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Relinquishing Control of In-House Billing

By Nicholas Restuccia, CPA

A new era has arrived for the medical practitioner - an era that will require a reduction of expenses to insure survival and profitability into the next decade. In an effort to curb runaway costs, many practitioners have begun to explore the outsourcing of traditional office procedures. That is, hiring service bureaus to perform office procedures that would normally be done by in-house personnel.

How common is outsourcing? In a recent survey of businesses with less than \$5 million in sales, 53% of the respondents said their companies now outsourced one or more traditional office procedures.

The most popular areas for outsourcing are payroll, patient billing, administration of employee benefits and maintenance services. Service bureaus can perform these functions more efficiently and economically because they are specialists in these areas. Why Outsource?

Outsourcing each of these office procedures will save money, but the major benefits of outsourcing are clearly found when it is applied to patient billing.

Practitioners fail to realize the extensive cost associated with in-house billing. This can be a very costly form of neglect. Most practitioners have hired one or two clerks to do the billing. They think that doing so insures that the billing is done accurately and efficiently and that the practice retains greater control over the procedures. Let's examine each of these assumptions.

Control. Many practitioners are reluctant to let a third party assume responsibility for their billing. They think they will lose control over their receivables. The truth is most practitioners have already lost control. With the bureaucratic intricacies of co-pays, disallowances, charge backs, deductibles, insurance company holdbacks and duplicate payments, who really has control?

Speed. Practitioners instinctively fear that using a service bureau will slow down the billing process. They think a lag in billing will create a delay in collections, thereby creating the dreaded cash flow problem. However this does not have to be the case. Most medical billing services invoice within 24-48 hours of receiving the documents from the practitioner. Therefore, cash flow should not be impaired. In fact, most practitioners report that the

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opposite is true. **Gross billings increase and accounts receivable time is shortened because the billing service is paid on an incentive basis.** The higher the gross billings, the more the billing service is paid. In-house staff, which is paid a weekly salary, may not be as motivated.

***Efficiency.* Medical billing services are more familiar with coding than the practitioner's own billing department. They are cognizant of the latest trends in coding, while relying on office staff to be well versed in the latest coding techniques is unrealistic, naive and can adversely affect profit.**

Service bureaus also have more sophisticated hardware and software than the typical physician's office because of the volume of transactions they handle. Since computer hardware and software are constantly changing, the in-house staff and the computers must be constantly updated. The practitioner must pay for all the hardware and software updates as well as the expensive 'learning curve' while the employees struggle to master the new techniques and programs.

Cost. Some practitioners think that using a service bureau is more costly than doing the work in-house - this depends on what you include in the term 'cost.' When compared to base payroll costs, the billing service charge is more expensive than in-house billing. But beware. Hidden costs are incurred when in-house people do the work.

The following analysis can help illustrate how savings can be obtained through outsourcing. Assume that a medical practice is billing \$1,000,000 per year and needs three billing clerks to handle this level of activity. Service bureaus traditionally charge 5% to 9% of gross billings for this kind of service, so the cost of billing for this practice would range between \$50,000 and \$90,000. If one billing clerk earns between \$22,000 and \$25,000 yearly salary, three would cost the practice between \$66,000 and \$75,000. This figure represents the base cost of payroll. Payroll taxes, which include the employer's share of social security, and federal and state unemployment taxes, add approximately ten percent to the base cost. Fringe benefits, which include pension and profit sharing plans, medical insurance, disability insurance, educational reimbursement, sick pay and personal time, can add another ten to thirty percent to payroll cost in sum, the cost of payroll could jump to a range of \$79,200 to \$105,000 when these additional charges are added.

***Other Expenses.* What about other expenses?** In-house billing clerks need **space** in which to work. Assume the billing clerks occupy an area that is 150 square feet of space. If you

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are renting space for \$15 per square foot, you are paying an additional rent of \$2,250 just for those employees. This is just the base cost. Usually there are add-for increases in property taxes and maintenance services. Additional costs include **utilities and office supplies**. **Postage** is an expense, which is commonly overlooked. Some service bureaus, but not all, include this in the cost. These expenses increase the cost of doing business and reduce your bottom line.

Finally, when you have someone performing an in-house function, that person needs **supervision**. If you hire an office manager to supervise billing staff you must still monitor the office manager. This will take away from the time you have to see patients. Outsourcing the billing function allows the practitioner to be more focused on the core business, providing patient care.

Using a service bureau may not be the answer for everyone. A neurosurgeon might have a relatively small number of patients and corresponding caseload. But before you dismiss the idea of outsourcing completely, figure out how much it is costing you to do the billing in-house. You may be in for a surprise.

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