

IN-HOUSE BILLING -VS- BILLING SERVICE

Many physicians are faced with determining whether the net profit of the practice would be higher if they used an outside billing service vs. handling billing in-house. This article describes several simple steps to determine what makes the most sense. There are two main steps in determining which billing process will produce the highest net profit:

Compare the annual on-going cost of billing in the office vs. what would be paid to a billing company to handle the billing activity; and
Determine whether cash collections would increase by using an outside billing company.

COMPARING COSTS

- 1.** Determine the total annual cost of handling your billing in-house. Be sure to include all costs, including the salaries of all billing personnel (including all benefits), electronic claim / clearinghouse expense, computer software & hardware maintenance and support, supplies, postage and any other costs incurred in the billing activity. Then calculate the percent of your total revenue that is being used to pay the cost of this billing activity.
- 2.** You can get estimates from billings companies of the percentage of your total revenues that you would pay to a third-party billing company to handle your billing for you.
- 3.** Compare these two percentages to determine which billing process costs more.

You may find that the in-house cost of billing will be slightly higher or lower than the utilization of an outside billing service. An example of why a billing company may have lower costs than in-house billing is that a billing service has the ability to utilize the exact percent of any employees time required to handle the billing activity for each client, and then allocate the remainder of this persons time to other clients. A physician would have to hire two people when actually they could get by with 1.5 employees. In addition, the expertise of billing company employees often exceeds that of in-house employees, causing them to be more efficient and effective.

COMPANY CASH COLLECTION

You should determine what the average net collection percent is for your practice, and compare this to the national net collection percent average for your specialty. There are statistics available through MGMA and several other sources that indicate what the average collection percent is by specialty on a nationwide basis. If you compare your own collection percentages to these national averages, this will give you an indication of the efficiency of your current operation. Most billing companies will probably exceed the national averages, and you can estimate what their collection percent might be versus your in-house percentage. If you believe a billing company can collect a higher percent than your in-house operation, you will increase the profit of your practice. If your practice is operating currently at a high collection percentage rate, then handling your billing internally could be more profitable. If you are significantly above the

average, the billing company is not as likely to significantly improve collections.

It is imperative that you realistically evaluate the efficiency of your in-house billing and collection activity. Compare your collections to what you believe a good billing company can collect. In many cases the billing company will collect more because of the efficiency of their operations and experience.

If you are experiencing difficulty with your in-house billing including delays in getting bills out, delinquent follow up on denied claims, delays on posting payments and handling correspondence, and other billing issues that occur, you can be pretty sure that a billing company would significantly improve collections. The experience of the billing company in following up on receivables, the consistency with which billing and collection activity is handled, and the efficiency of the billing company operations will normally result in higher collections.

Throughout the year there will be times when in-house billing activity will be less than efficient even if the job is being performed well. Employees take time off for vacations, maternity leave, sickness, etc. Billing companies generally have enough personnel to cover these employee absences without having an impact on collection. If a billing company can collect 3% - 4% more than your in-house billing can collect (and many times the increase is significantly more), this almost always will more than cover any additional costs of using a billing service.

ANALYSIS OF RESULTS

It has been our experience that the vast majority of physician practices will collect more dollars using a billing service. As a result, if the in-house costs exceed what you pay a billing service, it almost certainly would provide a higher profit for the practice by using a billing service. You will have lower cost and higher revenue. If the cost of an outside billing service is only one or two percent higher than the cost of billing in-house as a percent of revenue, the billing service in many cases can still collect enough dollars to more than offset this slightly higher cost paid to the billing service.

Another economic factor to consider is *when* will you need to upgrade your existing software and hardware. Typically this is needed every 3 to 5 years, and that cost (which can be tens of thousands of dollars) should be considered in the decision making process. If you are near time for upgrading, this is definitely time to consider outsourcing as this can save a significant outlay of cash.

If you decide to look into hiring a billing company, the chart on this page can be used as checklist to evaluate the capabilities of billing companies.