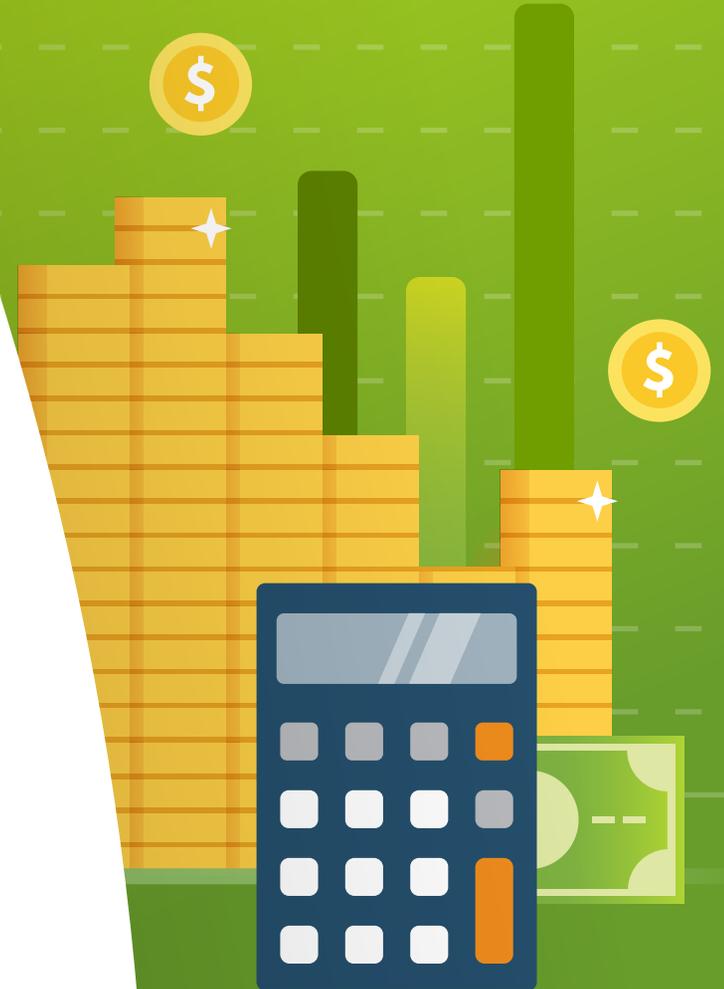




# The ROI of Outsourcing Your Medical Billing

Your step-by-step guide to the  
benefits of a billing company partner.



## INTRODUCTION

# Medical billing has changed.

And keeps changing. Every time you think you have it figured out, a new roadblock to reimbursement comes along. Finding and retaining qualified billing staff to handle medical billing and collections has become difficult and costly.

A growing number of providers are turning to an outsourced Revenue Cycle Management (RCM) partner to alleviate the administrative burden and overhead associated with the billing process. Practices that outsource their billing can see a 5-10% increase in net collections, not to mention the operational benefits that allow practices to focus on a better patient and provider experience.



## Practices that outsource their billing can see a **5-10% increase** in net collections.

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### Here's what to consider when deciding to outsource your billing:

- 1 What are the true costs of my current billing process?
- 2 Does my current billing staff have the necessary expertise and bandwidth?
- 3 What type of RCM partner does my practice need?
- 4 What do I do with my current billing staff if I outsource my billing?
- 5 What is the Return on Investment (ROI) of outsourcing my billing?



**CONSIDERATION 1:**

# What Is the True Cost of In-House Billing?

When considering whether outsourcing your billing makes good financial sense, let's take into account all of the costs associated with an in-house billing department. Often, providers only look at the hourly rate they pay billing staff and forget about the other tangible and intangible costs that go along with getting paid for your services.



## Tangible Costs

- \$ Staff hourly wage
- \$ Employer share of taxes
- \$ Benefits
- \$ Software
- \$ Clearinghouse fees
- \$ Statement fees/postage



## Intangible Costs

- \$ Increased rejections and denials
- \$ Decrease in net collections and cash flow
- \$ Increase in patient bad debt

**Just one unworked denial a week can result  
in over **\$5,000** in lost revenue a year.**

**For specialty practices with high allowables,  
the loss can be **\$10,000** or more.**



## CONSIDERATION 2:

# Is Outsourcing Billing The Right Decision For Your Practice?

The following questions can be helpful in assessing your current situation and identifying key decision points for outsourcing:

- Is your accounts receivable greater than 45 days?
- Is your percent of accounts receivable over 120 days greater than 15%?
- Are you seeing the same, or an increased number, of patients but seeing a decline in revenue?
- Is your net collection rate declining?
- Are you experiencing a higher percentage of bad debt write-offs due to delinquent patient accounts?
- Do you experience a high rate of turnover with your in-house billing staff?
- Do you have difficulty finding qualified billing staff?

If you answered **yes** to any of these questions, there is a high likelihood that you could benefit from outsourcing your billing.



With the right billing services, here's what you can **achieve**:



Days in A/R less than 30 days



Days to bill within 3 days of visit



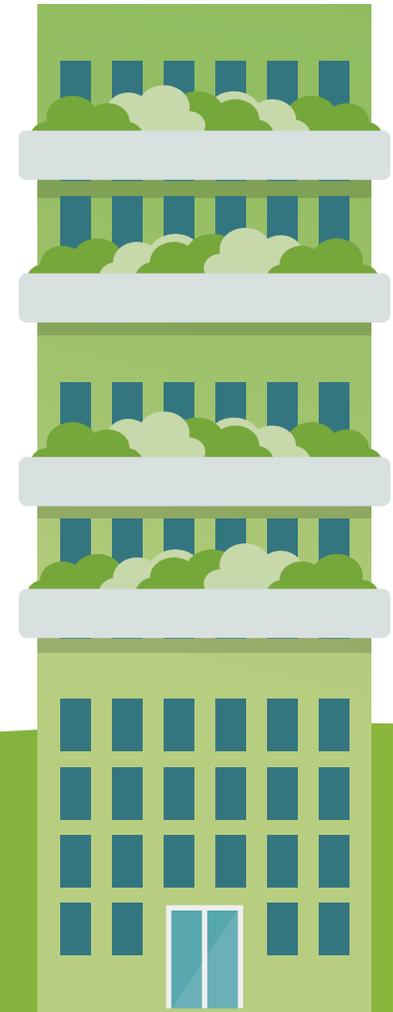
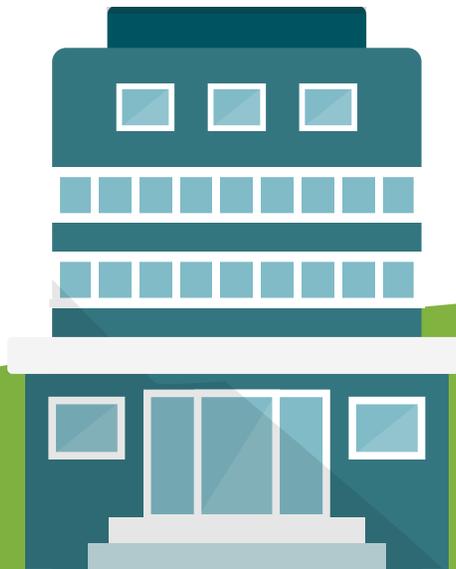
120+ days in A/R less than 10%

CONSIDERATION 3:

## What **Type of Billing Company** Do You Need?

Not all billing companies are alike. Services can vary greatly. Finding the right RCM partner will depend on knowing what services you need.

Most billing companies fall into one of three categories: light, full service or boutique. Making sure you know what level of service you need is critical to picking the right partner.



# RCM Service Levels

## LIGHT

Level of service offered by many billing software vendors.

- + Practice is responsible for all coding validation and working rejections due to patient demographics issues, eligibility, authorizations, etc.
- + Light RCM services require that there is someone in the practice familiar with the front end of the billing process and capable of getting claims out the door and accepted by the payer.

## FULL-SERVICE

Level of service offered by some software vendors and most traditional billing services.

- + Full-service billing companies engage with practices at an earlier stage in the revenue cycle, providing the technology tools and training to verify eligibility, demographics and insurance card information during the check-in process.
- + Billing company communicates with practices on how to manage rejections and provides feedback on how to avoid rejection-causing mistakes in the future.
- + Does not require the practice to have skilled billing staff to work rejected claims themselves.

## BOUTIQUE

Level of service typically offered by smaller “mom and pop” billing companies who have expertise in a limited number of specialties and/or provide more oversight.

- + Billing companies at this level go far beyond simple claims submission, payment posting, and follow-up of accounts receivables.
- + This higher-fee level of service suits providers who want the billing company to handle all business aspects of running their practice.

For practices that are unable to find the right in-house billing staff, a full-service or “boutique” billing company can allow them to remain independent and still maintain the KPIs needed in today’s complex billing environment. Billing companies vary in the services offered and it’s important to have responsibilities clearly defined in any contracts executed.



# RCM Service Comparison Chart

Service	Light	Full-Service	Boutique
Create, Scrub and Submit Claims	Y	Y	Y
Post Insurance Payments	Y	Y	Y
Work Denials	Y	Y	Y
Create and Send Patient Statements	Y	Y	Y
Provide Financial Reports	Y	Y	Y
Work Rejections		Y	Y
Dedicated Billing Manager		Y	Y
Clearinghouse Fees Included		Y	Y
Software Included		Y	Y
Eligibility Verification		Y	Y
Charge Submission		Y	Y
Patient Collections Letters/Calls			Y
Coding Services			Y
Credentialing		*	Y
MIPS Consulting		*	Y
Practice Management Consulting		*	Y
Payer Contract Negotiation		*	*

\* Service may require an additional fee

#### CONSIDERATION 4:

## What Happens to Your Existing In-House Staff?



As with any company, if valued staff are willing and able, this is a growth opportunity for both the employee and the practice. Here are some areas and responsibilities in a growing medical practice that need qualified staff to take ownership:

- Improve patient collections process through more frequent and thorough eligibility verification.
- Provide better information to patients on benefits, patient responsibility, and increase time of service collections. (Create a “Financial Counselor” position that reviews benefits with patients and sets expectations on collecting deductibles, copays, coinsurance, etc.)
- Act as liaison to the billing company, which may allow you to engage a less costly service such as the RCM “light” option.
- Additional staff for patient care coordination/communication or marketing your practice through social media and patient outreach.
- CMS incentive program reporting liaison. Forward-thinking practices will, for instance, assign a “MIPS Expert” to streamline information and processes for optimizing incentive payments from CMS.



Check out the **Patient Collections Boot Camp** for more guidance on training staff for better and higher patient collections!  
Visit [kareo.com/patient-collections](https://kareo.com/patient-collections)

# What Are the Pros and Cons of Outsourcing My Billing?

## Pros

-  Allows providers and staff to focus on patient care
-  Reduces billing staff turnover and associated costs and challenges
-  Ensures stable cash flow during vacations and sick time
-  Keeps cash flow in line with revenue, lower revenue months result in lower billing overhead
-  Takes advantage of experience and knowledge gained by billing company with other clients in your specialty
-  Eliminates overhead costs related to billing
-  Reduces opportunities for internal fraud and embezzlement
-  Reduces risk of insurance payer audit

## Cons

-  Removes some level of oversight and control of the billing process (however, practices can choose the right billing company and service level depending on their desired participation level in RCM)
-  May displace current staff if other roles in the practice are not suitable for them

CONSIDERATION 5:

## What Is the True ROI of Outsourcing Billing?

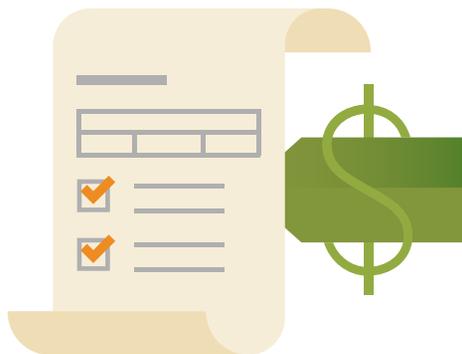
It's important that you base your decision to outsource on real metrics. But how do you know where you stand? The answer lies in determining some important Key Performance Indicators (KPIs) to evaluate your true ROI if you choose to outsource your billing.

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**Often, the cost savings associated with reducing in-house billing costs combined with the increase in Net Collections will pay for the fee of a full service billing company.**



The first two KPIs we need to evaluate are **First Pass Acceptance Rate (FPAR)** and **First Pass Resolution Rate (FPRR)**. These two metrics tell you how good of a job your current billing staff or billing company is doing getting claims out the door clean and getting them paid the first time they are submitted.



### **First Pass Acceptance Rate**

The number of claims accepted by the payer upon first submission.

**Target:** >95%

**Calculation:**

$$\frac{(\text{Total Number Claims Submitted} - \text{Number Rejected Claims})}{\text{Total Number Claims Submitted}}$$

### **First Pass Resolution Rate**

The number of claims paid by the payer upon adjudication.

**Target:** >95%

**Calculation:**

$$\frac{(\text{Total Number Claims Submitted} - \text{Number Denied Claims})}{\text{Total Number Claims Submitted}}$$

The second set of metrics determine how well your billing team is doing at following up on claims that are not paid the first time around. The first KPI is Days in Accounts Receivable (Days in AR). The second KPI is Net Collections. It is important to look at these two metrics together because you may have a Days in AR at or above industry best practices, but your Net Collections may be low because your biller is simply writing off claims that are denied rather than properly following up on them.

### Days in AR

The number of days that charges are outstanding.

**Target:** <30 days

**Calculation:**  $(\text{Total Receivables} - \text{Credit Balances}) /$   
Average Daily Gross Charge Amount

*\*Average Daily Gross Charge Amount = Total Annual Gross Charges/365*

### Net Collections

The total amount you were potentially due from payers and patients was actually collected after excluding contractual adjustments.

**Target:** >95%

**Calculation:**  $(\text{Total Charges} - \text{Payer Disallowed Amount}) /$   
Total Payments



Knowing your KPIs will help you determine whether the savings and revenue increases promised by a potential RCM partner are realistic. It will also help you determine if there are problems with your in-house billing processes.



The **Kareo Clean Claims Guide** walks you through setting your practice up for streamlined reimbursement. Visit [kareo.com/resources](https://kareo.com/resources)

Often, the cost savings associated with reducing in-house billing costs combined with the increase in net collections will pay for the fee of a full service billing company. Even if the costs are close, the increase in net collections will usually more than equal the fee charged by the billing company, so **you are effectively getting the service for free.**

# Calculating ROI for Outsourcing Your Billing

Assumptions	
Number of Claims Per Month/Provider	300
Current Number of Full Time Equivalent Billing Staff	1
Average Hourly Wage for Billing Staff	\$18.00
Number of Full Time Equivalent Providers	2
Average Allowed Reimbursement Per Claim	\$100.00
Monthly Billing Software Costs	\$300.00
Monthly Clearinghouse Fees/Provider	\$100.00
Number of Patient Statements Per Month	100
Cost Per Statement In-house	\$1.00
Outsourced RCM Fee % of Net Collections	6.00%
Current Net Collections Percentage	85.00%

Potential Additional Outsourced Fees	
Per Statement Fee not included in contract	\$0.76
Monthly Clearinghouse Fee not included in contract	\$0.00
Billing Software Cost not included in contract	\$0.00
Retained FTE Billing Staff (%)	0.0%



## Sample Calculation

	Annual In-House	Annual Outsourced	Monthly In-House	Monthly Outsourced
Billing Staff Salary/Benefits/Taxes*	\$44,928.00	\$0.00	\$3,744.00	\$0.00
Annual Billing Software Fees	\$3,600.00	\$0.00	\$300.00	\$0.00
Clearinghouse Fees	\$2,400.00	\$0.00	\$100.00	\$0.00
Statements/Postage Fees	\$1,200.00	\$912.00	\$100	\$76.00
Total Cost of Collections	\$52,128.00	\$41,952.00	\$4,244.00	\$3,496.00
Gross Collectable Amount	\$720,000.00	\$720,000.00		
Total Net Collections**	\$612,000.00	\$684,000.00		
Net Revenue to Practice	\$559,872.00	\$642,048.00		
<b>Potential Revenue Increase by Outsourcing Your Billing</b>		<b>\$82,176.00</b>		

\* Assumes 20% benefits and taxes

\*\* Assumes 95% Net Collections for outsourced billing





# Questions to Ask When Considering a Billing Company

- Who is responsible for coding, including verifying the correct usage of modifiers?
- Who will take patient phone calls regarding questions on bills?
- Who pays for statements?
- How many statements do you send to a patient before recommending further action?
- Is any work done by third-party contractors?
- Is any work done by individuals outside the United States?

There aren't necessarily any right or wrong answers to these questions, however, it's important to know what is included in the fees and what may be considered "a la carte." It's also important to know what kind of staffing will be necessary to ensure that the billing company receives the information necessary to get your claims paid.

Even if you are not currently considering outsourcing your billing, it's a good idea to assess the strengths and weaknesses of your current processes and staff so that you know where you stand in relation to industry best practices. If the time comes, you will be better equipped to make an informed decision that's in the best interest of your practice.



## About the Author

Aimee Heckman is a Healthcare Business Consultant with more than 25 years of experience in Medical Practice Management, Revenue Cycle Management, PM/EHR implementation, and business development. As a Certified Professional Biller (CPB) and Certified Physician Practice Manager (CPPM), Aimee has demonstrated success in assisting physicians with maintaining their independence and surviving the ever-changing healthcare business environment.

Check out Aimee's accompanying free webinar on the ROI of Outsourcing Your Billing.

Visit [kareo.com/resources](https://kareo.com/resources)



Kareo is the only complete technology platform purpose-built for independent practices and their billing company partners.

Trusted since 2004, Kareo serves more than 65,000 healthcare providers and 1,600 billing companies across the country, processing more than \$25 billion in claims annually.

Contact Kareo at **888.775.2736** or visit **kareo.com** for more information.

