Center for American Progress

3 Strategies for Reducing Health Care Administrative Costs

Reducing Inefficiencies Will Save the Health Care System $40 Billion a Year

Elizabeth Wikler, Peter Basch, and David Cutler June 11, 2012

Administrative costs in the U.S. health care system consume an estimated $361 billion annually—14 percent of all health care expenditures in our nation. At least half of this spending is considered wasteful.[1] In a time of large budget deficits, tackling excessive administrative costs offers a promising opportunity for reducing health care costs while improving patient care. The proposals outlined below can lead to systemwide savings of up to $40 billion per year by eliminating wasteful administrative spending.

Our current system of administrative complexity

Administrative costs: Who pays how much? How much can we save?

TABLE 1

What we can gain from health care administrative reform

Estimates of annual administrative costs and possible savings by health care payers and providers

Element	Share of revenue	Current costs	Possible savings
Insurer costs (claims processing, marketing, general overhead, and profit)	12.3 percent—private, 3.5 percent—public	$105 billion—private $42 billion—public	$44 billion–$52 billion*
Provider costs (hospitals, physicians, nursing homes)	13 percent—physicians, 8.5 percent—hospitals, 10 percent—other providers	$214 billion	$105 billion–$108 billion
Patient costs		N/A	N/A
Total		**$361 billion**	**$149 billion–$160 billion**

* Costs for billing transactions only. Omits costs for marketing of insurance, estimated to be about 30 percent payer administrative costs.
Source: Institute of Medicine, "The Healthcare Imperative: Lowering Costs and Improving Outcomes: Workshop Series Summary," p. 148–150.
Current costs are derived from multiplying estimated revenue for 2009 (as published by the Center for Medicare and Medicaid Services in 2007) by the percent revenue dedicated to billing and insurance related costs for each group.

Opportunities for savings and administrative simplification

Administrative complexity exists at all levels of the health care system, resulting in inefficient spending and delays in care. To reduce this burden we have developed a three-pronged strategy focused on integration, coordination, and leadership.

Integration: Electronic capabilities for administrative transactions should be integrated with health information-technology initiatives so all stakeholders can communicate electronically and in real time for improved care delivery and efficiency.

Bring health care providers (physicians and hospitals) online. The meaningful use criteria—which created financial incentives to ensure that providers use the data in electronic health records to improve the quality of patient care—should integrate the recording and analysis of clinical services with the billing for those services.

To further encourage provider participation in administrative reform, policymakers should offer incentive payments to some provider organizations—those engaged in Affordable Care Act payment reform initiatives that also meet administrative-simplification quality benchmarks. This funding could help catalyze necessary investments in information-technology infrastructure.

Additionally, the Medicare program should encourage administrative simplification efforts. The Medicare Accountable Care Organization quality measures, for example, should include a measure of efficiency.

Coordination: Bring together similar administrative processes by different health care participants to maximize efficiency. Reporting and enrollment systems should be coordinated across national, state, and local regulatory bodies to reduce redundant tasks that take away from patient care.

Maximize efficiency by streamlining programs. To minimize administrative expenses related to time-consuming and costly provider enrollment and credentialing processes, the Department of Health and Human Services and the private sector should work together to create a centralized, mandatory provider enrollment and credentialing system that will provide all essential data to necessary stakeholders both in the private sector and in public programs.

Standardize quality- and safety-reporting initiatives. Government regulations, reporting requirements for quality and safety programs, and state licensure restrictions should be standardized to promote greater uniformity and lower compliance expenses. Public and private organizations should work to harmonize and centralize national, state, and local regulations, reporting requirements for quality and safety programs, and licensure restrictions to align with those proposed under the National Strategy for Quality Improvement in Health Care.[2] In addition to this standardization, public and private entities should leverage health information-technology so that quality reporting is integrated into patient care and automated through the use of electronic health records.

Ensure continuity in public program enrollment to reduce "churn." Disruptions in health plan enrollment—usually due to changes in a person's insurance coverage, employment status, or family structure—makes care coordination difficult and increases administrative expenses. Each change can mean new eligibility determinations and re-enrolling beneficiaries in new plans. The Affordable Care Act includes specific provisions to streamline enrollment processes.

To further minimize the costs of churning, the Department of Health and Human Services and state governments should coordinate coverage policies and administrative systems across Medicaid, the new state health insurance exchanges, and the private market, and should promote continuous-enrollment policies.

Leadership: Policymakers should exert leadership on administrative simplification reforms to ensure timely and innovative results.

Create a new federal office within the Department of Health and Human Services to simplify health care administrative processes. Currently, jurisdiction for administrative reform is spread across different agencies. There is little coordination between these offices, and different offices may have competing priorities. To ensure the success of administrative simplification reforms, there needs to be a centralized office with the authority to oversee and coordinate changes across the public and private sectors. The sole mission of the new office should be to address administrative complexity.

TABLE 2

Savings on health care administrative costs

Compilation of savings estimates from administrative simplification reforms

	Annual savings	Steps needed to achieve savings
Adoption of electronic transactions*	$21.9 billion	Implement the Affordable Care Act
Integrated administrative and clinical health systems	$4.2 billion	Expand HITECH certification criteria for electronic health records to include administrative provisions
National provider enrollment and credentialing program	$1.8 billion	Promote unified system across the payers and hospitals
Standardized reporting requirements	$0.1 billion	Align quality measures and standardize federal, state, and private-market reporting requirements
Stabilize enrollment in public programs	$3.7 billion to $5.8 billion	Coordinate benefits and enrollment across programs
Widespread automation Example: electronic adoption and automation of prior authorization	Not estimated $4 billion–$12 billion	Support public and private initiatives aimed at automating administrative processes for payers and providers
Total savings	$35.7 billion to $45.8 billion	
Percent of excess administrative costs	24 percent to 28 percent	
Total savings to federal government beyond Affordable Care Act and HITECH implementation	$6.21 billion	

* Figures represent potential savings per year for the electronic processing of claim submissions, eligibility inquiries and requests, claims status requests, payment, and remittance transactions. Assumes uptake of 85 percent.
Sources include: U.S. Health Care Efficiency Index, UnitedHealth Group Estimates, McKinsey Report Overhauling the U.S. Healthcare Payment System, Milliman Electronic Transaction Savings Opportunities for Physician Practices

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For more information about reducing health care costs through administrative simplification, read our report, "Paper Cuts: Reducing Health Care Administrative Costs."[3]

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Endnotes

1 Pierre L. Yong, Robert S. Saunders, and LeighAnne Olsen, eds., *The Healthcare Imperative: Lowering Costs and Improving Outcomes: Workshop Series Summary* (Washington: National Academies Press, 2010).

2 Department of Health and Human Services, *Report to Congress: National Strategy for Quality Improvement in Health Care* (2011), available at http://www.healthcare.gov/law/resources/reports/quality03212011a.html.

3 Peter Basch, David Cutler, and Beth Wikler, "Paper Cuts: Reducing Health Care Administrative Costs" (Washington: Center for American Progress, 2012).