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Cut Administrative Costs in the Health System

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The Institute of Medicine estimates that the United States spends nearly $360 billion annually on administrative costs.[1] As much as half of that is unnecessary and excessive. Estimates suggest that administrative simplification could reduce the systemwide costs of health care administration by about $40 billion per year.[2]

Payers and providers agree that the system is broken. And they even agree on many of the operations needed to achieve administrative simplification. Some of these steps were codified in the Affordable Care Act, such as the development of standard operating rules for the electronic processing and billing of many common medical services. Significant administrative savings can be achieved by ensuring effective implementation of the ACA. But there is more to be done.

Recommendations

Require electronic integration of administrative functions such as billing, prior authorization, and payments. The HITECH Act, part of the American Recovery and Reinvestment Act, invested in health information technology that is put to meaningful use. The act currently focuses on the electronic exchange of *clinical* information; to achieve administrative efficiencies, *administrative* information must be exchanged electronically, too. Electronically integrating clinical and administrative functions—so that the recording of clinical services ordered for a patient automatically bills the insurer, for example—should be required as one of the criteria for meaningful use of electronic health record technology.

Require providers to transmit and receive eligibility, claims, and other administrative information electronically as soon as the relevant operating rules are specified. As required by the ACA, development of operating rules on eligibility, claims, and other administrative information is already underway. Medicare plans to require electronic

payments by 2014. Congress should direct Medicare to exchange all administrative information electronically.

Require a single, centralized credentialing system for all payers, providers, and hospitals by January 2014. Physicians currently must submit their credentials separately to Medicare, Medicaid, private insurers, state licensing boards, and individual hospitals. There is substantial overlap in the information required in each credential application. One repository of information accessible to all of these participants would substantially reduce unnecessary paperwork.

Reduce churn as people move in and out of Medicaid. States currently have the option of maintaining continuous eligibility—regardless of any change in circumstances—for children for 12 months. This option should be extended to adult beneficiaries. In addition, Medicaid coverage and coverage through the new health insurance exchanges established by the ACA should be harmonized. For example, Medicaid managed care plans could participate in the exchange to ensure that care is seamless.

Establish an Administrative Simplification Task Force to ensure effective implementation of administrative simplification. This task force could be chaired by the Health and Human Services chief information officer and composed of payers, providers, and intermediaries. The task force would be charged with ensuring effective implementation of administrative simplification, with a target of $40 billion in total savings per year by 2015.

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Notes

1 The Institute of Medicine, Roundtable on Evidence-Based Medicine, "The Healthcare Imperative: Lowering Costs and Improving Outcomes: Brief Summary of a Workshop" (2010).

2 Authors' compilation from several sources, including the U.S. Health Care Efficiency Index, United Health Group, McKinsey, and Milliman.