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10 tips to assess Revenue Cycle Management vendors

Outsourcing this vital service can ease strain on practices, but study the details before signing a contract

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Running a financially successful practice depends on efficient revenue cycle management (RCM). RCM describes all of the steps involved in managing claims processing, payment, and revenue generation, starting with patient scheduling and ending with payment. As practices face heavier workloads, many are evaluating whether to outsource these services.

As physician compensation moves away from fee-for-service to shared savings and outcomes-based models, and practices embrace new team-based approaches to care, calculating what and to whom monies are owed is becoming a far more complex process. Many physicians are discovering that the talent and technology needed to get the job done correctly is beyond their current capabilities, or will cost more than what they are able to invest. The solution many are considering is outsourcing.

Outsourced RCM can be as narrow as producing and sending billing statements or as large as the entire RCM cycle, says Robert Magnuson, MPA, principal advisor with Impact Advisors, a Naperville, Illinois-based healthcare consulting firm. Outsourcing aspects of the RCM cycle, or the entire process, could have a tremendous impact on a practice's finances. On the other hand, if the wrong vendor is chosen or if the relationship is not properly managed, outsourcing RCM services could have a devastating impact.

"The RCM cycle can only be as successful as the individual overseeing it," says Christopher Parrella, JD, an attorney and consultant with the health law offices of Anthony C. Vitale in Miami.

Understanding the revenue cycle

Keep the following points in mind when evaluating your revenue cycle and accounts receivable (A/R) processes:

Payment variations
Some payers take longer to pay claims than the average number of days in A/R. For example, if your practice's average number of days in A/R is 49.94, but Medicaid claims average 75 days, this should be addressed.

Accounts in collection
Accounts sent to a collection agency are written off of the current receivables, and the revenue may not be accounted for in the calculation of days in A/R. Be sure to calculate days in A/R with and without the inclusion of collection revenue.

Separate out payment plans
Payment plans that extend the time patients have to pay accounts can result in an increase in days in A/R. Consider creating a separate account that includes all patients on payment plans and determine whether your practice should or should not include this "payer" in the calculation of days in A/R.

Claims older than 90 days
Good overall days in A/R can also mask elevated amounts in older receivables, and therefore it is important to use the "A/R greater than 120 days" benchmark.

Source: American Academy of Family Physicians

The discovery phase

Before hiring an RCM vendor, physicians should go through what Magnuson calls the "discovery phase." This is when practice leaders calculate the practice's baseline performance for all RCM cycle metrics and identifies gaps or challenges. Physicians should then set objectives and goals for the practice.

Key metrics to consider when evaluluating an RCM service are costs to collect (e.g. percentage of revenue needed to collect payments) and the return on that investment.

Keep in mind, calculating cost to collect varies by practice, making it a difficult to benchmark, explains Jeffrey Milburn, MBA, CMPE, a healthcare consultant with the MGMA Health Care Consulting Group. Practice leaders should continually be looking for ways to reduce the cost to collect while moving its net collection rate as close to 100% as possible.

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According to the report "MGMA Performances and Practices of Successful Medical Groups: 2013 Report Based on 2012 Data," the median adjusted collection rate across all multispecialty practices is 96.02%. Better-performing practices have a median collection rate of 99.16%.

If outsourcing all or part of the RCM process enables the practice to move into the better-performing range without increasing its cost to collect percentage, the return on investment is clear.

In addition to increasing net revenue, RCM vendors can provide values such as fewer days in accounts receivable or managing contract negotiations with payers. Some can also conduct audits to ensure insurers are paying what they are contracted to pay.

Evaluating RCM vendors

The best way for a practice to assess potential vendors is to make a list of everything it wants to know about potential vendors through a request for proposal (RFP) process, says Sandra Wolfskill, FHFMA, director of healthcare finance policy and revenue cycle MAP (measure, apply, perform) for the Healthcare Financial Management Association (HFMA). She recommends soliciting proposals from at least three or four to get a feel for the market.

Some areas to assess during the RFP process:

1. Get what you pay for

What is the cost and what do I get for that price? The cost of RCM outsourcing can vary significantly depending on the size and complexity of required services. Some charge monthly fees while others charge a percentage of the total amount collected. Two vendors may charge similar rates, but what is included in that price can vary.

It's important for the vendor to spell out everything included in its fees, and be transparent about the services it charges extra to provide.

2. Performance guarantees

What are the performance guarantees? The potential vendor should explain how it will solve the problems the practice identified during its discovery phase and its success rate with previous clients.

Some vendor proposals may include incentives for exceeding set goals, or penalties if goals are not met.

3. Technology interfacing

What technology will the vendor provide and how will it interface with existing systems? RCM companies have economies of scale that allow them to offer a practice technology it would otherwise be unable to afford or maintain. But it should be clear from the outset what technology the vendor will supply and what will be expected from the practice, and how the vendor-supplied technology will interface with existing technology.

Innovative vendors also will describe their plans for meeting the technical demands of coming mandates such as ICD-10 or emerging care models such asaccountable care organizations, Parrella says.

4. Vendor call center questions

Where are the call center employees located? A growing number of RCM companies employ people abroad, a fact that they should disclose, says Parrella.

Practices should find out what the call center hours will be, the employees' language skills, and their knowledge of local laws and regulations.

5. Contract length

How long is the contract? A practice may want to outsource RCM for only a short time to get through a growth or transition period, says Stephanie Davis, director of revenue cycle services for Halley Consulting Group, a physician practice management and consulting firm in Westerville, Ohio.

If short-term contracts aren't an option, the practice may lose money if it decides to terminate early.

6. Termination clauses

What are the termination clauses? Find out how the practice can get out of the contract if the vendor doesn't hold up its end of the contract or what penalties, if any, will apply if the practice opts out of the contract early.

7. Industry best practices

Are employees certified and familiar with industry best practices?

HFMA, the American Association of Healthcare Administrative Management and others set industry best practices vendors should know. These organizations also certify RCM professionals, ensuring that clients have knowledgeable representatives working on their behalf.

8. HIPAA considerations

What security mechanisms are in place to deal with sensitive protected health information?

As a business associate to the practice, the RCM company should be able to provide potential clients with risk assessments and explain what measures they take to remain compliant with the Health Insurance Portability and Accountability Act (HIPAA).

9. Vendor reports

What reporting is provided? The most effective way for a practice to assess its vendor's performance is through reporting.

Reports should be provided regularly—more frequently in the beginning of the relationship—that include, at minimum, an analysis of accounts receivable, the percentage of accounts in receivable for 60 days, 90 days or 120 days, and a breakdown of payers and providers with accounts in each category.

The reports also should provide a breakdown of the who and why of denials, and the lag time between date of service and when bills are sent out.

10. Money transfers

Where to and how often is money transferred? According to Milburn, some RCM vendors first collect on behalf of their clients, then send a check once a month, or they send the money to a lock box. Others post the collections in real-time via direct deposit.

The way the RCM company handles this could affect a practice's ability to meet its financial obligations.

An extension of the practice

Once the questions are answered and the potential vendors are narrowed down to two or three, one of the most crucial parts of the evaluation can take place: talking with and meeting current clients.

Ideally, Magnuson says, the references should be a mix of clients the vendor landed within the past year and those they've had more than three years. The references should be able to share how their financial performances improved while working with that vendor.

The references should also be asked to share their experiences with implementation and talk about any surprises or unexpected events they encountered. Wolfskill recommends site visits to get a feel for the integration between practice and vendor.

A barrier many practices face when deciding whether to outsource is the feeling of a loss of control. But that is the wrong way to view things, says Davis.

"Even if you outsource the whole kit and caboodle, you still have to own it at the end of the day. And a lot of times that staff is going to be under your direct management," she says. There are also aspects of RCM that will remain the responsibility of the practice, despite the outsourcing.

The contract should state clearly the scope of services to be provided by the vendor and detail who touches what part of the process.

The practice should also make clear how it expects the RCM company to conduct itself with patients and the tactics it can use, according to Magnuson.

"The outsourced vendor can use anything allowed under the fair credit reporting act," he says. If they use tactics the practice is uncomfortable with, the practice will be caught in the middle, causing a huge strain on the doctor-patient relationship.

There should be a seamless transition between in-house employees and the RCM vendor's employees, and patients should expect the same level of service from both.

"At the end of the day, I feel like the best revenue cycle management service lines really act as an extension of your practice or organization," says Davis. "To the patient, it doesn't seem like they are calling yet another company or they are reaching out to someone who is not within the four walls of the practice."