Uncovering Your True Cost to Collect for Data Driven Performance

Sloan Clardy, Group Vice President, Parallon Revenue Cycle Services
Joey Moss, Vice President, Parallon Revenue Cycle Services

Understanding this critical metric drives new best practices in cost/benefit analysis and business case evaluation for the revenue cycle.

“Cost to collect” is no longer a peripheral finance term important only to revenue cycle leaders or controllers. In fact, industry experts are now highlighting cost to collect as a critical metric that hospitals need to understand their operating environment today and tomorrow.

Having a full understanding of your cost to collect also guides important management decisions around productivity and efficiency management, quality, budget rationalization, insourcing vs. outsourcing, how to integrate after a merger and other strategic focuses. It also positions your organization to take advantage of positive developments happening in healthcare.

Healthcare organizations need to develop future strategies based on their intimate understanding of their costs, both historical, current, and most importantly, what’s to come. What this means is it will be essential to take the time to calculate your cost to collect. As simple as it sounds, a significant number of hospitals don’t regularly calculate their true cost to collect. Or, if they do, they may not have an accurate picture of what to include due to a high degree of variability between the standard definition and their own unique operations.

This paper examines cost to collect trends and strategies, including HFMA’s Map Keys initiative, which has cast a new light on revenue cycle challenges and opportunities by enabling healthcare organizations to track specific performance indicators. It also explores the unique variables hospitals encounter when calculating their own cost to collect, and how they can use this powerful metric to make substantive revenue cycle changes.

Why Cost Metrics Matter

A Modern Healthcare survey reveals that the revenue cycle is the No. 3 area hospitals are looking to for cost savings.
A recent Parallon poll of 270 healthcare leaders revealed that close to half of the group do not track cost to collect metrics.

40% do not currently track their cost to collect.
39% use an internally developed definition.
13% follow HFMA’s definition for Map Keys.
7% work with a consultant or a third party to help define cost to collect.

HFMA MAP Keys Cost to Collect Definition
HFMA has made an important move forward in developing a definition for cost to collect. Through its MAP Keys initiative, HFMA seeks to help healthcare organizations calculate revenue cycle metrics that define their businesses. Cost to collect is a trending performance indicator that measures efficiency and productivity.

- **HFMA cost to collect definition**: “Total” Revenue Cycle Cost divided by “Total Cash Collected.” HFMA provides two options: with and without IT costs.
- **Total costs include**: patient access, patient accounting, HIM, outsourcing, benefits, subscription fees, software (optional), and “hard” IT (optional).
- **Total cash includes**: patient related settlements/payments and bad debt recoveries.

Understanding Variability
While HFMA has taken an important step in laying the groundwork for calculating cost to collect, when organizations do a deep dive, variability will inevitably appear in multiple areas. Patient access, for example, can cover a variety of things, including pre-access functions, centralized scheduling, core registration, and admitting functions. When it comes to patient accounting or patient financial services, there are functions that may or may not be completely clear as to their inclusion, such as financial counseling, Medicaid eligibility, verification activities, and cashiering. Within the detail of the definition of what organizations may include for patient accounting, however, there is also the option to include CDM maintenance, along with managed care contracting if it functionally reports up to the revenue cycle.

From an IT perspective, soft costs are always included in HFMA’s cost to collect formula. Soft costs are any technology software that is bolted on to the revenue cycle. Hard costs, however, are the optional components, per HFMA. These include servers, other hardware and core system functionality that can and cannot be included. Also, when considering 2014 data submitted to HFMA from participating organizations, there is a significant difference in cost to collect totals when it comes to submitting with and without IT costs. For example, at the 50th quartile, the average for those organizations submitting cost to collect data without IT are 3.4% of cash compared to 4.6% of cash when IT is included. This illustrates that there is significant variability throughout the organizations that submit on cost to collect. This is due to true variations in cost and the sheer difficulty in accurately measuring cost to collect as well.
Moreover, from a denominator perspective, cost to collect is typically expressed as a percentage of cash. While the core denominator is patient services net revenue, you can include Medicare pass through payments, Medicare DSH, DME, and GME. However, Medicaid DSH-related, UPL-type program payments and other non-patient cash should be excluded. These examples illustrate that cost to collect can be a very difficult area to analyze.

**How the Industry Typically Applies Cost to Collect**
As organizations interpret HFMA’s definition, they will introduce variability due to their unique structures. While cost to collect is a challenging metric to measure, there are some main areas in which organizations share commonalities. Typically, the industry applies the cost to collect in three areas: Usually Included, Often Included and Sometimes Included. They are as follows:

**How to Capture All of Your Costs**
Regardless of the nuances, the basic goal organizations can agree on is that it is important to capture the total cost to collect in order to have a well-rounded understanding of your revenue cycle.

<table>
<thead>
<tr>
<th><strong>USUALLY INCLUDED</strong></th>
<th><strong>OFTEN INCLUDED</strong></th>
<th><strong>SOMETIMES INCLUDED</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient access</td>
<td>Pre-access financial clearance</td>
<td>Full benefits costs</td>
</tr>
<tr>
<td>Billing</td>
<td>Revenue integrity</td>
<td>Administrative overhead costs</td>
</tr>
<tr>
<td>Collections, follow-up, posting</td>
<td>Clinical documentation</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Third party vendor contract fees</td>
<td>Health Information Management (HIM)</td>
<td>Patient accounting software, IT infrastructure and support</td>
</tr>
</tbody>
</table>
Putting together a comprehensive template is a good place to start. An effective analysis of cost to collect begins with a thorough understanding of the organization’s accounting processes and structures. A detailed review will likely reveal hidden costs. It is important to involve more than just the revenue cycle management and accounting teams in this evaluation. Departments such as legal, compliance, and those who work in case management should be involved to ensure you are not excluding important items, for example clinical appeals resources and legal fees.

Traditional factors that influence cost to collect include staff productivity, staffing mix, labor rates, and vendor costs. Additionally, there are environmental factors that often aren’t considered directly in the process, but should be considered when performing comparisons. Those include the size and scale of the facility or system, the service mix, casemix, the payer mix and the complexities related to payer contracts, among others.

Important Costs Often Overlooked

Often, significant costs impacting the true cost to collect do not reside in the business office or financial statements. There are five categories of costs that are often overlooked when calculating cost to collect.

1. Full cost of employee benefits, including medical benefits, employer paid taxes (FUTA/SUTA), and pension or other retirement benefits. Many times these are not recorded at the employee or direct cost center level. One way to address this is to take benefits as a percentage of salaries for the entire organization and then allocate that to your revenue cycle department. Keep in mind, however, that oftentimes the overall average hourly rates or average wage rate for your organization is likely higher than what is paid to revenue cycle staff.

2. Other HR-related costs, including recruiting, severance and retention. For example, some larger organizations with 100+ employees may necessitate a dedicated HR generalist. That is an implied and indirect cost that should be captured.

3. Certain contract services, such as Medicaid eligibility. It’s highly unlikely that anyone would miss Medicaid eligibility in capturing their cost. Knowing where it is allocated, however, may be trickier. Is it included in patient access or patient accounting? Industry trends point to a 50/50 split between facilities that record Medicaid eligibility in patient access versus putting it in patient accounting or the business office. Make sure that you have an apples-to-apples comparison.

Factors that Influence Cost to Collect

**TRADITIONAL FACTORS**
- Staff productivity
- Staffing mix
- Labor rates
- Agency rates
- Use of technology/automation
- Vendor/outourcing strategy

**ADDITIONAL FACTORS**
- Size/scale
- Service and case mix
- Payer mix
- Payer contract complexities
- Functional area responsibility
- Acquisition/affiliation strategy
- Different accounting methodologies
- Type of information system(s)
4. Information technology. The most difficult and commonly overlooked items are IT costs and indirect support cost, mainly because these tend to be buried in many different places in the organization. Organizations often overlook complete systems costs (both capital and operating); core patient accounting system cost; systems support costs (such as IT department costs); software maintenance and desktop support costs. Such costs can be difficult to break apart and difficult to understand because only IT administrators may know the answers to these questions.

5. Other operating expenses and opportunity costs: This category includes legal; record retention and storage; depreciation; training and education; and the opportunity cost of revenue generating space. For example, copier leases tend to be an expense that falls into many different places. Also, keep in mind offsite storage, particularly in the HIM space, which can be very expensive for all those paper records that are decades old.

Using Cost to Collect to Manage Important Business Decisions

Having a holistic, comprehensive understanding of your cost to collect is key not only to managing day-to-day expenses, but also to identifying actionable improvement areas, driving incremental net revenue yield, prioritizing important projects and defending yearly budgets. Moreover, this metric will help you make thoughtful decisions around insourcing versus outsourcing, whether across the entire revenue cycle or in select areas such as Medicaid eligibility and early-out collections. Additionally, it is important when it comes to mergers and acquisitions and post-merger integration. Often such evaluations are not clear cut. Cost comparisons that are incomplete cloud your decision making process, and may serve as the basis for setting unrealistic expectations.

Of course, important decisions typically aren't made on the basis of cost alone. Well defined business cases balance the importance of cost to collect with other considerations such as quality, service levels and future positioning. Looking forward, historical notions of cost to collect are being challenged across the front, middle, and back-end of the revenue cycle. Many providers are reevaluating organizational priorities, and in the process considering incremental investments in areas such as compliance, revenue integrity, and customer service. Cost to collect plays an important role as a forward looking metric.

Using Cost to Collect to Manage the Business

Key management uses of cost to collect

• Productivity / efficiency management / TQM
• Budget rationalization
• Insourse vs. outsource decisions
• M&A/post-merger integration

Other considerations

• Trend past, present, and projected future costs.
• Consider impact beyond cost. Net revenue improvement, compliance, and customer service
The Bottom Line
The bottom line is the demands on the revenue cycle are changing fast, which is why it is essential to embed cost to collect analysis into all processes. In the future, organizations will need to redeploy current resources, utilize new technologies, leverage shared services and more. In order to accomplish these goals, they need to have an accurate understanding of cost to collect. Not only that, the value in knowing your true cost to collect also impacts day-to-day productivity and efficiency management. A successful cost-to-collect strategy begins with applying a standard definition followed by a thorough examination of your organization’s unique accounting process and profile.

About the Authors

Sloan Clardy has more than 18 years of experience assisting many of the industry’s top 100 hospitals and healthcare delivery systems improve financial performance.

Joey Moss has a proven track record of shared services strategy and operations across the entire revenue cycle, working with clients to improve overall performance and drive process efficiency.