Radiology Billing: In-house or Outsource?

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Radiology billing is a challenge, if for no other reason than sheer exam volume and the number of procedures and and diagnosis codes involved. But an increasingly complex regulatory environment and the spread of managed care have demanded an even more sophisticated billing operation. The result? Radiology business professionals have had to tackle higher costs for employees and training, and address the need for closer monitoring of accounts receivable, dedicated claims follow-up and a formal regulatory compliance plan.

When is it better to handle billing in-house and when does it make sense to use an outside billing company? It depends. While this question usually arises as a cost/benefit issue, it is, in fact, much more complex. It behooves the radiology group to periodically review and evaluate all billing-related issues, even if it appears things are going well with the current effort.

Quality of Management
Experience alone is often not enough in today's environment and managers with the requisite skill base are difficult to find. In fact, in addition to dealing with a shortage of radiologists, practices around the country are expressing frustration with the limited number of top management people available who have the background and skills needed to handle the issues of a larger (eight or more physicians) or growing radiology practice. The location and/or size of the group may lead to problems attracting and paying for top-level talent. In addition, groups must be committed to providing ongoing training and opportunities for professional development.

Over the years, a number of radiology groups have formed billing companies as separate businesses and can sometimes offer top management expertise to their clients, although the group must realize that the attention of these managers is shared with other practices as well. If you have access to this level of executive skill levels through a billing service, you can expect your fees to reflect that. It won't happen with bargain-basement pricing. In other words, if you're paying rock-bottom prices, you're probably not getting the type of attention and oversight your practice needs.

Credentials alone, however, are not enough. The billing company’s management team should be able to demonstrate hospital-based radiology experience because radiology billing is more difficult than most other specialties, and the hospital relationship carries definite implications about the quality of billing information and its related problems.

Compliance
Too many radiology groups are still in denial regarding the risks of operating without a compliance plan and the benefits that a formal plan can provide. Those who were early adopters often viewed the compliance plan as an insurance policy, and discovered that, if done correctly, the benefits are derived through prevention rather than when disaster occurs. Not only have groups been able to correct potentially costly problem areas, but they have also found that standardization of processes and internal audits have improved efficiency and profitability. However, the costs to develop and implement a plan need to be included when calculating the cost of an in-house billing operation, especially since this task may be beyond the capabilities of the existing staff and require outsourcing.

A billing company needs to be able to demonstrate a working compliance plan; that is, one that goes beyond a token implementation and truly monitors the work of its clients. It is important to ask how your group will be handled, along with what reports and feedback you will receive. What kinds of problems has the billing company uncovered in the past and how were they handled? Who serves as the compliance officer and is this person dedicated to that position?

It is also important to note that relying upon a billing company for compliance does not absolve the radiologists from responsibility. In fact, both parties are responsible for actions and errors, and the
practice has a “know or should have known” expectation from the federal government regarding the activities of the billing company. In addition, the Office of Inspector General’s Guidelines for Third-Party Billing Companies state the billing company should blow the whistle on noncompliant groups, so it is important to do some due diligence homework in this area before outsourcing billing/collections functions.

**Employment Issues**

Having nonphysician employees results in a certain inherent “hassle factor” in terms of complying with labor laws, in addition to the regulatory requirements of workers’ compensation others include, the Americans with Disabilities Act, the Family and Medical Leave Act, the Occupational Safety and Health Act and more.

Just as it is more difficult to find top management talent, it is increasingly more expensive to find and retain quality employees with good basic skills and a work ethic. The regulatory climate alone challenges the long-standing philosophy of many groups to hire at minimum wage and train internally. The employee who flipped burgers yesterday and is handling your insurance claim follow-up today is guaranteed to make too many mistakes that lose money and exponentially increase your risk of compliance problems.

An outside billing company ameliorates the direct employment hassles, but it’s important to remember that the billing company is in the same boat; they too are faced with the problems of finding and retaining good employees. That makes it important for you to determine whether you will have experienced people assigned to your account and to validate the backgrounds and experience of the supervisors or "leads" assigned to your business. In addition, what is the billing company's turnover rate and how do they handle training in terms of skill development and compliance issues? Again, if you have a "really good deal" in terms of fees, the company is likely to hire less-qualified employees, or overload them so they cannot provide necessary follow-up or are chronically backlogged in work.

**HIPAA Readiness**

Preparing for the implementation of the Health Insurance Portability and Accountability Act (HIPAA) regulations will require a commitment from the radiology practice. An estimated 75 percent of HIPAA has been described as "administrative," reflecting changes in policies and procedures, training, documentation and standardized processes. Practices with working compliance plans will have a smoother transition, but the implementation of HIPAA represents a huge cultural change in the traditionally informal business operations of a radiology group. It will be important for the group to invest in sufficient resources for management and staff (including time) or to seek qualified guidance through outsourcing.

Just as in fraud and abuse compliance, the burden for HIPAA compliance cannot be totally shifted to the billing company. Nor should a group accept a blanket statement that the billing company is "HIPAA-compliant" without validating how the organization is approaching the complex demands of the regulations. Unless they are highly specific about where they are, what expertise they have (or have hired) and what will be implemented when, it is best to remain skeptical about their readiness.

**Cost**

Cost is usually the driving factor when a group is weighing whether an in-house effort is better than outsourcing. This frequently becomes an issue when a new billing system is needed, when collections effectiveness has diminished or when the group looks at a billing overhead line item at the end of the year and decides there has to be a cheaper way to do this. However, cost is a relative issue and needs to be factored in with the other considerations mentioned.

Generally, in-house costs for a billing department should be less than the costs to outsource, since a billing company needs to make at least a minimal profit. However, this can be a deceptive conclusion, since most radiology groups have difficulty isolating pure billing costs from other administrative overhead associated with contracting, licensing, credentialing, financial services and oversight, quality program administration and the myriad of other services provided by nonphysician personnel at the practice. In addition, although in-house billing costs may appear to be cheap compared to those of a billing company,
the group’s computer system and personnel processes may be ineffective and hopelessly outdated, causing costs to rise.

The billing company is frequently viewed as a valued alternative because employee salary and benefits costs are off-loaded. More importantly, there can be significant savings in that employees are not involved in the usually generous practice retirement plans. On the other hand, the billing company faces many of the same computer system challenges as the practice, and it’s important to know if the system has been regularly upgraded and offers the productivity features of newer software solutions. The billing company also needs to be able to demonstrate that it operates efficiently or your group will bear the additional costs (through lost revenue) for claims that go unworked or for front-end processes that are not addressed and corrected. Again, bargain pricing is usually no bargain. The group paying in the 6 to 9 percent range (of net collected professional component revenue) is probably getting little more than a statement mailing and payment posting service, with often hundreds of thousands of dollars in lost revenue each year.

Control.

Cost considerations are often outweighed by a desire for control by the group. Maintaining an in-house staff allows the group to establish its own policies that, for example, require staff members to work small balances or private pay accounts more persistently than a billing company can afford to do. Why is that? Those last few percentage points, in terms of collections efficiency, are the most expensive to achieve, but can make sense with an in-house staff. They don’t make sense for the billing company to pursue because profit margins at this point decrease dramatically or disappear altogether. The trade-off is probably more philosophical for the radiology group, but those last percentages captured can add up to significant dollars over the course of several years.

Physician-employed staff can be involved in other nonbilling aspects of the practice, including business development, oversight of financial management, proforma development for new projects, negotiations and relationships with the banking community and other areas that will make the physicians’ lives easier. Some physicians cannot imagine life without “their own people” and wouldn’t have it any other way.

The billing company, by virtue of its contractual relationship, implies a more formal and less "familial" relationship. Some groups find that desirable, but it is important to note again that it is unacceptable for physicians to abdicate responsibility for the performance of their businesses (and radiology is a business) by failing to be involved in some level of physician oversight. There is a need for strong communications between the billing company and the group and for a high level of confidence in the leadership of the billing company. Reports need to clearly illustrate how the practice is doing through the identification of strong, consistent key indicators. On the other hand, if there are problems, there should be evidence of proactive resolution by the billing company. The delicate balance between trust and performance is often tested.

How Do You Evaluate What’s Best?

While the answer to this question will be as individual as the radiology group involved, the following items should be presented to group members for discussion:

What is the status of the current collections effort? Has it been consistently strong or are there declines in effectiveness over the past year or so? Request that your management team provide you with multiyear reports that review exam volume, modality mix, payor mix, charges, collections, adjustments and write-offs. Are there troublesome inconsistencies, trends or apparent problem areas? Is there necessary infrastructure in place (either in your own operation or with the billing company)? Request to see a working compliance plan and results of audits (there should be improvements noted). Are there written standard operating procedures for billing and collections processes? What kinds of problems are the staff members facing with the computer system? Are there written policies and procedures for cash control that minimize embezzlement risk? What is the longevity and what are the qualifications of the staff? Is there an alarming rate of turnover and can the reasons be documented by exit interviews?
Do you have a level of communication with your practice management (or billing company management) that gives you confidence? Are your questions answered openly or met with a defensive attitude? Has your management team worked to keep their skill levels up-to-date? Does your practice manager just seem to come to you with problems and tales of woe, or are you provided with suggestions for improvement and strong problem-solving abilities? Is there evidence your staff is keeping up with the times, or do you get a feeling of “we’ve always done it this way” instead of ongoing analysis and process improvement?

If there are problems with your current situation, what are the likely costs to make a change or upgrade capabilities? Is the group willing to accept the risk that comes with changing how things are done? For example, there is usually less risk if the group invests in in-house process improvement, than if the group changes from in-house to billing company or vice versa. The decision to change methodologies is not one to be taken lightly.

How important are the issues of cost versus control for the group? Can members of the group make the kind of decisions that might be good business but might result in the termination of a kind, sweet and loyal (but maybe ineffective) employee of 20 years?

As with many business solutions, it is virtually impossible to rule out emotion and work strictly with cold hard facts. The decision to keep or change billing methodologies is difficult and, unfortunately, there are no risk-free options. It is important to gather and analyze facts, and discuss the risks and rewards of the alternatives—rather than to place too much emphasis on being good businessmen who can drive a hard-bargaining negotiation for the lowest possible rates (or internal employee costs).

Just as quality is important to your physician colleagues, it pays off in business operations as well. The best radiologists in the world can have great credentials and deliver well-respected services, but be totally undermined financially by a poor billing and collections effort. When this happens, at best, the group settles for lesser salaries and at worst, it loses large sums of money and faces Medicare exclusion or penalties.

Patricia A. Kroken, FACMPE, has written numerous articles on radiology management topics, in addition to giving presentations on a state and national basis. She is immediate past-president of the Radiology Business Management Association and is a fellow in the American College of Medical Practice Executives. If you have questions regarding this article or specific topics you would like to see addressed in an upcoming “Business of Radiology” article, please contact Kroken at (505)/ 856-6128 or pkroken6264@msn.com. To learn more about the RBMA, please call (888) 224-7262 or visit www.rbma.org.