Why Providers Should Use Cost to Collect as a Key Financial Health Indicator

For optimal profitability, providers must understand the full process of getting paid for the care they deliver – from scheduling to treatment, coding, billing, and reimbursement.

Fees per claim, or the costs associated with getting an individual claim paid, is a traditional revenue cycle key performance indicator (KPI). **Revenue cycle management (RCM) leaders agree** that KPIs covering multiple variables are necessary to understand a complete financial picture. However, fee-per-claim averages miss critical information since it only monitors the cost of processing individual claims.

The fee-per-claim KPI overlooks broader operational costs, including staffing, technology infrastructure, and handling claim denials, while also failing to account for revenue-related factors like the speed of claim processing, time to payment, and reimbursement completeness. Additionally, it does not capture the variability in claim complexity or payer differences, which can significantly impact the resources and time required for resolution.

"Issues in claim adjudication, denials, and claims rework all drive up operational costs," says Ceciley McNair, Strategic Engagement Manager at Zelis. Operational inefficiencies also create financial drains. Cost to collect is a metric that captures a comprehensive view of the total costs of the **revenue cycle**. With this understanding, providers can identify issues and remedy inefficiencies – unlocking considerable savings.

Defining cost to collect

The Healthcare Financial Management Association (HFMA) defines cost to collect as the total revenue cycle cost divided by the total patient service cash collected. "It allows providers to understand not just how much they're earning per claim, but also how much it costs to collect that revenue," McNair explains. To determine your practice or organization's total revenue cycle cost, tally:

- Staff salaries and benefits
- Outsourcing fees
- Billing costs
- Collections agency fees
- Subscriptions and software
- Software maintenance costs
- Medical and financial record storage
- Transaction fees

Staffing represents a significant cost in the revenue cycle, covering salaries and benefits for teams across patient access, health information management (HIM), patient accounts, and IT operations. High turnover rates compound these expenses, leading to additional costs for recruitment, training, and temporary reductions in team efficiency, which strain existing staff and ultimately slow claim processing and revenue collection.

The impact of cost to collect on financial health

Organizations that shift focus from fee per claim to cost to collect reap the benefits. McNair shares how her team at Zelis helped one of the nation's leading hospitals understand and streamline their revenue cycle operations.

"One of their biggest issues was a manual, 13-step process for getting paid, involving multiple workflows through 170 unique payer portals – an enormous but not uncommon number. Their average time to receive a payment ranged from 20 to 148 days," she says. While remittances lagged in AR, strangling cash flow, the organization was paying out high dollars towards revenue cycle operations – 18 cash posters worked 190 hours each to key in payments manually every month.

"They automated claim payments and routed them directly to their bank account. They also automated 835 electronic remittance advice files to go directly to their clearinghouse," McNair reports.

These automations saved $200,000 in labor costs and decreased payment turnaround time to two days. Beyond this, McNair reveals that they captured $20,000 in additional revenue by streamlining the process of working denied claims. Finding inefficiencies and implementing fixes was a worthwhile investment for this organization.

Optimizing cost to collect through automation can decrease operational expenses and increase revenue, ultimately benefiting the provider's bottom line.

Strategies to improve cost to collect

Once you understand and calculate your cost to collect, take these action steps to reduce it:

1. Evaluate legacy systems. Switching from outdated systems and software to updated, electronic technology can make a big difference in increasing speed and decreasing error rates. According to MGMA, 62% of medical groups have **automated 40% or less of their revenue cycle processes**.

2. Reduce billing errors with targeted training for billing staff. A **review of billing practices** shows that inaccurate billing is often due to insufficient residency education, inadequate clinical documentation, and the lack of a feedback system to correct errors.

3. Evaluate your patient payment system. Today's patients expect convenience in all digital transactions, and cumbersome, manual systems can lead to payment delays.

4. Conduct a **time and motion study** of your revenue cycle. How many steps does it take to schedule, provide services, and get paid? Manual processes could be eliminated with the right automations.

How technology can lower operational costs

Technological advancements can smooth the entire revenue cycle. Emerging technology, such as artificial intelligence (AI) and machine learning, can empower providers with more capabilities to complement their staff and operations. From automating claims to payment processing, organizations can remove cumbersome manual work, boosting productivity and employee satisfaction while lowering administrative costs.

"There's a huge opportunity to automate payment processing. This is where we often see delays in recognizing revenue," McNair highlights.

Error reduction is another potential area for significant savings. Errors are expensive, a bad sign considering that 60% of medical groups report higher claim denials in 2024 compared to the same time last year. According to the American Hospital Association, tens of billions of dollars in care costs go uncompensated yearly.

"Implementing automation across the board significantly reduces the impact of human error," says McNair. Cost to collect offers a comprehensive and actionable view of financial health. By considering the full range of revenue cycle expenses (e.g., labor, technology, operational inefficiencies) providers can uncover hidden costs and pinpoint areas for improvement. Organizations can reduce costs, streamline operations, and increase revenue by leveraging technologies like AI-powered automations and partnering with comprehensive service providers. For a stronger financial position, re-evaluate your financial metrics and adopt a cost to collect approach.

To learn more about optimizing your cost to collect visit us at **zelis.com**