Crowe

Crowe RCA Benchmarking Analysis

Considering Revenue Cycle Outsourcing? Look (Here) Before You Leap

You might be disappointed if you're expecting "show me the money"

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Audit / Tax / Advisory / Risk / Performance

Smart decisions. Lasting value.℠

As health systems continue to diversify their operations – adding insurance capabilities, expanding ambulatory networks, investing in innovative startups – the need for specialized operational expertise becomes more necessary. Although piecemeal revenue cycle outsourcing (for example, bad debt accounts, self-pay collections, aged third-party receivables) has occurred for many years, the full outsourcing of entire revenue cycle operations has happened at a very slow pace overall. In general, the first adopters were organizations whose management determined that the broader benefits (consistency of performance, ability to scale, and access to technology) made the investment worthwhile. More recently, many hospitals and health systems have considered or discussed the full outsourcing option, but a general lack of precise performance data has inhibited these decisions … until now.

For purposes of this report, Crowe focused on two measures that appeared to have material differences in performance. Other metrics analyzed but not reported include accounts receivable, uncompensated care, credit balances, and cash as a percent of net AR. To inquire about these additional metrics, please contact Crowe (see back cover).

More than **1,000** hospitals nationally have implemented the Crowe Revenue Cycle Analytics (RCA) solution to capture every patient transaction for purposes of automating hindsight, accounts receivable (AR) valuation, and net revenue analyses. Within its benchmarking database, Crowe analyzed a portfolio spanning **45** states comprising **553** hospitals within Medicaid expansion states and **378** hospitals in nonexpansion states, as of 2018. Crowe combines financial transaction information **with 835/837 account level to produce comparative metrics** for approximately 950 hospitals. These metrics include: accounts receivable, **denials, bad debt, credit balance and cash to expected pay**. Crowe analyses of full outsource revenue cycles to insourced (hospital run) revenue cycles revealed the following:

1,000+ hospitals have implemented nationally

45 states in the benchmarking database portfolio

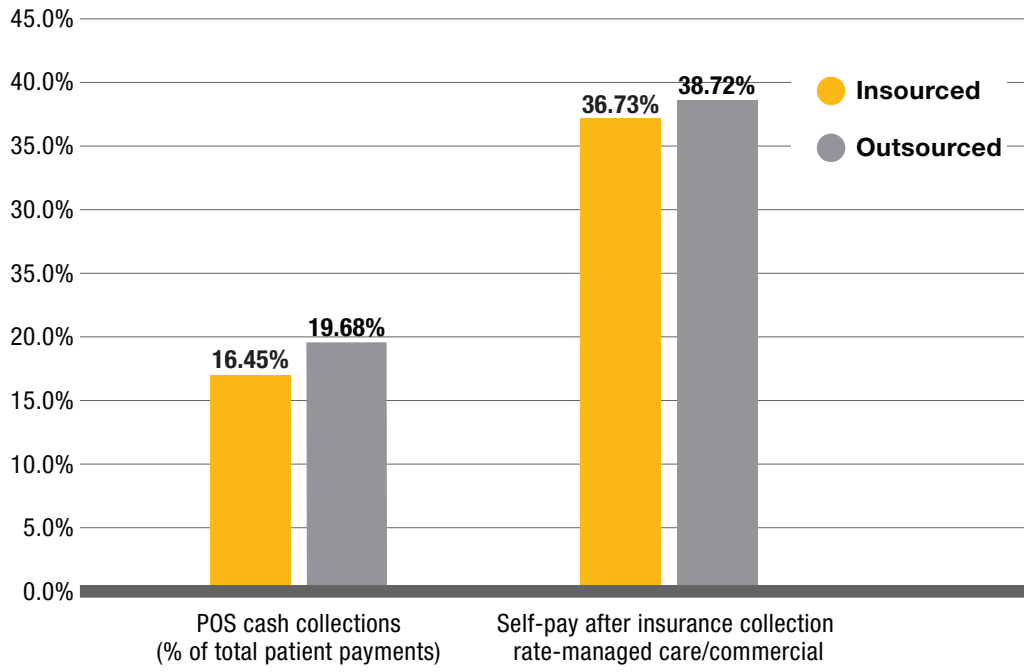
553 hospitals within Medicaid expansion states

378 hospitals in nonexpansion states

Crowe analyses of full outsourced revenue cycles compared to insourced (hospital-run) revenue cycles revealed the following:

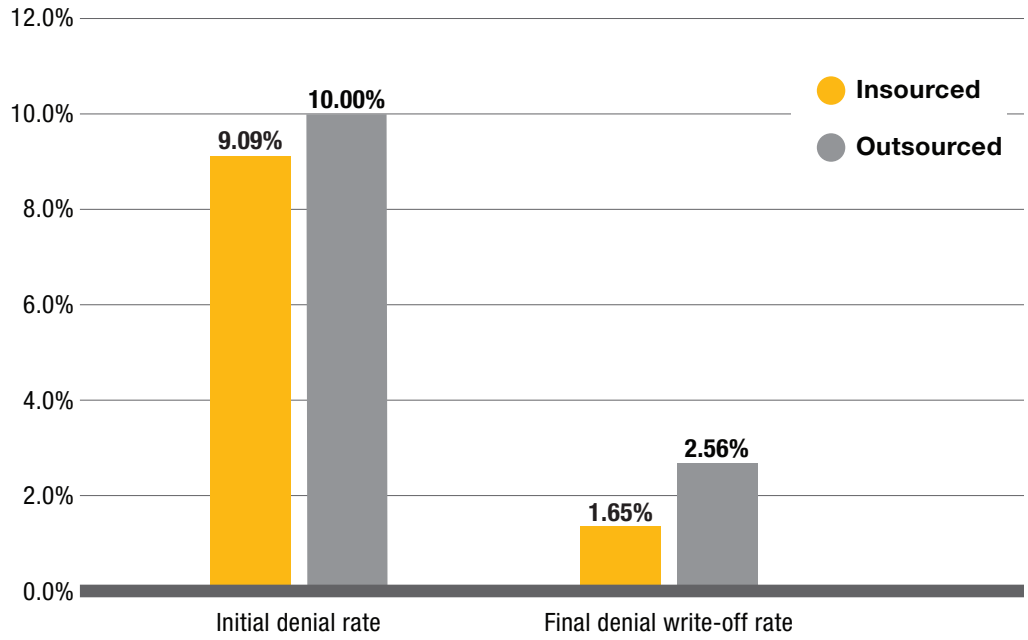
Hospitals that outsource their revenue cycles collect more patient balance payments, but it takes much longer. Related to the sensitive area of point-of-service (POS) collections from patients, insourced revenue cycles collect a lower rate (16.45 percent) as a percent of total patient collections versus outsourced revenue cycles, collecting at 19.68 percent (Exhibit 1). In addition, self-pay after insurance collection rates are two basis points higher for outsourced revenue cycles than for insourced (38.72 percent versus 36.73 percent). However, the uninsured/self-pay collection cycle for outsourced revenue cycles is much longer – 109.4 days versus 76.3 for insourced.

Exhibit 1: Patient collection comparisons



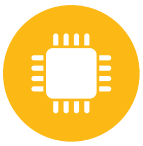
Hospitals that outsource their revenue cycle exhibit higher denial rates and higher final denial write-offs. Accounts that are initially denied require intervention or correction in order to secure full payment. Initially denied accounts that cannot be sufficiently corrected become final denial write-offs. Approximately 9.09 percent of patient accounts have an initial denial for insourced revenue cycles, whereas outsourced revenue cycles show a 10.00 percent initial denial rate (Exhibit 2). For an average 400-bed hospital, this represents an additional $22.7 million of revenue, which requires additional efforts to secure payment. Final denial rates also exhibit some performance difference, with insourced revenue cycles noting a 1.65 percent final denial rate and outsourced revenue cycles exhibiting a 2.56 percent final denial rate. Some of the final denial rate differential may be associated with inappropriate use of transaction codes.

Exhibit 2: Denials comparison



Although financial performance is an important element in the decision to fully outsource entire revenue cycle operations, it's not the only criterion. Many health systems also consider these benefits of outsourcing:

Lower cost structure overall (while achieving similar performance)



Access to consistent, advanced revenue cycle technology

Access to centralized talent pools (versus geographically disparate talent)

Ability to scale operations (such as adding facilities or other entities)

The decision to outsource any core function (such as revenue cycle) is complex and should involve several management disciplines – finance, human resources, information technology, clinical operations, and managed care. The key management principle should be precise, transparent measurement of performance (sometimes validated by third parties), financial benefit, and progress toward organizational goals.

The Crowe Revenue Cycle Analytics (Crowe RCA) solution was invented by Derek Bang of Crowe LLP. The Crowe RCA solution is covered by U.S. Patent number 8,301,519.

Learn More

For more information on the Crowe RCA benchmarking program, please visit crowe.com/benchmarking or contact:

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