The Cost of Administering Health Care

California Assembly Select Committee on Health Care Delivery Systems and Universal Coverage
January 17, 2018

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

Peterson-Kaiser Health System Tracker
### Estimated direct costs of administering health coverage in various sectors as a % of total spending

<table>
<thead>
<tr>
<th>Sector</th>
<th>Direct Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>1.4%</td>
</tr>
<tr>
<td>Medicare (including Medicare Advantage and Part D plans)</td>
<td>7.0%</td>
</tr>
<tr>
<td>Medicaid (including private plans)</td>
<td>10.7%</td>
</tr>
<tr>
<td>Private insurance</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

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?