



Paper Cuts

Reducing Health Care Administrative Costs

Elizabeth Wikler, Peter Basch, and David Cutler

June 2012

Introduction and summary

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 estimated to be wasteful.¹ In an era of government budget deficits and rising health care costs, the case for reducing the administrative complexity of health care is compelling. Successful efforts can result in significant financial savings while simultaneously improving system performance indicators and the quality of patient care.

Indeed, stakeholders throughout the U.S. health care system—including health insurance companies, hospitals, physician organizations, labor unions, the pharmaceutical industry, and federal, state, and local governments—all recognize the importance of reducing administrative costs.² In recent years, public and private groups have launched a variety of efforts to reduce administrative expenses, many of which, like the Health Insurance Portability and Accountability Act, laid critical groundwork for current initiatives passed under the Affordable Care Act and for future efforts. Yet more remains to be done to lower rising costs.

Administrative costs for private health insurance plans, for example, rose by 117 percent from 2001 to 2010.³ During this same period, total national health expenditures rose by 74 percent.⁴

This paper outlines the nature of administrative costs affecting both health care payers and providers, and considers ways to contain these costs. Many such efforts are underway, including the ongoing implementation of the Health Insurance Portability and Accountability Act alongside several different elements of the Affordable Care Act. Continued progress in these areas is thus a central step to lower administrative spending.

Even still, many additional actions will be needed. In the pages that follow, we outline a three-pronged strategy for addressing administrative costs:

- **Integration:** embedding administrative simplification rules and systems into existing reform efforts
- **Coordination:** bringing together similar administrative processes by different health care participants to maximize efficiency
- **Leadership:** creating a new federal office dedicated to simplifying health care administrative plans

Tackling wasteful administrative costs in our health care system in these three ways would result in savings we estimate at \$40 billion per year.

These savings are eminently achievable. By integrating new performance standards to promote adoption of electronic transactions such as requiring that electronic health records include utilization metrics for electronic billing and other administrative transactions, we can achieve roughly \$26.1 billion in annual savings. By coordinating similar processes by different health care participants—such as physician credentialing and enrollment, quality and safety reporting, and enrollment and retention systems for public programs—we can save \$7.7 billion each year. And by ensuring leadership at the federal government level through a new senior-level office dedicated to ensuring that administrative simplification plans are carried through and that innovative results are achieved, we can save potentially much more.

Taken together, these efforts could reduce excessive administrative costs by 25 percent, or \$40 billion annually. That \$40 billion is about 3.5 percent of projected spending on Medicare, Medicaid, and other mandatory federal health programs in 2015.⁶ An aggressive agenda tackling administrative inefficiency would not only reduce unnecessary complexity and federal health expenditures but could also improve the quality of care provided.

Tackling excessive administrative costs offers a promising opportunity for reducing health care costs while improving the quality of care for all Americans.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

Center for American Progress

