Key Considerations for Revenue Cycle Outsourcing

To effectively manage the complex workings of the revenue cycle, some hospitals, health systems, and large physician practices opt to outsource certain aspects of financial operations. Various considerations go into making these decisions, and there is no one-size-fits-all approach. In this roundtable, sponsored by Optum360, senior financial leaders discuss the benefits and challenges of revenue cycle outsourcing and key considerations to keep in mind when making the outsourcing decision.

What types of financial lifts make an outsourcing agreement worthwhile?

Don Dadds: Depending on what the engagement is, the amount of financial lift can vary. One of the first things OSF Healthcare considers is whether an outsourcing agreement allows us to tap into revenue streams that we either haven't been pursuing to date or where we haven't been doing as well as we could because we don't have the expertise necessary to achieve desired targets. We then review how much it will cost to take advantage of those opportunities and whether there is strong ROI. If an outsourcing vendor can find us $1 million dollars, for example, but it would cost us $1 million for them to do it, it's probably not worth the expense.

Mary Beth Remorenko: At Partners Healthcare, the biggest revenue cycle expense is the department's human capital. As such, reducing the expense associated with FTEs is a primary goal for outsourcing. Since we began outsourcing some of our revenue cycle, we have seen a financial lift of about $30,000 to $50,000 per FTE, making this type of agreement worthwhile.

Steve Scharmann: Before Dignity Health started outsourcing, we identified several revenue cycle metrics where we wanted to see a lift, such as cash-to-net ratio, accounts receivable (A/R) days, denials as a percent of net revenue, and so on. When we set up our current outsourcing relationship, we turned those metrics into service level agreements (SLAs), which we regularly monitor. To determine the appropriate measures, we started with the HFMA MAP keys and compared those with our organization-specific pain points to pinpoint the most relevant and measurable metrics.

What aspects of the revenue cycle does your organization outsource currently? Why did you choose to outsource these elements?

Remorenko: At Partners, we're focused on A/R follow-up and coding. We decided to zero in on these functions because they are role-based, and performance is relatively easy to measure. For coding, in particular, we felt comfortable that we had a tight enough process and quality review mechanism that we could work with a third-party vendor to ensure accuracy while reducing costs. On the A/R follow-up side, we looked to an outside resource to more efficiently tackle the low-dollar,


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high-volume accounts. For both coding and A/R follow-up, we work with offshore companies and have invested in educating these resources on our processes. Our experience has been that these vendors are able to pick up the work quickly, and there aren't any negative business or continuity ramifications.

Dadds: Right now, OSF Healthcare has a few challenges in older accounts receivable—patient and payer—and we have outsourced some of that work to get a better handle on it. As an organization, we have been spending a good deal of time on growth activities, expanding the number of hospital facilities we support. This has increased the amount of older A/R we are managing. By outsourcing that part of the revenue cycle, our in-house staff can focus on the more recent accounts and make sure we're collecting all that we should be.

We also outsource our real-time eligibility efforts, tapping into a third-party database to check that we have the right coverage on the patient record and that patients are covered under benefits. We also rely on an outside vendor for coverage discovery. The company helps us identify self-reported, self-pay patients who actually have other coverage options of which they are not aware. This is something we don't have the in-house ability to handle, so we have found it to be advantageous working with an external partner.

Scharmann: Dignity Health outsources almost all its revenue cycle operations. We have a contract with an outside vendor to provide end-to-end revenue cycle services. They do everything from admitting and patient access all the way through to billing and collections. The pieces of the revenue cycle that are out-of-scope with our vendor are charge capture and revenue integrity—we have retained those in-house.

Doug Hires: There are benefits to outsourcing discreet revenue cycle components, as well as the entire end-to-end experience. What course an organization chooses will depend on its characteristics and pain points. That said, there are some elements that are especially valuable. For instance, by outsourcing patient access, healthcare organizations can ensure the process is standardized across all access points and incorporates best practice.

Coding is another logical activity to outsource. This function requires a certain expertise among staff and robust technology to streamline the effort and facilitate consistency across the organization. Sometimes hospitals and health systems struggle to find employees with the necessary skillsets. Even if organizations do hire expert staff, the training required to keep coders current with regulations may be overwhelming and cost prohibitive. By working with a third party that is focused on delivering coding expertise, organizations can realize more accurate coding for less cost.

Outsourcing the back office also can be valuable. There's a lot to be said for having a standard service center that gives you scalability and flexibility on the billing and collections side. A centralized outsourced department can more easily support proper and regular training and implement quality control principles that enable the highest efficiencies and reliability.

How important is it to keep staff intact when considering an outsourcing model?

Remorenko: In many ways, the staff should be the primary concern. No one likes the unfortunate reality that reducing costs might mean having to cut positions. One of our strategies is to decrease onshore positions through attrition, especially in A/R follow-up, where we have a fair amount of turnover. We can make changes in this area without letting people go.

Scharmann: When we made the move to our outsourcing relationship, it was quite important for us to be certain that current staff were taken care of. Dignity Health's mission is not only to serve our patients but also our staff. We retained every employee during the transition. Either they were re-badged to the outsourced vendor or retained on our payroll. Over time, we have relied on attrition to streamline the staff further, but our initial goal was to make sure that everyone had a place to go.

Hires: Not only is retaining staff the right thing to do to support an organization's values and mission, but it also ensures you retain the institutional knowledge that resides with existing staff. Whenever Optum 360 works with a hospital or health system, we view it as a best practice to have an agreed upon employee retention plan. This may involve packages, benefits, and bonuses as part of the transition.

What is your perspective on outsourcing all aspects of the revenue cycle? If you were to fully outsource, would there be concerns around the level of control? And if so, why?

Dadds: When working with any third-party vendor, it is imperative that they be your partner, not just your contracted vendor—and that can be a big difference. We want a company that understands our culture and will do whatever they can to complement it. We also want them to understand and appreciate our goals and targets and help us achieve them. Whenever we outsource with a vendor, we take plenty of time to make sure they understand what we're about and what we're trying to accomplish. We ask them to give us examples of having done similar work in the past. Not only does this ensure they fully meet our needs, but it also avoids any surprises on their end as well.

It's a different dynamic when you outsource the entire revenue cycle. It's almost a leap of faith. You can regularly review reports and they can come visit you, but you must have a hands-on knowledge and belief that you are your vendor's number one priority. Even if they have multiple clients, any time they interact with you, you want to have the sense that you are the center of their attention. That can be difficult to do, especially as third parties grow and they're trying to grow their businesses as well.

Scharmann: We've been able to build a strong and efficient revenue cycle by outsourcing it from start to finish. It's been somewhat difficult over the four years since we began the joint venture to fully quantify the benefits of the initiative because there have been a lot of outside factors that have presented roadblocks to revenue cycle improvement, such as increasing payer denials, the Affordable Care Act, ICD-10, and so on. Even though these have muddied the waters somewhat around the effectiveness of our decision, we believe it's been a good choice overall. Our revenue cycle metrics have improved almost across the board, and we feel we are more proactive in managing day-to-day challenges as opposed to putting out fires all the time.

Before we outsourced, there was some hesitation about releasing control, and we worked hard to make sure there was a lot of transparency between us and our vendor. To lay the groundwork, we met with each of our 36 facilities' CFOs to reassure them that they still owned the revenue cycle. We created a team of revenue cycle leaders that works closely with the vendor to underscore this point. The vendor meets with the CFOs on a regular basis just as an internal department would. There are frequent meetings around denials prevention, revenue cycle performance, personnel, and so on. Our vendor also produces myriad reports, which are probably more detailed than what a homegrown department could create. There are standard reports that show us what's happening daily. Custom reports also are available if a CFO wants to dig down and look at specific payers, denials, patients, and so on.

Hires: If you have the entire revenue cycle under the purview of a single entity, you have the ability to dig deep into root cause analyses and uncover opportunities to make real change. Although you can accomplish this in a segmented fashion with revenue cycle meetings, that can be harder and less efficient. In some cases, it's easier to realize change if you have that end-to-end view. Because everyone is part of the same team, they can communicate, educate, retrain, and retool in rapid fashion, making change more efficient, effective, and long lasting.

Another advantage is the cross-segment expertise that emerges in an end-to-end relationship. This allows you to easily shift staff as needed. Also, because everyone is using a standard set of tools, it is easier to switch between roles as necessary.

To overcome any hesitations about loss of control, you must be sure there is a solid working relationship between the outsourcing company and key stakeholders in the healthcare organization. Hospital and health system leaders must feel ownership of the revenue cycle, as they did before. There also must be accountability so there is a sense of security and confidence in how the revenue cycle will be managed going forward. It's also wise to have a frank discussion about whether all skills are appropriately covered. In certain situations, it may be helpful if the healthcare organization retains control of particular areas, such as perhaps revenue integrity. Spending time discussing who will take responsibility for what and how accountability will be measured is critical to yield the right checks and balances for the relationship.

How do you measure the success, or failure, of an outsourcing engagement over time?

Dadds: We determine an ROI upfront, setting targets for minimum, middle, and high performance with charge capture, denials reduction, additional revenue achieved, and so on. We also look at the level of service and degree of communication the vendor provides because we want to be sure that we are receiving open, honest, and timely feedback and that our questions are getting answered quickly and completely. Regular meetings are important both in a formal on-site structure as well as informally, which may involve picking up the phone and having conversations that weren't necessarily planned. If we're onboarding something new, we may temporarily set up weekly touch points until the project gets underway and then move to bi-weekly, monthly, or quarterly meetings. Ultimately, it's about keeping the lines of communication open. We should never feel like we're bothering them when we pick up the phone to ask a question.

Remorenko: We have a vendor management function that we set up as part of our outsourcing initiatives. It monitors the productivity targets we want our vendor to meet and the detailed SLAs we have in place. When our vendors' performance isn't where we expect it to be, we have a formal structure to address the issue. This involves onsite and remote meetings where we review metrics and talk through the drivers for performance shortfalls, identifying ways to make changes to get things back on track.

Scharmann: We have a number of SLAs with our vendor, and some carry bonus potential if the vendor over performs. We have 11 SLAs that have bonus potential and several other key performance indicators

(KPIs) we regularly measure. These metrics allow us to know whether we are getting paid what we're supposed to get paid and whether our yield meets our expected. If these things aren't happening, then we have some work to do. Over the length of our outsourcing engagement, our yield has improved almost year-over-year.

Hires: Setting objective metrics is crucial so that both parties know what the focus is and how they can work together to enhance operational performance. Using resources such as the HFMA MAP keys to benchmark against industry standards can drive movement toward best practice. Although organizations can compete against themselves by looking at improvements year to year, it's also a good idea to gauge how other similar organizations are performing and make sure you are striving for similar targets.

How important is it for the outsourcing vendor to be technologically innovative?

Dadds: Having a technologically advanced vendor has become more and more critical as the industry continues to evolve. Health care is changing fast, and it can be hard to keep up. Organizations should have a plan for how they will use revenue cycle technology to keep abreast of the new dynamics and move forward—otherwise, they're going to get left behind. For most healthcare systems that are trying to grow and be progressive, innovation and new technology are essential to keep answering the question, "How can we do this better?"

Scharmann: Expertise with revenue cycle technology was a chief component in our decision. Although Dignity Health had the people and could contribute staff to an arrangement, we were looking for a vendor that could provide the latest technology. Because revenue cycle solutions are always evolving, it is helpful to work with an organization that keeps up with the changes. Our vendor periodically updates its solutions and continues to evolve them to keep pace with the changing industry. As they improve their technology, we benefit because they incorporate it into their revenue cycle offering.

Hires: There is only so much an organization can do to improve its performance without solid technology. You can provide training and make sure your staff is competent and well managed, and that there are enough people to support the work. However, without the right automated tools, you may still be missing opportunities. Technology plus people is what makes the revenue cycle improve.

Are there any other lessons learned you would share with organizations considering an outsourcing relationship?

Dadds: Fundamentally, you must do your due diligence and find partners that are proven and truly have the knowledge and technology to meet your needs. Moreover, you must be sure that your relationship with the vendor is one of partnership, not just a service provided. Staff at our outsourcing vendor may not receive their paychecks directly from us, but they are just as invested in meeting our goals as our staff is.

Hires: No matter what way you proceed down the outsourcing path, you should have a mutual understanding between parties about what it is you are trying to accomplish. The scope of the work and the problems you're trying to solve should be clear on both sides. Performance parameters should be measurable and targets achievable. From a cultural perspective, both sides need to understand that they are going to be working very closely. This is not an "arm's length" relationship but a tight and close partnership. I think going into an arrangement with those understandings and guidelines will ensure its success. ■