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Medical Billing Services: Percentage vs. Flat Fee Pricing Structures

Many healthcare providers are turning to third party administration for medical billing and professional medical billing companies to improve their reimbursements and increase collections. As each opportunity is considered, practices should evaluate the rage of possibilities when is comes to pricing of services.

As the business of running a medical practice becomes more competitive, many practices are turning to a third-party medical billing service for cost effective solutions to maintain maximum profitability. In evaluating any medical billing service agreement there is an array of factors that should be taken into consideration - pricing of services is principal among them. This article compares the two most common pricing approaches offered by medical billing services – Percentage Based Agreements and Flat Fee per Claim – and identifies some of important points to remember when selecting a medical billing service provider.

Percentage Based Agreements: Probably the most common approach to pricing by medical billing services is the percentage based agreement. In this type of agreement, the medical billing service's fees to the practice are based on a percentage, usually in one form or another of the following:

Percentage of collections,
Percentage of gross claims submitted by the billing service,
Percentage of total collections for the overall practice.

With the first type above, percentage of collections, the medical billing company charges the practice only on net received for those claims in which it has directly assisted in collections (typically excluding monies collected at the office, such as co-pays, deductibles, etc.). This is the purest example of how a percentage based agreement will tie the medical billing service's success to the practice while safely limiting it to that which they have some measurable ability to affect. This type of percentage based agreement benefits the practice by its "self-policing" quality- the medical billing service only makes money when the practice makes money.

In our second type, percentage of gross claims submitted by the billing service, the practice is charged a percentage of the total amount submitted to insurance companies and other payers. This can be tricky for two reasons. First, the rate billed to an insurance company is not always the same as the negotiated rate that will be paid. So a seemingly competitive percentage from one medical billing service can be drastically different from another medical billing service depending on where the percentage is applied. Second, some of the incentive mentioned above is removed for follow up on claims as there is no tie-in to the results of medical billing service's submissions.

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With a percentage of the total collections for the overall practice, the billing service charges for the total net received by the practice. It includes co-pays, deductibles, and any other monies collected at the office, not just by the service. This arrangement is most commonly found with full-scale practice management companies who not only handle medical billing but might also administer staffing, scheduling, marketing, fee schedule negotiations, etc. In this arrangement, the medical billing service can be driven by incentive to follow up on claims with payers, but gains some protection to its revenues through the other sources of payment coming into the practice.

Rate Variability within Percentage Agreements: A medical billing company will consider several variables in defining the rate charged to the practice in a percentage based agreement. Rates can range from as little as 4% to as high as 14% or even 16%! Factors influencing this variability include claim volume and average dollar amount of claims, as well as service considerations like level of follow up performed by the medical billing company, whether or not patient invoices will be sent by the billing company, and many others. Let's take a look at some examples of how these variables influence medical billing service rates.

EXAMPLE 1: Regarding claim volume and dollar amount, let's consider the example of practice A and practice B. Both are looking for a medical billing service offering claim generation, carrier follow up, patient invoicing and phone support. The average claim for practice A is $1000 and they average of 100 patient encounters per month. Practice B has an average claim of $100 with 1000 encounters per month. While the gross amount billed is the same, the difference is staggering for the billing company who will need to project nearly 10 times the staff hours for practice B to yield the same return as from practice A.

EXAMPLE 2: With respect to services offered, let's consider practice C and practice D. Both practices average around 1000 claims per month, and each claim averages around $100. Now, practice C is looking for a billing service to handle complete claim lifecycle management- carrier follow up, submission to secondary and tertiary insurances, patient invoicing and support, report analysis, etc. Practice D collects patient balances at the office so they don't require invoicing services, and they plan on doing the carrier follow up themselves. Thus Practice D only requires the medical billing service generate and submit initial claims to carriers, and maybe submit a few secondary claims each month. In this example, the gross claims submitted is roughly the same, but practice C might anticipate a fee significantly higher - potentially double that of practice D - due to the extensive work involved in providing these other support services. (Keep in mind practice D will also need to consider additional staffing to perform these activities in-house, which will most likely not offset the cost of allowing the professional medical billing company to manage the process.)

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These two examples clearly demonstrate the basic factors that influence the rates when considering percentage based medical billing services. While there are numerous negotiating points where a practice can save on general costs, they should consider what other costs may arise later to manage the services not provided by the medical billing company.

Pros of Percentage Based Agreements: Percentage Based Agreements directly tie the success of the billing company to the success of the practice if they based on collections. Practices can often choose which services they require for potential short term savings.

Cons of Percentage Based Agreements: Short term savings garnered by keeping some billing activities within the practice can lead to long term costs in additional staffing. Small claims may not be addressed as vigorously. For example, consider a $5.00 patient invoice with a medical billing service charging 8% on collections. The medical billing service would actually lose money in pursuing the claim. Adding up the cost of postage, envelope and paper, as well as staff time for printing, stuffing and mailing, it would be more than the $0.40 that would ultimately trickle back to the service.

Flat Fee per Claim:

Another common approach to pricing offered by medical billing services is what we'll call Flat Fee per Claim. With flat fee pricing the medical billing company charges a fixed dollar rate for each claim submitted, regardless of the size of the claim.

Similar to percentage based agreements, flat fee per claim pricing can vary significantly depending on the volume of claims and the extent of services provided. In its most basic form, a fee per claim medical billing service might provide only claim generation and submission services for as little as a dollar or two per claim. In this case it would be the practice's responsibility to follow up on claims. Of course flat fee per claim pricing can also include other services such as follow up with carriers, patient invoicing, etc. With these additional services, practices might expect costs to increase to $4, $5 or even $7 per claim or more.

Dependent on the practice, the flat fee per claim can be cost effective, but should be considered carefully. Follow up with insurance carriers and the bureaucratic problems should not be overlooked. In some cases, once the medical billing company has submitted a claim, they might make a phone call or two; but they've done the submission and the transaction is billable to the practice, regardless of how it's paid out. Fee per claim pricing doesn't have the inherent incentive like some types of percentage agreements.

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Nonetheless, it can be the solution if you have the resources to manage the follow up, or if your familiarity with the medical billing service is strong enough to trust in their follow up.

Pros of Flat Fee per Claim: Fee per claim pricing has the potential to be more cost effective, particularly on higher priced individual claims.

Cons of Flat Fee per Claim: If carrier follow up is included with this service, the medical billing company has little incentive once the initial claim has been submitted. Moreover, it can be near impossible to evaluate how rigorously a medical billing service is following up.
If carrier and payer follow up is not included with the service, the practice must manage it in-house. Inevitably, hiring and training new staff or allocating time of existing staff leads to increased overhead, often offsetting the benefits of using a medical billing service in the first place.

Summary

When medical providers and practices consider teaming with a medical billing company, they have an array of options. Flat fees per claim may appear more cost effective in the short-term, but the potential for revenue interruption due to poor follow up by the medical billing service provider, or the need to hire and train additional in-house practice staff to handle the follow up on its own, will undermine the initial cost savings to the practice. Agreements based on a percentage of collections are self policing and ensure the medical billing service will pursue reimbursements rigorously.

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