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WHAT EVERY RADIOLOGIST SHOULD KNOW ABOUT MEDICAL BILLING

Most of the radiologists we know went to medical school to practice medicine, not to become experts in medical billing. At the same time, the effectiveness of the billing staff has such a huge impact on profits that it can't be ignored.

This article offers the basic formulas and benchmarks radiologists need to gauge the performance of the billing operation. It's not a comprehensive study of the various facets of medical billing, nor is it intended to replace expert guidance. However, the concepts presented here will enable radiologists in any practice environment to understand key billing measurements and put them in the proper context.

Practices vary widely on their approach to billing. Some groups have a practice manager who supervises an internal billing staff. Others outsource their billing activity to a third-party service. We refer to all of these people as the billing staff, whether internal or external. Later on we'll look at some issues that relate specifically to billing staff who are practice employees, vs. those who work for a billing company.

Key indicators

The key indicators are gross collection percentage, net collection percentage, average days in accounts receivable, and percentage of net charges to bad debt.

The gross collection percentage is your gross payments (total payments received in a given period) divided by gross charges before refunds and other payments. In other words, it is the amount of money your practice receives in payments compared to what it charges.

$\text{Gross payments} / \text{gross charges} = \text{gross collection percentage}$

Although people refer to it fairly often, gross collection percentage isn't nearly as valuable a measurement as some of the others. This figure may or may not provide a good indication of how well the billing staff is doing, as it can be skewed by the level of the practice's fee schedule.

Take, for example, a radiology practice doing about \$10 million in gross charges with gross payments of \$4.59 million. Their gross collection percentage is 45.9%. This compares to the U.S. average of about 44%, and seems to indicate that the billing staff is doing a good job.¹

For example, let's say the charges that made up the \$10 million were a 2X multiple of Medicare during the first year. But the following year, the group decided that 2X was too low for a fee structure. They decide to up their fees to a 3X multiple of Medicare.

The next year, payments remain at \$4.59 million. Were the practice to continue using gross collection percentage as the key measurement, it might suddenly discover that it has a huge problem with their billing staff -- because the gross collection percentage has fallen from 45.9% to 30.6%.

Truth is, the billing staff did no better or no worse on the collections than last year, assuming all other things remained constant (contractual adjustments, etc.). The only thing that changed was the fee structure, which was out of the control of the billing staff.

The key, then, is to measure the billing staff on what they can affect, which brings us to the best of all indicators, the net collection percentage.

Net collection percentage

Net collection percentage (NCP) is calculated by first taking gross charges and subtracting contractual adjustments. Contractual adjustments are the amount the practice has agreed to accept from its carriers. For example, a practice might charge \$100 for a certain procedure, but Medicare allows only \$40. The contractual adjustment then is \$60. The remainder is net charges.

Gross charges - contractual adjustments = net charges

Gross payments - (refunds + returned checks) = net payments

Net payments / net charges = net collection percentage

Net charges are the best indicator of billing staff performance, because the dollar amount it reflects is what the billing staff has an opportunity to collect. It is, therefore, the standard for how good a job they are doing. In order to get the net collection percentage, you divide the net payments by the net charges. This percent figure is the net collection percentage.

The net collection percentage indicates how much of the available money is being collected by the billing staff. The higher the percentage, the better job they are doing.

The U.S. average for net collection percentage is approximately 88%.² Later we'll discuss the factors that affect NCP and why some degree of variance is acceptable. The chart below shows the effect NCP can have on a practice.

Each of the above practices has \$10 million in annual charges, yet there is a substantial difference in the bottom line of the practice with an 83% net collection percentage (5% less than the U.S average), compared to the practice that has a 93% net collection percentage (5% higher than the U.S average). The practice with the 93% NCP had an additional \$540,000 in profit at the end of the year. Again, a few percentage points can make a huge

difference.

Still, there are a few problems that arise with the NCP calculation as an indicator. One comes when it is reviewed month to month. As payments lag a few months behind charges, the NCP can be inflated or deflated depending on whether charges are rising or falling. If charges are rising, the NCP will be artificially low. If charges are falling, NCP will be artificially high. This shouldn't discourage anyone from using this indicator, but it will be more valuable if viewed over a three, six, or 12-month period of time.

Average days in accounts receivable

The average days in accounts receivable indicates how well the accounts receivables are being managed. It is calculated by taking the current accounts receivable balance for a given period and divide it by the average of the same period's charges. The result is then multiplied by the number of days for the given period. We recommend that a six-month period be used.

$(\text{Total receivables} / \text{total charges in period}) \times \# \text{ of days in period} = \text{average days in AR}$

In the U.S., the average number of days in accounts receivable is 774. Obviously, the lower the number of days in AR, the better off the practice. However, this number must be balanced against your net collection percentage.

For example, if a practice has a net collection percentage of 82% and 65 days in AR, there could be a problem. From the viewpoint of days in AR, everything looks great. However, seen in the context of NCP, the days in AR could be masked by poor AR management, i.e., the billing staff could be sending money to the collection agency too quickly. This would make the days in AR look favorable, but lowers collections.

Net charges to bad debt

This is the final indicator, and shows much of the collectable billing (the money it is possible to collect) is being turned over to the collection agency. If this number is too high, it may indicate that the billing staff is not going the extra mile to collect the difficult dollars.

The percentage of net charges to bad debt is calculated by dividing average money sent to the collection agency (collector write-off or bad-debt write-off) during any given period by net charges during the same period, as follows:

$\text{Bad debt write-off} / \text{net charges} = \text{net charges to bad debt}$

The higher this number, the worse this indicator is. Collection agency fees vary nationally, but range somewhere between 15%-40% of whatever is collected. Compared with the 5%-15% range that a third-party billing company may receive as a fee, it's easy to see the lost revenue.

The ranges for net charges to bad debt are as follows:

High 12% or higher

Medium 7%-12%

Low 0%-7%

The next step is to see how much money the collector actually collects of that amount. If this figure is any more than 12%, it indicates that money was left on the table that should have been collected by the billing staff.

Factors affecting collections

So how does one determine what the average is, and whether a practice is average? After all, averages can be deceiving. A person could have one hand on ice and the other in a hot oven, with an average indication of total comfort!

There are many factors that affect collections, but none more than patient mix. If a practice has a lot of self-pay patients (often referred to as "no-pay"), then this will affect collections. The net collection percentage is likely to be too low.

The following are a range for determining a high content for self-pay:

High content 12% or higher

Medium content 7%-12%

Low content 0%-7%

If a practice has a lot of commercial insurance, it could affect the number of days in AR. Commercial insurance pays much slower than Medicare and Medicaid. It also tends to pay more. So having a high number of days in AR because of a high content of commercial insurance wouldn't necessarily be a bad thing.

Other things that can affect collections are:

The quality of data being received from the hospital: Poor data takes time (affects days in AR) and human effort (affects net collection percentage) to correct. When a hospital provides the billing staff with accurate data in a timely fashion, collections improve significantly. If the hospital provides the information electronically, it eliminates errors that occur from rekeying, and helps reduce processing errors.

Effectiveness of billing system: If the billing software/system being used does most things automatically, then it frees people to spend time collecting the difficult money, such as self-pay. In many situations, the billing staff spends an inordinate amount of time doing mundane and low-impact jobs simply because the billing software is archaic or poorly designed.

Electronic filing: Filing claims electronically can reduce the amount of time it takes to process a claim and receive payment from the insurance companies. In so doing, it lowers the days in AR.

The bottom line is that there is no easy way to determine the billing staff's effectiveness without an in-depth analysis by a professional. However, the key measurements listed can help a practice determine if it has a potential problem.

How to evaluate the practice billing staff

Anytime a change is made in the billing staff, it can be a nerve-racking experience. Whoever is managing the billing, whether internal employees or an external firm, holds the financial lifeline of the practice in his or her hands. So changing the billing staff should not be undertaken lightly.

Many radiology groups have their own employees doing the billing. It can be effective and rewarding. The advantages include:

The billing or practice manager has total control. The practice controls hiring, firing and policy changes. Many radiologists feel better knowing they are involved in the day-to-day operations of the billing staff.

The cost of running a billing operation may be lower than hiring an outside firm. Any company that does the billing has to factor in profit in addition to cost recovery. The tradeoff for the lower costs is the time and effort required to manage the operations and staff of the billing office.

However, there are times when this option should not be chosen. Here are some situations where an outside billing service might be a better choice:

Management of the billing staff detracts from the practice of medicine. The radiologists don't want to be do-it-yourselfers.⁶

The billing staff is ineffective in its collections. Many billing companies can both reduce costs and improve collections.

The practice has outgrown or outlived its current environment: computer hardware, billing software, offices, office equipment, etc. Keeping the status quo is too inefficient, and the expenditures needed to correct them are too expensive.

The practice might have state-of-the-art technology and excellent staff, but costs have gotten out of control. Hiring an outside billing company offers an opportunity to correct the inefficiencies.

Having a billing staff is affecting the group's pension plan. According to current guidelines, a functionally equivalent pension plan must be in place for employees and principals alike. Many groups want to have a more aggressive pension plan but can't afford it due to these governmental regulations. Hiring an outside billing company is one way to solve the problem, as your billing office employees now become the billing company's employees. It's important to see a tax advisor or pension advisor before making any changes in this regard.

How to evaluate the billing company

If a practice can't wholeheartedly agree to the following statements, it might be time for a new billing company:

The billing company is doing a great job at collecting money.

The practice's cash flow is seldom/never impacted by the billing company's performance.

Very few bills are being turned over to the collection agency.

The billing company is completely trustworthy.

Patients seldom or never complain about the billing service.

The billing service reports the data the practice needs to see in a timely fashion.

The fees being paid to the billing service are reasonable for the service its provides.

The billing service is helpful when it comes to things such as credentialing, fee structures, etc.

Still, it's important to remember that changing billing companies (either to another billing company or to an in-house staff) should not be taken lightly. Typically problems manifest themselves in two general categories: chronic or acute. And although the acute problems draw the most attention, it's the chronic ones that can cause the most damage in the long run, whether in cash flow, profit, patient satisfaction, or the practice's reputation.

How to maximize profit

So far we've emphasized the net collection percentage as the key to maximizing profit from a billing perspective, but there are other aspects to maximizing profits, such as setting fees and negotiating with insurance providers. There is no magic formula for making the NCP higher. It just requires doing the hard work, including:

Calling in advance to make sure the insurance information is correct.

Calling self-pay accounts to see if the patients have insurance, or putting them on payment plans.

Working the accounts hard enough so that the collection agency is barely making any money from what the practice gives it.

Occasionally practices make billing decisions based on cost, and that's a mistake. Costs are important, but many practices have put themselves in a financial bind because they focused too much on cost and not enough on value.

The key is finding the optimal value in minimizing costs while maximizing collections. There is such a thing as working too hard on billing. If it costs the group \$1.05 to collect the last dollar, it's obviously time to back off a little. However, if additional work can increase the NCP, then clearly more money should be apportioned for collection. Billing requires a fine balance that is never quite perfect. It's not unusual for practices to both lower their cost of collections and improve their NCP.

What's next?

If the calculations here show there's a problem, what's the next step? There are actually two ways to go.

The cheapest way to address the problem is to get a third-party billing company to do a free analysis of your billing. Most third-party billing companies do this for free. The practice need only provide the appropriate information.

This method is not unlike getting an insurance agent to analyze the practice's insurance coverage needs. There needs to be an understanding that the third party is looking for a mismatch between the practice's needs and its services in hopes of making a sale. So the cost involves hearing a pitch on why the billing service can do a better job than the group's current billing staff. As long as this is clear, the third-party service offers valuable information. And, after seeing the analysis based on your numbers and hearing the pitch, the group might decide that the service is indeed the way to go.

Another option is to hire a consultant, who does essentially the same thing as the billing company does for free. However, the consultant's opinion is supposed to be unbiased and free from agendas.

Either of these solutions can validate or invalidate the group's suspicions regarding its billing operation. In either case, the numbers should speak for themselves. No one should be able to give the group information that is unsubstantiated with facts and figures.

Above all, the practice must not be afraid to ask the tough questions, and not allow anyone to bury the truth in techno-babble or industry-speak. Radiologists have the right to know exactly where their money is going.

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1Source: Brandywine Healthcare Services.

2Source: Brandywine Healthcare Services.

3Periods should be defined as follows: Annual = 365 days, Six Months = 182 days, Quarter = 91 days, Month = 30 days. Source: Dun & Bradstreet.

4Source: Brandywine Healthcare Services.

5Many might consider these figures aggressive. The average recovery rate for healthcare/medical related collection accounts is 23.06 percent. Our estimate is based upon our experience. Source: American Collectors Association.

6Surveys indicate that each medical claim involves an average of six minutes of practitioner's time and 54 minutes of staff time, costing an average of \$9 per claim. Source: National Healthcare Statistics. The American Medical Association states that the average cost per claim for paper claims is \$7 - \$14. Electronic claims are \$2.50 - \$4.50. Source: American Medical Association.

Additional reprints are available from:

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