

# White Paper: The Business Case For Outsourcing First-Level Physician Review

For Health Plans, Medical Management Organizations and TPAs

## Introduction

With the new federal healthcare reform laws, healthcare payer and medical management organizations expect to process about 32 million new enrollees during the next 10 years, which will dramatically increase the volume of utilization reviews for complex and critical care services. This increased volume will force them to re-examine their core business processes and determine how to best focus their organizational resources on core strategic functions and competencies. As a result, the outsourcing of non-strategic functions will continue to increase. While first-level physician review is a critical function in healthcare payer organizations, it can easily be outsourced at low cost, while ensuring high quality and compliance.

The drivers for outsourcing within the healthcare industry include health reform mandates to spend 80% to 85% of all premiums on actual medical care, the pressure to reduce administrative expenses, and the need to convert fixed overheads to variable costs. A business process outsourcing (BPO) partner can oftentimes offer a complete solution more cost effectively, because they have a tight focus, the appropriate tools and sufficient staff. By spreading costs over multiple organizations, they are able to invest in more effective systems that are specific to the business function. In addition, an outsourcing partner can adjust staffing levels based on workload, because resources can be switched to different clients, which helps to offset the impact of fluctuations in volume.

Many larger payer organizations are already outsourcing the physician review component of their utilization review programs. Increased competition within the healthcare industry will now force more health plans, third-party administrators (TPAs), utilization review (UR) and medical management organizations to seriously consider this practice, even if they were hesitant about it in the past. This white paper provides an overview of the business case for outsourcing first-level physician review to an organization that is suited for this task, such as an independent review organization (IRO).

## General Business Case for Outsourcing

The decision to outsource is a “make-or-buy” decision. The main factors that organizations consider in performing a make-or-buy analysis are as follows:

- ▶ Cost
- ▶ Quality
- ▶ Availability and reliability of production capacity
- ▶ Price stability
- ▶ Opportunity cost
- ▶ Strategic vs. non-strategic asset
- ▶ Core vs. non-core competency

## Business Process Outsourcing (BPO) for Payer Organizations

Most healthcare payer organizations have achieved a high degree of success with outsourcing in a wide number of areas, including, but not limited to: claims processing, medical billing, accounting services, call center operations, information technology (IT), human resources, fraud detection, and disease management. They have also commonly outsourced the review of internal appeals of both pre-authorizations and claims.

## Why Consider Outsourcing First-Level Physician Review?

Since healthcare payer organizations are under pressure to comply with the new health reform regulations and reduce costs, outsourcing first-level physician review may be one of the most straightforward strategies to address these issues. Some of the main drivers for a health plan's decision to outsource the physician review portion of their UR operations include: *cost, strategic focus, technology, volume fluctuations, and turnaround time.*

### Cost

Outsourcing first-level physician review gives payer organizations the ability to reduce fixed overheads and to align physician review costs to actual volumes. Since an IRO is focused only on providing medical review services, it optimizes cost and streamlines the process of physician recruiting and credentialing, medical review workflows, and all ancillary activities. In addition, since it handles much larger volumes than individual payer organizations, it is able to spread overheads across a large volume of cases.

Within healthcare payer organizations, Medical Directors are some of the highest paid employees, with total compensation in the range of \$250,000 to \$350,000 per annum. At these levels, organizations are looking to maximize the value of these valuable resources by focusing them on strategic initiatives. Outsourcers can perform first-level physician review at lower unit costs, while offering additional advantages (listed below).

### Strategic Focus

Outsourcing first-level physician reviews allows internal Medical Directors to focus on higher-level value-added work that is more strategic in nature. This includes developing medical policy, chairing P & T Committees, providing oversight to the quality management program, leading performance improvement initiatives, supervising UR and case management personnel, adjudicating complex claims, participating in appeals processes and so on.

### Technology

The availability of web-based case management systems and communications technologies makes it very easy for UR nursing teams and doctors to collaborate remotely, without compromising quality. Outsourcers have developed on-line medical review portals with integrated workflows that greatly streamline the medical review outsourcing process.

### Volume Fluctuations

Whether there is a barrage of incoming cases, a seasonal lull, or physician vacations, an outsourcing partner has the resources to properly allocate clinical staff depending on workload.

### Turnaround Time

Outsourcing facilitates meeting short, mandated deadlines, regardless of volume fluctuations. An outsourcing partner such, as an IRO, is set up to meet faster turnaround needs and keeps up-to-date on deadlines for various state and federal requirements.

### Objectivity

Using an IRO is an efficient and defensible way to properly manage a health plan for both the insurer and the patient. As unbiased advocates for managing healthcare costs, IROs ensure that every patient gains the coverage they deserve for complex or controversial cases.

# The Business Case For Outsourcing First-Level Physician Review

## Considering the Trade-Offs

The decision to outsource should not be made without careful consideration of the potential trade-offs (see table below). Health plan executives must weigh these trade-offs in a sound business case that examines the advantages and disadvantages of outsourcing.

Pros	Cons
<ul style="list-style-type: none"><li>▶ Reduces high Medical Director payroll costs</li><li>▶ Shifts costs from fixed to variable</li><li>▶ Improves ability to adjust costs to review volumes</li><li>▶ Frees up in-house Medical Directors to work on higher strategic and value-added tasks (first-level physician reviews are stressful and mundane)</li><li>▶ Leverages web-based medical review portal technology</li><li>▶ IROs have optimized/streamlined physician review processes at low costs</li><li>▶ Outsourcing is straightforward and can be set up at low cost</li></ul>	<ul style="list-style-type: none"><li>▶ Lose in-house Medical Director expertise if there is not enough other work to justify keeping them on staff</li><li>▶ Need to set up a new business process and train utilization review nurses on new referral procedures</li><li>▶ Nurse/doctor communications via phone instead of face-to-face</li></ul>

## Criteria for Selecting a Medical-Review Outsourcing Partner

Independent review organizations are particularly well suited to take on first-level physician review and already provide BPO services for major health plans. Health plans interviewed in a study by the American Association of Health Plans (AAHP), the trade association of health insurers, attributed the generally excellent credentials of IROs with:

- ▶ Increasing member satisfaction
- ▶ Enhancing health plan credibility with members
- ▶ Diminishing the perception that administrators rather than physicians are making coverage decisions

While the offshore outsourcing of healthcare administrative functions already exists, payer organizations in the United States are required to make all benefit decisions with board-certified and licensed physicians who reside and practice in the United States.

Selecting an IRO as a medical-review outsourcing partner involves examining numerous criteria. An IRO should have the following capabilities:

- ▶ A large pool of board-certified physicians in active practice who have been credentialed and trained to provide utilization review support to nursing teams
- ▶ A telephone hotline for client nurses to be able to discuss specific reviews and to get answers to their questions from physician reviewers with Medical Director oversight
- ▶ The ability to meet same-day or 24-hour turnaround times
- ▶ A web portal that allows clients to send and receive case requests, as well as to monitor status and to provide reporting functions
- ▶ A quality management system that meets the NCQA and URAC delegation standards and fully complies with all regulatory requirements
- ▶ A streamlined and optimized workflow that keeps costs down, along with a commitment to continuous improvement and cost reduction

# The Business Case For Outsourcing First-Level Physician Review

The URAC IRO standards ensure that organizations are free from conflicts of interest, establish qualifications for physician reviewers, address medical necessity and experimental treatment issues, and have reasonable time periods for standard reviews, expedited reviews and appeals processes. With this standards-based approach, an IRO possesses all of the infrastructure to take on first-level physician review for UR and case management teams.

## First-Level Physician Review Outsourcing: Case Study

In 2009, HealthSmart, a Texas-based company dedicated to providing comprehensive and innovative healthcare solutions, reviewed their options for managing the first-level review workload of their on-site Medical Director. "He has other functions within the organization, and it just became too much for him to do the reviews," said Anna Grant, VP of Clinical Operations. "That's when we decided that we needed to have help."

According to Grant, HealthSmart considered hiring another Medical Director, but ultimately decided that it was not the right solution for the organization at that time. "We had numerous vendors talk with us, and AllMed was the best fit. They worked with us and were very flexible. They knew exactly what we were wanting to do." It was critical for HealthSmart to find an outsourcing partner with whom they could have a web portal interface, so that managing the workflow and communications would not be cumbersome.

Grant noted that HealthSmart continues to meet the stringent guidelines and tight turnaround times of the Texas Department of Insurance, "We have a budget that we're supposed to stay within for our medical reviews, and outsourcing the reviews helps HealthSmart to maintain our budget, without compromising on quality or compliance."

## About AllMed

Founded in 1995, AllMed is a URAC-accredited independent review organization (IRO) that services leading health insurance payers, third-party administrators, and claims and medical management organizations nationwide.

AllMed offers MedCert®, a first-level physician review solution for payer organizations that are considering outsourcing. MedCert is deployed as a service through AllMed's PeerPoint Medical Review Portal. All reviews are conducted by AllMed's team of in-house physicians, who are licensed, board-certified physicians in active practice. For more information on MedCert and AllMed's services for payer organizations, go to [www.allmedmd.com](http://www.allmedmd.com).

## Bibliography

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Medical Director total compensation estimates courtesy of Salary.com



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