

Cost of Medical Practice Billing Functions - Internal vs. Outsourced Operations

By Keith Lage, CPA

Recent industry changes have added many challenges and complexities to the business of the medical practice (EHR transition, PPACA, HIPAA revisions, ACO, ICD-10, eRX, PQRS, declining reimbursement rates, increased patient payment responsibility, etc...). As such, many practices have started to reevaluate the idea of partnering with a professional medical billing or revenue cycle management firm as a possible resource for addressing some of the challenges.

As medical practices evaluate the option of outsourcing the medical billing functions verses performing the process internally, the related cost of each option should be considered. The analysis involves more than simply comparing the billing firm fee to the salary of internal billing staff. A proper analysis can illustrate a substantial price difference between the two options.

When evaluating the cost of performing billing and reimbursement functions internally, a practice should quantify the following items:

1. **Salary and wages** - Cost should include pay of all individuals involved in the billing and reimbursement function.

2. **Staff benefits** – Vacation, health insurance, retirement plans, social security, unemployment, etc... may equal as much as 20% to 30% of salary and wage total.

3. **Training costs** – Coding and reimbursement rules and regulations are continuously changing and may change substantially from year to year. ICD-10 will significantly change the way coding is done. ICD-10 has 155,000 codes vs. ICD-9's 18,000. Per recent study sponsored by MGMA, it will cost \$28,000 per physician to convert to ICD-10.

PPACA, effective since September 23, 2010 with an enforcement grace period until July 1, 2011, will govern all claims processing, reimbursement, denials and appeals for almost all healthcare claims outside Medicare. PPACA may represent the most significant reimbursement law changes in 45 years since Medicare was created. It is necessary for billing staff to stay current on industry developments, not only for compliance issues, but also to protect your bottom line.



4. **Space / Real Estate / Opportunity Costs** – Space currently occupied by internal billing staff could be eliminated or used as revenue producing space such as an extra exam room.
5. **Process of Staffing** – The cost associated with employee hiring, training and turnover is estimated to equal \$3,000 - \$5,000 per occurrence.
6. **Billing Staff Supervision** – Physicians often note that the handling of staff and personnel issues can be one of the least desirable duties of a medical practice. 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.
7. **EDI Costs** – Medical practices not currently sending the majority of their claims electronically, will be in the very near future.
8. **Patient Statement Costs** – Costs include printing, postage, and processing.
9. **Technology Costs** – EMR and/or PM systems have fees for use of software, upgrades, support, annual maintenance, interfaces, and others. Practices with antiquated systems are incurring unnecessary costs due to inefficiencies in the use of labor, space and material.
10. **Office equipment** – Billing staff require computers, phones, desks, chairs, faxes, copiers and other standard office equipment.
11. **Office Supplies** – Standard office supplies such as paper, pens, postage, envelopes, copy, fax, and printer supplies are utilized during the billing process.
12. **Communication Costs** – Billing staff incur costs related to extra phone lines and long distance charges.
13. **Theft/Embezzlement** – Internal billing process may not provide for proper separation of revenue functions.
14. **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.



Illustrative Example – Billing Department Cost

Error Free Internal Billing Department

In the following scenario, the medical practice “Best 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 “Best Medical” Annual Expenses - Billing Functions

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 Internal Cost of Billing Functions	<u>\$90,700</u>
 <i>Cost as Percentage of Collections</i>	 <u>9.07%</u>



Above Average Internal Billing Department

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 below, even a slight medical billing error rate can substantially increase the cost of the internal billing function:

Medical Practice “Above Average Medical” Annual Expenses - Billing Functions

Total Internal Cost of Billing Functions as stated above	\$90,700
Lost Revenue as Result of 5% Errors	<u>\$50,000</u>
<i>Total Internal Cost of Billing Functions</i>	<u>\$140,700</u>

Cost as Percentage of Collections **14.07%**

Cost of Internal vs. Outsource Medical Billing

Some medical practices automatically assume that the cost of outsourcing the billing functions would be more expensive than doing billing internally. Billing service firms typically charge rates that range from 4% to 8% of net collections. A report conducted by National Healthcare Exchange Services reports that physician practices are spending as much as 14% of their total revenue to ensure accurate reimbursement from health insurers.



As demonstrated above, the fees for outsourcing may be less than the fees the practice may incur to perform billing in house. Furthermore, the cost of medical billing errors can be very expensive to the average medical practice. If a medical billing firm can cause even a slight increase in the quality of the medical billing process, the practice may realize a double benefit in the form of increased revenue as well as decreased total overhead expenses.

Billing firms can afford to charge less because of economies of scale. If the billing firm is able to collect more for the practice, the cost as a percentage of total collections can be decreased because total overall collections have increased.

Using a professional medical billing service firm may not be the answer for everyone, but before medical practices dismiss the idea completely, it would be prudent to calculate the cost to do the billing in-house. **The practice may be in for a surprise.**

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