



'The good, the bad and the ugly' of revenue cycle outsourcing – Pitfalls to avoid and tips for success

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Transferring day-to-day administrative tasks involving technology, financial services and facilities management to an outside vendor has been a long-established strategy for hospitals looking to improve and streamline operations. Amid growing financial pressures, more and more hospitals are fully outsourcing revenue cycle management functions to improve key performance indicators.

Financial leaders of today's hospitals and health systems are tasked with addressing cost and capacity issues unique to current healthcare trends. High-deductible health plans, greater patient out-of-pocket responsibility, tightening regulatory compliance and value-based agreements have made outsourcing the revenue cycle a critical decision for hospital leaders.

This white paper will consider the pressures pushing CFOs and RCM executives to outsource part or all of their revenue cycles. It will also address some predictable pitfalls financial executives should avoid when outsourcing their revenue cycle management functions, and best practices to achieve a symbiotic relationship with a vendor.

The rise of revenue cycle outsourcing

By 2019, 80 percent of C-suite members, hospital boards and senior managers plan to vet or consider outsourcing their full revenue cycle management system, according to a recent Black Book Market Research [survey](#).

The same survey states nearly all hospital leaders – 98 percent – are considering outsourcing clinical and nonclinical functions to a third-party vendor. Leaders are looking to trim administrative costs so they can funnel more resources toward value-based care delivery, according to the report.

In a similar vein, 80 percent of U.S. hospitals outsource a portion of their post-service revenue cycle system to improve key performance indicators, such as accounts receivable and collections, according to a 2016 report by the Everest Group, cited in a Healthcare Financial Management Association [white paper](#).

Hospital CFOs and revenue cycle management leaders affirmed this growing trend during an executive roundtable hosted by accounting firm RSM at Becker's Hospital

Review's 9th Annual Meeting in Chicago. The trend was further echoed in a post-event survey conducted by RSM.

Some executives specifically cited the prevalence of high-deductible health plans, and the resulting increase in patients' financial obligation, as a reason outsourcing self-pay accounts has become an optimal way for hospitals to battle bad debt and protect their bottom line.

The CFO of a rural 285-bed hospital in the Northeast said outsourcing self-pay accounts improved cost efficiency, which allowed his hospital to solve debilitating capacity issues that had left self-pay accounts stacking.

"What we've given [the vendor] is complete access to our data files," the CFO said. "When they contact any of our patients and try to do a collection, they input their data directly into my files. We know exactly what the status is, and then we have our key-performance indicators that we monitor on an ongoing basis."

The hospital increased self-pay collection by 100 percent after outsourcing its entire self-pay function, according to the CFO.

The VP of revenue cycle at a 16-facility behavioral health system in the South said her system's revenue cycle department used to be completely insourced; however, the functions were siloed at each of the 16 facilities. The variability came at a high-cost to the system.

To centralize its revenue cycle department, the system completely outsourced its billing, collection and coding functions. "That did a few things for the organization," the VP said. "It actually reduced our cost to collect, and increased the utilization and consistent utilization of technology and processes across the board. And it also reduced our days to collect."

The VP added that outsourcing self-pay accounts resulted in positive cash flow for the organization.

Outsourcing pitfalls to avoid and tips for success

Opinions vary on the efficiency of outsourcing based on a hospital's technology, patient population and internal leadership.



The CFO of a 10-hospital system in the Northwest spoke about how her system has a partially outsourced revenue cycle function: Medicaid eligibility and zero balance denials are outsourced, but most other functions are in house. The CFO said there are some hurdles that organizations can experience when looking to fully outsource revenue cycle management.

"The challenge of the full outsource is around management of the good, the bad and the ugly," she said. "The good always came to the surface and the bad and ugly were always hard to find."

RSM asked roundtable attendees in a post-conference survey what pitfalls they would warn finance and RCM leaders about when implementing an outsource strategy. Executives listed two issues to avoid when tapping a vendor for revenue cycle management services: weak internal leadership and lax communication with the outsource company.

A consensus among executives was the important role leaders play in ensuring a successful and cost-efficient outsource experience. A lack of

leadership will lead to an inconsistent message relayed from the finance team to the outsourcing company. Post-event survey respondents emphasized that when the outsourcing firm does not have an open communication line with the hospital or health system, inefficiencies and problems go unaddressed.

"If a department is creating problems (i.e., not coding properly, credentialing issues) the outsourcing firm can only direct the hospital or physician group to 'fix' the coding but can't research the root cause," according to one respondent. "Thus, if the outsourcing company isn't empowered or doesn't have a support structure within the hospital organization, the problems will continue instead of being resolved." Challenges associated with outsourcing revenue cycle management are often predictable. Hospitals can mitigate potential pitfalls with the appropriate structure, alignment and strategy.

Financial leaders share quality and productivity metrics in performance expectations, including agreement on adequate staffing ratios that

support the account volumes, with perspective vendors. Once a vendor is chosen, CFOs and RCM executives must continually monitor the vendor to be sure it is fully engaged with the 'non-payroll' provider employees in the clinical departments, whether it be for unbilled reductions or denials prevention.

Financial leaders must also ensure once contracted, an outsource company is in sync with the hospital to reconcile accounts receivable and transactions. This way, hospitals can accurately and quickly capture activity in follow up and denials posting. Vendors likewise must be attuned to how a hospital's community acts and reacts. Working with a vendor who is willing to modify their processes to meet the nuances within that community is imperative, and requires extensive training.

"Ensure [outsourced] staff are appropriately and adequately trained at all times regarding the federal, state, local, and carrier rules and regulations pertaining to the type of accounts they are working for your organization," a post-survey respondent said.

Another respondent suggested hiring a liaison to collaborate with the outsource company and in-house staff members to resolve patient disputes and payment concerns. Hospitals and health systems could also consider engaging a revenue cycle consultant like RSM for support.

"Any vendor you use, regardless of the system they use to handle your accounts, needs to commit to and show their ability to learn and use your systems for research purposes," the respondent said. "You don't want them coming back to you on a consistent basis for explanations and additional information. They need to be able to do it themselves so that only exceptions flow back and the exceptions don't become the rule or the excuse for lower-than-expected performance."

Revenue cycle outsourcing should not be 'out of sight, out of mind'

Claims denials, pre-authorization processes and self-pay accounts, if not properly

managed, can eat at a hospital or health system's available reimbursement. Missed opportunities to realize accurate reimbursement keep CFOs and revenue cycle management leaders up at night.

The trend toward outsourcing the revenue cycle resembles a cost-cutting win for hospitals, but can be a managerial pain point for hospitals lacking an effective outsourcing strategy.

"Consistent to what we heard during the roundtable, we are definitely seeing an industry trend with organizations outsourcing revenue cycle operations. In fact, we actually see this as part of a larger industry trend: consolidating, centralizing, standardizing, and automating operations in hopes of reducing administrative expenses. With regard to revenue cycle operations, this may also reduce overall cost per claim, while perhaps improving revenue yield," said Jim Sink, national HC PI lead at RSM. "Depending on organizational scale and/or leadership variables, certain organizations may view outsourcing as a viable alternative with the same objective in mind; however, outsourcing is only viable if organizations recognize and mitigate the potential pitfalls inherent in an outsourcing relationship before going all in. Naively not doing so can often make pre-existing challenges worse."

Emerging technologies can offer robust monitoring, reconciliation and prompt communication with outsourcing firms. However, strong leadership, open communication between vendor and provider, as well as a shared understanding of key performance indicators remain tenets of an effective revenue cycle strategy.

"Make sure the provider has a revenue cycle executive in position who reports to the CFO overseeing the outsource and holding the vendor accountable to performance expectations," a post-event survey respondent said. "Outsourcing should not be 'out of sight, out of mind.'"