

IN-HOUSE OR OUTSOURCED BILLING

This tool describes the organizational capacity needed to implement in-house or outsourced billing and illustrates the differences between the two options, so that clinics may choose the option that best fits their circumstances.

Medical billing is one of the most complicated aspects of running a medical practice. With thousands of possible codes for diagnoses and procedures, and multiple payers, the ability to have efficient billing is a real challenge. There isn't a one-size-fits-all solution when it comes to medical billing, but the two main options are in-house billing through a practice management system (PMS), with or without an electronic medical record (EMR), or outsourcing to a medical billing company.

In order to determine whether to keep billing services in-house or to outsource them, you should conduct a cost-benefit analysis to weigh the costs of billing to your agency for personnel, training, technology, and other resources versus the cost of contracting with an outside organization.¹ For more information, read Chris Thorman's article, [Should You Outsource Your Medical Billing?](#)

¹ Thorman, C. *Should You Outsource Your Medical Billing?* March 6, 2010. <http://profitable-practice.softwareadvice.com/when-should-you-outsource-your-medical-billing-1032610/>

DEFINITIONS

In-house: Staff of a clinic or health department are responsible for all aspects of revenue cycle management. They submit claims to a clearinghouse, directly to Medicaid, or to the insurance company for reimbursement. They also set charges, collect patient fees (copays and deductibles), and manage the accounts receivable.

Outsourced Billing: Providers may outsource their medical billing to a third party known as a medical billing service. These billing services typically take a percentage of a practice's collections as payment for managing many aspects of a clinic's revenue cycle. There may be recurring monthly fees as well.

Clearinghouse: Not to be confused with an outsourced billing agency, a clearinghouse is a company that accepts electronic claims from a medical group's practice management software (PMS). The clearinghouse "scrubs" the claim with software that identifies obvious data entry errors and possible reasons for rejections. For example, if the date of birth is missing on the claim, the clearinghouse will flag the claim as incomplete and sends it back to the clinic. It then puts the claims in a universal format and sends them electronically to the insurance companies for processing.

Some clearinghouses provide more services than others. Often clearinghouses partner with an individual PMS. The PMS company recommends or contracts with the clearinghouse. Sometimes the medical group pays the clearinghouse directly; other times it is included in the service bill from the PMS. Fees are usually charged on a per claim basis with a minimum charge.

GENERAL BILLING CONSIDERATIONS

There are three overarching considerations when evaluating whether to implement in-house or outsourced billing: 1) the cost, 2) a clinic's capacity to execute billing, and 3) how to maintain confidential health services while billing. Costs will vary by the number of annual claims a clinic submits and its existing internal capacity to carry out billing functions. Regardless of whether a clinic bills in-house, it should be prepared to do some billing functions, like collecting insurance and demographic information necessary to process the claims. Lastly, it is possible to bill and provide confidential services, but a clinic must develop a set of policies and procedures and contracts with outsourced billing companies that are consistent with the goal of confidential billing.

- 1. Cost of billing.** It is important to investigate the costs of in-house and outsourced billing. Before doing that, your clinic may also want to do a cost-benefit analysis of billing in general. For some small clinics (fewer than 500 claims per year), there may not be enough revenue to cover the fixed costs of billing. It is important to do a [cost-benefit analysis](#) to ensure that the clinic can expect a net income.
- 2. Clinic capacity to execute billing functions.** Whether billing is in-house or outsourced, many billing activities must be maintained within a clinic. It is responsible for submitting accurate, timely billing information to the outsourced billing agency or to individual third-party payers. A clinic is responsible for insurance verification, patient registration, and coding. It will also need to have processes in place for identifying and correcting errors as an ongoing part of the revenue cycle.

3. Confidential health services are important function of STD clinics. Be sure that written billing policies reflect processes in place to ensure services are confidential, when confidentiality is requested (see [Confidential Health Services Algorithm](#)). Clinics should have clear written billing policies on how to handle bills and balances that are patients' responsibility (see: [Best Practices for Confidential Billing](#), [Sample Billing Policy and Procedures](#) and [Sample Cash Control Policy and Procedures](#)).

TIPS FOR CONTRACTING WITH OUTSOURCED BILLING COMPANIES

The outsourced billing company should offer the following:

- State of the art billing software
- Access to individuals with expertise in medical coding and billing
- Access to staff who are up-to-date with regulations and recent changes to regulations. Keeping clinic staff and billing systems up-to-date with the latest billing rules can be time-consuming for providers and health department administrators
- Coding and billing rules and regulations training for clinic staff
- Timely and effective accounts receivable management assistance
- Ability to identify coding or registration problems and to communicate those problems to appropriate clinic staff when necessary
- Comprehensive performance reports and data extracts monthly, and also upon request
- Successful level of denial appeals

A COMPARISON OF IN-HOUSE BILLING AND OUTSOURCED BILLING

Below are some of the “pros” and “cons” you may want to consider before making the decision to bill in-house or use outsourced billing services.

TABLE 1: IN-HOUSE BILLING PROS AND CONS

In-house Pros:	In-house Cons:
<ul style="list-style-type: none"> • Control billing functions. If existing employees have the capacity to execute medical coding and billing, your administrators and providers will appreciate having hands-on control of financial operations through in-house billing, and receive all the profits. • Accessibility. Should issues arise, the accessibility of your in-house billing department will be a major advantage, since all it takes to observe the billing process and address any problems is a walk to the billing office. • Maintain patient confidentiality. Maintaining patient confidentiality is one of the most important issues for STD clinics. In-house billing allows for strict control over patient accounts. 	<ul style="list-style-type: none"> • Costs. Upfront expenses include labor, costs for technology, hardware, billing software and training, and ongoing expenses for maintaining the billing system. Also, updates or changes to billing software can be complicated and costly. • High level of billing capacity needed. Determining your expected revenues, managing partial payment and denials, and collecting co-pays and deductibles after the time of the visit are time-consuming processes that take time to master. • Ongoing training needs. If training of your staff and billing capacity (including coding, billing execution, and billing technology) are not kept up-to-date, there may be higher rates of denials, un-appealed claims, and lower reimbursement rates. • Dependent on a few staff. If your billing department consists of only one or two staff members, the operations—and cash flow—may be disrupted when even just one employee gets sick, goes on vacation, takes a leave of absence, or resigns.

TABLE 2: OUTSOURCED BILLING PROS AND CONS

Outsourced Pros:	Outsourced Cons:
<ul style="list-style-type: none"> • Cost. Outsourcing billing is less expensive for clinics starting to bill or with a small number of annual claims. • Timely. It can be quickly implemented without spending a lot of time and resources training staff on how to do billing and accounts receivable. • Minimal staff billing expertise. Staff must collect insurance and demographic information and ensure that coding, documentation, and quality assurance mechanisms are in place, but they do not have to handle individual claims or reimbursements. • Benefit from experience. Because outsourced billers work with a large number of clinics and third-party payers and process a lot of claims, outsourced companies are more likely to identify denial trends, new edits, or other reimbursement issues more quickly than your clinic would billing on its own. • Many program options. Some billing companies that have their own practice management software will offer various levels of services. The relationship may start with the outsourced billing company billing on behalf of the clinic, and advance to the clinic billing directly. This approach allows for billing to begin quickly, organizational learning to occur while billing is being done by the outsourced billing company, and time to assess when it would be best for the clinic to take over billing. • Minimal IT needs. Outsourced billing agency will accept claims through a secure website, via fax, or by mail. 	<ul style="list-style-type: none"> • Maintain and oversee contractual obligations. Someone from the clinic must oversee the contract and ensure that contract obligations on both sides are being met. • For small clinics, difficulty finding outsourced billing company. Typically billing service fees from outsourced companies are based on a percentage of collection and the fee is generally higher per claim for a lower volumes of claims. Some billing companies will not contract with small sites; they may have a minimum number of claims for them to contract with a clinic. • Less control over patient accounts. It is important for a clinic to prescribe to the outsourced billing company which patients should/should not be billed for services to ensure that confidential services are maintained.

SAMPLE COMPARISON OF IN-HOUSE VS OUTSOURCED BILLING COSTS

If your clinic has the internal capacity to do in-house billing, you may still want to do a cost comparison of in-house billing to an outsourced billing agency to determine which option is the most cost-beneficial for your clinic. Below is a sample analysis of accounting for costs and projected revenue.

Sample Comparison Assumptions:

The analysis assumes one practitioner, 20 claims/day, about 4,000 claims/year at \$125/claim, or \$500,000 in gross billings.² Costs for system purchase, initial hardware, set up, and initial training have NOT been included. These costs are dependent on system selected, size of practice, number of sites and/or practitioners, whether or not you are purchasing PMS and/or an EMR, customizations required, hardware and storage needs, among other factors.

² Thorman, C. *Should You Outsource Your Medical Billing?* March 6, 2010. <http://profitable-practice.softwareadvice.com/when-should-you-outsource-your-medical-billing-1032610/>

TABLE 3: ANALYSIS FOR ONGOING COSTS

	In-house	Outsourced
1. Billing department costs*	\$29,500 <i>(.5 FTE billing specialist, salary plus benefits, ongoing training, ancillary office/supply costs)</i>	\$1600 <i>(2 hrs/wk at \$15 hour managing information)</i>
2. Software costs	\$4,400 <i>(practice management, data storage, system upgrades, etc.)</i>	\$0
3. Hardware costs	\$2,400 <i>(ongoing hardware costs)</i>	\$750 <i>(computer/printer needs to interact with billing service)</i>
4. Direct Claims Processing costs	\$1,200 <i>(clearinghouse fees)</i>	\$24,500 <i>(assumes 7% fee of 70% collection rate of services billed)</i>
5. Percent of billings collected*	60%	70%
6. Collections	\$300,000 <i>(gross billings multiplied by 60%)</i>	\$350,000 <i>(gross billings multiplied by 70%)</i>
7. Collection costs (sum 1-4)	\$37,500	\$26,850
8. Net Collections	\$262,500	\$323,150