The Cost of Administering Health Care

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Larry Levitt

Senior Vice President

Kaiser Family Foundation

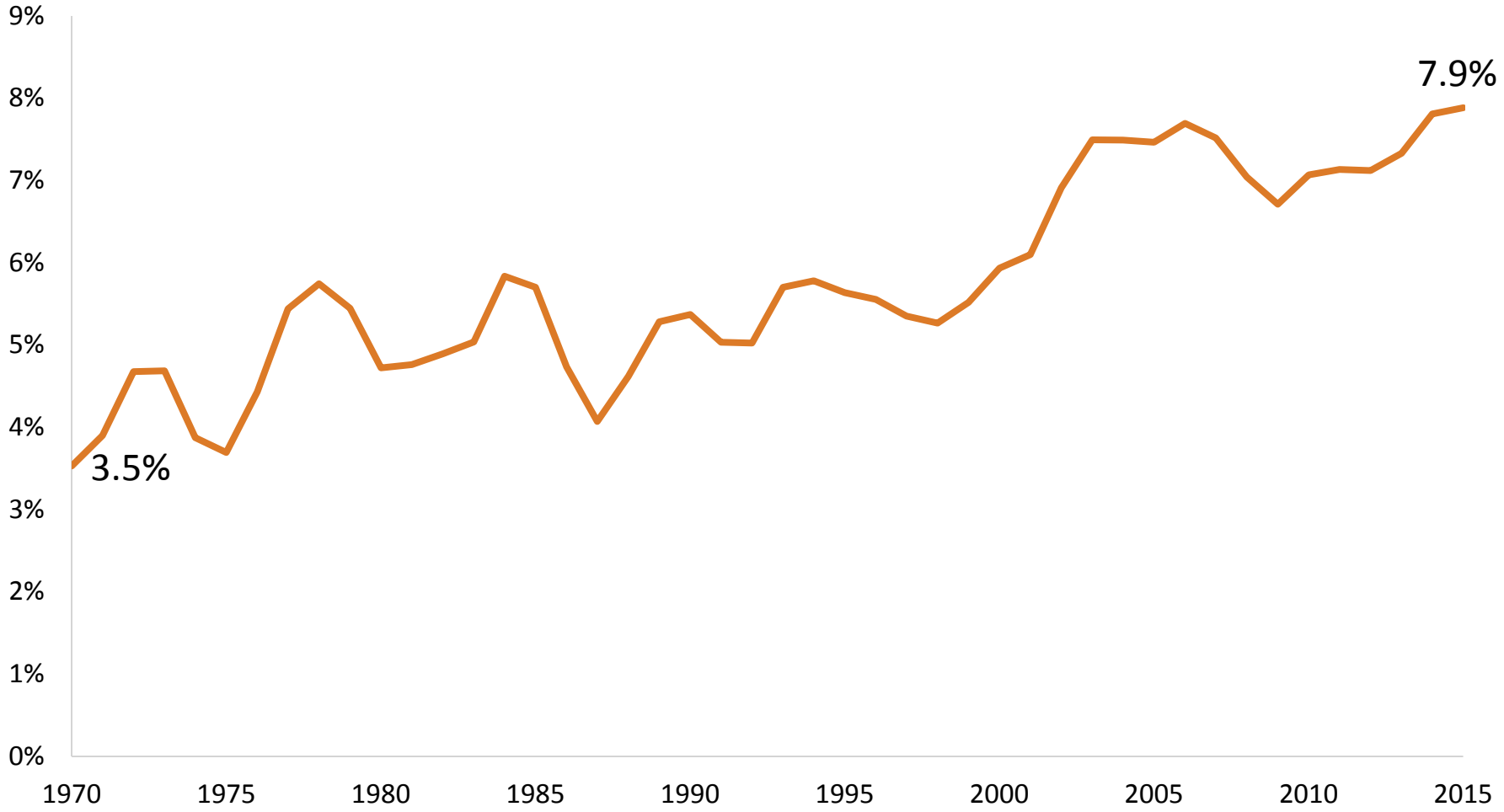
@larry_levitt

Sources of health care administrative costs

- Profit.
- Billing, claims payment, and other insurance-related costs.
- Marketing.
- Care management.
- Eligibility and enrollment in public programs and private insurance.
- Government and employer management of benefits.

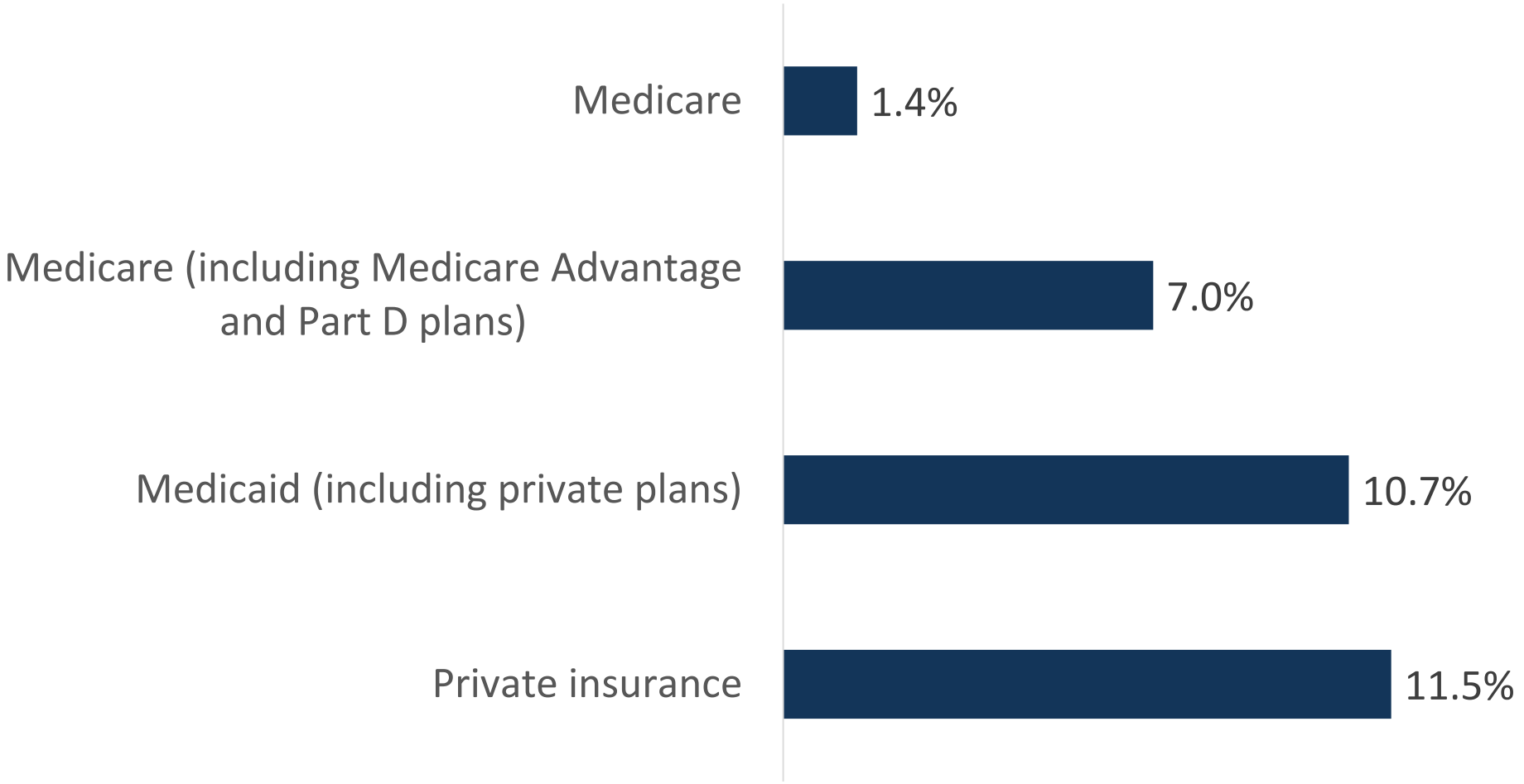
Share of health spending for health insurance administrative expenses has risen over time

Net cost of health insurance and administration, as a share of total health expenditures, 1970-2015



Source: Kaiser Family Foundation analysis of National Health Expenditure (NHE) data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

Estimated direct costs of administering health coverage in various sectors as a % of total spending



Source: Kaiser Family Foundation analysis of the Medicare Trustees report and National Health Expenditures estimates from CMS.

Estimates of administrative costs for hospitals and physicians

Kahn, Kronick et al (2005)

California Hospitals
Total administrative costs as % of revenue: **20.9%**
Billing and insurance-related costs as % of revenue: **6.6-10.8%**

California physicians (multispecialty groups)
Total administrative costs as % of revenue: **26.7%**
Billing and insurance-related costs as % of revenue: **13.9%**

Himmelstein, Jun et al (2014)

Hospital administrative costs as a % of total costs
United States: **25.3%**
Canada: **12.4%**

A number of policy design questions influence the administrative savings under a single payer plan

- Are patients still responsible for cost-sharing?
- Are eligibility systems still needed to differentiate benefits or cost-sharing among enrollees?
- Is pre-authorization for certain services required?
- How complex is the pricing structure?