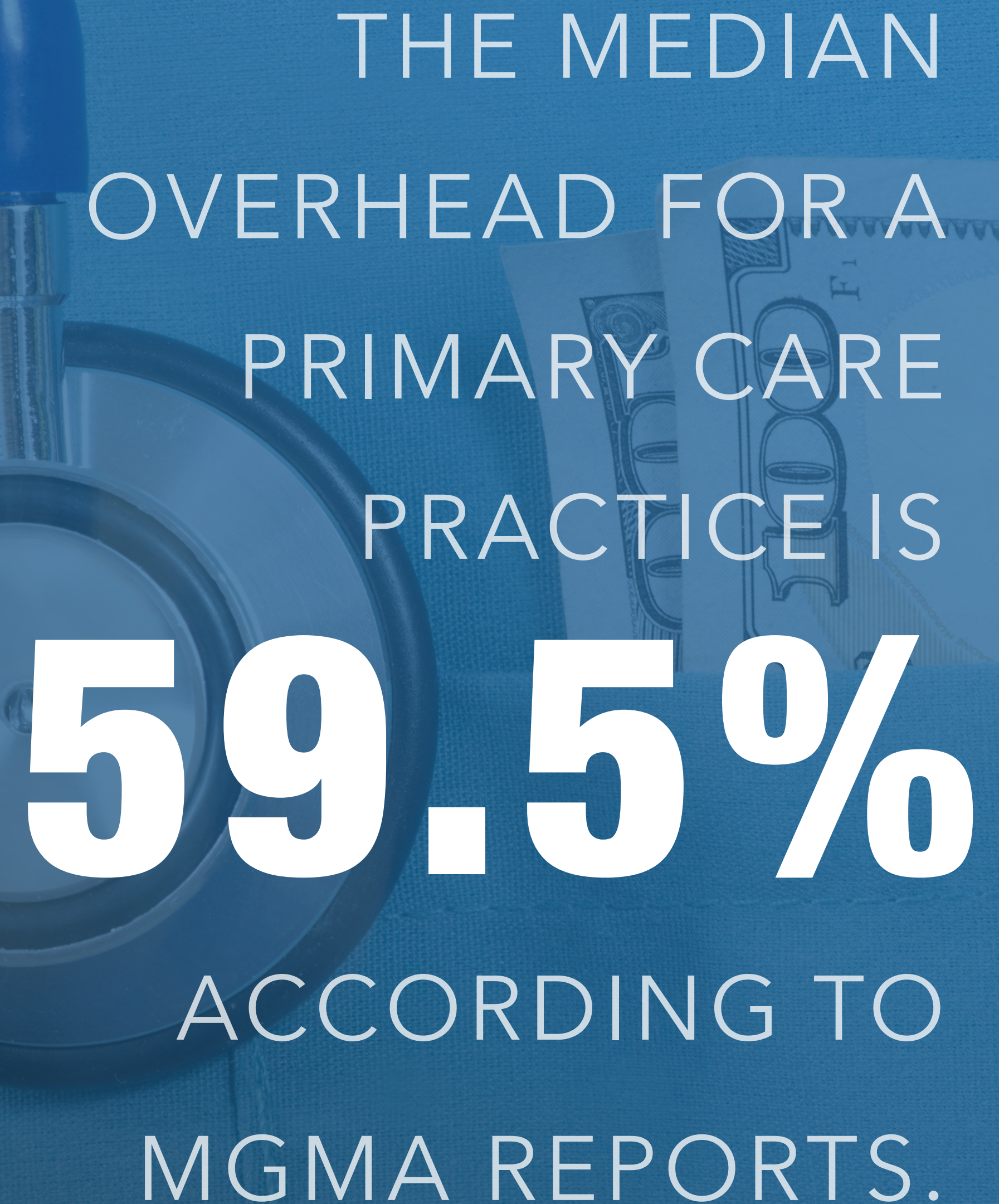
This guide will help you understand the criteria to consider when determining whether an outsourced medical billing solution is the right path for your practice.

INCREASING MEDICAL PRACTICE COSTS

Medical practice overhead has increased substantially over the years. With reimbursement rates dropping and salaries increasing, many practices turn to outsourcing the medical billing in order to achieve better results and reduce the overall overhead costs associated with in-house billing.

But overhead isn't the only cost to consider when comparing in-house medical billing to outsourced billing services.

The following pages will provide you with a comprehensive list of costs to consider before outsourcing and an illustrative example using these costs in various scenarios.



THE MEDIAN
OVERHEAD FOR A
PRIMARY CARE
PRACTICE IS

59.5%

ACCORDING TO
MGMA REPORTS.

RCM Costs to Consider

KEY CATEGORIES

Here we've listed some of the key categories of costs to consider when comparing in-house vs outsourced billing options.

Those boxes in blue represent what you will use to calculate employee costs as a percentage of your practice collections to determine if your employee costs are above or below average based on MGMA cost survey reports*.

**For the most recent cost survey report, contact MGMA.*

Those items with green boxes should be taken into consideration during your analysis but may not be suited to add to employee costs. These items would typically fall under other categories such as IT or Office Supplies.

Regardless, these costs will fluctuate depending on whether your billing is done in-house or outsourced.

Total Billing Staff Cost

This cost should include pay of all individuals in the billing and reimbursement function. Be sure to include the salary and staff benefits.

Training Costs

Coding and reimbursement rules and regulations are continuously changing and may change substantially from year to year. Staying up-to-date on changing coding guidelines, government incentive programs, and technology can be costly for practices.

Employee Turnover Cost

The direct cost associated with employee hiring, training, and turnover can vary but it is estimated to equal \$3,000 to \$5,000 per occurrence. Various sources estimate it can cost anywhere from 30% to 400% (average being 150%) of an employee's annual salary to replace them. For practices that have a high employee turnover in the billing department, it is likely to result in claim performance and overall revenue significantly.

Facility Expenses

This cost is typically overlooked and underestimated. Consider the space currently occupied by the billing staff and how this space could be used to bring in additional revenue for the practice by adding an exam room.

Administrative Supplies & Services

Consider the current costs your practice incurs for things like postage, printing patient statements, computers, phones, desks, chairs, faxes, copiers.

EDI Costs

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

Medical Billing Errors

Studies indicate that approximately 25%-30% of all medical practice income is lost due to improper billing. 59% of in-house billers do not review EOBs and 55% of in-house billers have never appealed a denied claim.

Example #1

ILLUSTRATIVE EXAMPLE

ERROR FREE REVENUE CYCLE MANAGEMENT

In the following scenario, the medical practice “Perfect Medical”, with 3 providers, collects \$1,000,000 per year and needs two billing clerks to handle this level of activity. Each billing clerk earns an average annual salary of \$25,000. The billing clerks occupy an area that is 150 square feet of space and the space rents for \$17 per square foot.

Each of the clerks attends a billing seminar every other year with each participating in a quarterly online webinar. The average length of employment for each clerk is 2 years. The staff is top notch and much better than the industry on average due to the fact that they make no medical billing errors.

Furthermore, the top notch staff will require very little supervision and the practice experiences no theft or embezzlement. The typical cost associated with this first rate internal billing function may include the following:

Medical Practice “Perfect Medical”

Annual Expenses -Billing Functions

Error Rate: 0%

- Salary and Wages **\$50,000**
- Employee Benefits **\$12,500**
- Training Costs **\$2,500**
- Real Estate & Occupancy **\$3,000**
- Staffing Turnover Costs **\$2,000**
- Equipment Costs and Office Supplies **\$1,300**
- Communication Costs **\$2,000**
- EDI Costs **\$1,800**
- Statement Costs **\$2,400**
- Technology Costs **\$13,200**

Total costs: **\$90,700**

Cost as a percentage of collections: **9.07%**

Example #2

ILLUSTRATIVE EXAMPLE

REVENUE CYCLE MANAGEMENT WITH A 5%
ERROR RATE

The above example assumes that the internal billing department does not make any mistakes or errors. This scenario is unlikely as studies indicate that the average internal billing department makes errors resulting in losses of 25%-30% of practice income.

Using the same assumptions as the above case, assume that the internal billing department of medical practice “Above Average Medical” is fairly competent (instead of perfect) and only makes errors that result in lost revenue of 5% to the practice.

As illustrated to the right, even a slight medical billing error rate can substantially increase the cost of the internal billing function:

Medical Practice “Perfect Medical”

Annual Expenses -Billing Functions

Error Rate: 5%

Total internal costs
detailed on previous page: **\$90,700**

Lost revenue as a result of
5% errors: **\$50,000**

In-house cost of billing
functions: **\$140,700**

Comparing RCM Services

COMPLETE VS PARTIAL SERVICES

Not all medical billing companies will encompass the same features. For example, while one billing company may field your patient phone calls regarding statements, another may not.

Assuming that every billing company is the same could result in a poor partnership that doesn't meet your expectations. The cost for billing services will often reflect whether the service is simply going to process a claim for you or if the service will review the claim for coding errors, submit the claim on time, follow-up on the claim to ensure timely payment, manage denials, and provide monthly reports that represent the current performance of your revenue cycle.

Before entering into an agreement for medical billing services, understand what your practice will be responsible for and what the billing service commits to handling. This is a fundamental part of selecting a service provider and ensuring a successful partnership.

Demand more from your revenue cycle.

Learn how our integrated RCM solution brings together robust data, intelligent claim handling, and performance consulting for a richer revenue cycle.

Talk with Sales



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