

# Cost of Medical Practice Billing Functions – Internal vs. Outsourced Billing Analysis

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Industry changes have added many challenges and complexities to the business of the medical practice (EHR transition, HIPAA revisions, ICD-10, PQRS, eRX, ACA, 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 versus 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, TDI, workers' compensation, etc. may run between 20% to 30% of salary and wage total.
3. Training costs – 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 recruiting, interviewing, 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. Technology Costs – EHR 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. If a practice has a server-based system then servers will need to be replaced and/or upgraded. Practices will need to transition to certified EHR systems and demonstrate meaningful use or face possible reimbursement penalties.
9. Office Equipment – Billing staff require computers, phones, desks, chairs, faxes, copiers and other standard office equipment.
10. Office Supplies – Standard office supplies such as paper, pens, postage, envelopes, copy/fax/printer supplies are utilized during the billing process.
11. Communication Costs – Billing staff incur costs related to extra phone lines and headsets.
12. Theft/Embezzlement – Internal billing processes may not provide for proper separate of revenue functions.
13. 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 audit EOBs and 55% of in-house billers report that they do not have the time to file formal appeals; even though a study conducted by GAP shows that as many as 50% of claim rejection appeals are successful.

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 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. The fees for outsourcing are typically 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 companies can afford to charge less because of economies of scale. Furthermore, if the billing company is able to collect more for the practice, the cost as a percentage of total collections can be less because total collections have increased. In other words, the billing company pays for itself.

Using a professional medical billing company may not be the answer for everyone, but before a medical practice dismisses 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.